Condensed interim consolidated financial statements of

Sustainable Energy Technologies Ltd.

June 30, 2013

Sustainable Energy Technologies Ltd.

June 30, 2013

Table of contents

Sustainable Energy Technologies Ltd.

Condensed interim consolidated statements of financial position

Stated in Canadian dollars
(Unaudited)

	Note	**June 30, 2013**	September 30, 2012
		$	$
Assets			
Current:			
Cash		**166,186**	256,104
Accounts receivable and advances		**439,406**	913,426
Inventory	3	**2,834,851**	2,712,004
Prepaid expenses and deposits		**323,222**	168,587
		3,763,665	4,050,121
Non-current :			
Development costs	4	**668,332**	937,692
Capital assets	5	**178,536**	96,575
		4,610,533	5,084,388
Liabilities			
Current:			
Accounts payable and accrued liabilities		**2,178,462**	1,816,285
Bank debt	6	**1,131,329**	1,443,830
Due to director	17	**100,000**	-
Energy Northwest obligation - current portion	8	**55,132**	45,700
Government grant obligation - current portion	9	**47,000**	40,382
		3,511,923	3,346,197
Non-current:			
Deferred lease inducement		**74,100**	-
Energy Northwest obligation	8	**51,440**	44,900
Government grant obligation	9	**148,765**	176,354
Debentures	10	**551,392**	544,711
Preferred shares	11	**10,790,855**	7,929,418
		15,128,475	12,041,580
Shareholders' equity (deficiency)			
Share capital	12	**5,004,531**	5,004,531
Warrants	13	**459,958**	2,270,651
Equity component of preferred shares	11	**4,084,112**	3,387,391
Share-based payment reserve		**7,578,934**	5,317,378
Foreign currency translation reserve		**(133,259)**	(184,625)
Deficit		**(27,512,218)**	(22,752,518)
		(10,517,942)	(6,957,192)
		4,610,533	5,084,388

Going concern (Note 2(b)), Commitments (note 22) and Subsequent events (note 24)
The accompanying notes are an integral part of these consolidated financial statements

On behalf of the Board:

{signed} {signed}

Michael Carten, Director Robert Penner, Director

Sustainable Energy Technologies Ltd.

Condensed interim consolidated statements of loss and comprehensive loss
For the three month and nine month periods ended June 30,

Stated in Canadian dollars
(Unaudited)

		Three months ended		Nine months ended	
	Note	**2013**	2012	**2013**	2012
		$	$	**$**	$
Sales		**15,819**	516,426	**132,748**	2,414,628
Cost of goods sold		**(15,587)**	490,574	**62,723**	1,976,698
Gross margin		**31,406**	25,852	**70,025**	437,930
Expenses					
General and administrative	17	**357,880**	481,595	**1,034,097**	1,280,162
Operations	17	**190,680**	263,602	**575,189**	857,971
Product research and development		**287,296**	139,121	**730,812**	517,603
Selling and marketing		**144,750**	119,360	**384,100**	468,522
		980,606	1,003,678	**2,724,198**	3,124,258
Loss before undernoted items		**(949,200)**	(977,826)	**(2,654,173)**	(2,686,328)
Financing costs	18	**(897,550)**	(655,013)	**(2,424,288)**	(1,939,873)
Other income	20	**3,148**	27	**318,761**	10,078
Net loss		**(1,843,602)**	(1,632,812)	**(4,759,700)**	(4,616,123)
Foreign currency adjustment to equity		**(18,299)**	(81,552)	**(51,365)**	75,189
Total comprehensive loss		**(1,861,901)**	(1,714,364)	**(4,811,065)**	(4,540,934)
Loss per common share					
Basic and diluted		**(0.09)**	(0.08)	**(0.23)**	(0.23)
Weighted average number of common shares					
Basic and diluted	12	**20,915,597**	20,207,992	**20,915,597**	20,207,992

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

Sustainable Energy Technologies Ltd.

Condensed interim consolidated statement of change in equity

For the three month and nine month periods ended June 30,

Stated in Canadian dollars

(Unaudited)

	Share Capital	Share based payment reserve	Warrants	Equity component of preferred shares	Equity component of convertible debentures	Deficit	Foreign currency translation reserve	Total
	$	$	$	$	$	$	$	$
Balance, October 1, 2012	**5,004,531**	**5,317,378**	**2,270,651**	**3,387,391**	**-**	**(22,752,518)**	**(184,625)**	**(6,957,192)**
Loss for the period	-	-	-	-	-	(4,759,700)	-	(4,759,700)
Other comprehensive gain(loss)	-	-	-	-	-	-	51,366	51,366
Issue of share capital	-	-	-	-	-	-	-	-
Warrants issued	-	-	459,958	-	-	-	-	459,958
Warrants expired	-	2,270,651	(2,270,651)	-	-	-	-	-
Equity component of debenture	-	-	-	-	27,968	-	-	27,968
Conversion of debenture				247,939	(27,968)			219,971
Equity component of preferred shares	-	-	-	448,782	-	-	-	448,782
Share based payments	-	(9,095)	-	-	-	-	-	(9,095)
Balance, June 30, 2013	**5,004,531**	**7,578,934**	**459,958**	**4,084,112**	**-**	**(27,512,218)**	**(133,259)**	**(10,517,942)**
Balance, October 1, 2011	34,258,068	4,819,067	2,275,418	3,184,383	-	(47,434,153)	(171,906)	(3,069,123)
Loss for the period	-	-	-	-	-	(4,788,029)	-	(4,788,029)
Other comprehensive gain(loss)	-	-	-	-	-	-	247,095	247,095
Issue of share capital	746,463	-	-	-	-	-	-	746,463
Warrants issued	-	-	362,411	-	-	-	-	362,411
Warrants expired	-	443,750	(443,750)	-	-		-	-
Equity component of preferred shares	-	-	-	226,158	-	-	-	226,158
Share based payments	-	85,209	-	-	-	-	-	85,209
Balance, June 30, 2012	35,004,531	5,348,026	2,194,079	3,410,541	-	(52,222,182)	75,189	(6,189,816)

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

Sustainable Energy Technologies Ltd.

Condensed interim consolidated statements of cash flows
For the three month and nine month periods ended June 30,
Stated in Canadian dollars
(Unaudited)

		Three months ended		Nine months ended	
	Note	**2013**	2012	**2013**	2012
		$	$	$	$
Operating activities					
Net loss		**(1,843,602)**	(1,632,812)	**(4,759,700)**	(4,616,123)
Amortization of capital assets and development costs		**114,249**	74,831	**331,923**	237,494
Amortization of deferred lease inducement		**(3,900)**	-	**(3,900)**	-
Share-based payments		**12,649**	39,726	**(9,095)**	85,209
Finance costs		**897,551**	655,013	**2,424,288**	1,939,873
Write down of capital assets		**-**	44,458	**2,246**	44,458
Unrealized foreign exchange loss (gain)		**2,691**	(105,261)	**6,859**	34,974
		(820,362)	(924,045)	**(2,007,379)**	(2,274,115)
Net change in non-cash working capital	21	**261,804**	1,030,850	**664,860**	1,177,210
Cash flow used in operating activities		**(558,558)**	106,805	**(1,342,519)**	(1,096,905)
Financing activities					
Bank debt		**173,058**	(35,678)	**(312,501)**	116,660
Proceeds from preferred shares		**600,000**	-	**1,100,000**	1,000,000
Cost of issuing preferred shares		**-**	-	**-**	(36,156)
Proceeds from convertible debenture		**-**	-	**500,000**	-
Proceeds from debenture		**-**	699,875		699,875
Due to director		**-**	-	**100,000**	-
Repayment of government contribution		**(9,000)**	-	**(11,000)**	-
Cash financing costs paid		**(24,795)**	(20,537)	**(83,809)**	(54,861)
Cash flow from financing activities		**739,263**	643,660	**1,292,690**	1,725,518
Investing activities					
Capital asset additions		**(35,225)**	-	**(35,225)**	(17,447)
Cash flow used in investing activities		**(35,225)**	-	**(35,225)**	(17,447)
Foreign exchange on cash held in foreign operations		**(2,335)**	(31,522)	**(4,864)**	(31,522)
Net change in cash		**143,145**	718,943	**(89,918)**	579,644
Cash, beginning of period		**23,041**	189,522	**256,104**	328,821
Cash, end of period		**166,186**	908,465	**166,186**	908,465

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

1. Description of the business

Sustainable Energy Technologies Ltd ("Sustainable Energy", "Sustainable" or the "Company"), incorporated under the Business Corporations Act of Alberta, develops and manufactures advanced power inverters for the emerging alternative and renewable energy industry - solar photovoltaic ("PV") systems, small wind turbines, fuel cells and all forms of energy storage. The Company is a publicly traded company headquartered at 609-14th St NW, Calgary, Alberta, Canada and its shares trade on the Toronto Stock Exchange Venture Exchange "TSX-V" under the symbol "STG".

2. Basis of preparation

(a) Statement of compliance

These unaudited condensed interim consolidated financial statements ("the financial statements") were prepared by management in accordance with International Accounting Standard ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards (" IFRS"), as issued by the International Accounting Standards Board (" IASB"). The financial statements do not comprise all of the information required for annual audited consolidated financial statements and therefore should be read in conjunction with the annual audited consolidated financial statements for the year ended September 30, 2012, which were prepared in accordance with IFRS. These unaudited condensed interim consolidated financial statements follow the same accounting policies as outlined in the notes 2 and 4 to the audited consolidated financial statements for the year ended September 30, 2012.

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are consistent with those disclosed in Note 3 of the September 30, 2012 audit consolidated financial statements

These financial statements were approved and authorized for issuance by the Board of Directors of Company on August 28, 2013.

(b) Going concern

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

At June 30, 2013, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $27,512,218 after a reclassification of $30,000,000 from share capital (2012 - $52,222,182) and recognized a cash flow deficiency in 2013 of $1,342,519 (2012 - $1,096,905). Whether and when the Company can attain profitability and positive cash flows from operations is uncertain. The lack of profitable operations and cash flow deficiency may cast significant doubt on the Company's ability to continue as a going concern, the Company had a working capital surplus of $251,742 at June 30, 2013 (2012 - $1,185,017).

Stated in Canadian dollars

2. Basis of preparation (continued)

(b) Going concern (continued)

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 the loss of customers and falling sales per customer. To address its financing requirements, the Company will seek financing through the issuance of common shares, First Preferred Shares, Units of STG Markets Limited Partnership and debentures. The outcome of these matters cannot be predicted at this time.

These unaudited condensed interim consolidated financial statements do not include any adjustments which could be significant to the amounts and classification of assets and liabilities that may be necessary should the Company be unable to obtain equity or debt financings or generate profitable operations in the future. Failure to continue as a going concern would require the restatement of assets, liabilities and shareholders' deficiency on a liquidation basis, which could differ materially from the going concern basis.

(c) Recently adopted accounting standards:

Recent accounting pronouncement that have been issued but are not yet effective are consistent with those disclosed in the Company's audited consolidated financial statements for the year ended September 30, 2012.

3. Inventory

The total carrying amount and classification of inventory was as follows:

	June 30, 2013	September 30, 2012
	$	$
Finished goods	**465,177**	488,205
Components	**2,265,789**	2,119,914
Other	**103,885**	103,885
	2,834,851	2,712,004

As at June 30, 2013, $2,834,851 (2012 - $3,167,736) of inventory was carried at cost and $Nil was carried at net realizable value.

4. Development costs

Carrying value	**June 30, 2013**	September 30, 2012
	$	$
Development of wind turbine technology	**1**	1
Development of power electronics intellectual property	**668,330**	937,690
Development of power electronics platform	**1**	1
Total	**668,332**	937,692

Stated in Canadian dollars

4. Development costs (continued)

Cost	Development of wind turbine technology	Development of power electronics intellectual property	Development of power electronics platform	Total
	$	$	$	$
Balance October 1, 2011	1,894,618	3,938,948	1,460,739	7,294,305
Foreign currency translation	-	(203,500)	(16,900)	(220,400)
Balance September 30, 2012	**1,894,618**	**3,735,448**	**1,443,839**	**7,073,905**
Foreign currency translation	**-**	**151,142**	**12,385**	**163,527**
Balance June 30, 2013	**1,894,618**	**3,886,590**	**1,456,224**	**7,237,432**

Accumulated amortization and impairment	Development of wind turbine technology	Development of power electronics intellectual property	Development of power electronics platform	Total
	$	$	$	$
Balance October 1, 2011	1,894,617	2,545,774	1,460,738	5,901,129
Amortization	-	395,546	-	395,546
Foreign currency translation	-	(143,562)	(16,900)	(160,462)
Balance September 30, 2012	**1,894,617**	**2,797,758**	**1,443,838**	**6,136,213**
Amortization	**-**	**296,026**	**-**	**296,026**
Foreign currency translation	**-**	**124,476**	**12,385**	**136,861**
Balance June 30, 2013	**1,894,617**	**3,218,260**	**1,456,223**	**6,569,100**

Depreciation of the intangible asset is included in the condensed interim consolidated statement of loss and comprehensive loss under the line item product research and development.

5. Capital assets

	June 30, 2013	September 30, 2012
	$	$
Carrying value		
Computer equipment and software	**17,503**	19,507
Lab equipment	**34,072**	51,107
Furniture and equipment	**124,844**	23,422
Dies and molds	**2,117**	2,539
Total	**178,536**	96,575

Stated in Canadian dollars

5. Capital assets (continued)

Cost	**Computer equipment and software**	**Lab equipment**	**Furniture and equipment**	**Dies and models**	**Total**
	$	**$**		**$**	**$**
Balance September 30, 2012	477,011	580,984	136,236	35,797	1,230,028
Additions	1,334	533	118,237	-	120,104
Disposals	-	-	(29,933)	-	(29,933)
Balance March 31, 2013	**478,345**	**581,517**	**224,540**	**35,797**	**1,320,199**

Accumulated amortization and impairment	**Computer equipment and software**	**Lab equipment**	**Furniture and equipment**	**Dies and models**	**Total**
	$	**$**		**$**	**$**
Balance September 30, 2012	457,504	529,877	112,814	33,258	1,133,453
Amortization	3,338	17,568	14,569	422	35,897
Disposals	-	-	(27,687)	-	(27,687)
Balance March 31, 2013	**460,842**	**547,445**	**99,696**	**33,680**	**1,141,663**

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and models	Total
	$	$	$	$	$
Balance October 1, 2011	483,385	578,872	160,801	43,189	1,266,247
Additions	8,364	2,112	4,223	4,648	19,347
Disposals	(14,738)	-	(28,788)	(12,040)	(55,566)
Balance September 30, 2012	477,011	580,984	136,236	35,797	1,230,028

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and models	Total
	$	$		$	$
Balance October 1, 2011	452,441	504,866	120,345	36,059	1,113,711
Amortization	19,354	25,020	8,693	9,667	62,734
Disposals	(14,291)	(9)	(16,224)	(12,468)	(42,992)
Balance September 30, 2012	457,504	529,877	112,814	33,258	1,133,453

Stated in Canadian dollars

6. Bank debt

The Company has a $1,500,000 operating line of credit. The operating line is secured by Doughty Hanson through an Equity Commitment Agreement. Interest is payable at the bank's prime rate plus 3% (2011 – prime rate plus 2.75%) and amounts outstanding are repayable upon demand.

7. Convertible debenture

On March 15, 2013, the Company issued a $500,000 six month unsecured subordinated convertible debenture ("Convertible debenture"). The convertible debenture bears interest at a rate of 8% per annum and matures on September 15, 2013. The debenture is convertible into redeemable preferred shares at any time by the holder. If the debenture is converted into preferred shares, the preferred shares issued are entitled to receive annual dividends of an amount equal to 8% redemption price payable semi-annually. In the event the annual 8% dividend is not declared and paid, such dividend shall be accretive to the redemption price. The preferred shares are convertible to common shares at a price of $0.105 and the redeemable preferred shares mature 5 years and 1 day from the date of issuance. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the convertible debenture using a discount rate of 25% and a six month term. The difference between the debt component, the value of the warrants and the face value of convertible debenture is classified as equity component of convertible debentures. The debt component is accreted to its face value through a charge to net loss using the effective interest method.

The Company incurred transaction costs related to the issue of the convertible debenture of $5,501. The effective interest rate on the debentures is estimated to be 28.726%.

On April 16, 2013, the convertible debenture was converted to First Preferred Shares Series 14 and the Company recognized a loss on conversion of $15,060 in the statement of loss.

The components of the convertible debenture as at June 30, 2013 are as follows:

	Debt component of convertible debenture	Equity component of convertible debenture	Warrant component of convertible debenture	Total
	$	$	$	$
Balance at October 1, 2012	-	-	-	-
Convertible debenture	454,433	23,013	17,053	494,499
Accretion (net of repayments)	7,494	-	-	7,494
Conversion of debenture to preferred shares	(461,927)	(23,013)	-	(484,940)
Balance at June 30, 2013	**-**	**-**	**17,053**	**17,053**

Stated in Canadian dollars

8. Energy Northwest obligation

	June 30, 2013	September 30, 2012
	$	$
Obligation to Energy Northwest ($96,543 US)	**106,572**	90,600
Less: current portion of Energy Northwest obligation	**51,440**	45,700
	55,132	44,900

Energy Northwest (formerly "Washington Public Power Supply System") made contributions of services to SEL towards the development of SEL's step wave power conversion technology valued at US$182,178. Under its agreement with SEL, Energy Northwest is entitled to annual compensation for such contribution in an amount equal to 10% of SEL's gross monthly sales: in any year; provided, however, that the compensation payable in any year is not to be less than US$7,000 and not more than 20% of Energy Northwest's total contribution plus interest calculated at an annual (APR) rate of 20% of the outstanding balance unpaid at the end of the year. Compensation payments are to be completed by January 1, 2016. The obligation is unsecured.

The compensation payable to Energy Northwest in any year until January 1, 2016 is dependent on product sales using the SWPC technology, subject to the above noted annual minimum and maximum thresholds in the year. As the sole basis for the repayment of the loan was linked to future gross sales in SEL, management has determined that the obligation to Energy Northwest contained an embedded derivative and accordingly the loan was required to be accounted for as an embedded derivative in accordance with IAS 39. This requires that the underlying liability and the embedded derivative be recognized at fair value with subsequent changes in value being recognized in the unaudited condensed interim consolidated statement of loss and comprehensive loss each period. Due to the emerging nature of the Company's business, it has not possible to accurately forecast future product sales and the estimated amount payable to Energy Northwest until the end of the term of the Agreement. At September 30, 2012, the Company completed the development of the 3rd generation STX inverter, which does not use the SWPC technology, and the Company will cease production of inverters based on the SWPC technology resulting in the minimum compensation being payable in subsequent years.

9. Government grant obligation

National Research Council

The Company entered into an agreement with the National Research Council ("NRC") to fund 60% of the salaries it incurs to commercialize the universal electronic platform to a maximum of $245,241. The Company has received the maximum amount. A royalty of 1.9% of gross revenue after October 1, 2008 is payable until the National Research Council has recovered one and a half times the amount advanced to the Company or for a period of eleven years after the beginning of the repayment schedule. The remaining payable or potentially payable under the agreement is $305,920 (2012 - $321,120).

Stated in Canadian dollars

9. Government grant obligation (continued)

The carrying amount of the financial liability related to the government grant obligation is the following:

	June 30, 2013	September 30, 2012
	$	$
Government grant (NRC)	**195,765**	216,736
Less: current portion	**(47,000)**	(40,382)
Total	**148,765**	**176,354**

10. Debentures

On June 29, 2012, the Company issued $800,000 in 5-year subordinated debentures ("Debentures"), issued at an original issue discount of 12.5% to net the Company $699,875. The debentures bear interest at a rate of 3% per annum, plus an amount equal to 0.8% of the consolidated revenues realized by the Company and are both payable on a quarterly basis during the term of the debenture. The Debenture is callable by the Company at par at any time after the second anniversary of issue. The debentures are secured by a general security agreement. The principal amount of $800,000 is repayable in 12 equal quarterly payments commencing 2 years after issuance. The Company incurred transaction costs related to the issue of the debentures of $39,402. The effective interest rate on the debentures is estimated to be 25.83%.

The royalty payments on the debentures are linked to future gross sales of the Company. Management has determined that the royalty payments were required to be bifurcated and accounted for as an embedded derivative and accordingly the loan was required to be accounted for as an embedded derivative in accordance with IAS 39. This requires that the embedded derivative be recognized at fair value with subsequent changes in value being recognized in the unaudited condensed interim consolidated statement of loss each period. At June 30, 2013, embedded derivative was determined to have a fair value of $70,211 (2012 - $Nil).

The required principal and interest repayments only for the next five years are as follows:

Period ending June 30,	2014	$ 24,000
	2015	287,687
	2016	279,667
	2017	273,667
	2018	271,166

Stated in Canadian dollars

11. Preferred shares

Series 7	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2011	4,799,375	2,671,095	1,278,482	8,748,952
Accretion	1,938,009	-	-	1,938,009
Conversion of preferred shares	(414,322)	(205,761)	-	(620,083)
Balance at September 30, 2012	**6,323,062**	**2,465,334**	**1,278,482**	**10,066,878**
Warrants expired			(1,278,482)	(1,278,482)
Accretion	1,738,457	-	-	1,738,457
Balance at June 30, 2013	**8,061,519**	**2,465,334**	**-**	**10,526,853**

Series 9	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2011	342,337	99,981	-	442,318
Accretion	116,888	-	-	116,888
Balance at September 30, 2012	**459,225**	**99,981**	**-**	**559,206**
Accretion	90,568	-	-	90,568
Balance at June 30, 2013	**549,793**	**99,981**	**-**	**649,774**

Series 10	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2011	-	-	-	-
Preferred shares	440,895	413,307	-	854,202
Accretion	147,640	-	-	147,640
Balance at September 30, 2012	**588,535**	**413,307**	**-**	**1,001,842**
Accretion	112,429	-	-	112,429
Balance at June 30, 2013	**700,964**	**413,307**	**-**	**1,114,271**

Stated in Canadian dollars

11. Preferred shares (continued)

Series 11	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2011	-	-	-	-
Preferred shares	219,770	145,663	98,411	463,844
Accretion	55,879	-	-	55,879
Balance at September 30, 2012	275,649	145,663	98,411	519,723
Warrants expired	-	-	(98,411)	(98,411)
Accretion	55,065	-	-	55,065
Balance at June 30, 2013	**330,714**	**145,663**	**-**	**476,377**

Series 12	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at September 30, 2011	-	-	-	-
Preferred shares	236,894	263,106	-	500,000
Accretion	46,053	-	-	46,053
Balance at September 30, 2012	282,947	263,106		546,053
Accretion	52,722	-	-	52,722
Balance at June 30, 2013	**335,669**	**263,106**	**-**	**598,775**

Series 13	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at September 30, 2012	-	-	-	-
Preferred shares	224,063	155,406	93,430	472,899
Accretion	29,093	-	-	29,093
Balance at June 30, 2013	**253,156**	**155,406**	**93,430**	**501,992**

Stated in Canadian dollars

11. Preferred shares (continued)

Series 14	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at September 30, 2012	-	-	-	-
Preferred shares	230,065	247,939	-	478,004
Accretion	11,425	-	-	11,425
Balance at June 30, 2013	**241,490**	**247,939**	**-**	**489,429**

Series 15	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at September 30, 2012	-	-	-	-
Preferred shares	302,687	293,376	42,416	638,479
Accretion	14,865		-	14,865
Balance at June 30, 2013	**317,552**	**293,376**	**42,416**	**653,344**
Total preferred shares June 30, 2013	**10,790,857**	**4,084,112**	**135,846**	**15,010,815**
Total preferred shares September 30, 2012	7,929,418	3,387,391	1,376,839	12,693,648

Series 7 Class A Unit consisted of one (1) redeemable 8%, voting, First Preferred Share, Series 7 (“Series 7 Preferred Shares”) and 2.8 detachable warrants (“Warrants”) to acquire one (1) non-voting common share at an exercise price of $3.00 per share until May 7, 2013. Series 7 Class B Unit consisted of one (1) Series 7 Preferred Share and 2.2 warrants to acquire one (1) voting common share at $3.00 per share until May 7, 2013.

Holders of Series 7 Preferred Shares are entitled to receive as and when declared by the Board of Directors out of moneys of the Company applicable to the payment of annual dividends an amount equal to 8% of the then applicable Series 7 Redemption Price payable semi-annually, the first of such dividends to become payable October 15, 2009. In the event the annual 8% dividend is not declared and paid, such dividend shall be accretive to the Series 7 Redemption Price.

After October 15, 2011, the Series 7 Preferred Shares can be redeemed by the Company if within the 90 day period preceding the date of notice of redemption, the weighted average trading price has exceeded $6.00 per share for at least 30 consecutive trading days and the average trading volume for such 30 consecutive trading days is at least $200,000, the Company may redeem all but not less than all the Series 7 Preferred Shares at the then applicable Series 7 Redemption Price subject to the prior right of holders to exercise their right to convert the Series 7 Preferred Shares into common shares of the Company. The Company must redeem all remaining outstanding Series 7 Preferred Shares on October 15, 2014.

11. Preferred shares (continued)

Holders of the Series 7 Preferred Shares may convert, at any time, the Series 7 Preferred Shares into that number of fully paid and non-assessable common shares equal to the then applicable Series 7 Redemption Price divided by the conversion price of $1.50 per share. Series 7 Preferred Shares are automatically converted into common shares if (i) approved by a majority of the Series 7 Preferred Shares or (ii) the Company undertakes an underwritten public offering pursuant to a receipted prospectus or similar document for aggregate proceeds of $20 million at a price per share of at least $4.50.

The 1 First Preferred Share Series 8, entitles the holder to designate a representative to the board of directors of the Company for so long as the holder owns in the aggregate more than 10% of the issued and outstanding common shares of the Company on a fully diluted basis. The share is redeemable at a price of $1.00, at the option of the holder.

On August 23, 2010, the Company issued First Preferred Shares Series 9 for gross proceeds of $687,360. The Series 9 preferred shares are similar and rank pari passu to the Series 7 preferred shares, with the exception of the detachable warrants which were not issued as part of the Series 9 preferred shares. The 50,000 Series 9 shares are convertible at a price of $1.55. Doughty Hanson was also given 516,129 warrants exercisable for 1 year at $1.55 as partial compensation for underwriting the equity commitment of $3,000,000. The Company shall redeem all the outstanding Series 9 Preferred Shares on September 9, 2015.

On October 5, 2010, the Company issued 80,000 First Preferred Shares Series 10 to Doughty Hanson, which are similar to and rank pari passu with the Series 7 preferred shares, with the exception of the detachable warrants which were not issued as part of the Series 10 preferred shares. The Series 10 preferred shares resulted in a cash inflow of $800,000 and they are convertible at a price of $1.40 and mature 5 years and 1 day from the date of issuance. The Company shall redeem all the outstanding Series 10 Preferred Shares on October 6, 2015.

On October 25, 2011, the Company issued 50,000 First Preferred Shares Series 11 to Doughty Hanson, which are similar to and rank pari passu with the Series 7 preferred shares, The Series 11 preferred shares resulted in a cash inflow of $500,000 and they are convertible at a price of $1.15 and mature 5 years and 1 day from the date of issuance. The Company shall redeem all of the outstanding Series 11 Preferred Shares on October 26, 2016.The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 23% and a five year term. The difference between the debt component, the value of the warrants and the face value of preferred shares is classified as equity component of preferred shares. The debt component is accreted to its face value through a charge to loss using the effective interest method. The transaction costs were $36,156. Doughty Hanson was also given 634,783 additional warrants exercisable for a period of one year at $1.15.

11. Preferred shares (continued)

On December 19, 2011, the Company issued 50,000 First Preferred Shares Series 12 to Doughty Hanson, which are similar to and rank pari passu with the Series 7 preferred shares with the exception of the detachable warrants which were not issued as part of the Series 12 preferred shares. The Series 12 preferred shares resulted in a cash inflow of $500,000 and they are convertible at a price of $0.80 and mature 5 years and 1 day from the date of issuance. The Company shall redeem all of the outstanding Series 12 Preferred Shares on December 20, 2016.The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 23% and a five year term. The difference between the debt component and the face value of preferred shares is classified as equity. The debt component is accreted to its face value through a charge to loss using the effective interest method.

On December 27, 2012, the Company issued 50,000 First Preferred Shares Series 13 to Doughty Hanson, pursuant to a commitment agreement dated December 27, 2012, which are similar to and rank pari passu with the Series 7. The Series 13 preferred shares resulted in a cash inflow of $500,000 and they are convertible at a price of $0.40 and mature 5 years and 1 day from the date of issuance. The Company shall redeem all of the outstanding Series 13 Preferred Shares on December 27, 2017. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 23% and a five year term. The difference between the debt component and the face value of preferred shares is classified as equity. The debt component is accreted to its face value through a charge to loss using the effective interest method. The transaction costs were $18,934. Doughty Hanson was also given 1,250,000 additional warrants exercisable for a period of two years at $0.50. (Note 13)

On April 16, 2013, the Company issued 50,000 First Preferred Shares Series 14 to Doughty Hanson, pursuant to the conversion notice that the Company received on that date in relation to the convertible debentures issued in March 2013. (Note 7), The Series 14 Preferred Shares are similar to and rank pari passu with the Series 7. The Series 13 preferred shares are convertible at a price of $0.105 and mature on March 16, 2018. The Company shall redeem all the outstanding Series 14 Preferred Shares on March 15, 2018. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 23% and a 59 month term. The difference between the debt component and the face value of preferred shares is classified as equity. The debt component is accreted to its face value through a charge to loss using the effective interest method. The transaction costs were $21,966.

Stated in Canadian dollars

11. Preferred shares (continued)

On April 16, 2013, the Company issued 65,000 First Preferred Shares Series 15, which are similar to and rank pari passu with the Series 7. The Series 15 preferred shares resulted in a cash inflow of $600,000 as well as $50,000 of the First Preferred Shares Series 15 were issued in settlement of amounts payable to a member of management. The First Preferred Shares Series 15 are convertible at a price of $0.12 and mature 5 years and 1 day from the date of issuance. The debt component was measured at the issue date at the present value of the cash payment of dividends and principal under the terms of the preferred shares using a discount rate of 23% and a five year term. The difference between the debt component and the face value of preferred shares is classified as equity. The Company shall redeem all the outstanding Series 15 Preferred Shares on April 16, 2018.The debt component is accreted to its face value through a charge to loss using the effective interest method. The transaction costs were $11,522. The subscribers were also given 780,000 additional warrants exercisable for a period of one year at $0.12 (Note 13). 8,000 of the First Preferred Shares Series 15 were issued to a director and a member of management of the Company. Subsequent to period end, the Company received notice for conversion of 4,500 Class B First Preferred Shares Series 7 including unpaid dividends to be converted to common shares. (Note 24)

12. Share capital

Authorized, unlimited number

The authorized capital of Sustainable consists of an unlimited number of common shares without nominal or par value, and an unlimited number of preferred shares, issuable in series, without nominal or par value.

12. Share capital (continued)

Issued

Common shares	Number of shares[1]	Amount $[1]
Balance, October 1, 2011	20,023,411	34,258,068
Issuance of common shares	280,000	140,000
Conversion of preferred shares	612,186	606,463
Adjustment on reduction of deficit	-	(30,000,000)
Balance, September 30, 2012	**20,915,597**	**5,004,531**
Conversion of preferred shares	-	-
Issuance of common shares	-	-
Balance, June 30, 2013	**20,915,597**	**5,004,531**

(1) Adjusted to reflect the 10:1 share consolidation completed on December 20, 2012

Adjustment to share capital and deficit

On August 21, 2012 the Company received shareholder approval to reduce the stated share capital and the deficit of the Company by $30,000,000.

12. Share capital (continued)

Common share consolidation

On December 20, 2012, the Company completed a 10:1 share consolidation of all its outstanding common shares. As such, all common shares, per common share amounts, stock option and warrant figures in the current and comparative periods have been adjusted to reflect this change.

Restricted shares

In June 2012, the Company issued debentures and in conjunction with the issuance of the debentures, a total of 280,000 restricted common shares of the Company were issued to the debenture holders (Note 9). A total of 32,000 (2012 – nil) shares were released immediately. The remaining shares will be released to the debenture holders on a quarterly basis ending. At June 30, 2013 there were 113,790 (2012 – nil) shares remaining to be released.

Weighted average number of common shares

The weighted average number of shares for June 30, 2013 and June 30, 2012 were determined by excluding stock options and warrants because the Company was in a loss position. In calculating diluted common share amounts for June 30, 2013 and 2012, the Company excluded 1,141,587 (2012 – 976,587) preferred shares convertible into 28,014,868 (2012 – 10,404,974) common shares, 10,309,411 (2012 – 3,769,975) warrants and 2,676,019 (2012 – 1,696,872) options.

The conversion for the preferred shares includes a fixed conversion and the conversion of unpaid dividends on the preferred shares to be converted to common shares. The unpaid dividend conversion price is based on the closing price of the common shares on the day prior to the conversion and therefore is variable. In order to determine the number of shares that are convertible to common shares for unpaid dividends, the Company uses the closing share price on the day prior to the period end. The actual number of common shares that would be issued will vary from this estimate based on the share price and the amount of unpaid dividends at the time of conversion. As at June 30, 2013, the common shares related to the conversion of the unpaid dividends was estimated to be 10,280,352 (2012 - 4,065,458) and is included in the 28,014,868 (2012 -10,404,974) disclosed above.

Stated in Canadian dollars

13. Warrants

Changes in the Company's purchase warrants are as follows:

	Issued with common or preferred shares	Broker warrants	Total purchase warrants	Allocated fair market value
				$
Balance, October 1, 2011	3,513,691	219,050	3,732,741	2,275,418
Warrants issued	1,834,783		1,834,783	362,411
Warrants expired	(484,848)	(112,700)	(597,549)	(367,178)
Balance September 30, 2012	4,863,626	106,350	4,969,976	2,270,651
Warrants expired	(4,863,626)	(106,350)	(4,969,976)	(2,270,651)
Warrants issued	10,309,411	-	10,309,411	459,957
Balance, June 30, 2013	**10,309,411**	**-**	**10,309,411**	**459,957**

(1) Adjusted to reflect the 10:1 share consolidation completed on December 20, 2012

- 634,783 purchase warrants were issued to Doughty Hanson on October 25, 2011 exercisable for a period of one year at $1.15. These warrants were partial compensation for underwriting the equity commitment of $1,500,000 in October 2011. The Black Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.18% interest rate and a volatility of 100%. The fair market value at issuance was $98,411.
- 1,200,000 additional warrants were issued to Doughty Hanson on May 1, 2012 exercisable for a period of one year at $0.50. These warrants were compensation for extending the equity commitment agreement of $1,500,000 as security for the bank operating line to April 30, 2013 (note 6). The Black Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.06% interest rate and a volatility of 113%. The fair market value at issuance was $264,000.
- 1,250,000 additional warrants were issued to Doughty Hanson on December 27, 2012 exercisable for a period of five years at $0.50. These warrants were issued in conjunction with the issue of Series 13 Preferred Shares (note 11). The Black Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.31% interest rate and a volatility of 114.49%. The fair market value at issuance was $93,430.
- 4,750,000 additional warrants were issued to Doughty Hanson on March 15, 2013 exercisable for a period of six months at $0.105. These warrants were issued in conjunction with the issue of the convertible debenture (note 7). The Black Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.55% interest rate and a volatility of 113%. The fair market value at issuance was $17,053

Stated in Canadian dollars

13. Warrants (continued)

- 780,000 additional warrants were issued on April 16, 2013 exercisable for a period of one year at $0.12. These warrants were issued in conjunction with the issue of Series 15 Preferred Shares (note 11). The Black Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.21% interest rate and a volatility of 113.81%. The fair market value at issuance was $42,416. Of the 780,000 additional warrants issued, 96,000 were issued to directors or members of management of the Company.
- 3,529,411 additional warrants were issued to Doughty Hanson on May 1, 2013 exercisable for a period of one year at $0.17. These warrants were compensation for extending the equity commitment agreement of $1,500,000 as security for the bank operating line to April 30, 2014 (note 6). The Black Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.06% interest rate and a volatility of 113%. The fair market value at issuance was $307,058.

14. Share based payments

The Company has established an option plan (the "Plan") whereby the Company may grant options to purchase common shares to directors, officers, employees, and consultants. Options generally vest over a 3-year period with 1/6 vesting every 6 months. The Company's plan allows for a maximum term on any options to be ten years. The Company, at the discretion of the Board of Directors, may issue options to a maximum of 3,289,432. The plan was approved by the shareholders on September 2, 2010. The minimum price at which the options may be granted is the closing price on the TSX-V on the date of issue.

The following summarizes information about stock options outstanding as at June 30, 2013:

	Number of options to employees	Weighted average price to employees	Number of options to non-employees	Weighted average price to non-employees
		$		$
Balance, October 1, 2011	1,315,301	2.00	129,230	2.30
Granted	250,000	1.00	200,000	1.00
Forfeited	(235,158)	2.00	-	-
Balance, September 30, 2012	**1,330,142**	**1.80**	**329,230**	**1.50**
Granted	**1,151,647**	**0.40**	**-**	**-**
Forfeited	**(135,000)**	**1.81**	**-**	**-**
Balance, June 30, 2013	**2,346,789**		**329,230**	**1.50**

(1) Adjusted to reflect the 10:1 share consolidation completed on December 20, 2012

Stated in Canadian dollars

14. Share based payments (continued)

		Outstanding options		Exercisable options	
Range of exercise prices	Options	Weighted average price	Weighted average years to expiry	Options	Weighted average price
		$			$
\$0.45–\$1.00	1,601,647	0.57	9.60	225,000	1.00
\$1.40–\$1.60	475,000	1.46	6.25	460,834	1.46
\$1.70–\$1.90	231,872	1.79	2.62	231,872	1.79
\$2.00–\$2.50	307,500	2.10	5.00	307,500	2.24
\$2.60–\$3.50	40,000	3.50	4.95	40,000	3.50
\$3.60–\$4.00	20,000	4.00	6.53	20,000	4.00
Balance June 30, 2013	**2,676,019**	**5.28**	**7.78**	**1,285,206**	**1.73**

(1) Adjusted to reflect the 10:1 share consolidation completed on December 20, 2012

The total share-based compensation calculated for the three and nine months ended June 30, 2013 were \$12,649 and \$(9,095) respectively (2012 - \$18,732 and \$45,484).

All stock options are to be settled by physical delivery of shares. The fair values of Sustainable stock options granted have been estimated on their respective grant dates using the Black-Scholes valuation model and the following assumptions:

	2013	2011
Risk free interest rate	**1.04%**	1.05%
Expected volatility (1)	**111.61%**	93.55%
Dividend Yield	**-**	-
Expected life (years)	**3**	3
Expected forfeiture rate	**100%**	14%
Weighted average fair value	**\$ 0.15**	\$ 0.03

On May 31, 2013, the Company issued a total of 1,151,647 new incentive stock options to officers, directors and employees exercisable at a price of \$0.40 with an expiry date of May 31, 2023. The stock options shall only be exercisable following two consecutive quarters of positive earnings before interest depreciation and taxes, or if the Company is acquired within the next 24 months. The fair value of the options of \$168,140 was determined using the Black-Scholes model using the assumptions disclosed above. Management has estimated that as at period end, no options are exercisable as result of the performance indicator not being achieved to date.

During the period ended June 30, 2013, the Company announced that the Board of Directors had authorized a revision to the terms of a total of 1,524,372 stock options, with original exercise prices ranging from \$1.00 to \$4.00, to reduce the exercise price of such options to \$0.30 per option. Of the 1,524,372 stock option authorized for repricing, 1,164,642 options are held by Insiders (as that term is defined in the TSX Venture Exchange policies) (“Insider Options”). Pursuant to the Policies of the TSX Venture Exchange, the Insider Options may not be exercised at the revised exercise price until the repricing is approved by the Company’s shareholders. The Company will bring forth the repricing resolution for consideration at the Company’s annual general meeting to be held in late October 2013.

Stated in Canadian dollars

15. Capital management

The Company's objectives when managing capital is to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders. The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. The Company's objective is met by obtaining adequate equity funding to provide for the possibility that cash flows from operations will not be sufficient to meet future cash flow requirements. The Board of Directors does not establish quantitative return on capital criteria for management; but rather promotes year over year sustainable profitable growth.

The Company defines capital as the aggregate of total shareholders' deficit and bank debt less cash as follows:

	June 30, 2013	September 30, 2012
	$	$
Total shareholders' deficiency	**(10,517,942)**	(6,957,192)
Cash	**(166,186)**	(256,104)
Bank debt	**1,131,329**	1,443,830
Total capital	**(9,552,799)**	(5,769,466)

There have been no changes to the Company's objectives in managing capital or in the management of capital since September 30, 2012. The Company presently has negative total capital and is currently working toward reversing this. (Note 2(b))

16. Financial instruments and financial risk management

Credit risk

The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics at June 30, 2013. The credit risk on cash is considered to be limited because the counterparties are financial institutions with high credit ratings assigned by international credit rating agencies. The Company submits all credit applications to the Export Development Corporation (EDC) for accounts receivable insurance and has a cash only policy if credit approval is not granted by EDC.

The following table illustrates the Company's receivables and advances:

	June 30, 2013	September 30, 2012
	$	$
Trade	**155,928**	596,115
Taxation authorities	**267,478**	308,511
Employee advances	**16,000**	8,800
	439,406	913,426

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the period ended June 30, 2013, there was no impairment or allowance required on any of the financial assets of the Company.

Stated in Canadian dollars

16. Financial instruments and financial risk management (continued)

Credit risk (continued)

The maximum exposure to credit risk is represented by the carrying amount on the condensed interim consolidated statement of financial position. There are no material financial assets that the Company considers past due, as the $136,898 over 90 days past due has EDC insurance against it or the Company is holding deposits for goods yet to be delivered.

The following is a schedule of trade receivables:

	June 30, 2013	September 30, 2012
	$	$
Neither impaired or past due	**5,659**	320,410
Not impaired but past due in the following periods		
31 - 60 days	**13,258**	101,739
61 - 90 days	**113**	71,339
over 90 days	**136,898**	102,627
	155,928	596,115

Liquidity risk

The Company's operating cash requirements, including amounts projected to complete the Company's existing capital expenditure program, are continuously monitored and adjusted as input variables change. These variables include but are not limited to available bank lines and government assistance. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing. There is no assurance that adequate funds from equity or debt markets will be available to the Company in a timely manner. The company also mitigates liquidity risk by maintaining an insurance program to minimize exposure to insurable losses.

The following are the contractual maturities of financial liabilities at June 30, 2013:

Financial liabilities	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	**2,178,462**	**-**	**-**	**2,178,462**
Bank loan	**1,131,329**	**-**	**-**	**1,131,329**
Energy Northwest obligation	**55,132**	**51,440**	**-**	**106,572**
Government grant obligation	**47,000**	**148,765**	**-**	**195,765**
Commitments (Note 22)	**18,230**	**312,000**	**-**	**330,230**
Debentures	**44,928**	**925,000**	**-**	**969,928**
Preferred shares Series 7, 9, 10, 11, 12, 13, 14 and 15	**10,847,969**	**2,128,511**	**3,822,757**	**16,799,237**
Total	**14,323,050**	**3,565,716**	**3,822,757**	**21,711,523**

16. Financial instruments and financial risk management (continued)

Foreign currency risk

The Company's exposure to currency risk on monetary assets and liabilities based on carrying amount in Canadian currency was as follows for the three month and nine month periods ended June 30, 2013:

	Euros	US Dollars	Total
	$	$	$
Cash	**135,155**	**5,256**	**140,411**
Accounts receivable and advances	**239,923**	**180,503**	**420,426**
Accounts payable and accrued liabilities	**301,556**	**29,821**	**331,377**
Energy Northwest obligation	**-**	**106,572**	**106,572**
	676,634	**322,152**	**998,786**

Assuming all other variables remain constant, a $0.05 change in the Canadian/US exchange rate would affect the Company's net loss by approximately $13,774 for the period ended June 30, 2013 respectively, (2012 - $27,133). Assuming all other variables remain constant, a $0.05 change in the Canadian/Euro exchange rate would change the Company's net loss by approximately $1,132 for the period ended June 30, 2013 (2012- $19,740). An opposite change in the Canadian/Euro exchange rate will result in an opposite impact on net loss. The Company had no forward exchange rate contracts in place as at or during the period ended June 30, 2013.

The carrying value and fair value of financial instruments at June 30, 2013 is disclosed below by financial instrument category, as well as any related gain, loss, expense or revenue for the period June 30, 2013:

Financial instrument	Carrying value	Fair value	Gain/(loss)
	$	$	$
Accounts receivable and advances	439,406	439,406	-
Accounts payable and accrued liabilities	2,178,462	2,178,462	-
Bank debt	1,131,329	1,131,329	-
Due to director	100,000	100,000	
Energy Northwest obligation	106,572	106,572	-
Government grant obligation	195,765	195,765	
Debentures	551,392	551,392	-
Preferred shares	10,790,855	10,790,855	-

The Company categorizes its financial instruments carried at fair value into one of three different levels depending on the observability of the inputs employed in the measurement. At June 30, 2013, the Company valued cash using Level 1 input and the embedded derivatives on the Company's debentures (note 10) and Energy Northwest obligation (note 8) were measured at a fair value using level 3 inputs.

Stated in Canadian dollars

17. Related party transactions

Other than as disclosed elsewhere in the unaudited condensed interim consolidated financial statements, the Company had the following related party transaction:

Included in general and administrative expense is salaries and benefits for key management personnel and directors of $109,800 and $257,349 respectively for the three months and the nine months ended June 30, 2013 (2012 - $86,480 and $276,538) and share based compensation of $Nil for the three months and nine months ended June 30, 2013 (2012 - $4,884 and $12,770). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of $37,500 and $124,500 respectively for the three months and nine months ended June 30, 2013 (2012 – 50,000 and $150,000) and share based compensation of $5,792 and $25,682 for the three months and nine months ended June 30, 2013 respectively (2012 – 12,943 and $23,378).

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

In December 2012 the Company received $100,000 from a director for the future issue of a debenture. Subsequent to period end, the Company repaid the director $100,000. The director has invested $120,000 in the new issue of Royalty Debentures subsequent to June 30, 2013.

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

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

Revenue and expense transactions are in the normal course of operations and were based on the exchange value of the service provided, which approximates those amounts of consideration with third parties.

18. Financing costs

	Three months ended		Nine months ended	
	2013	2012	**2013**	2012
	$	$	**$**	$
Interest on Northwest obligation	2,965	64,358	11,418	195,936
Interest on bank debt	14,898	20,537	52,885	54,861
Interest on debenture	20,898	-	70,343	-
Interest on convertible debenture	5,473	-	11,001	-
Loss on conversion of convertible debenture	15,060	-	15,060	-
Accretion of government grant obligation	11,486	-	37,985	-
Accretion of preferred shares	777,683	515,245	2,104,622	1,468,164
Gain on adjustment to fair value	(24,089)	-	(84,547)	-
Amortization of financing fees	73,176	44,000	205,176	194,303
Other	-	10,873	345	26,609
Total	**897,550**	655,013	**2,424,288**	1,939,873

Stated in Canadian dollars

19. Personnel expenses

	Three months ended		Nine months ended	
	2013	2012	**2013**	2012
	$	$	**$**	$
Wages	292,248	282,105	697,023	1,065,137
Benefits	27,379	23,781	62,966	89,960
Total	**319,627**	305,886	**759,989**	1,155,097

20. Other income

The Company agreed to sell a non-exclusive license during the quarter ended December 31, 2012, which allows the licensee to manufacture the Company's new STX inverter platform; however, the licensee has been unable to close on the purchase. As such, the licensee has forfeited a $250,000 deposit which has been included in other income in the unaudited condensed interim consolidated statement of loss and comprehensive loss.

21. Supplemental information

The changes in non-cash working capital for the three month and nine month periods ended June 30, 2013 and 2012 are as follows:

	Three months ended		Nine months ended	
	2013	2012	**2013**	2012
	$	$	**$**	$
Operating activities				
Decrease (increase) in assets				
Accounts receivable and advances	**(1,214)**	208,266	**490,999**	136,127
Prepaid expense and deposits	**39,424**	(157,495)	**(51,962)**	(27,869)
Inventory	**(133,787)**	126,077	**(115,906)**	422,339
	(95,577)	176,848	**323,131**	530,597
Increase (decrease) in liabilities				
Accounts payable and accrued liabilities	**357,381**	854,002	**341,729**	646,613
	261,804	1,030,850	**664,860**	1,177,210

Stated in Canadian dollars

22. Commitments

(a) At June 30, 2013, Sustainable Energy had commitments for premise, equipment leases, investor relation agreements, and software installation as follows:

	June 30, 2013
	$
Less than one year	**18,230**
Between one and five years	**312,000**
More than five years	**-**
	330,230

(b) Consulting services were provided in fiscal 1998 to the Company. Repayment including interest at an annual rate of 20% per year is contingent upon SEL achieving sales ($Nil to date) or capital funding of $2,000,000 US, $342,000 US has been received to June 30, 2013. At June 30, 2013, the total contingent amount payable including accrued interest was approximately $487,877 ($472,978 US) (2012 - $417,188, $409,772 US).

(c) There is a legal action for which the ultimate result cannot be ascertained at this time. Management does not expect the outcome of these proceedings to have a material effect on the financial position or results of operations.

(d) The Company is party to an employment agreement with a director of the Company, under which payment of a portion of the director's compensation is contingent upon the Company realizing positive earnings for any one fiscal quarter before interest, taxes, depreciation and amortization, a change of control of the Company, liquidation or receivership of the Company or termination of the employment relationship. At June 30, 2013, the total contingent amount payable was approximately $375,000 (2012 - $225,000) and therefore, no amount has been included in accounts payable and accrued liabilities.

23. Segmented information

Geographic disclosures

	June 30, 2013		June 30, 2012	
	Revenues	**Assets***	Revenues	Assets*
	$	$	**$**	$
Canada	**132,748**	**178,536**	1,911,116	68,503
United States	-	**668,332**	-	1,215,681
Europe	-		503,512	2,128
Total	**132,748**	**846,868**	2,414,628	1,286,312

** Assets refer to the Company's development costs and capital assets.*

Major customers

The Company had five customers where product sales were greater than 10% in the period. The customers had attributed sales of $44,624, $21,925, $18,793, $13,523 and $13,009 respectively for the nine months ended June 30, 2013 (2012 – two customers, $818,218 and $718,029).

24. Subsequent events

Issue of debentures

Subsequent to period end, the Company entered into agreements to issue 90 Debenture Units (“Debenture Units”) each comprised of one (1) $20,000 5-year secured royalty debenture ("Royalty Debenture") and, either 8,000 common shares in the capital of the Company ("Common Shares"), or, at the option of the investor, 16,000 common share purchase warrants ("Warrants") exercisable for a period of 4 years at $0.50 per share. Each $20,000 Royalty Debenture bears interest at a rate of 3% per annum, plus an amount equal to 2/100 of 1% of the consolidated revenues realized by the Company, both payable quarterly in arrears. The royalty Debentures are callable by the Company at par at any time after August 1, 2015; and if not called, will be amortized in 12 equal quarterly installments beginning August 1, 2015.

A total of 424,000 Common Shares and 576,000 Warrants were issued under the private placement. Management of the Company has subscribed for approximately 13% of the Debenture Units issued. The Debenture Units are being issued at an origination discount of 12.5% to realize gross proceeds of $1,557,500 before payment of issue costs. In connection with the issue the Company will pay a total of $13,125 cash commissions and issue 26,250 broker warrants (the Broker Warrants) entitling the holder to acquire one common share at a price of $0.50 per share for a period of one year from the date of issue.

The Debentures, Common Shares, Warrants and Common Shares issuable upon exercise of the Warrants are all subject to a 4 month hold period which expires on December 8, 2013.

Conversion of preferred shares

Subsequent to period end, the Company received notice for the conversion of 4,500 Class B First Preferred Shares Series 7, including unpaid dividends to that date, to Common Shares. The conversion is based on the conversion price of the preferred shares of $1.50. The unpaid dividends are converted at the trading price of the common shares the day prior to the day notice of conversion was given. As a result, 78,192 commons shares were issued.

25. Comparative figures

Certain of the comparative figures have been restated to conform to the current year’s presentation.