

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL, INC.**

**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**(Expressed in United States dollars)**

**Six months ended February 28, 2013 and 2012**  
**(unaudited)**

## **MANAGEMENT'S RESPONSIBILITY FOR CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of LCTI Low Carbon Technologies International Inc. (the "Corporation") are the responsibility of management and the Board of Directors. The unaudited condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34-Interim Financial Reporting using 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 condensed consolidated interim 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 condensed consolidated interim financial statements and (ii) the unaudited condensed consolidated interim 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 condensed consolidated interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited condensed consolidated interim 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 condensed consolidated interim 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 condensed consolidated interim 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.

(signed) "Bryan S. Jarnagin"  
Chief Executive Officer

(signed) "Michael Lege"  
Chief Financial Officer

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

	As at February 28, 2013	As at August 31, 2012
<b>ASSETS</b>		
<b>Current assets</b>		
Cash	\$ 621,853	\$ 672,562
Accounts receivable (Note 5)	\$ 1,198,256	1,617,443
Prepaid expenses	\$ 4,753	1110
	<b>\$ 1,824,863</b>	<b>2,291,115</b>
Investments in affiliates (Note 6)	12,039,249	12,041,471
Prestige joint venture (Note 7)	40,576,000	8178000
Machinery and equipment (Note 8)	753,215	655,996
Mitigation land (Note 9)	45,800,000	45,800,000
Intellectual property assets (Note 10)	26,846,709	28,991,271
Customer list (Note 4)	404,167	429,167
Goodwill (Note 4)	2,592,309	2,592,309
<b>Total assets</b>	<b>\$ 130,836,512</b>	<b>\$ 100,979,330</b>
<b>EQUITY AND LIABILITIES</b>		
<b>Current liabilities</b>		
Bank indebtedness (Note 11)	\$ 335,025	\$ 335,400
Accounts payable and accrued liabilities	2,940,503	3,545,612
Billings in excess of costs and estimated earnings	460,053	748,030
Current portion of long-term debt (Note 12)	75,183	1,590,808
Due to related parties (Note 13)	275,848	140,848
	<b>4,086,612</b>	<b>6,360,698</b>
<b>Long term liabilities</b>		
Long-term debt, net of current portion (Note 13)	2,513,913	2,736,140
<b>Total liabilities</b>	<b>6,600,525</b>	<b>9,096,838</b>
<b>Equity</b>		
Share capital (Note 14)	86,160,254	85,069,299
Non-controlling interest	20,406,158	-
Contributed surplus (Note 14)	16,948,020	16,899,010
Retained earnings (deficit)	721,555	(10,085,817)
<b>Total equity</b>	<b>124,235,987</b>	<b>91,882,492</b>
<b>Total equity and liabilities</b>	<b>\$ 130,836,512</b>	<b>\$ 100,979,330</b>

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)

	<b>Six Months Ended February 28, 2013</b>	<b>Six Months Ended February 28, 2012</b>	<b>Three Months Ended February 28, 2013</b>	<b>Three Months Ended February 28, 2012</b>
<b>Revenue</b>	<b>\$ 1,406,175</b>	<b>\$ 1,514,931</b>	<b>\$ 565,945</b>	<b>\$ 474,297</b>
<b>Cost of goods sold</b> (Note 15)	<b>1,268,751</b>	<b>1,220,352</b>	<b>574,257</b>	<b>388,966</b>
	<b>137,424</b>	<b>294,579</b>	<b>(8,312)</b>	<b>85,331</b>
<b>Expenses</b>				
General and administrative (Note 16)	<b>1,388,827</b>	<b>1,039,489</b>	<b>606,787</b>	<b>515,046</b>
Amortization and depreciation	<b>2,225,231</b>	<b>1,766,504</b>	<b>1,109,471</b>	<b>1,069,973</b>
Other expenses (Note 17)	<b>(11,081)</b>	<b>513,913</b>	<b>(32,733)</b>	<b>467,038</b>
<b>Total expenses</b>	<b>3,602,977</b>	<b>3,319,906</b>	<b>1,683,525</b>	<b>2,052,058</b>
<b>Loss before gain on joint venture and gain on debt forgiveness</b>	<b>(3,465,552)</b>	<b>(3,025,327)</b>	<b>(1,691,836)</b>	<b>(1,966,727)</b>
Gain on joint venture (Note 7)	<b>12,110,000</b>	<b>8,178,000</b>	<b>12,110,000</b>	<b>8,178,000</b>
Gain on debt forgiveness (Note 18)	<b>2,162,924</b>	<b>-</b>	<b>399,248</b>	<b>-</b>
<b>Total gain on joint venture and debt forgiveness</b>	<b>14,272,924</b>	<b>8,178,000</b>	<b>12,509,248</b>	<b>8,178,000</b>
<b>Net income (loss) and other comprehensive income (loss) for the period</b>	<b>\$ 10,807,372</b>	<b>\$ 5,152,673</b>	<b>\$ 10,817,412</b>	<b>\$ 6,211,273</b>

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)

Cancellation of shares for services	(42,840,000)	-	-	-	-	-	-
EnCap Investments Inc. capital prior to reverse takeover transaction (Note 14)	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 14)	(309,541,990)	-	-	-	-	-	-
Elimination of EnCap Investments Inc. share capital (Note 4)	-	(355,796)	(79,908)	-	-	-	(435,704)
Acquisition of intellectual property (Note 10)	-	-	16,850,000	-	-	-	16,850,000
Reinstatement of founders' shares	54,000,000	-	-	-	-	-	-
Elimination of cross ownership	-	(55,999)	-	-	-	-	(55,999)
Share based compensation	-	-	49,010	-	-	-	49,010
Net income (loss) for the period	-	-	-	5,152,673	-	-	5,152,673
Balance, February 28, 2012	139,274,164	\$ 85,069,299	\$ 16,899,010	\$ (6,412,335)	\$ -	\$ -	\$ 95,555,974
Balance, August 31, 2012	139,274,164	85,069,299	16,899,010	(10,085,817)	-	-	91,882,492
Shares transferred for lease payments	-	1,090,956	-	-	-	-	1,090,956
Non-controlling interest on acquisition (Notes 4 and 7)	-	-	-	-	20,406,158	-	20,406,158
Share based compensation	-	-	49,010	-	-	-	49,010
Net income (loss) for the period	-	-	-	10,805,735	1,637	-	10,807,372
Balance, February 28, 2013	139,274,164	\$ 86,160,254	\$ 16,948,020	\$ 719,918	\$ 20,407,795	\$ -	\$ 124,235,987

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

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

	<b>Six Months Ended February 28, 2013</b>	<b>Six Months Ended February 28, 2012</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss) for the period	\$ 10,807,372	\$ 5,152,673
<b>Items not affecting cash:</b>		
Amortization & depreciation	2,225,231	1,766,504
Gain on joint venture	(12,110,500)	(8,178,000)
Accounts payable forgiven	(399,248)	-
Debt forgiven	(1,763,676)	-
Shares transferred for lease payments	1,090,956	-
Interest on long-term debt	62,866	93,750
Stock based compensation	49,010	-
RTO transaction costs	-	420,163
Share of (income) loss of equity investment	(96,673)	-
Minority interest in income	(63,704)	-
<b>Changes in non-cash working capital items:</b>		
Decrease in accounts receivable	717,690	1,304,398
Decrease in prepaid expenses	(810)	175
Decrease in accounts payable and other liabilities	(412,976)	(1,145,719)
Increase in billings in excess of cost	(287,977)	-
<b>Net cash flows provided by operating activities</b>	<b>(182,439)</b>	<b>(586,056)</b>
<b>CASH FLOWS USED IN INVESTING ACTIVITIES</b>		
Assignment of Capital Lease	-	-
Cash at Acquisitions	177,339	-
Acquisition of equipment	(8,565)	-
<b>Net cash flows (used in) provided by investing activities</b>	<b>168,773</b>	<b>-</b>
<b>CASH FLOWS USED IN FINANCING ACTIVITIES</b>		
Borrowings on line of credit	-	1,551
Issuance of long-term debt	-	(72,194)
Repayment of long-term obligations	(37,043)	-
<b>Net cash provided by financing activities</b>	<b>(37,043)</b>	<b>(70,643)</b>
<b>Change in cash during the period</b>	<b>(50,709)</b>	<b>(656,699)</b>
<b>Cash, beginning of period</b>	<b>672,562</b>	<b>1,078,935</b>
<b>Cash, end of period</b>	<b>\$ 621,853</b>	<b>\$ 422,236</b>

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



**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

---

**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 interim financial statements for the six months ended February 28, 2013 were approved by the Board of Directors on April 23, 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. 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.

These condensed consolidated interim 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 February 28, 2013, the Company has a working capital deficiency of \$2,261,749. This matter raises 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 condensed consolidated interim 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. BASIS OF PREPARATION**

**Statement of compliance**

These condensed consolidated interim financial statements for the six months ended February 28, 2013 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) applicable to the preparation of interim financial statements including International Accounting Standard 34, “Interim Financial Reporting” (“IAS 34”) and have been prepared using the same accounting policies and method of computation as the unaudited consolidated financial statements for the year ended August 31, 2012. Certain information and disclosures included in the notes to the annual financial statements have been condensed or have been disclosed on an annual basis only. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the unaudited consolidated financial statements for the year ended August 31, 2012. These unaudited condensed consolidated interim financial statements are presented in United States dollars.

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

---

**2. BASIS OF PREPARATION - CONTINUED**

**Principles of consolidation**

These condensed consolidated interim 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. Industrial Commerical Mechanical LLC, a Texas limited liability company and Prestige Thermal Americas LLC, a Texas limited liability company are 50% owned by the Company and its accounts have been consolidated into these condensed consolidated interim financial statements. 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 condensed consolidated interim financial statements (note 21).

**3. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS**

The preparation of interim financial statements requires management to make estimates and assumptions that affect the application of accounting policies and the reported assets and liabilities and actual results may differ from these estimates. In preparing these condensed consolidated interim financial statements, the significant judgments made by management and key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended August 31, 2012.

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

**4. 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 12) 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 condensed consolidated interim 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:

	\$	\$	\$
Consideration paid:			
Common shares issued (600,000)*	600,000		
Promissory note	3,750,000		
<b>Total consideration:</b>			<b>4,350,000</b>
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)	
<b>Total net assets acquired:</b>			<b>3,092,309</b>
<b>Excess purchase price consideration:</b>			<b>3,092,309</b>
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.*

On September 25, 2012 the terms of the promissory note and associated debt related to the acquisition of Teposolar and its subsidiary C&I were modified and the promissory note was reduced to \$2,500,000.

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 \$25,000 for the six months ended February 28, 2013.

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

---

**4. ACQUISITIONS - CONTINUED**

*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. Previous owner and manager of ICM transferred their 25.5% ownership of ICM to the Company on January 16, 2013. The Company now owns 50% of ICM.

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

	<b>Six months ended February 30, 2013</b>	<b>Year ended August 31, 2012</b>
Total assets	\$ 566,977	\$ 595,001
Total liabilities	\$ 330,661	\$ 313,369
Revenue	\$ 1,633,284	\$ 751,322
Net income (loss)	\$ 3,274	\$ (118,886)

**5. ACCOUNTS RECEIVABLE**

	<b>February 28, 2013</b>	<b>August 31, 2012</b>
<b>Accounts receivable</b>	<b>\$ 1,198,256</b>	<b>\$ 1,617,443</b>

No allowance has been provided as of February 28, 2013 and August 31, 2012 based on management’s estimate and experience.

**6. 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%.

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

---

**6. INVESTMENTS IN AFFILIATES - CONTINUED**

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.

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 and incurred a loss of \$47,625 in 2012 for its investment in East Bay Farms LLC. The Company incurred a loss of \$15,770 in the six months ended February 28, 2013.

**7. JOINT VENTURE**

*Prestige Thermal Americas LLC ("PTA")*

The Company has a 50% interest in PTA and during the six months ended February 28, 2013, officers and directors of the Company gained the majority of the seats of the Board of Directors of PTA. PTA is 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 joint venture was valued at \$40,576,000. 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%.

As a result of the valuation and gaining the majority of the voting rights of the Board of Directors, the Company recognized a gain on contribution to the joint venture of \$12,110,500 for the six months ended February 28, 2013.

At February 28, 2013 and August 31, 2012 the total assets of the joint venture amounted to \$40,576,000 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 six months ended February 28, 2013 or the year ended August 31, 2012.

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

**8. MACHINERY AND EQUIPMENT**

	September 1, 2012	Additions	Disposals	Additions related to business combination	February 28, 2013
<b>Cost:</b>					
Computer hardware	1,375	-	(1,375)	-	-
Nitrogen removal unit	222,440	-	-	-	222,440
Machinery and equipment	10,571	-	-	38,355	48,925
Furniture and fixtures	5,188	3,876	-	17,665	26,729
Leasehold improvements	31,089	-	-	-	31,089
Start-up costs	-	-	-	98,852	98,852
Motor vehicles	478,138	2,000	-	-	480,138
<b>Total</b>	<b>\$ 748,801</b>	<b>\$ 5,876</b>	<b>\$ (1,375)</b>	<b>\$ 154,872</b>	<b>\$ 908,174</b>
<b>Accumulated depreciation:</b>					
Computer Hardware	69	-	(69)	-	-
Nitrogen removal unit	-	-	-	-	-
Machinery and equipment	4,322	619	-	-	4,941
Furniture and fixtures	3,170	903	-	-	4,073
Leasehold improvements	11,399	3,439	-	-	14,838
Start-up costs	-	-	-	-	-
Motor vehicles	73,845	57,262	-	-	131,107
<b>Total</b>	<b>\$92,805</b>	<b>\$ 62,223</b>	<b>\$ (69)</b>	<b>\$ -</b>	<b>\$ 154,959</b>
<b>Net Book Value</b>	<b>\$ 655,996</b>				<b>\$ 753,215</b>

  

	September 1, 2011	Additions	Disposals	Additions related to business combination	August 31, 2012
<b>Cost:</b>					
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
<b>Total</b>	<b>\$ 374,610</b>	<b>\$ 374,191</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 748,801</b>
<b>Accumulated depreciation:</b>					
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
<b>Total</b>	<b>\$ 13,315</b>	<b>\$ 79,490</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$92,805</b>
<b>Net Book Value</b>	<b>\$ 361,295</b>				<b>\$ 655,996</b>

Management has reviewed the carrying value of the machinery and equipment and determined there was no indication of impairment as at February 28, 2013.

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

**9. 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 \$45,800,000 was assigned to the shares issued.

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.

**10. INTELLECTUAL PROPERTY ASSETS**

	September 1, 2012	Additions	Disposals	Additions related to business combination	February 28, 2013
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
<b>Total</b>	<b>\$ 34,313,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 34,313,000</b>
Accumulated amortization:					
Technology licenses:					
Low Carbon Lighting Ltd.	\$ 1,317,937	\$ 359,836	\$ -	\$ -	\$ 1,677,773
Zero Carbon RDL Limited	\$ 2,266,875	641,250	-	-	2,908,125
Zero Emission Ltd.	\$ 332,750	90,750	-	-	423,500
C6 Technology Inc.	\$ 1,404,167	1,052,724	-	-	2,456,891
<b>Total</b>	<b>\$ 5,321,729</b>	<b>\$ 2,144,562</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 7,466,289</b>
<b>Net Book Value</b>	<b>\$ 28,991,271</b>				<b>\$ 26,846,710</b>

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

**10. INTELLECTUAL PROPERTY ASSETS - CONTINUED**

	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
<b>Total</b>	<b>\$ 17,463,000</b>	<b>\$ 16,850,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 34,313,000</b>
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
<b>Total</b>	<b>\$ 1,734,688</b>	<b>\$ 3,587,041</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 5,321,729</b>
<b>Net Book Value</b>	<b>\$ 15,728,312</b>				<b>\$ 28,991,271</b>

Management has reviewed the carrying value of the intangible assets and determined there was no indication of impairment as at February 28, 2013.

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%. Changes in these inputs and market demand will have a material impact on the estimated value.

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

---

**10. 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%. 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.

*C6 Technology Inc. ("C6T")*

On February 20, 2012, as part of the Prestige joint venture (Note 7), 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.

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

---

**10. 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%. Changes in these inputs and market demand will have a material impact on the estimated value.

**11. 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 February 28, 2013, the Company has drawn \$335,025 (August 31, 2012 - \$335,400) from the facility. A director and officer of the Company has placed a personal guarantee on this facility.

**12. LONG-TERM DEBT**

*Note payable to C&I vendors (Note 4)*

On September 25, 2012 the terms of the promissory note and associated debt related to the acquisition of Teposolar and its subsidiary C&I 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.

*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 included in long term debt as at February 28, 2013 is \$274,281. \$75,183 is included in current portion of long term debt.

As at February 28, 2013, \$2,513,913 is included in long term debt.

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

---

**13. RELATED PARTY BALANCES AND TRANSACTIONS**

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

During the six months ended February 28, 2013, the Company:

1. The Company accrued salaries of \$64,364 for Officers and Directors during the six months ended February 28, 2013. Total accrued salaries for Officers and Directors is \$316,500.
2. Paid \$101,942 in consulting fees to a Company with common directors and shareholders.

During the six months ended February 28, 2012, the Company:

1. The Company paid \$6,000 in consulting fees to a Company with common director and shareholders.
2. The Company incurred \$1,120 in accounting fees to a Company with common director and shareholders.

**14. SHARE CAPITAL**

*Authorized share capital*

As at February 28, 2013, the Company has authorized an unlimited number of voting common shares without nominal or par value.

*Shares issued and outstanding*

	Number	Amount
<b>Balance, August 31, 2011</b>	<b>298,381,990</b>	<b>\$ 84,813,418</b>
Reinstatement of founders' shares <sup>(1)</sup>	54,000,000	-
Cancellation of shares for services <sup>(2)</sup>	(42,840,000)	-
EnCap Investments Inc. capital prior to reverse takeover transaction <sup>(3)</sup>	4,690,704	355,796
Elimination of private SEP share capital <sup>(4)</sup>	(309,541,990)	-
Elimination of EnCap Investments Inc. share capital <sup>(4)</sup>	-	(355,796)
Shares issued to private Sustainable Energy Properties shareholders <sup>(4)</sup>	134,583,460	311,880
Elimination of cross ownership <sup>(5)</sup>	-	(55,999)
Balance August 31, 2012	139,274,164	\$ 85,069,298
Shares transferred for lease payments <sup>(6)</sup>	-	1,090,956
Balance February 28, 2013	139,274,164	\$ 86,160,254

1. On January 27, 2012 54,000,000 common shares of officers and director that were previously cancelled were reinstated.
2. On November 10, 2011 the Company cancelled 42,840,000 common shares that were previously issued for services.
3. On February 10, 2012 4,690,704 common shares of the Company were outstanding prior to the RTO with share capital of \$355,796.
4. 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.
5. On February 10, 2012 the Company completed the RTO with SEP and SEP's investment in the Company of \$55,999 was eliminated.

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

---

6. On November 10, 2012 the Company transferred 474,346 shares previously held by Z Carbon Companies Corp. for lease payments (Note 21)

**14. SHARE CAPITAL - CONTINUED**

*Escrow shares*

As at February 28, 2013 included in issued capital are 62,844,096 common shares held in escrow of which 61,793,096 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 six months ended February 28, 2013 and the year ended August 31, 2012 are as follows:

	Number of options	Weighted average exercise price \$
Outstanding at August 31, 2011	-	
Converted to LCTI stock options upon RTO	360,000	0.10
Granted	2,333,333	0.25
<b>Outstanding at August 31, 2012</b>	<b>2,693,333</b>	<b>0.23</b>
Granted	-	-
<b>Outstanding at February 28, 2013</b>	<b>2,693,333</b>	<b>0.23</b>

360,000 stock options of LCTI outstanding as at January 30, 2012, exercisable at \$0.10 per option with an expiry date of January 30, 2013, were deemed as part of the consideration for the reverse takeover, 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 six months ended February 28, 2013.

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

**14. SHARE CAPITAL - CONTINUED**

The following table summarizes stock options outstanding as at February 28, 2013:

<b>Exercise prices (\$)</b>	<b>Number outstanding</b>	<b>Weighted average remaining contractual life (years)</b>	<b>Number exercisable</b>	<b>Exercise price for exercisable options (\$)</b>
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:

	<b>February 28, 2013</b>	<b>August 31, 2012</b>
Risk-free interest rate (%)	-	1.25%
Expected life (years)	-	1.86
Expected volatility (%)	-	120%
Expected dividend yield (%)	-	0%

**15. COSTS OF GOODS SOLD**

	<b>For the six months ended February 28</b>		<b>For the three months ended February 28</b>	
	2013		2012	
Labor	\$ 452,890	\$ 444,178	\$ 256,912	\$ 205,106
Materials	284,195	222,991	106,496	100,720
Equipment	94,382	338,970	21,320	112,877
Subcontractors	437,284	214,213	189,529	(29,736)
<b>Total</b>	<b>\$ 1,268,751</b>	<b>\$ 1,220,352</b>	<b>\$ 574,257</b>	<b>\$ 388,966</b>

**16. GENERAL AND ADMINISTRATIVE EXPENSES**

	<b>For the six months ended February 28</b>		<b>For the three months ended February 28</b>	
	2013	2012	2013	2012
Leasing	\$ 545,502	\$ 670,524	\$ 272,751	\$ 335,262
Management and consulting	170,788	2,000	50,923	-
Office, rent and miscellaneous	251,622	154,946	104,973	68,234
Professional fees	195,122	416	95,000	-
Salaries and wages	172,311		53,824	93,037

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

			169,126			
Travel		<b>53,486</b>	42,476		<b>29,316</b>	18,513
<b>Total</b>	<b>\$</b>	<b>1,388,827</b>	<b>\$</b>	524,442	<b>\$</b>	<b>606,787</b>
				<b>\$</b>		515,046

**17. OTHER EXPENSES**

	For the six months ended		For the three months ended	
	February 28		February 28	
	2013	2012	2013	2012
Equity in net (income) loss of a affiliates	\$ (96,673)	\$ -	\$ (74,913)	\$ -
Minority interest in (income) loss	1,637		1,637	-
Interest expense (Note 12)	83,955	93,750	40,543	46,875
Transaction costs	-	420,163	-	420,163
<b>Total</b>	<b>\$ (11,081)</b>	<b>513,913</b>	<b>\$ (32,733)</b>	<b>\$ 46,875</b>

**18. GAIN ON DEBT FORGIVENESS**

On On September 25, 2012 the terms of the promissory note and associated debt related to the acquisition of Teptosolar and its subsidiary C&I were modified and the promissory note was reduced from \$3,750,000 to \$2,500,000 and accrued interest was forgiven. A gain on forgiveness of debt of \$1,773,715 was recognized.

On February 1, 2013 accounts payable of \$399,248 was forgiven.

**19. 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 six months ended February 28, 2013.

**20. 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**

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

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 February 28, 2013 is \$1,198,226. 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 February 28, 2013 and 2012 no allowance was considered necessary as all the Company's receivables are bonded.

**20. FINANCIAL INSTRUMENTS - CONTINUED**

**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 February 28, 2013, the Company has a working capital deficiency of \$2,261,749. The Company manages liquidity risk through the management of its capital structure. See Note 19.

**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 February 28, 2013, the Company has drawn \$335,025 from the facility. A director and officer of the Company has placed a personal guarantee on this facility.

**21. 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

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 28, 2013 AND 2012**  
**(Expressed in United States Dollars)**

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

**21. COMMITMENTS AND CONTINGENCIES - CONTINUED**

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 condensed consolidated interim financial statements. Z Carbon made a lease payment for the three months ended November 30, 2012 which is included in the statement of financial position and holds no other assets or liabilities other than the leases.

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 February 28, 2013 is \$1,211,849 related to unpaid leases. Lease expense recognized in general and administrative expense for the six months ended February 28, 2013 was \$545,202.

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 30, 2013 AND 2012**  
**(Expressed in United States Dollars)**

**22. 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 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.

**Six months ended February 28, 2013**

	Energy				
	Efficiency	Technology	Environmental	Reconciliation	LCTI
Revenue	\$ 1,406,175	\$ -	\$ -	\$ -	\$ 1,406,175
COGS	1,268,751	-	-	-	1,268,751
Gross profit	137,424	-	-	-	137,424
Operating Expenses	254,141	545,502	-	589,184	1,388,827
Interest expense	74,248	-	-	9,707	83,955
Depreciation and amortization	80,282	2,144,562	-	387	2,225,231
Gain (loss) from joint venture	-	12,110,000	-	-	12,110,000
Income (loss) from affiliate	112,443	-	(15,770)	-	96,673
Minority Interest in income (loss)	(1,637)	-	-	-	(1,637)
Gain on debt forgiveness	-	-	-	2,162,924	2,162,924
Income (loss)	\$ (160,441)	\$ 9,419,936	\$ (15,770)	\$ 1,563,646	\$ 10,807,372

Assets	Energy				
	Efficiency	Technology	Environmental	Reconciliation	LCTI
Cash	\$ 611,418	\$ -	\$ -	\$ 10,435	\$ 621,853
Accounts Receivable	1,198,256	-	-	-	1,198,256
Prepaid expenses	4,753	-	-	-	4,753
Total current assets	\$ 1,814,427	\$ -	\$ -	\$ 10,436	\$ 1,824,863
Investments in affiliates	-	-	12,039,249	-	12,039,249
Investment in joint venture	-	40,576,000	-	-	40,576,000
Machinery and equipment	526,356	222,440	-	4,419	753,215
Mitigation land	-	-	45,800,000	-	45,800,000
Intellectual property assets	-	26,846,709	-	-	26,846,709
Customer list	404,167	-	-	-	404,167
Goodwill	2,592,309	-	-	-	2,592,309
Total non current assets	\$ 3,522,832	\$ 67,645,149	\$ 57,839,249	\$ 4,419	\$ 129,011,649

**LCTI LOW CARBON TECHNOLOGIES INTERNATIONAL INC.**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**SIX MONTHS ENDED FEBRUARY 30, 2013 AND 2012**  
**(Expressed in United States Dollars)**

**22. SEGMENTED REPORTING - CONTINUED**

**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

	Energy				
Assets	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

**23. SUBSEQUENT EVENTS**

The company acquired a 43.5% interest in Northwest Critical Minerals. LCTI agreed to issue non-exclusive licenses for certain technologies from its portfolio in exchange for the 43.5% interest.