Management Discussion and Analysis
For The Three Months Ended December 31, 2011

The following discussion and analysis ("MD&A") as of March 30, 2011 should be read in conjunction with the Consolidated Financial Statements of Sustainable Energy Technologies Ltd. ("Sustainable", "Sustainable Energy" or the "Company") and notes for the period ended December 31, 2011.

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 solar PV market and segments thereof as well as the size of the solar inverter market; statements concerning our production plans which make assumptions concerning manufactured costs, 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 our markets are based on certain critical assumptions and general conclusions concerning the future of the solar and energy storage 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, 2011 and dated January 30, 2011, which may be found on SEDAR at www.sedar.com and on our website.

Our assumptions and the conclusions that we draw represent forward-looking information.

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

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

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

A detailed overview of Sustainable Energy business, including a summary of our history, business strategy, industry outlook, and core business is provided our MD&A dated January 30, 2012 for the fiscal year ended September 30 2011 and in our Annual Information Form ("AIF") for that year. Our MD&A and AIF may be found, together with all our public documents, at www.sedar.com.

CHANGE FACTORS INFLUENCING OUR BUSINESS

On March 22, 2012 Ontario announced new and much lower feed in tariffs as expected to reflect lower module prices across the board. Our early analysis and early customer feedback is that the prices will sustain an active market in the Province and we are seeing an increase in demand although reduced tariffs will put pressure on labor costs and installer margins resulting in some consolidation of the business.

We are adjusting our strategy for Ontario to move towards a model which integrates our inverter into pre-assembled packages or kits consisting of the inverter racking wiring and other DC side peripherals. The result is a lower cost lower risk system for the customer which eliminates 90% of on-site labour.

The change in feed in tariffs in Germany and the positive spread between the cost of solar electricity and grid pricing appears to be accelerating interest in distributed energy storage for smaller solar PV systems. We are seeing interest in our battery management capability from energy management system suppliers in Germany but also in the US based on our higher efficiencies and lower cost. IMS Research a London based research firm estimates demand for inverters with energy storage functionality at 2.5GW/yr. in 2015. With current pricing, this represents an addressable market of approximately $1B per year.

MANAGEMENT'S DISCUSSION OF OPERATIONS

Achieving profitability continues to be our highest priority. We have a profitable product which is yielding an average 26% margin even in low volumes, and we have achieved our goal to reduce operating cost by 50% for 2011 levels without impacting operational integrity. We have significantly increased manufacturing yields at the Guelph facility which now has an immediate production capacity of 800 units per month. This is easily scalable to double that amount with a minimal capital investment in production test equipment.

We are in a position to certify our 3rd generation ("STX") platform which replaces 4 semi-custom transformers with a single off the shelf transformer. This will reduce cost by an estimated 20% and further reduce our breakeven point.

Volumes for Q1 were in line with expectations. Quarterly sales revenues for Q1 were 1,011,215 with gross margins averaging 24%.

Although we shifted our sales and marketing focus to the US following the unexpected slowdown of the Ontario market in Q3 2011 we missed the selling cycle which typically runs from January to July.

During Q1, we launched a rebranded inverter under PARALEX$_{TM}$ as planned at Solar Power International in Dallas Texas where it attracted good interest. We are now seeing demand from integrators in the US to integrate the PARALEX inverter into kits or factory assembled systems targeting smaller ground based community and agricultural systems. Demand is driven by the added flexibility in system design and the safety of extra low voltage due to concerns about owner occupier liability for high voltage systems.

We are currently shipping more than 200 units per month and Q2 sales are expected to be up slightly from Q1. Margins on the inverters are averaging 23% although each sale yields an average 87% cash contribution to the business as we liquidate component inventories.

Most of our sales are currently into the US and to tenKsolar (www.tenksolar.com) or its principal US distributor, Stuart C Irby for utilization in the high performance RAIS Wave system. During Q2 tenKsolar completed a second round of financing with Hanwha Solar and Hanwha Solar is partnering with tenKsolar to market the RAIS WAVE system in Asia launching product for the Japanese market at PV Expo Japan, the world's leading B2B exhibition and technical conference in the photovoltaic industry. We expect that this will lead to certification of the inverter for Japan and an inevitable partnership to manufacture and distribute the PARALEX inverter in Japan.

2012 PRIORITIES AND OUTLOOK

Our highest priorities today are to increase volumes in North America and to increase revenues and contribution per sale. We have achieved our operational targets and positioned our product in the main markets. We are adjusting our strategy to achieve these goals within the limits of resources currently available to us.

We believe that Ontario will be an important market for Sustainable Energy for the next 12 – 18 months. We have a presence there and relationships with the leading system integrators in each of the four quadrants of the Province. With reduced feed in tariffs there is greater pressure to increase revenues per installed watt and our parallel design enables system oversizing that can yield 30% more energy per installed watt than competitive systems in the small system (<10kW) market.

As noted earlier, we are adjusting our strategy towards a model which integrates our inverter into pre-assembled packages or kits consisting of the inverter racking wiring and other DC side peripherals. The benefit to our customer is a lower cost, lower risk system which eliminates 90% of on-site labour.

Pre-marketing of the concept has been very positive and we will shortly announce our plans to bring this concept to the market. We estimate this market somewhere between 50MW and 80 MW in calendar 2012.

In the US we are already following a similar strategy although in this case we are seeking to sell only the inverter and potentially DC side peripheral products to partners which will undertake the marketing and carry the first level of customer support. We are targeting system integrators focused on where safety is an important sale criterion. These include agricultural applications, ground based community power systems schools and recreational areas.

During Q2, we entered into a national distribution agreement with Affiliated Distributors ("AD"), North America's largest distributor group. AD's Electrical Supply Division is the single largest group or chain in thee electrical industry in North America with over 155 leading independent electrical distributors and 34 of the 100 largest electrical distributors in the U.S. Our plan is to market into this network to identify and secure our ideal partners in each region.

Future Growth Opportunities

We are devoting limited resources to positioning our technology for future growth markets:

We are satisfied that we have the lowest cost power optimization solution for high efficiency thin film modules and we are working with an industry leader to demonstrate a low cost approach which significantly reduces the balance of system cost and maximizes design flexibility for rooftops and building facades. Success in this initiative has the potential to make our technology the industry standard for building integrated thin film systems. We are targeting an OEM model where the module manufacturer or large integrators package our inverter and the module in a "kit" for easy integration into building systems.

Energy storage is emerging as a very substantial opportunity and has the potential to define the future of the company. As renewable energy increases its penetration of the overall energy supply, there is increased demand for energy storage to smooth out fluctuations caused by the intermittent nature of renewable energy and to store solar energy produced during off peak demand for higher value use at other times of the day. Energy storage is also a critical part of emerging micro-grids which are used to supply higher quality firm power to installations (often military installations) with the power grid supplying standby power.

Grid interactive energy storage along with fuel cells represents the "sweet spot" for our technology. In these applications we have a clear and material competitive advantage in efficiencies and cost over any other alternative in sight. Given the emerging nature of the market there is an opportunity to make the technology an industry standard for smaller (<50kW) distributed energy storage systems.

Inverter Industry Pricing

Demand for grid interactive inverters tracks growth in the solar industry. According to IMS Research demand for inverters will grow to more than $9B per year in less than 3 years from slightly more than $6.7B in 2011. Significantly IMS Research sees no prospect of the kind of price compression seen on the module side of the business. To the contrary increased demand for grid interactive functionality and differentiation may increase inverter prices according to IMS Research. This is our experience in the US where we believe we are able to maintain our current pricing model for 2012.

Liquidity

Liquidity continues to be our major challenge. The completely unforeseeable slowdown in Ontario significantly impacted operating cash flow and delayed our positive cash flow threshold by almost one year. While we are on track to achieve quarterly profitability within the year the margin for error is slim.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICY CHOICES OR CHANGES UNDER IFRS

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

As disclosed in note 2 to the December 31, 2011 condensed interim consolidated financial statements, the financial statements represent the Company's initial presentation of the financial performance and financial position under IFRS for the period ended December 31, 2011 in conjunction with the Company's annual consolidated audited financial statements to be issued under IFRS as at and for the year ended September 30, 2012. As a result, the interim condensed consolidated financial statements have been prepared in accordance with IFRS 1, First-time Adoption of International Financial Reporting Standards and with IAS 34, Interim Financial Reporting, as issued by the IASB. Previously, the Company prepared its interim and 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 24 to the condensed interim consolidated financial statements provide information about the transition from pre-transition 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. Instead IFRS 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 January 1, 2010. The Company applied this elective exemption upon adoption to IFRS on January1, 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 decrease to deficit as at October 1, 2010.	The application of IFRS 2 during the 2011 fiscal year-end resulted in a $96,557 decrease in share payment reserve and a $96,557 increase to the net loss for the year and 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	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 to IFRS. As a result a $571,990 decrease to deficit at October 1, 2010 and a corresponding decrease of $569,921 to development costs and $2,069 to capital assets were recorded to restate opening deficit for cumulative translation losses as at October 1, 2010.	The application of IAS 21 during the 2011 fiscal year-end decrease in development costs of $477,010, $2,315 decrease capital assets, $307,419 decrease in the deficit, and negative $171,906 addition to foreign currency translation reserve.

	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.		

MANAGEMENT DISCUSSION OF FINANCIAL RESULTS

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

Net loss and comprehensive Loss

The Company recorded a Net Loss for the quarter ended December 31, 2011 of $1,570,074 compared with $2,499,393 for the quarter ended December 31, 2010, a decrease of $929,319. Adjusting of non-cash items the net loss was $864,793 by comparison to $1,798,889 for the same period in 2010.

Revenue and Gross Margin

Revenues for the quarter ended December 31, 2011 were $1,011,215 compared to $994,465 for 2010. The increase in sales revenues reflects the successful launch of our 2nd generation solar inverter platform and sales to tenKsolar and its principal distributor under a supply agreement entered into at the end of Q2, 2011.

Total costs of sales for the quarter ended December 31, 2011 totaled $774,589 to yield an overall gross margin of $236,626 or 23% of total revenues. As noted earlier, we expect margins to materially improve as we continue to reduce the cost of the inverter product through technological change and the realization of higher operating efficiencies under the restructured supply chain and manufacturing model.

Operating Costs

- We reduced annual engineering and product development costs by $408,800 from $630,621 in fiscal 2011 to $221,821 for fiscal 2012. The savings reflects completion of the core product platform and a shift in the engineering focus to product support and product cost reduction. We reduced operating costs by $188,149 from $469,319 in fiscal 2011 to $281,170in fiscal 2012. Cost reductions reflect a restructuring in manufacturing and sales and operations planning leading to a reduced head count and greater operating efficiencies under the Company's new Sales and Operations Planning process. This was achieved with no loss in productivity
- We reduced general and administrative costs including stock based compensation by $426,377 from 940,105 in Q1 2011 to $513,728 for Q1 2012. General and administrative ("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 increased our investment in sales and marketing by $56,627 to $211,972 for the quarter ended December 31 2011, compared to $155,345 for fiscal 2011. .

We continue to cut operating costs in 2012. Our target for the end of Q2 is to have our monthly operating costs the $300,000 – $350,000 range.

Amortization

Amortization of development costs was $69,200 for the quarter compared to 48,181 in the previous period. The amortization of capital assets for the quarter ended December 31, 2011 was $36,506 compared with $61,700 for 2010.

Financial Costs

Most of the financial costs recognized in the year are non-cash, in that the cost is accrued, but is not paid. Non cash interest reported in respect of the Energy Northwest Obligation was $65,569 for the quarter ended December 31, 2011. There is not agreement on whether interest should be compounded or calculated on a simple interest basis. Although we have legal advice that the interest payable is calculated as simple interest, the matter is not entirely free from doubt and we have chosen to show the higher amount until the issue is resolved and this does not reflect an acknowledgement on our part that the higher amount is payable.

Calculated on a simple interest basis, the interest accrual to Energy Northwest would have been $6,714 for the quarter. Calculated on a simple interest basis the current amount owing to Energy Northwest at December 31 2011 was approximately $449,800 by comparison to 1,393,056 if interest is compounded.

In addition, Energy Northwest is entitled to a royalty equal to 1% of revenues realized by SEL in respect of the sale of products incorporating the intellectual property developed under the agreement. SEL has licensed the intellectual property to SES and STGLP in exchange for a royalty equal to 4% of gross sales revenues realized by them. SEL does not however have product sales and no royalty is accrued. Were a royalty to be accrued it would represent 0.04% of gross sales realized by the Company.

Dividends accreted on the First Preferred Shares were converted to common shares on the conversion of Series 7 Class B and Series 9 preferred shares during the three months. This conversion amounted to $2,659 and was charged to financing costs.

Accounting standards require that the Company treat the several series of First Preferred Shares as debt, since there is an obligation to redeem the First Preferred Shares in cash 5 years after the date of issue. The amount of debt recognized on the balance sheet is determined by discounting the estimated payment of dividends and principal at a rate that reflects the yield that one might expect for a 5 year, 8% term preferred share issued by the Company without a conversion feature.

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

As at December31, 2011:

	2012	2011				2010		
	Qtr 1	Qtr 4	Qtr 3	Qtr 2	Qtr 1	Qtr 4	Qtr 3	Qtr 2
Revenues	1,021,225	2,902,766	1,135,015	725,016	1,003,296	737,968	829,667	44,292
Net (loss)	(1,570,074)	(720,037)	(1,749,445)	(2,044,125)	(2,602,712)	(2,667,639)	(2,781,096)	(2,889,211)
Per share – basic	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)
Per share – diluted	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.01)	(0.02)	(0.02)

*Only Q1 2012 is calculated under IFRS. The remaining quarters are calculated under Canadian GAAP

Summary of Annual Information

	2012	2011	2010
Revenues and Gains	1,021,225	5,766,093	2,140,320
Net (loss)	(1,570,074)	(7,116,319)	(11,226,32)
Per share – basic	(0.01)	(0.04)	(0.07)
Per share – diluted	(0.01)	(0.04)	(0.07)
Total assets	6,117,977	7,400,018	7,525,423
Non-current liabilities	0	0	0
Declared dividends	0	0	0

The 2012 revenue (representing 1 Quarter) is comprised of $1,011,215 product sales and $10,010 interest and other revenue. The 2011 revenue (representing 4 Quarters) is comprised of $3,867,910 product sales, $1,887,074 gain on preferred shares and $11,109 interest and other revenue.

Summary of expenses

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

Product development

	Q1 2012	Fiscal 2011	Fiscal 2010
Salaries and consultants	128,424	489,167	859,065
Consumables	-	105,624	648,197
Travel	6,460	12,261	31,538
Other	17,737	130,696	64,555
Amortization	69,200	-	-
Total	221,821	737,748	1,603,355

*Only 2012 is calculated under IFRS. Fiscal 2011 and 2012 are calculated under Canadian GAAP

Operations

	2012	Fiscal 2011	Fiscal 2010
Salaries and consultants	199,522	947,369	1,272,858
Consumables	2,782	21,844	111,037
Travel	2,335	59,430	129,074
Freight and storage	62,708	403,939	520,285
Other	13,823	171,671	154,900
Total	281,170	1,604,253	2,188,783

*Only 2012 is calculated under IFRS. Fiscal 2011 and 2012 are calculated under Canadian GAAP

Sales and marketing

	Q1 2012	Fiscal 2011	Fiscal 2010
Salaries and consultants	112,190	1,184,809	610,622
Travel	15,307	182,794	358,893
Marketing	56,087	408,787	563,006
Other	28,388	198,516	4,790
Total	211,972	1,974,907	1,537,312

*Only 2012 is calculated under IFRS. Fiscal 2011 and 2012 are calculated under Canadian GAAP

General and administration

	Q1 2012	Fiscal 2011	Fiscal 2010
Salaries and consultants	89,676	912,144	1,409,876
Stock based compensation	26,751	393,483	474,650
Travel	7,186	80,659	331,665
Bad debts	-	237,254	1,598
Rent	67,487	279,332	234,621
Audit & accounting fees	91,899	102,000	130,476
Patent attorney fees	-	113,115	28,450
Legal fees for financing	18,9193	85,381	74,865
Other professional fees		33,750	98,301
Other	145,237	223,073	480,426
Amortization	36,507	-	-
Total	483,662	2,460,191	3,311,009

*Only 2012 is calculated under IFRS. Fiscal 2011 and 2012 are calculated under Canadian GAAP

Cash Flow Used in Operations

Cash flow used in operations for the quarter ended December 31, 2011 was $775,922, compared to $2,598,062 for the same period in 2011. Revenues increased $17,929 while gross margin increased $114,673 for the year ended September 30, 2011.

Liquidity and Capital Resources

Liquidity, as measured by working capital, was $2,072,353 at December 31, 2011 by comparison to $1,970,327 at September 30, 2011. The components comprise cash and cash equivalents of $225,072 finished product inventory totaling $772,542 component inventory totaling $2,514,751, prepaid expenses and deposits in the amount of $75,432 which are mainly with component suppliers and accounts receivables and advances in the amount of $981,129. Accounts payable and accrued liabilities at December 31, 2011 were $1,156,201 down from $1,393,176 at September 30, 2011. These are mainly owing to suppliers of components and sub-assemblies.

With support from Doughty Hanson in the form of a Standby Equity Commitment the Company has secured an operating line with HCBC Canada in the amount of $1.5 million. As of December 31, 2011 the Company's operating line was $1,121,690**.** The loan is subject to certain covenants, including covenants to maintain certain financial ratios. There is uncertainty concerning the calculating the ratios and the Company was not in compliance on December 31 2011 and may not be in compliance as of today pending clarification. The Company is negotiating clarification and changes as required to ensure compliance.

The Company raised $2,266,999 through an equity unit offering in March and April 2011 through the issuance of common shares at $0.14 per share. Each unit was comprised of one common share and one half of one common share purchase warrant at $0.20 with an expiration date of two years.

The Company has secured a second Standby Equity Commitment with Doughty Hanson for $1,500,000 in October 2011. At this time there have been 50,000 Series 11 Preferred shares and 50,000 Series 12 Preferred Shares issued for total draw-downs of $1,000,000 Each Series matures five years and one day after issuance. The Company issued 6,347,826 additional warrants as compensation for the Standby Equity Commitment at a price of $0.115 per share for a period of one year. The Series 11 Preferred shares are convertible at $0.115. In approving the issue the TSX Venture Exchange requires that The Series 12 Preferred Shares be convertible at $0.10 unless the Company takes action to enable it to consolidate its share capital on a 1:10 basis before December 31 2012 in which event they are convertible at $0.08 per share.

The Company will seek authority at the next Annual General and Special Meeting of the Shareholders to make the consolidation if it determines at the time it is in the best interests of the Company to do so. This will not necessarily lead to consolidation as there are other options to compensate Doughty Hanson for the higher exercise price in the event the consolidation does not take place. The Company does believe that it may be in the best interests to effect a consolidation of the shares in the future in order to expand the shareholder base in other markets but also understands the pitfalls of a consolidation if it is not executed properly and under the right circumstances

We have $2,514,771 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 published by the Ontario Power Authority at the time. The component inventory paid for except for an amount of $129,549 which we intend to retire fully before the end of Q3 2012. We have $722,543 in finished product inventory which we expect 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 notes 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:

Included in general and administration expenses is remuneration and fees for key management personnel and directors. For the period ending December 31, 2011, the Company has expensed $147,042 as salary and $17,366 as salary based compensation.

Revenue and expense transactions are in the normal course of operations and have been valued in these consolidated financial statements at fair value.

Disclosure of Outstanding Share Data

As at March 30, 2012, 200,371,934 common shares and 1,036,587 First Preferred Shares convertible at the option of the holder into 73,280,777 common shares were outstanding. In addition, common share purchase warrants, representing the right to acquire 22,192,000 common shares at an exercise price of $0.30 per share were issued and outstanding. Common share purchase warrants representing the right to acquire 8,096,429 common shares at $0.20 were issued and are outstanding as of the date hereof. Also, 4,848,484 warrants at $0.165 were issued and are outstanding as were 1,063,500 warrants at $0.14.

Additional warrants to acquire 6,347,826 common shares at $.0115 were issued and are outstanding. As of March 30, 2012, the Company had employee stock options outstanding entitling the holders thereof to acquire up to 13,445,305 common shares of which 11,224,476 options to acquire common shares had vested. The weighted average exercise price of the vested options is $0.19 per share.

We have indicated that we will seek approval from the shareholders to allow management to consolidate common share capital up to 1 share for 10 shares, where it deems it in to be in the best interests of the shareholders.

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, 2011, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $48,872,761 (2010 - $43,090,570) and recognized a cash flow deficiency from operations at December 31, 2011 of $775,922 (2010 - $2,598,062). 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 $2,072,353 at December 31, 2011 (2010 - $3,752,724).

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 common shares, First Preferred Shares and Units of STG Markets Limited Partnership. The outcome of these matters cannot be predicted at this time. Subsequent to September 30, 2011, the Company received a cash inflow of $1,000,000 for the issuance of preferred shares.

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 there is widespread acceptance of the core value proposition of module power optimization for the solar power industry, the advantages of our approach to power optimization are not well known and 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 in the solar power industry which is in turn still dependent on continuing government support for the industry for the foreseeable future although in many markets around the world solar electricity has a comparable cost to grid pricing – a phenomenon known as grid parity which will reduce such dependence. In particular, our business model assumes that much of the growth in this industry will be for rooftop and building integrated solar power systems. In the near term, this is dependent on the structure of the incentives continuing to support these systems. If these incentives were removed or materially changed before the cost of solar electricity becomes competitive with other energy sources, the demand for our products would be materially affected.

Even with continued support for solar PV and continued high growth in the solar industry markets, 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 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.

Currently, we outsource our production to a single contract manufacturer and there is a risk that it will not perform on its contractual obligations. There is also a risk that long lead times for critical components may affect production lead times.

Where possible, we address these risks through contract frustration insurance. We also actively monitor critical component suppliers to the contract manufacturer and in some cases invest to secure longer lead time items.

At this stage of our development we have greater exposure to financial loss due to a concentration of customers. This risk is exacerbated by our business strategy which is to develop multi-year multi-megawatt contracts with a few leading market players. We have in the past obtained contract frustration insurance and for Export Development Canada to protect against premature cancellation of the contract or failure to pay for product when due and we intend to continue to do so wherever possible. We also structure our supplier purchase contracts to ensure that we are not over committed to purchase products.

We intend where possible to finance a portion of our product inventory commitments with operating lines of credit. It is our intention wherever possible to obtain contract frustration insurance and to balance the production and sales so as to mitigate the financial risk to the Company to the greatest degree possible. It is possible that we will not be able to obtain such insurance in all cases or that the insurance may not fully cover the exposure to loss. Should this happen there is the potential for financial loss to the Company.

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.