Consolidated financial statements of

Sustainable Energy Technologies Ltd.

September 30, 2012

Sustainable Energy Technologies Ltd.
September 30, 2012

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Independent Auditor's Report

To the Shareholders of Sustainable Energy Technologies Ltd.:

We have audited the accompanying consolidated financial statements of Sustainable Energy Technologies Ltd., which comprise the consolidated statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended September 30, 2012 and September 30, 2011, and the notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Sustainable Energy Technologies Ltd. as at September 30, 2012, September 30, 2011 and October 1, 2010, and its financial performance and its cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 3 of the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about Sustainable Energy Technologies Ltd.'s ability to continue as a going concern.

Deloitte LLP

Chartered Accountants
January 28, 2013
Calgary, Alberta

Sustainable Energy Technologies Ltd.

Consolidated statements of financial position
Stated in Canadian dollars

	Note	**September 30, 2012**	September 30, 2011 (Note 30)	October 1, 2010 (Note 30)
		$	$	$
Assets				
Current:				
Cash		**256,104**	328,821	561,373
Accounts receivable and advances		**913,426**	1,093,381	978,192
Inventory	6	**2,712,004**	3,590,075	2,741,574
Prepaid expenses and deposits		**168,587**	362,704	601,645
		4,050,121	5,374,981	4,882,784
Non-current:				
Development costs	7	**937,692**	1,393,176	1,567,428
Capital assets	8	**96,575**	152,536	259,438
Other long term assets		**-**	-	243,783
		5,084,388	6,920,693	6,953,433
Liabilities				
Current:				
Accounts payable and accrued liabilities		**1,816,285**	1,568,471	2,206,264
Bank debt	19	**1,443,830**	1,346,662	-
Energy Northwest – current portion	9	**45,700**	266,268	217,826
Government grant obligation – current portion	11	**40,382**	27,461	41,800
		3,346,197	3,208,862	2,465,890
Non-current:				
Energy Northwest obligation	9	**44,900**	1,065,073	871,303
Government grant obligation	11	**176,354**	133,274	108,285
Debentures	10	**544,711**	-	-
Preferred shares	14	**7,929,418**	5,582,607	5,242,677
		12,041,580	9,989,816	8,688,155
Shareholders' equity (deficiency)				
Share capital	12	**5,004,531**	34,258,068	30,393,463
Warrants	15	**2,270,651**	2,275,418	1,355,535
Equity component of preferred shares	14	**3,387,391**	3,184,383	2,812,455
Shared-based payment reserve		**5,317,378**	4,819,067	4,445,087
Foreign currency translation reserve		**(184,625)**	(171,906)	-
Deficit		**(22,752,518)**	(47,434,153)	(40,741,262)
		(6,957,192)	(3,069,123)	(1,734,722)
		5,084,388	6,920,693	6,953,433

Going Concern (note 3), Commitments (note 27 and Subsequent events (note 10 and 29)
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.

Consolidated statements of loss and comprehensive loss
For the years ended September 30,
Stated in Canadian dollars

		2012	2011 (Note 30)
		$	$
Sales		**3,313,134**	3,867,910
Cost of goods sold		**2,740,805**	2,920,509
Gross margin		**572,329**	947,401
Expenses			
General and administrative	21	**1,646,414**	2,416,577
Operations	21	**963,409**	1,709,276
Product research and development	23	**916,147**	1,053,181
Sales and marketing		**587,011**	1,989,073
		4,112,981	7,168,107
Loss before undernoted items		**(3,540,652)**	(6,220,706)
Financing costs	22	**(2,764,834)**	(2,370,370)
Gain on preferred shares		**-**	1,887,074
Gain on Energy Northwest	9	**1,162,184**	-
Loss on write down of capital assets		**(8,103)**	-
Loss on write down of subsidiary	25	**(177,070)**	-
Interest and other income		**10,110**	11,111
Net loss		**(5,318,365)**	(6,692,891)
Loss of control of subsidiary foreign currency adjustment	25	**74,842**	-
Foreign currency adjustment to equity		**(87,561)**	(171,906)
Total comprehensive loss		**(5,331,084)**	(6,864,797)
Loss per common share			
Basic and diluted		**(0.03)**	(0.04)
Weighted average number of common shares			
Basic and diluted		**203,863,434**	185,121,137

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

Sustainable Energy Technologies Ltd.

Consolidated statements of changes in equity
For the years ended September 30,
Stated in Canadian dollars

	Share capital	Share based payments reserve	Warrants	Equity component of preferred shares	Deficit	Foreign currency translation reserve	Total
	$	$	$	$	$	$	$
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	-	-	-	-	(5,318,365)	-	(5,318,365)
Other comprehensive gain	-	-	-	-	-	(12,719)	(12,719)
Issue of share capital	746,463	-	-	-	-	-	746,463
Warrants issued	-	-	362,411		-	-	362,411
Warrants expired	-	367,178	(367,178)		-	-	-
Equity component of preferred shares	-	-	-	203,008	-	-	203,008
Share-based payments	-	131,133	-	-	-	-	131,133
Reduction of deficit to share capital	(30,000,000)	-	-	-	30,000,000	-	-
Balance, September 30, 2012	5,004,531	5,317,378	2,270,651	3,387,391	(22,752,518)	(184,625)	(6,957,192)
Balance, October 1, 2010 (note 30)	30,393,463	4,445,087	1,355,535	2,812,455	(40,741,262)	-	(1,734,722)
Loss for the period	-	-	-	-	(6,692,891)	-	(6,692,891)
Other Comprehensive loss	-	-	-	-	-	(171,906)	(171,906)
Issue of share capital	4,943,665	-	-	-	-	-	4,943,665
Transaction costs	(1,079,060)	-	-	-	-	-	(1,079,060)
Warrants issued	-	-	996,936	-	-	-	996,936
Warrants expired	-	77,053	(77,053)	-	-	-	-
Equity component of preferred shares	-	-	-	371,928	-	-	371,928
Share-based payments	-	296,927	-	-	-	-	296,927
Balance, September 30, 2011	34,258,068	4,819,067	2,275,418	3,184,383	(47,434,153)	(171,906)	(3,069,123)

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

Sustainable Energy Technologies Ltd.

Consolidated statements of cash flows
For the years ended September 30,
Stated in Canadian Dollars

	2012	2011 (Note 30)
	$	$
Operating activities		
Net loss	**(5,318,365)**	(6,692,891)
Amortization of capital assets and capitalized development costs	**458,275**	373,566
Share-based compensation payments	**131,133**	296,927
Write down of capital assets	**8,103**	-
Write down of inventory	**-**	198,988
Loss on control of subsidiary	**78,955**	-
Finance costs	**2,764,834**	2,370,370
Gain on preferred shares	**-**	(1,887,074)
Gain on Energy Northwest obligation	**(1,162,184)**	-
Unrealized foreign exchange loss (gain)	**7,762**	(122,028)
	(3,031,487)	(5,462,142)
Net change in non-cash working capital (Note 26)	**1,340,530**	(1,230,485)
Cash flow used in operating activities	**(1,690,957)**	(6,692,627)
Financing activities		
Bank loan	**97,168**	1,346,662
Repayment of government grants	**(9,000)**	-
Proceeds on issuance of LP units	**-**	2,550,000
Cost of issuing LP units	**-**	(198,605)
Proceeds on issuance of common shares	**-**	2,267,000
Cost of issuing common shares	**-**	(184,124)
Proceeds from preferred shares	**1,000,000**	800,000
Cost of issuing preferred shares	**(36,156)**	(36,382)
Proceeds from debenture	**699,875**	-
Cash financing costs paid	**(82,102)**	(11,411)
Cash flow from financing activities	**1,669,785**	6,533,140
Investing activities		
Capital asset additions	**(18,065)**	(77,893)
Cash flow used in investing activities	**(18,065)**	(77,893)
Foreign exchange on cash and cash equivalents held in foreign operations	**(33,480)**	4,828
Net change in cash	**(72,717)**	(232,552)
Cash, beginning of year	**328,821**	561,373
Cash, end of year	**256,104**	328,821

The accompanying notes are 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) Adoption of new and revised standards

Sustainable Energy prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as set out in the Handbook of the Canadian Institute of Chartered Accountants ("CICA" and "CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards ("IFRS") and require public companies to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, Sustainable Energy has commenced reporting on this basis in these consolidated financial statements. In these consolidated financial statements, the term "GAAP" or "Canadian GAAP" refers to Canadian generally accepted accounting principles before the adoption of IFRS.

These consolidated financial statements have been prepared in accordance with IFRS and are in compliance with IFRS 1 First time adoption of International Financial Reporting Standards. Subject to certain transition elections disclosed in note 30, the Company has consistently applied the same accounting principles in its opening IFRS statement of financial position as at October 1, 2010 and throughout all periods presented, as if these policies had always been in effect. Note 30 discloses the impact of the transition to IFRS on the Company's reported financial position, financial performance and cash flows, including the nature and effect of significant changes in accounting policies from those used in the Company's Canadian GAAP consolidated financial statements for the year ended September 30, 2011.

The policies applied in these consolidated financial statements are based on IFRS issued and outstanding as of January 28, 2013, the date the Board of Directors approved these statements.

(b) Basis of consolidation

The consolidated financial statements of Sustainable Energy Technologies Ltd. include the accounts of the Company and its wholly owned subsidiaries: Sustainable Energy Systems Inc. ("SES"), Sustainable Energy Europa S.L. ("SEE"), STG Markets Limited Partnership ("STGLP"), Sustainable Energy Laboratories Ltd. ("SEL"), International Power Systems, Inc. ("IPS"), Mainpower Hellas ("MPH") and Sustainable Energy France ("SEF").

All intra-Company transactions, balances, revenue and expenses are eliminated in full on consolidation.

Subsidiaries that are directly controlled by the parent company or indirectly controlled by other consolidated subsidiaries are fully consolidated. All intercompany balances, transactions and income are eliminated. The Company currently has no special purpose entities of which it retains control and accordingly the consolidated financial statements do not include the accounts of any such entities.

2. Basis of preparation (continued)

(b) Basis of consolidation

The Company has an interest in a joint venture, which is a jointly controlled operation, whereby a contractual arrangement has been entered into without establishing a separate entity. Each venturer uses its own assets, incurs its own expenses and liabilities and funds its own participation in the operation. These consolidated financial statements include the Company's share of assets and liabilities and a proportionate share of the relevant revenues and related costs, classified according to their function. The Company has a 60% interest in Profab Solar which was formed to market turnkey solar systems.

(c) Critical accounting estimates

The preparation of these consolidated financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets, liabilities, sales and expenses, and related disclosure of contingent assets and liabilities. On an ongoing basis, management bases its estimates on historical experience and other assumptions that it believes are reasonable in the circumstances. Actual results may differ from the estimates. There have been no changes made to the methodology to determine critical accounting estimates during the past two fiscal years. The following reflect the most significant estimates and assumptions used in the preparation of the Company's consolidated financial statements.

i. Capital assets and development costs

Capital assets and development costs are reviewed for impairment at least annually or when events or changes in circumstances indicate that the carrying amount of such assets may not be fully recoverable. To determine recoverability, management estimates the fair value less costs to sell of the asset or the asset's value in use using estimates. The value in use is determined by estimating the future cash flows projected to be generated by these assets. These cash flows are discounted using an estimated rate of return and compared to their respective carrying value. In performing this analysis, estimates and assumptions are made about factors such as current and future contracts with clients, margins, market conditions and the useful lives of assets. If estimates or assumptions change from those used in the current analysis, the Company may be required to recognize an impairment loss in future periods, which would decrease capital assets or development costs and increase reported expenses.

The Company reviews the estimated useful lives of capital assets and development costs at the end of each reporting period. During the current year, management determined that the useful life of development costs should be shortened due to a production shift to its 3rd generation Paralex "STX" inverter. The financial effect of this reassessment, assuming the asset is held until the end of its estimated useful life, is to increase the consolidated depreciation expense in the current year and for the next two years by the following amounts:

2012	$202,924
2013	202,924
2014	202,294

2. Basis of preparation (continued)

(c) Critical accounting estimates (continued)

ii. Valuation adjustments for inventory

Valuation adjustments for inventory are comprised of the impairments or recoveries recorded against inventories. The Company records valuation adjustments for inventory by comparing the inventory cost to its net realizable value. This process requires the use of estimates and assumptions related to future market demand, costs and prices. Such assumptions are reviewed quarterly and have a significant impact on the valuation adjustments for inventory.

iii. Share-based payment transactions

Share-based payments comprise compensation expense related to the granting of stock options and warrants. The Company values stock option expense and warrants using a fair value-based method of accounting. The fair value of stock options and warrants is estimated at the grant or issue date using the Black- Scholes option pricing model (the “model”) or the fair value of services received in the case of warrants. The model requires the input of a number of assumptions, including expected dividend yield, expected stock price volatility, life of the options, forfeiture rate, and risk-free interest rates.

These assumptions are determined using management’s best estimates and involve inherent uncertainties relating to market conditions, forfeitures and exercise which are outside of the control of the Company. Such assumptions are reviewed quarterly and have a significant impact on the estimates of fair value produced by the Black-Scholes option pricing model.

iv. Preferred shares

Preferred shares are comprised of a debt and equity component. The Company determines the fair values of the debt component at inception by using discounted cash flows at the estimated market interest rate at that time. This method requires the input of a number of assumptions, including the estimated market rate of interest and the timing of any payment of dividends. These assumptions are determined using management’s best estimates and involve inherent uncertainties. They are reviewed quarterly and have a significant impact on the estimates of fair value of the debt component of the preferred shares.

v. Fair value of financial instruments

The Company is required to determine the fair value of its bank debt, Energy Northwest obligation, debentures and preferred shares. In determining the fair value of the Company’s outstanding preferred shares, management uses internally developed models, which incorporate estimated market rates. In determining market rates, management adds a credit spread to quote rates on Canadian government bonds with similar maturity dates to the Company’s preferred shares. Estimates of market rates and the credit spread applicable could vary and result in a different disclosed fair value.

vi. Income taxes

The Company carries on business in several countries and as a result, is subject to income taxes in numerous jurisdictions. The determination of income tax is inherently complex and the Company is required to interpret continually changing regulations and make certain estimates and assumptions about future events. While income tax filings are subject to audits and reassessments, the Company believes it has adequately provided for all income tax obligations. However, changes in facts and circumstances as a result of income tax audits, reassessments, jurisprudence and any new legislation may result in an increase or decrease in the provision for income taxes.

2. Basis of preparation (continued)

(c) Critical accounting estimates (continued)

vii. Energy Northwest obligation

The Company is required to provide for amounts that will be payable to Energy Northwest as compensation for services and contributed by Energy Northwest during the early development of the Company's step wave power converter ("SWPC") technology. The compensation payable to Energy Northwest in any year is dependent on the sales of products utilizing the SWPC in the year subject to annual minimum and maximum payments. Due to the emerging nature of the Company's business, the provision requires the Company to estimate sales for each year during the period of time for which the agreement will be in place (Note 9). This estimate of sales is based on past sales related to the SWPC technology and management's forecast of SWPC sales until the end of the agreement on January 1, 2016.

viii. Government grant obligation

The Company has received government funding related to certain historical research and development projects. Under the terms of certain of these arrangements, the Company is obligated to make payments in the form of royalties contingent upon sales of its products. The financial liability has been measured based on the net present value of estimated future royalties. In order to measure the financial liability for each reporting period, the Company makes estimates regarding future revenues during the life of the arrangements and the discount rate to be used in determining the net present value. The discount rate used to determine the present value of the government contribution liability is 25%.

(d) Critical accounting judgments

In applying the Company's accounting policies, management has made certain judgments that may have a significant effect on the amounts recognized in the consolidated financial statements. Such judgments include the determination of the functional currency.

i. Commitments, Contingencies and Guarantees

By their nature, contingencies will only be resolved when one or more future events transpire. The assessment of contingencies inherently involves estimating the outcome of future events.

ii. Determination of functional currency

In determining the Company's functional currency, it periodically reviews its primary and secondary indicators as stipulated under IAS 21 "The Effects of Changes in Foreign Exchange Rates" to assess each subsidiary's primary economic environment in which the entity operates in determining the Company's functional currency. The Company analyzes the currency that mainly influences labor, material and other costs of providing goods or services which is often the currency in which such costs are denominated and settled. The Company also analyzes secondary indicators such as the currency in which funds from financing activities such as equity issuances are generated and the funding dependency of the parent company whose predominant transactional currency is the Canadian dollar. Determining the Company's predominant economic environment requires significant judgment.

2. Basis of preparation (continued)

(d) Critical accounting judgments

iii. Loss of control of the Subsidiary, Mainpower Hellas

During the year, management determined that the Company no longer had control over the assets of Mainpower Hellas (“MPH”) as a result of a dispute with the manager of the subsidiary in Greece. The manager has signing authority over MPH’s bank account a significant asset and no longer will communicate to the parent the financial position of MPH. As a result of this loss of control, the Company has written off the net assets held by the subsidiary.

3. **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 September 30, 2012, the Company had not yet achieved profitable operations since its inception and accumulated a deficit of $22,752,518, after a reclassification of $30,000,000 from share capital (2011 - $47,434,153) and recognized a cash flow deficiency in 2012 of $1,690,957 (2011 - $6,692,627). 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 $703,924 at September 30, 2012 (2011 - $2,166,119).

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 and Units of STG Markets Limited Partnership and debentures. The outcome of these matters cannot be predicted at this time.

These 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.

Management has also made significant estimates under the going concern assumption. These consolidated financial statements do not give effect to adjustments, if any, that may be necessary should the Company be unable to continue as a going concern.

4. Significant accounting policies

The significant accounting policies are set out below. All dollar amounts are expressed in Canadian dollars unless otherwise noted.

4. Significant accounting policies (continued)

(a) Financial instruments

A financial instrument is any contract that gives rises rise to a financial asset of one entity and a financial liability or equity instrument to another. Upon initial recognition all financial instruments, including derivatives, are recognized on the consolidated statements of financial position at fair value. Subsequent measurement is then based on financial instruments being classified into one of the following five categories: 1) loans and receivables, 2) assets held-to-maturity, 3) assets available-for-sale, 4) other financial liabilities, and 5) fair value through profit or loss. Financial instruments classified at fair value through profit or loss or assets available-for-sale as a result of initially adopting this section are measured at fair value. Gains or losses on the subsequent measurement of fair value are recognized in net income (loss), while gains and losses on subsequent measurement of available-for-sale items are recognized as an adjustment to other comprehensive loss.

At September 30, 2012, the Company's financial instruments include cash and cash equivalents, accounts receivable and advances, accounts payable and accrued liabilities, bank debt, debentures, Energy Northwest obligation, government grant obligation and preferred shares. Cash and cash equivalents and the embedded derivative in the Energy Northwest obligation are measured at fair value consistent with the "fair value through profit or loss" classification. Net gains and losses arising from changes in fair value are recognized in net income upon de-recognition or impairment. Accounts receivable and advances and other long term assets are measured at amortized cost consistent with the "loans and receivables" classification. Loans and receivables are subsequently measured at their amortized cost, using the effective interest method. Under this method, estimated future cash receipts are discounted over the asset's expected life, or other appropriate period, to its net carrying value. Accounts payable and accrued liabilities, bank loan, debentures, Energy Northwest obligation and preferred shares are measured at amortized cost using the effective interest method, consistent with the "other financial liabilities" classification. Equity instruments are recorded at the proceeds received with direct issue costs deducted.

Embedded derivatives are separated from the host contract and accounted for separately when all three of the following conditions are met: i) the economic characteristics and risks of the host contract and the embedded derivative are not closely related; ii) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and iii) the hybrid instrument is not measured at fair value with changes in fair value recognized in profit or loss. Changes in the fair value of the embedded derivative are recognized immediately in the statement of loss and comprehensive loss.

The Company has an embedded derivative related to the Company's ability to redeem each series of preferred shares (Note 14) if certain conditions exist. The estimated value of this embedded derivative at September 30, 2012 is nil.

The Company has an embedded derivative related to the Company's ability to call the debentures (Note 10) at par at any time after the second anniversary of issue. The estimated value of this embedded derivative at September 30, 2012 is nil. The Company also has an embedded derivative related to the royalty payments on the debenture. The Company estimates sales each reporting period during the term of the agreement to determine the estimated royalties and determines the fair value of the estimated royalty payments. The embedded derivative has been presented within the line item denoted Debentures in the consolidated statements of financial position.

4. Significant accounting policies (continued)

(a) Financial instruments (continued)

The Company has an embedded derivative related to the compensation payable on the Energy Northwest obligation (Note 9). The Company estimates sales revenue each reporting period throughout the term of the agreement to determine the fair value of the estimated compensation payments. This embedded derivative has been presented within the line item denoted “Energy Northwest obligation” in the consolidated statements of financial position.

The embedded derivative in the debenture, Energy Northwest obligation and preferred shares are recognized at fair value with changes in fair value recorded in the consolidated statement of loss and comprehensive loss every period.

On initial recognition, the preferred shares were classified into debt and equity components at fair value. Subsequent to the initial recognition, the liability component is re-measured at amortized cost using the effective interest rate method. The equity component is not re-measured subsequent to initial recognition.

The effective interest method is a method of calculating the amortized cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash flows (including all fees paid that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial asset/liability, or, where appropriate, a shorter period. Transactions costs are comprised primarily of legal, accounting, underwriters’ fees and other costs directly attributable to the issuance of the financial instruments.

(b) Foreign currencies

i. Foreign currency transactions

The consolidated financial statements are prepared in Canadian dollars, which is the Company’s functional currency. Transactions in foreign currencies are initially recorded at the functional currency spot rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency prevailing rate of exchange at the reporting date. Non-monetary items that are measured in terms of historical cost in foreign currency are translated using the prevailing exchange rates as at the dates of the initial transactions. Non monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

ii. Foreign currency transactions

The assets and liabilities of foreign operations are translated to Canadian dollars at exchange rates at the reporting date. Foreign currency differences are recognized and presented in other comprehensive income (loss) and in the foreign currency translation reserve in equity.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gain and losses net of tax arising from those items are considered to form part of a net investment in a foreign operation and are recognized in other comprehensive income (loss) and presented in the translation reserve in equity.

On disposal of a foreign operation, any cumulative exchange differences held in equity and arising after the date of transition to IFRS are transferred to the consolidated statement of comprehensive income (loss) as part of the profit or loss on sale.

4. Significant accounting policies (continued)

(c) Inventory

Inventories are stated at the lower of cost or net realizable value. Inventory is valued on a weighted average cost basis. Net realizable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale. The reversal of previous net realizable value write-downs is recorded when there is a subsequent increase in the value of inventory.

(d) Deferred financing costs

Deferred financing costs related to the operating line of credit, when it is probable that some or all of the line will be drawn down, are included in prepaid expenses and deposits and are amortized on a straight-line basis over the term of the one year related financing agreement.

(e) Capital assets

Capital assets are stated in the consolidated statements of financial position at cost less accumulated amortization, impairment losses and government grants. Amortization is charged so as to write off the cost of assets, other than land, over their estimated useful lives, using the straight-line method. Amortization is charged once an asset is determined to be available for use. The estimated useful lives, residual values and amortization method are reviewed at each year end, with the effect of any changes in estimates accounted for on a prospective basis.

Assets held under finance leases are amortized over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease. Amortization is charged over the estimated useful life of the asset at the following rates:

Furniture and equipment	5 years straight-line
Computer equipment	3 years straight-line
Computer software	1 year straight-line
Lab equipment	3 to 5 years straight-line
Dies and molds	1 year straight-line

The gain or loss arising on the disposal of capital assets is determined as the difference between the sales proceeds and the carrying amount of the asset, and is recognized in profit or loss.

(f) Research and development costs

Expenditures on research activities are recognized as an expense in the period in which they are incurred.

Internally-generated intangible assets arising from development (or from the development phase of an internal project) are recognized if, and only if, all of the following have been demonstrated:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- The intention to complete the intangible asset and use or sell it;
- The ability to use or sell the intangible asset;
- How the intangible asset will generate probable future economic benefits;
- The availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- The ability to measure reliably the expenditures attributable to the intangible asset during its development.

4. Significant accounting policies (continued)

(f) Research and development costs (continued)

The amount initially recognized for internally-generated intangible assets is the sum of the expenditures incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognized, development expenditures are charged to consolidated statement of comprehensive income (loss) in the period in which they are incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and impairment losses.

(g) Impairment of capital assets and development costs

At each consolidated statement of financial position date, the Company reviews the carrying amounts of its capital assets and development costs to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit ("CGU") to which the asset belongs. The recoverable amount is the higher of the fair value less costs to sell of the asset or the asset's value in use using estimates. The value in use is determined by estimating the future cash flows projected to be generated by these assets on a pre-tax basis. These cash flows are discounted at a rate reflecting the estimated time value of money and risk associated with the asset or CGU. If the recoverable amount of an asset or CGU is estimated to be less than its carrying amount, the carrying amount of the asset or CGU is reduced to its recoverable amount. An impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or CGU in prior years. A reversal of an impairment loss is recognized immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

(h) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

(i) Government grants

Government grants are utilized to fund the various research and development technologies of the Company. Government grants are not recognized until there is reasonable assurance that the Company will comply with the conditions of the grant and that the grant will be received.

Government grants, including contingently repayable government grants, whose primary condition is that the Company should purchase, construct or otherwise acquire non-current assets are recorded as a deduction of the cost of the asset and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

4. Significant accounting policies (continued)

(i) Government grants (continued)

The Company participates in government programs which are both non-payable and repayable government grants (Note 11 and Note 24). Assistance related to non-payable programs is recorded when there is reasonable assurance that the contribution will be received and all conditions will be complied with. Assistance is presented as a reduction of the related expense or development costs. For repayable government programs, the obligation is treated as a financial liability.

(j) Provisions and contingencies

i. Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that the Company will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the balance sheet date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

A provision for warranties is recognized when the underlying products are sold. The provision is based on historical experience. The initial estimate of warranty-related costs is revised annually.

A provision for the amount owing to Energy Northwest (Note 9) has been recognized. The provision is based on historical experience with gross sales of the product and anticipated future sales. The estimate of the amount due to Energy Northwest is revised annually.

ii. Contingencies

When a contingency is substantiated by confirming events, can be reliably measured and will likely result in an economic outflow, a liability is recognized in the consolidated financial statements as the best estimate available to settle the obligation. A contingent liability is disclosed where the existence of an obligation will only be confirmed by a future event, or where the amount of a present obligation cannot be measured reliably or will likely not result in an economic outflow. Contingent assets are only disclosed when the inflow of economic benefits is probable. When the economic benefit becomes virtually certain, the asset is no longer contingent and is recognized in the consolidated financial statements.

(k) Share-based payments

Share-based payments are comprised of stock option awards granted to employees, directors and others which are equity-settled share-based payments.

These equity-settled share-based payments are measured at the fair value of the equity instruments and are recognized as an employee expense with the offsetting credit as an increase to the share-based payment reserve.

4. Significant accounting policies (continued)

(k) Share-based payments (continued)

The fair value is measured at the grant date using the Black-Scholes options pricing model based on terms and conditions upon which the options were granted. Each tranche is recognized on a graded vesting basis over the period during which the options vest. At each consolidated statement of financial position date, the Company revises its estimate of the number of equity instruments expected to vest as a result of the effect of non market based vesting conditions. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share-based payment reserve.

Upon exercise of the stock option, the Company issues new shares. The associated fair value amount is reclassified from the share-based payment reserve to share capital. The proceeds received net of any directly attributable transaction costs are credited to share capital when the options are exercised.

(l) Revenue recognition

Revenue from product sales is generally recognized on shipment to the customer and when reasonable assurance exists regarding the measurement and collection of the consideration received. There may be instances where customers will request that the Company “bill and hold” their shipments until such time as the customers are prepared to receive the shipment. In these cases, revenue is recognized when the customer is invoiced for the goods which have been packaged and made ready for shipment, the risk of ownership is with the customer, and the terms and when reasonable assurance exists regarding the measurement and collection of the consideration received.

Engineering fee revenue is recognized when the service is performed. Licensing fee revenue is recognized when the Company has fulfilled all its obligations under the terms of the operative licensing agreement. In all cases no revenue would be recognized in circumstances where collection is not reasonably assured.

(m) Income taxes

Income taxes are recognized in the consolidated statement of loss and comprehensive loss, except where they relate to items recognized in other comprehensive loss or directly in equity, in which case the related taxes are recognized in other comprehensive loss or equity. Taxes are recorded using the tax rate that has been enacted or substantively enacted by the consolidated statement of financial position date.

Deferred tax assets and liabilities are recognized based on unused tax losses and tax credits and the difference between the tax and accounting values of assets and liabilities and are calculated using enacted or substantively enacted tax rates for the periods in which the unused tax losses and tax credits and differences are expected to reverse. The effect of tax rate changes is recognized in earnings or equity, as the case may be, in the period of substantive enactment.

Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the assets can be utilized.

Deferred tax liabilities are recognized for taxable temporary differences arising on investments in subsidiaries, joint ventures and associates. However, the Company does not recognize such deferred tax liabilities where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

4. Significant accounting policies (continued)

(m) Income taxes (continued)

The Company is subject to assessments by various taxation authorities that may interpret tax legislation differently. The final amount of taxes to be paid depends on a number of factors including the outcomes of audits, appeals, or negotiated settlements. The Company accounts for such differences based on its best estimate of the probable outcome of these matters.

(n) Loss per share

The Company computes basic loss per share using net income attributable to Sustainable shareholders divided by the weighted-average number of common shares outstanding. The Company does not compute diluted loss per share as this calculation would be anti-dilutive.

5. Future accounting pronouncements

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective and determined that the following may have an impact on the Company:

IFRS 9: Financial Instruments – In November 2009 was issued and is the first step to replace current *IAS 39, Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 10: Consolidated Financial Statements – In 2011, the IASB issued IFRS 10 which provides additional guidance to determine whether an investee should be consolidated. This standard applies to all investees, including special purpose entities. The standard is required to be adopted for periods beginning on or after January 1, 2013.

IFRS 11: Joint Arrangements – In 2011, the IASB issued IFRS 11 which presents a new model for determining whether an entity should account for joint arrangements using proportionate consolidation or the equity method. An entity will have to follow the substance rather than legal form of a joint arrangement and will no longer have a choice of accounting method. The standard is required to be adopted for periods beginning on or after January 1, 2013.

IFRS 12: Disclosure of Interests in Other Entities – In 2011, the IASB issued IFRS 12 which aggregates and amends disclosure requirements included within other standards. The standard requires a company to provide disclosures about subsidiaries, joint arrangements, associates and unconsolidated structured entities. The standard is required to be adopted for periods beginning on or after January 1, 2013.

IFRS 13: Fair Value Measurement – In 2011, the IASB issued IFRS 13 to provide comprehensive guidance for instances where IFRS requires fair value to be used. The standard provides guidance on determining fair value and requires disclosures about those measurements. The standard is required to be adopted for periods beginning on or after January 1, 2013.

5. Future accounting pronouncements (continued)

IAS 1: Presentation of Items of Other Comprehensive Income – In 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements to split items of other comprehensive income (OCI) between those that are re-classed to income and those that are not. The standard is required to be adopted for periods beginning on or after July 1, 2012.

IAS 12: Income Taxes – the IASB amended IAS 12 in December 2010 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendment introduces a presumption that an entity will assess whether the carrying value of an asset will be recovered through the sale of the asset. The amendment to IAS 12 is effective for reporting periods beginning on or after January 1, 2012.

IAS 28: Investments in Associates and Joint Ventures – The IASB issued amendments to IAS 28 Investments in Associates and Joint Ventures to coincide with the changes made in IFRS 10 and IFRS 11. The standard is required to be adopted for periods beginning on or after January 1, 2013.

Management is assessing the impact of these new standards and amendments but they are not expected to have a material impact on the Company's consolidated financial statements.

6. Inventory

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

	September 30, 2012	September 30, 2011	October 1, 2010
	$	$	$
Finished goods	**488,205**	736,784	1,688,067
Component	**2,119,914**	2,744,528	927,162
Other	**103,885**	108,763	126,345
	2,712,004	3,590,075	2,741,574

As at September 30, 2012, $2,712,004 (2011 - $3,590,075) of inventory was carried at cost and $Nil was carried at net realizable value. The valuation write-down of inventory recorded in the year ended September 30, 2012 totals $Nil (2011 - $198,987). The cost of inventory expensed was $2,740,805 (2011 - $2,974,288).

7. Development costs

Carrying value	**September 30, 2012**	September 30, 2011	October 1, 2010
	$	$	$
Development of wind turbine technology	**1**	1	1
Development of power electronics intellectual property	**937,690**	1,393,174	1,567,426
Development of power electronics platform	**1**	1	1
Total	**937,692**	1,393,176	1,567,428

7. Development costs (continued)

Cost	Development of wind turbine technology	Development of power electronics intellectual property	Development of power electronics platform	Total
	$	$	$	$
Balance October 1, 2010	**1,894,618**	**3,878,798**	**1,455,789**	**7,229,205**
Foreign currency translation	**-**	**60,150**	**4,950**	**65,100**
Balance September 30, 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**

Accumulated amortization and impairment	Development of wind turbine technology	Development of power electronics intellectual property	Development of power electronics platform	Total
	$	$	$	$
Balance October 1, 2010	**1,894,617**	**2,311,372**	**1,455,788**	**5,661,777**
Amortization	**-**	**189,533**	**-**	**189,533**
Foreign currency translation	**-**	**44,869**	**4,950**	**49,819**
Balance September 30, 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**

The cost of the development of the Company’s power electronics intellectual property is being amortized straight line over the life of the relevant patents, which is estimated to be 16 years. At September 30, 2012, the patents had a remaining useful life of 2 (2011 – 7) years. Depreciation of the intangible asset is included in the consolidated statement of loss and comprehensive loss under the line item product research and development.

The Company reviewed the estimated useful lives of development costs and management determined that the useful life of development costs should be shortened due to a production shift to its 3rd generation Paralex “STX” inverter.

8. Capital assets

	September 30, 2012	September 30, 2011	October 1, 2010
	$	$	$
Carrying value			
Computer equipment and software	**19,507**	30,944	99,121
Lab equipment	**51,107**	74,006	80,173
Furniture and equipment	**23,422**	40,456	66,014
Dies and molds	**2,539**	7,130	14,130
Total	**96,575**	152,536	259,438

Cost	**Computer equipment and software**	**Lab equipment**	**Furniture and equipment**	**Dies and models**	**Total**
	$	**$**		**$**	**$**
Balance September 30, 2011	483,385	578,872	160,801	43,189	1,266,247
Additions	7,590	2,112	3,286	5,077	18,065
Disposals	(14,738)	-	(28,788)	(12,040)	(55,566)
Foreign currency translation	774	-	937	(429)	1,282
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 September 30, 2011	452,441	504,866	120,345	36,059	1,113,711
Amortization	19,354	25,020	8,693	9,667	62,734
Disposal	(12,987)	-	(16,927)	(12,039)	(41,953)
Foreign currency translation	(1,304)	(9)	703	(429)	(1,039)
Balance September 30, 2012	**457,504**	**529,877**	**112,814**	**33,258**	**1,133,453**

8. Capital assets (continued)

Cost	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and models	Total
	$	$	$	$	$
Balance October 1, 2010	452,473	532,477	168,798	35,368	1,189,116
Additions	30,834	46,395	299	7,789	85,317
Disposals	-	-	(8,367)	-	(8,367)
Foreign currency translation	78	-	71	32	181
Balance September 30,2011	483,385	578,872	160,801	43,189	1,266,247

Accumulated amortization and impairment	Computer equipment and software	Lab equipment	Furniture and equipment	Dies and models	Total
	$	$		$	$
Balance October 1, 2010	353,352	452,304	102,784	21,238	929,678
Amortization	99,089	52,562	17,561	14,821	184,033
Balance September 30, 2011	452,441	504,866	120,345	36,059	1,113,711

9. Energy Northwest obligation

	September 30, 2012	September 30, 2011	October 1, 2010
	$	$	$
Obligation to Energy Northwest ($88,079 US) (2011 - $1,270,121 US)	**90,600**	1,331,341	1,089,129
Less: current portion of Energy Northwest obligation	**45,700**	266,268	217,826
	44,900	1,065,073	871,303

Energy Northwest (formerly “Washington Public Power Supply System”) made contributions of services 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.

9. Energy Northwest obligation (continued)

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 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 During the current year, 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 to Energy Northwest in subsequent years.

As a result of the decision to abandon the SWPC technology in favor of the new technology supporting the 3rd generation STX inverter, management has adjusted the estimate of the compensation payable in respect of contributions made by Energy Northwest, to reflect that there is now no expectation of sales of the SWPC product during the balance of the agreement. Management's revised estimate at September 30, 2012, reflects the minimum amount payable to Energy Northwest under the agreement from inception until the end of the term in 2016 less payments made to date. Accordingly, the underlying liability and embedded derivative were determined to have a fair value of $90,600 at the reporting date. This has resulted in a gain being recognized of $1,162,184. The Energy Northwest obligation and embedded derivative were valued using Level 3 valuation information (inputs not based on observable market data). The amount estimated to be due over the remaining term of the agreement has been discounted at the rate of 25% which represents the interest rates that would be available for the Company for similar obligations. Should the Company in the future change its expectation of product sales in SEL, the loan and embedded derivative values will increase.

The impact of reducing (increasing) the interest rate by 1% would not materially affect the fair value of the Energy Northwest obligation.

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. Purchasers of the debentures have also been issued a total of 2.8 million restricted common shares of the Company, which will be released on a quarterly basis over the 2 year period following issuance. The restricted common shares were valued at $140,000. 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 initial discounted amount of the debenture was $519,972. The accretion expense was $30,739 and interest of $6,000 was paid bringing the discounted amount owing at September 30, 2012 to $544,711.

10. Debentures (continued)

The royalty payments on the debenture 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 consolidated statement of loss and comprehensive loss each period. As at September 30, 2012, embedded derivative was determined to have a fair value of $116,857. The embedded derivative was valued using Level 3 valuation information (inputs not based on observable market data). There have been no gains or losses recorded in these consolidated financial statements related to the debentures or embedded derivative nor have there been any changes during these periods in the level of valuation information or the key inputs in the decision to value the debenture and the embedded derivative. Should the Company in the future change its expectation of future gross sales, the loan and embedded derivative values will change accordingly.

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

2013	$ 24,000
2014	90,667
2015	285,667
2016	277,666
2017	203,000

Subsequent to year end, the Company has agreed to issue to a director a $114,000 debenture at an original discount rate of 12.5% to net the Company $100,000, at the same terms as noted above. 399,000 restricted common shares will be issued under the terms of the debenture and will be released on the same basis as noted above. This transaction is subject TSX-V approval.

11. 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 if the amount repaid is less than the full amount at September 30, 2011. The National Research Council agreed to reduce the royalty rate to 0% for the year ended September 30, 2012 and reduce the repayments to $1,000 per month for the same period. The remaining payable or potentially payable under the agreement is $316,120 (2011 - $325,120).

In order to measure the financial liability related to government contributions during the year ended September 30, 2012, the Company revised it estimates regarding the timing of gross revenues expected during the life of the arrangement. As a result of the change in estimate, financing costs have increased by $25,523 (2011 decreased by $23,135). Accretion expense recognized was $39,478 (2011 - $33,785).

11. Government grant obligation (continued)

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

	2012	2011
	$	$
Government grant (NRC)	216,736	160,735
Less: current portion	(40,382)	(27,461)
Total	**176,354**	**133,274**

The repayments are due quarterly and are subject to interest for late payments. The liability is unsecured.

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.

Unlimited number of common shares without par value

Unlimited number of First Preferred Shares Series 7
Unlimited number of First Preferred Shares Series 8
Unlimited number of First Preferred Shares Series 9
Unlimited number of First Preferred Shares Series 10
Unlimited number of First Preferred Shares Series 11
Unlimited number of First Preferred Shares Series 12

Issued

Common shares	Number of shares	Amount $
Balance, October 1, 2010	165,938,924	30,393,463
Issuance of common shares	16,192,857	2,267,000
Cost of issuance	-	(813,883)
Issuance of LP units	16,999,830	2,550,000
Cost of issuance	-	(265,177)
Conversion of preferred shares	1,102,337	126,665
Exercised warrants	-	-
Balance, September 30, 2011	**200,233,948**	**34,258,068**
Conversion of preferred shares	6,121,861	606,463
Issuance of common shares	2,800,000	140,000
Adjustment on reduction of deficit	-	(30,000,000)
Balance, September 30, 2012	**209,155,809**	**5,004,531**

12. Share capital (continued)

Issued (continued)

The Company issued 6,121,861 (2011 – 113,087) common shares to pay for dividends of $141,530 (2011 - $16,924) that had accrued to the 61,500 (2011 – 12,500) preferred shares that were converted into common shares during the fiscal year.

Restricted Shares

In June 2012, the Company issued debentures and in conjunction with the issuance of the debentures, a total of 2.8 million restricted common shares of the Company were issued to the debenture holders (Note 10). A total of 320,000 shares were released immediately and are subject to a 4 month hold period that expired on October 30, 2012. The remaining shares will be released to the debenture holders on a quarterly basis over the next two years.

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.

The Company also received shareholder approval to consolidate the outstanding common shares on a 10 to 1 basis at some time in the future at the discretion of the Board of Directors.

Weighted average number of common shares

The weighted average number of shares for September 30, 2012 and September 30, 2011 was determined by excluding stock options and warrants because the Company was in a loss position. In calculating diluted common share amounts for the year ended September 30, 2012 and 2011, the Company excluded 976,587 (2011 – 938,086) preferred shares convertible into 69,280,778 (2011 – 62,782,951) common shares, 49,699,755 (2011 – 37,327,414) warrants and 16,593,724 (2011 – 14,445,305) options because the exercise price was greater than the average market price of its common shares during the year.

13. 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 32,894,324. 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.

13. Share-based payments (continued)

	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, 2010	14,644,672	0.20	1,292,300	0.23
Forfeited	(1,491,667)	0.30	-	-
Balance, September 30, 2011	**13,153,005**	**0.18**	**1,292,300**	**0.23**
Granted	**2,500,000**	**0.10**	**2,000,000**	**0.10**
Forfeited	**(2,351,581)**	**0.20**	**-**	**-**
Balance, September 30, 2012	**13,301,424**	**0.16**	**3,292,300**	**0.15**

The following summarizes information about stock options outstanding as at September 30, 2012:

	Outstanding options			Exercisable options	
Range of exercise prices	Options	Weighted average price	Weighted average years to expiry	Options	Weighted average price
		$			$
$0.05–$0.10	4,500,000	0.10	9.75	750,000	0.10
$0.14–$0.16	5,150,000	0.15	7.24	4,866,666	0.15
$0.17–$0.19	2,768,724	0.18	3.37	2,735,390	0.16
$0.20–$0.25	3,575,000	0.21	6.17	3,575,000	0.22
$0.26–$0.35	400,000	0.35	5.95	400,000	0.35
$0.36–$0.40	200,000	0.40	7.53	166,667	0.40
Balance September 30, 2012	**16,593,724**	**0.13**	**7.02**	**12,493,723**	**0.17**

The following summarized information about stock options outstanding as at September 30, 2011

	Outstanding options			Exercisable options	
Range of exercise prices	Options	Weighted average price	Weighted average years to expiry	Options	Weighted average price
		$			$
$0.14–$0.16	5,225,000	0.15	8.00	3,675,001	0.15
$0.17–$0.19	3,370,305	0.18	4.41	3,170,305	0.18
$0.20–$0.25	5,250,000	0.21	6.63	4,729,168	0.22
$0.26–$0.35	400,000	0.35	6.70	400,000	0.35
$0.36–$0.40	200,000	0.40	8.28	100,000	0.40
Balance September 30, 2011	**14,445,305**	**0.19**	**7.02**	**12,074,474**	**0.19**

The total share-based compensation calculated for the year ended September 30, 2012 was $131,133 (2011 - $296,927).

13. Share-based payments (continued)

There have been no modifications to the above stock option plan for the year ended September 30, 2012.

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:

		2012	2011
		$	**$**
Risk free interest rate		**1.05%**	-
Expected volatility (1)		**93.55%**	-
Dividend Yield		**-**	-
Expected life (years)		**3**	-
Expected forfeiture rate		**14%**	-
Weighted average fair value	**$**	**0.03**	-

(1) Expected volatility is estimated by considering historic average share price volatility over 3 years

14. Preferred shares

Series 7	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2010	4,869,083	2,704,631	1,278,482	8,852,196
Accretion	1,760,363	-	-	1,760,363
Gain on preferred shares	(1,787,830)	-	-	(1,787,830)
Conversion of preferred shares	(42,241)	(33,536)	-	(75,777)
Balance at September 30, 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**

14. Preferred shares (continued)

Series 9	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2010	373,594	107,824	**77,053**	558,471
Accretion	94,108	-	-	94,108
Warrants expired	-	-	(77,053)	(77,053)
Gain on preferred shares	(99,244)	-	-	(99,244)
Conversion of preferred shares	(26,121)	(7,843)	-	(33,964)
Balance at September 30, 2011	**342,337**	**99,981**	**-**	**442,318**
Accretion	116,888	-	-	116,888
Balance at September 30, 2012	**459,225**	**99,981**	**-**	**559,206**

Series 10	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at October 1, 2010	**-**	**-**	**-**	-
Preferred shares	350,311	413,307	-	763,618
Accretion	90,584	-	-	90,584
Balance at September 30, 2011	**440,895**	**413,307**	**-**	**854,202**
Accretion	147,640	-	-	147,640
Balance at September 30, 2012	**588,535**	**413,307**	**-**	**1,001,842**

Series 11	Debt component of preferred shares	Equity component of preferred shares	Warrant component of preferred shares	Total
	$	$	$	$
Balance at September 30, 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**

14. Preferred shares (continued)

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**
Total preferred shares 2012	**7,929,418**	**3,387,391**	**1,376,893**	**12,693,702**
Total preferred shares 2011	5,582,607	3,184,383	1,355,535	10,122,525
Total preferred shares 2010	5,242,677	2,812,455	1,355,535	9,410,667

On May 8, 2009, the Company issued 450,000 Class A Units and 313,500 Class B Units at a price of $10.00 per unit. Each Class A Unit consisted of one (1) redeemable 8%, voting, First Preferred Share, Series 7 (“Series 7 Preferred Shares”) and 28 detachable warrants (“Warrants”) to acquire one (1) non-voting common share at an exercise price of $0.30 per share until May 7, 2013. Each Class B Unit consisted of one (1) Series 7 Preferred Share and 22 warrants to acquire one (1) voting common share at $0.30 per share until May 7, 2013. On May 22, 2009 the Company issued an additional 126,500 Class B Units.

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.

The Series 7 Preferred Shares may not be redeemed by the Company prior to October 15, 2011. After October 14, 2011, if within the 90 day period preceding the date of notice of redemption, the weighted average trading price has exceeded $0.60 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.

14. 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 $0.15 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 $0.45.On May 8, 2009, the subscriber for the Class A Units was also issued one (1) First Preferred Shares Series 8, and an option (the “Option”) to acquire up to 10,000,000 common shares at $0.15 per share, exercisable until November 7, 2009, at a price of $1.00. 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.

The Class A and Class B Units were accounted for on the basis of their substance and are presented in their component parts of debt, warrants and equity. 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 35%. The difference between the debt component, the warrants and the face value of preferred shares is classified as equity. The debt component is accreted to its face value through a charge to earnings using the effective interest method. Issue costs have been allocated between the debt and the equity components of the preferred shares. Cash transaction costs of approximately $962,310 were allocated on a pro rata basis to the carrying values.

On August 23, 2010, the Company issued 68,736 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 Series 9 shares are convertible at a price of $0.155. The Series 9 preferred shares (50,000) issued to Doughty Hanson have a 4 month hold expiring December 23, 2010. Doughty Hanson was also given 5,161,290 warrants exercisable for 1 year at $0.155 and with a 4 month hold as partial compensation for underwriting the equity commitment of $3,000,000.

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 20% and a five year term. The difference between the debt and warrant components and the face value of preferred shares is classified as equity. Transaction costs of $143,388 were allocated on a pro rata basis to the carrying values.

On October 5, 2010, the Company issued 80,000 First Preferred Shares Series 10 to Doughty Hanson, pursuant to a commitment agreement dated August 23, 2010, which are similar to and rank pari passu with the Series 7 and Series 9 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 $0.14 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 25% 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 earnings using the effective interest method. Transaction costs were $36,382.

14. Preferred shares (continued)

On October 25, 2011, the Company issued 50,000 First Preferred Shares Series 11 to Doughty Hanson, pursuant to a commitment agreement dated October 19, 2011, which are similar to and rank pari passu with the Series 7 and Series 9 preferred shares, The Series 11 preferred shares resulted in a cash inflow of $500,000 and they are convertible at a price of $0.115 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, 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 earnings using the effective interest method. The transaction costs were $36,156. Doughty Hanson was also given 6,347,826 additional warrants exercisable for a period of one year at $0.115.

On December 19, 2011, the Company issued 50,000 First Preferred Shares Series 12 to Doughty Hanson, pursuant to a commitment agreement dated October 19, 2011, which are similar to and rank pari passu with the Series 7, Series 9 and Series 11 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 $0.08 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 debt component is accreted to its face value through a charge to earnings using the effective interest method.

15. 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, 2010	27,353,290	-	27,353,290	1,355,535
Warrants issued	12,944,913	2,190,501	15,135,414	996,936
Warrants expired	(5,161,290)		(5,161,290)	(77,053)
Balance September 30, 2011	35,136,913	2,190,501	37,327,414	2,275,418
Warrants expired	(4,848,484)	(1,127,001)	(5,975,485)	(367,178)
Warrants issued	18,347,826		18,347,826	362,411
Balance, September 30, 2012	**48,636,255**	**1,063,500**	**49,699,755**	**2,270,651**

- The Company issued 700,000 broker warrants on October 29, 2010 as partial compensation on the unit offering and they are exercisable at a price of $0.15 for a one year term. The fair value of the warrants was calculated using the Black-Scholes option pricing model with a dividend yield of nil, a risk free interest rate of 1.06% and a volatility of 89.29%. The fair value at issuance was $46,200.

15. Warrants (continued)

- The Company issued 275,334 broker warrants on November 25, 2010 as partial compensation on the unit offering and they are exercisable at a price of $0.15 for a one year term. The fair value of the warrants was calculated using the Black-Scholes option pricing model with a dividend yield of nil, a risk free interest rate of 1.06% and a volatility of 85.85%. The fair value at issuance was $12,940.
- The Company issued 151,667 broker warrants on November 26, 2010 as partial compensation on the unit offering and they are exercisable at a price of $0.15 for a one year term. The fair value of the warrants was calculated using the Black-Scholes option pricing model with a dividend yield of nil, a risk free interest rate of 1.06% and a volatility of 85.92%. The fair value at issuance was $7,583.
- 1,710,000 purchase warrants were issued March 18, 2011 representing the right to purchase common shares on a one to one basis with a price of $0.20 per share for a two year term. The fair value of warrants outstanding was estimated as at the date of issuance of the warrant using the Black-Scholes option-pricing model and using a 1.6% risk free rate for the two year term of the warrants, and expected volatility of approximately 87% and expected dividend yield of nil. The fair market value of the warrants was $116,280.
- The Company issued 4,848,484 purchase warrants for a one year term at $0.165 to Doughty Hanson in March, 2011 as compensation for placing a guarantee with the bank for the Company's $1,500,000 line of credit. The Black Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.19% interest rate and a volatility of 86%. The fair market value at issuance was $300,606.
- 1,661,071 purchase warrants were issued March 29, 2011 representing the right to purchase common shares on a one to one basis with a price of $0.20 per share for a two year term. The fair value of warrants outstanding was estimated as at the date of issuance of the warrant using the Black-Scholes option-pricing model and using a 1.6% risk free rate for the two year term of the warrants, and expected volatility of approximately 86% and expected dividend yield of nil. The fair market value of the warrants at issuance was $106,308.
- 632,143 purchase warrants were issued March 22, 2011 representing the right to purchase common shares on a one to one basis with a price of $0.20 per share for a two year term. The fair value of warrants outstanding was estimated as at the date of issuance of the warrant using the Black-Scholes option-pricing model and using a 1.6% risk free rate for the two year term of the warrants, and expected volatility of approximately 86% and expected dividend yield of nil. The fair market value of the warrants at issuance was $44,882.
- 3,082,500 purchase warrants were issued March 21, 2011 representing the right to purchase common shares on a one to one basis with a price of $0.20 per share for a two year term. The fair value of warrants outstanding was estimated as at the date of issuance of the warrant using the Black-Scholes option-pricing model and using a 1.6% risk free rate for the two year term of the warrants, and expected volatility of approximately 86% and expected dividend yield of nil. The fair market value of the warrants at issuance was $228,105.
- 1,010,715 purchase warrants were issued April 4, 2011 exercisable for a period of two years at $0.20. These warrants were partial compensation for the unit equity offering concluded April 2011. The Black Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.84% interest rate and a volatility of 86%. The fair market value at issuance was $57,610.

15. Warrants (continued)

- 1,063,500 broker warrants were issued in April 2011, exercisable for a period of two years at $0.14. These warrants were partial compensation for the unit equity offering concluded in April 2011. The Black Scholes option model was used to calculate the fair value of the warrants using a nil dividend yield, a 1.68% interest rate and a volatility of 86%. The fair market value at issuance was $76,572.
- 6,347,826 purchase warrants were issued to Doughty Hanson on October 25, 2011 exercisable for a period of one year at $0.115. 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. Subsequent to year end, the warrants expired without being exercised.
- 12,000,000 additional warrants were issued to Doughty Hanson on May 1, 2012 exercisable for a period of one year at $0.05. These warrants were compensation for extending the equity commitment agreement of $1,500,000 as security for the bank line to April 30, 2013. 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.

16. Income taxes

Unrecognized deferred tax assets

Deferred tax assets have not been recognized in respect of the following:

	September 30, 2012	September 30, 2011	October 1, 2010
	$	$	$
Development costs and capital assets	**16,000**	(79,000)	(107,000)
Non-capital loss carry forwards	**5,556,000**	5,539,000	3,744,000
Preferred shares	**(1,172,000)**	(1,454,000)	(1,058,000)
Scientific research expenditure pool	**32,000**	34,000	32,000
Share issue costs	**697,000**	721,000	569,000
	5,129,000	4,761,000	3,180,000
Assets not recognized	**(5,129,000)**	(4,761,000)	(3,180,000)
Total	**-**	-	-

16. Income taxes (continued)

Reconciliation of effective tax rate

	September 30, 2012	September 30, 2011
	$	$
Loss for the year	**(5,318,365)**	(6,692,891)
Rate	**27%**	26.9%
Expected income tax recovery	**(1,430,700)**	(1,800,400)
Differences resulting from:		
Share based payments	**36,000**	80,000
Foreign jurisdiction losses not carried forward	**54,000**	176,000
Loss on control of subsidiary	**48,000**	
Other	**104,700**	23,400
Accretion	**619,000**	16,000
Non-capital loss carry forward	**569,000**	1,505,000
Total income tax recovery	**-**	-

Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits. At September 30, 2012, the Company has approximately $16.4 million (2011 - $13.1 million) in Canadian non-capital loss carry forwards available. The unused losses will expire between 2014 and 2032. At September 30, 2012, the Company has approximately $2.7 million (2011 - $3.9 million) in United States non-capital loss carry forwards available. The unused losses will expire between 2018 and 2032. At September 30, 2012, the Company has approximately $1.8 million (2011 - $1.8 million) in Spain of non-capital loss carry forwards available. The unused losses will expire in 2023.

17. 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 is subject to bank imposed covenants regarding the bank debt (note 19).

The Company defines capital as the aggregate of total shareholders' equity, cash and cash equivalents and bank loan as follows:

	September 30, 2012	September 30, 2011
Total shareholders' deficiency	**$ (6,957,192)**	$ (3,069,123)
Cash and cash equivalents	**256,104**	328,821
Bank loan	**(1,443,830)**	(1,346,662)
Total capital	**$ (8,144,918)**	$ (4,086,964)

17. Capital management (continued)

There have been no changes to the Company's objectives in managing capital or in the management of capital since September 30, 2011. The Company presently has negative total capital and is currently working toward reversing this. (Note 3)

18. Financial instruments and financial risk management

The Company has exposure to the following risks from its use of financial instruments: credit risk, liquidity risk and market risk. This note presents information about the Company's exposure to each of these risks and the Company's objectives, policies and processes for measuring and managing risk. Further quantitative disclosures are included throughout these consolidated financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's financial risk management framework and monitors risk management activities. The Company identifies and analyzes the risks faced by the Company and may utilize financial instruments to mitigate these risks.

Credit risk

Credit risk arises when a failure by counterparties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date. Allowances are considered by management on a case by case basis and the payment terms from customers are carefully reviewed. The Company does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics at September 30, 2012. The credit risk on cash and cash equivalents 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:

	September 30, 2012	September 30, 2011	October 1, 2010
	$	$	$
Trade	**596,115**	757,509	582,909
Taxation authorities	**308,511**	334,928	307,961
Employee advances	**8,800**	944	87,322
	913,426	1,093,381	978,192

The Company assesses quarterly if there should be any impairment of the financial assets of the Company. During the period ended September 30, 2012, there was no impairment or allowance required on any of the financial assets of the Company.

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet. There are no material financial assets that the Company considers past due, as the $102,626 are over 90 days past due but are EDC insured and the accounts have subsequently been collected.

18. Financial instruments and financial risk management (continued)

Credit risk (continued)

The following is a schedule of trade receivables:

	September 30, 2012	September 30, 2011	October 1, 2010
	$	$	$
Neither impaired or past due	**320,410**	613,641	431,427
Not impaired but past due in the following periods			
31 - 60 days	**101,739**	34,857	5,363
61 - 90 days	**71,339**	25,466	33,427
over 90 days	**102,627**	83,545	112,692
	596,115	757,509	582,909

Liquidity risk

Liquidity risk includes the risk that, as a result of operational liquidity requirements:

- The Company will not have sufficient funds to settle a transaction on the due date;
- The Company will be forced to sell financial assets at an amount which is less than what they may be worth; or
- The Company may be unable to settle or recover a financial assets at all

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 September 30, 2012:

Financial liabilities	< 1 Year	1-3 Years	Thereafter	Total
Accounts payable and accrued liabilities	**1,816,285**	**-**	**-**	**1,816,285**
Bank loan	**1,443,830**	**-**	**-**	**1,443,830**
Energy Northwest obligation	**45,700**	**44,900**	**-**	**90,600**
Government grant obligation	**85,500**	**114,000**	**116,620**	**316,120**
Commitments (Note 26)	**245,662**	**-**	**-**	**245,662**
Debentures	**72,000**	**466,333**	**516,667**	**1,055,000**
Preferred shares Series 7,9,10, 11 and 12	**-**	**11,791,418**	**2,665,305**	**14,456,723**
Total	**3,708,977**	**12,416,651**	**3,298,592**	**19,424,220**

18. Financial instruments and financial risk management (continued)

Market risk

Market risk is the risk that changes in market factors, such as foreign exchange rates and interest rates will affect the Company's cash flows, net income, liquidity or the value of financial instruments. The objective of market risk management is to mitigate market risk exposures where considered appropriate and maximize returns. The Company does not utilize derivative instruments to manage market risk. The Board of Directors periodically reviews the results of all risk management activities and all outstanding positions.

Foreign currency risk

Foreign currency risk is the risk that a variation in the exchange rate between Canadian and foreign currencies will affect the Company's results. The Company is subject to risk associated with its cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, the Energy Northwest obligation and from the sale and purchase of equipment, inventory components and services denominated in foreign currencies.

The Company's exposure to currency risk on monetary assets and liabilities based on carrying amount in Canadian currency was as follows for the year ended September 30, 2012:

	Euros	**US Dollars**	**Total**
	$	$	$
Cash	**100,266**	**143,858**	**244,124**
Accounts receivable and advances	**474,598**	**310,042**	**784,640**
Accounts payable and accrued liabilities	**233,469**	**231,326**	**464,795**
Energy Northwest obligation	**-**	**90,600**	**90,600**
	808,333	**775,826**	**1,584,159**

The Company's exposure to currency risk on monetary assets and liabilities based on carrying amount in Canadian currency was as follows for the year ended September 30, 2011:

	Euros	US dollars	Total
	$	$	$
Cash	191,109	252,534	443,643
Accounts receivable and advances	651,486	377,099	1,028,585
Accounts payable and accrued liabilities	2,078	520,228	522,306
Energy Northwest obligation	-	1,331,341	1,331,341
	844,673	2,481,202	3,325,875

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 $20,236 for the year ended September 30, 2012 respectively (September 30, 2011 - $17,307). 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 $6,869 for the year ended September 30, 2012 (September 30, 2011- $29,917). 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 year ended September 30, 2012.

18. Financial instruments and financial risk management (continued)

Interest rate risk

Interest rate risk refers to the risk that cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company currently does not use interest rate hedges, fixed interest rate contracts or variable rate debt to manage the Company's exposure to interest rate fluctuations.

Fair value of financial instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable and advances, accounts payable and accrued liabilities, bank debt, debentures, Energy Northwest obligation and preferred shares. The carrying value and fair value of these financial instruments at September 30, 2012 is disclosed below by financial instrument category, as well as any related gain, loss, expense or revenue for the year ended September 30, 2012:

Financial instrument	Carrying value	Fair value	Gain/(loss)
	$	$	$
Accounts receivable and advances	913,426	913,426	-
Accounts payable and accrued liabilities	1,816,285	1,816,285	-
Bank debt	1,443,830	1,443,830	-
Energy Northwest obligation	90,600	90,600	-
Government grant obligation	216,736	216,736	
Debentures	544,711	544,711	-
Preferred shares	7,929,418	7,929,418	-

Fair value of financial instruments (continued)

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 September 30, 2012, the Company valued cash and cash equivalents using Level 1 input and the embedded derivatives on the Company's debentures (note 10) and Energy Northwest obligation (note 9) were measured at a fair value using level 3 inputs.

- Level 1 - Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 - Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 - Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

19. Bank debt

The Company arranged a $1,500,000 operating line of credit with the bank in March 2011. The operating line is secured by Doughty Hanson through an Equity Commitment Agreement. Interest is payable at the bank's prime rate plus 2.75% and amounts outstanding are repayable upon demand. The loan is subject to two covenants, a Current Asset to Current Liabilities ratio of 1.25:1.00 and Tangible Net Worth not to be less than $2.5 million at any time. The Company was not in compliance with either covenant as of September 30, 2012. Subsequent to year end, the lender provided a forbearance letter waiving the covenant requirements for the period June to November 2012. After this date, the lender has agreed to delete both covenant requirements for the operating line. Interest on the operating line will increase to prime rate plus 3% effective December 1, 2012.

The Equity Commitment Agreement allows the Company in conjunction with a demand for repayment by the bank, to obligate Doughty Hanson to pay to the bank up to a maximum of $1,500,000. In the event that this occurs Doughty Hanson has the option to either be compensated by one of the following methods at their discretion:

a) have the bank assign the Company's debt to them

b) have the Company issue convertible redeemable voting preferred shares at a price of $10 per share based on the amount paid to the bank. This series of preferred shares features will be similar and rank pari passu to the Series 9 preferred shares. (Note 14)

20. STG markets limited partnership

STGLP (formerly Solar Markets Limited Partnership ("SMLP")) is an Alberta Limited Partnership which carries on the business of commercializing manufacturing and marketing inverters under license from Sustainable Energy and certain of Sustainable Energy's subsidiaries. The General Partner of STGLP is SES which exercises control over STGLP's operations. The Limited Partners of STGLP are Sustainable Energy, and from time to time, private investors who have provided capital to STGLP by purchasing limited partnership units ("LP Units") at a price of $10,000 per LP Unit.

As Limited Partners of the Partnership on December 31 of each year, the investors are entitled to deduct their share of non capital losses of the Partnership for the year to a maximum of $10,000 per LP Unit. As a result, 99.99% of non-capital losses are not available to Sustainable Energy to offset future taxable income realized by it.

The financial results of STGLP have been consolidated with the financial results of Sustainable Energy since inception as SES has full control over the operations of STGLP and Sustainable Energy has at all times the right to acquire all the LP Units not held by it directly.

21. 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 administrative expense is salaries and benefits for key management personnel and directors of $365,297 (2011 - $369,660) and share based compensation of $14,775 (2011 - $63,127). Included in operations expense are salaries, consulting fees and benefits for key management personnel and directors of $201,500 (2011 - $199,375) and share based compensation of $35,764 (2011 – 26,886).

Key management personnel and directors subscribed for $69,000 of the debentures (Note 10) issued in June 2012 and received 55,200 bonus shares (Note 12) valued at $2,760 as at September 30, 2012. Interest expense of $2,651 has been included in financing costs related to these debentures.

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.

22. Financing costs

	2012	2011
	$	$
Interest on Northwest obligation	-	207,592
Interest on bank debt	76,102	11,411
Interest on debenture	30,739	-
Accretion of government grant obligation	65,001	10,650
Accretion of preferred shares	2,304,469	1,945,055
Amortization of financing fees	260,303	150,303
Other	28,220	45,359
Total	**2,764,834**	**2,370,370**

23. Personnel expenses

	2012	2011
	$	$
Wages	1,311,882	2,521,092
Benefits	139,456	219,863
Total	**1,451,338**	**2,740,955**

24. Government grants

Sustainable Energy has received contributions related to the development of its technologies and to marketing from Canadian and French Government agencies. The contributions have been deducted in calculating the Company's investment in technology development or from the expense to which they relate.

Alberta Innovates.

The Company entered into an agreement with Alberta Innovates for funding related to research salaries and allowance for foreign workers in Alberta. The Company received a grant of $62,000 for a period of one year ending October 31, 2013. At September 30, 2012, the Company had received $11,583 from Alberta Innovates and has credited this amount against product research and development.

OSEO

The Company entered into an agreement with OSEO, Service de l'Innovation et de l'Immateriel in France, for funding for the marketing and research project relating to energy storage. A grant of $44,219 ($35,000 euro) was received to fund expenditures for the period ending December 31, 2012. As at September 30, 2012, the Company had incurred eligible expenditures of $22,291 ($17,040 euro). Subsequent to year end, the remaining grant was used on eligible expenditures. The Company is currently submitting the final project report to OSEO and waiting for approval of the expenditures. Due to the uncertainty of the approval process in France, the entire grant has been included in accounts payable and accrued liabilities at September 30, 2012.

La Societe Clairant France S.A.

The Company entered into an agreement with La Societe Clairant France S.A. ("Clairant") for funding related to the creation of full time employment in France. A grant of $63,170 ($50,000 euro) was received to cover expenditures related to the program for the two year period ending December 2012. The Company has not created any full time employment at September 30, 2012 and therefore the entire grant has been included in accounts payable and accrued liabilities.

25. Loss of control of subsidiary

As at September 30, 2012, management determined that the Company no longer had control over the assets of MPH as a result of a dispute with the manager of the subsidiary in Greece. The manager has signing authority over MPH's bank account a significant asset. As a result of this loss of control, the Company has written off the net assets held by the subsidiary. The following is a summary of the assets and liabilities over which control was lost:

	$
Cash	98,115
Trade accounts receivable	39,709
Inventory	130,839
Prepaid expenses	17,308
Capital assets	2,087
Accounts payable and accrued liabilities	(185,830)
Net assets written off	**102,228**
Cumulative exchange gain on loss of control of subsidiary	74,842
Loss on control of subsidiary	**177,070**

26. Supplemental information

The changes in non-cash working capital for the years ended September 30, 2012 and 2011 are as follows:

	2012	2011
	$	$
Operating activities		
Decrease (increase) in assets		
Accounts receivable and advances	**193,494**	(116,800)
Prepaid expense and deposits	**179,316**	389,086
Inventory	**719,810**	(1,057,428)
Other assets	**-**	241,932
	1,092,620	(543,210)
Increase (decrease) in liabilities		
Accounts payable and accrued liabilities	**247,910**	(687,275)
	1,340,530	(1,230,485)

27. Commitments

(a) At September 30, 2012, Sustainable Energy had commitments for premise, equipment leases, investor relation agreements, and software installation as follows:

	September 30, 2012
	$
Less than one year	**245,662**
Between one and five years	**-**
More than five years	**-**
	245,662

(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 September 30, 2012. At September 30, 2012, the total contingent amount payable including accrued interest was approximately $420,736 ($427,925 US) (2011 - $427,662, $358,784 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 September 30, 2012, the total contingent amount payable was approximately $262,500 (2011 - $75,000) and therefore, no amount has been included in accounts payable and accrued liabilities.

28. Segmented information

Geographic disclosures

	As at September 30, 2012		As at September 30, 2011	
	Revenues	**Assets ***	Revenues	Assets *
Canada	**2,796,126**	**96,575**	2,714,536	135,098
United States	**-**	**937,692**	-	1,393,176
Europe	**517,008**	**-**	1,153,374	17,438
	3,313,134	**1,034,267**	$3,867,910	1,545,712

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

Major customers

The Company had two customers where product sales were greater than 10% in the period. One customer had attributed sales of $1,531,223 and the other had attribute sales of $1,008,624 for year ended September 30, 2012 (2011 – two customers, $356,908 and $290,364).

29. Subsequent events

Subsequent to year end, the Company agreed to sell a non-exclusive license which allows the licensee to manufacture the Company's new STX inverter platform. The licensee will pay a cash consideration to Sustainable Energy of $2.5 million, plus a long term revenue stream tied to power ratings and annual production volumes of products manufactured by the licensee. The licensee also has the option to buy down the long term revenue obligation by paying an additional $3 million before the end of the 2013 calendar year, or an additional $8 million before the end of 2015. Closing of the license has not yet occurred. Although tenKsolar has committed non-refundable deposits of $250,000 and management believes that the sale will occur before the middle of February 2013, there remains a risk that the transaction could be delayed or cancelled.

On December 20, 2012, the Company consolidated their issued and outstanding common shares on a 10 to 1 basis. As a result, the post-consolidated issued and outstanding shares are 20,915,581. The preferred shares, stock options and warrants will be adjusted as a result of the consolidations in accordance with their respective adjustment provisions.

On December 27, 2012, Doughty Hanson acquired 50,000 units at a price of $10 per unit, each unit being comprised of one, 8%, five-year First Preferred Shares, Series 13, convertible into Common Shares at a conversion price of $0.40 per share and 20 five-year Common Share Purchase Warrants exercisable at a price of $0.50 per share.

30. First-time adoption of international financial reporting standards

These consolidated financial statements are the first prepared under International Financial Reporting Standards. The Company has prepared its opening statement of financial position at October 1, 2010 under these standards and has provided reconciliations to its previous results reported under Canadian GAAP. As well, the first year October 1, 2010 to September 30, 2011 of the comparative historical results has been restated under IFRS along with reconciliations between Canadian GAAP and IFRS. This transition note explains the material adjustment made to the financial statements under Canadian GAAP to arrive at the consolidated financial statements under IFRS.

IFRS 1 Exemptions Applied and Mandatory Exceptions

In accordance with IFRS 1, First-Time Adoption of International Financial Reporting Standards, the Company applied the following mandatory and optional exemptions from full retrospective application of IFRS

- The Company has elected under IFRS 1 to capitalize borrowing costs prospectively for projects commencing subsequent to October 1, 2010; all borrowing costs prior to October 1, 2010 will remain expensed.
- The Company has applied the fair value measurement considerations in the last sentence of IAS 39 paragraph AG76 and in paragraph AG76A prospectively to transactions entered into on or after the date of transition to IFRSs
- The Company has applied the transitional provision in IFRIC 4 Determining whether an Arrangement contains a lease and has assessed all arrangements as at the date of transition. Consequently the Company has assessed its arrangements as at October 1, 2010 instead of the date of the original arrangement. Since the arrangements have been treated similarly under both Canadian GAAP and IFRS, this has had no effect on the consolidated financial statements.
- IFRS 3 Business Combinations has not been applied retrospectively to business combinations that occurred before the date of transition to IFRS (October 1, 2010). Prior business combinations have been accounted for under Canadian GAAP.
- IFRS 1 allows first-time adopters to not comply with the requirement to retrospectively determine cumulative currency translation differences in accordance with IAS 21 The Effect of Changes in Foreign Exchange Rates from the date a subsidiary was formed and allows the cumulative translation balance to be reset to zero at transition. Accordingly, the Company elected to reset all cumulative translation balances to zero in opening deficit at October 1, 2010.
- IFRS encourages, but does not require, first-time adopters to apply IFRS 2 Share-based Payment to equity instruments that were granted on or before November 7, 2002 or equity instruments that were granted subsequent to November 7, 2002 and vested before the date of transition to IFRS. The Company has elected to apply IFRS 2 to stock options that have not vested prior to October 1, 2010. The effect is to increase the share-based payment reserve and increase the deficit at transition date.
- At the date of transition, in accordance with IFRS 1, the Company elected deemed cost as fair value for its capital assets and development costs as at the transition date.

30. First-time adoption of international financial reporting standards (continued)

IFRS 1 contains four mandatory exceptions to the retrospective application of IFRSs which relate to (a) the de-recognition of financial assets and liabilities, (b) hedge accounting, (c) estimates and (d) assets classified as held for sale and discontinued operations. These mandatory exceptions have not had a material impact on the consolidated financial statements.

Effects on cash flows

Under Canadian GAAP, financing costs paid were classified as operating cash flows. Under IFRS financing costs paid can be classified as financing cash flows.

Reconciliation of Canadian GAAP to IFRS

The Company has prepared the following reconciliations of its previously reported Canadian GAAP balances to IFRS:

- Shareholders' deficiency at October 1, 2010, and September 30, 2011;
- Consolidated statements of financial position at October 1, 2010, and September 30, 2011; and
- Consolidated statements of comprehensive loss for the year ended September 30, 2011.

Notes describing the details of the adjustments follow the reconciliations.

30. First-time adoption of International Financial Reporting Standards (continued)

Consolidated statement of financial position reconciliation as at October 1, 2010:

		IFRS adjustments			
	Canadian GAAP	Foreign exchange (Note a)	Share-based expense (Note b)	Government grant (Note c)	IFRS
	$	$	$		$
Assets					
Current assets					
Cash and cash equivalents	561,373	-	-	-	561,373
Accounts receivable and advances	978,192	-	-	-	978,192
Inventory	2,741,574	-	-	-	2,741,574
Prepaid expenses and deposits	601,645	-	-	-	601,645
Non-current assets					
Development costs	2,137,349	(569,921)	-	-	1,567,428
Capital assets	261,507	(2,069)	-	-	259,438
Other long term assets	243,783	-	-	-	243,783
	7,525,423	(571,990)	-	-	6,953,433
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	2,206,264	-	-	-	2,206,264
Provisions	-	-	-	-	-
Bank debt	-	-	-	-	-
Energy Northwest obligation, current portion	217,826	-	-	-	217,826
Government grant obligation, current portion	-	-	-	41,800	41,800
Noncurrent liabilities					
Energy Northwest obligation	871,303	-	-		871,303
Government grant obligation				108,285	108,285
Preferred shares	5,242,677	-	-		5,242,677
	8,538,070	-	-	150,085	8,688,155
Equity					
Share capital	30,393,463	-	-		30,393,463
Warrants	1,355,535	-	-		1,355,535
Equity component of preferred shares	2,812,455	-	-		2,812,455
Share-based payment reserve	4,158,830	-	286,257		4,445,087
Deficit	(39,732,930)	(571,990)	(286,257)	(150,085)	(40,741,262)
	(1,012,647)	(571,990)	-	(150,085)	(1,734,722)
	7,525,423	(571,990)	-	-	6,953,433

30. First-time adoption of International Financial Reporting Standards (continued)

Consolidated statement of financial position reconciliation as at September 30, 2011:

		IFRS adjustments			
	Canadian GAAP	Foreign exchange (Note a)	Share-based expense (Note b)	Government grant (Note c)	IFRS
	$	$	$		$
Assets					
Current assets	328,821	-	-	-	328,821
Cash and cash equivalents					
Accounts receivable and advances	1,093,381	-	-	-	1,093,381
Inventory	3,590,075	-	-	-	3,590,075
Prepaid expenses and deposits	362,704	-	-	-	362,704
Non-current assets					
Development costs	1,870,186	(477,010)	-	-	1,393,176
Capital assets	154,851	(2,315)	-	-	152,536
Other long term assets	-	-	-	-	-
	7,400,018	(479,325)	-	-	6,920,693
Liabilities					
Current liabilities					
Accounts payable and accrued liabilities	1,641,421	-	-	(72,950)	1,568,471
Bank debt	1,346,662	-	-	-	1,346,662
Energy Northwest obligation, current portion	266,268	-	-	-	266,268
Govenrment grant obligation, current portion	-	-	-	27,461	27,461
Noncurrent liabilities					
Energy Northwest obligation	1,065,073	-	-	-	1,065,073
Government grant obligation				133,274	133,274
Preferred shares	5,582,607	-	-	-	5,582,607
	9,902,031	-	-	87,785	9,989,816
Equity					
Share capital	34,258,068	-	-	-	34,258,068
Warrants	2,275,418	-	-	-	2,275,418
Equity component of preferred shares	3,184,383	-	-	-	3,184,383
Share-based payment reserve	4,629,367	-	189,700	-	4,819,067
Foreign currency translation reserve	-	(171,906)	-	-	(171,906)
Deficit	(46,849,249)	(307,419)	(189,700)	(87,785)	(47,434,153)
	(2,502,013)	(479,325)	-	(87,785)	(3,069,123)
	7,400,018	(479,325)	-	-	6,920,693

30. First-time adoption of International Financial Reporting Standards (continued)

Consolidated statement of comprehensive loss reconciliation for the year ended September 30, 2011:

	Canadian GAAP	Foreign exchange (Note a)	Share based expenses (Note b)	Government Grant (Note c)	Change in classification (Note e)	Deferred Taxes (Note d)	IFRS
	$	$	$		$		$
Sales	3,867,910	-	-	-	-	-	3,867,910
Cost of sales	2,920,509	-	-	-	-	-	2,920,509
Gross margin	947,401	-	-	-	-	-	947,401
Expenses							
Repayment of government contributions	119,052	-	-	-	(119,052)	-	-
Selling and marketing	4,316,908	-	-	-	(2,327,835)	-	1,989,073
Research and development		-	-	(72,950)	1,126,131	-	1,053,181
Operations	-	-	-	-	1,709,276	-	1,709,276
Inventory write down	198,987	-	-	-	(198,987)	-	-
General and administrative	2,066,708	-	(96,557)	-	446,426	-	2,416,577
Share-based payments	393,483	-	-	-	(393,483)	-	-
Finance cost	2,209,417	-	-	10,650	150,303	-	2,370,370
Amortization of capital assets and development costs	451,715	(77,633)	-	-	(374,082)	-	-
Foreign exchange loss	205,633	(186,936)	-	-	(18,697)	-	-
	9,961,903	(264,569)	(96,557)	(62,300)	-	-	9,538,477
Loss before undernoted items	(9,014,502)	264,569	96,557	62,300	-	-	(8,591,076)
Gain on preferred shares	1,887,074	-	-	-	-	-	1,887,074
Interest and other	11,111	-	-	-	-	-	11,111
	1,898,185	-	-	-	-	-	1,898,185
Net Loss	(7,116,317)	264,569	96,557	62,300	-	-	(6,692,891)
Foreign currency adjustment to equity	-	(171,906)	-	-	-	-	(171,906)
Total comprehensive loss	(7,116,317)	92,663	96,557	62,300	-	-	(6,864,797)

30. First-time adoption of International Financial Reporting Standards (continued)

Notes to the consolidated financial statement reconciliations

(a) In accordance with IAS 21, The Effect of Changes in Foreign Exchange Rates, the assets and liabilities of Sustainable's subsidiaries are expressed in Canadian dollars using the exchange rate prevailing at the balance sheet date. Income and expense items are translated at the average exchange rate for the period, unless exchange rates fluctuated significantly during the period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are classified as other comprehensive profit and recognized in the Company's foreign currency translation reserve.

Under Canadian GAAP, monetary assets and liabilities of the subsidiaries were translated at the exchange rate in effect at the balance sheet date. Non-monetary assets and liabilities are translated at historical rates. Revenues and expenses were translated using the average rate of exchange of the period being reported. Translation adjustments are recorded in earnings.

The Company applied the first-time IFRS adoption exemption to reset the cumulative translation differences to nil on the transition date.

(b) 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.

The Company had previously accounted for forfeitures of share-based compensation in the period that they occurred. IFRS 2, "Share-based payments", requires the Company to account for the fair value of options expected to be exercised at the date of grant. Consequently the Company has adjusted the IFRS financial statements to account for expected forfeitures of 14%.

IFRS 2, "Share-based payments", requires the Company to expense share-based payments based on graded vesting. As a result of applying this methodology retroactively the share-based payment reserve has been increased by $286,257 as at October 1, 2010.

(c) The Company has received government contributions related to a historical research and development project. Under the contract, the Company is obligated to pay royalties based on revenues as defined under the contract. Under Canadian GAAP, the royalty obligation was accrued at the time when the related product revenues were recognized and was included in accounts payable and accrued liabilities and product research and development expense. Under IFRS, repayable government contributions are considered to be financial liabilities and are recognized initially at fair value. At the end of each reporting period, interest accretion relating to the repayable government contribution obligation is recognized in financing costs as well as changes in value attributable to changes in the timing and amount of estimated future cash flows. At October 1, 2010, an additional financial liability of $41,800 has been recognized as government grant obligations – current portion and $108,285 as government grants obligations non-current liability under IFRS with a corresponding increase in the deficit. For the year ended September 30, 2011, this adjustment decreased product research and development expense by $72,950, and increased finance costs by $10,650. As at September 30, 2011, the government grants obligation – current portion was $27,461 and government grants obligation non-current liability $133,274.

30. First-time adoption of International Financial Reporting Standards (continued)

Notes to the consolidated financial statement reconciliations (continued)

(d) The equity component of preferred shares is considered a permanent difference under previous Canadian GAAP. Under IFRS, the equity component is considered a temporary taxable difference, and as such a deferred tax liability is recognized to the extent that it will be realized. As interest is accreted relating to the equity component, the temporary difference reverses. On transition, no impact has been recorded on comprehensive income or shareholders' deficiency as the deferred tax liabilities are fully offset by deferred tax assets (Note 15).

(e) The terms, descriptions, classifications and presentation used throughout the consolidated financial statements have been changed to conform to those generally used under IFRS.