QSolar Limited

Consolidated Interim Financial Statements

June 30, 2014

(Expressed in Canadian Dollars)

(Unaudited)

QSolar Limited

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MANAGEMENT'S RESPONSIBILITY FOR
UNAUDITED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited consolidated interim financial statements of QSolar Limited (the "Company") as at June 30, 2014 and for the three and six months then ended have been prepared by and is the responsibility of the Company's management. In accordance with National Instrument 51 – 102, the Company discloses that its auditors have not reviewed the accompanying unaudited consolidated interim financial statements as at June 30, 2014 and for the three and six months then ended.

The unaudited consolidated interim financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the unaudited consolidated interim financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions which were not complete at the financial position date. In the opinion of management, the unaudited consolidated interim financial statements have been prepared within acceptable limits of materiality and are in accordance with International Accounting Standard 34 - Interim Financial Reporting using accounting policies consistent with International Financial Reporting Standards appropriate in the circumstances.

Management has established processes, which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the unaudited consolidated interim financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the unaudited consolidated interim financial statements and (ii) the unaudited consolidated interim financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the unaudited consolidated interim financial statements.

The Board of Directors is responsible for reviewing and approving the unaudited consolidated interim financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the unaudited condensed consolidated interim financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the unaudited consolidated interim financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

QSolar Limited

Consolidated Interim Statements of Financial Position

(Expressed in Canadian Dollars)

(Unaudited)

	June 30, 2014	*December 31, 2013*
ASSETS		
Current assets		
Cash	$ 1,126,055	$ 2,550,546
Trade receivables and other *(Note 4)*	774,994	588,276
Inventories *(Note 5)*	1,418,259	1,730,949
Due from related parties (*Note 11*)	127,711	-
Total current assets	3,447,019	4,869,771
Equipment *(Note 7)*	378,752	364,826
Total assets	$ 3,825,771	$ 5,234,597
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities *(Note 8)*	$ 357,145	$ 467,700
Due to related parties *(Note 11)*	-	73,385
Convertible debenture *(Note 9)*	317,469	878,181
Customer deposits *(Note 6)*	4,931	3,410
Total current liabilities	679,545	1,422,676
Total liabilities	679,545	1,422,676
SHAREHOLDERS' EQUITY		
Share capital *(Note 10)*	15,307,483	14,370,999
Equity portion of convertible debenture *(Note 9)*	31,996	62,483
Reserves	3,479,412	3,402,195
Foreign exchange reserve	64,165	77,607
Deficit	(15,736,830)	(14,101,363)
Total shareholders' equity	3,146,226	3,811,921
Total liabilities and shareholders' equity	$ 3,825,771	$ 5,234,597

Nature and continuance of operations *(Note 1)*
Contingencies *(Note 15)*
Subsequent events (*Note 16*)

Approved and authorized by the Board on August 26, 2014

"Andreas Tapakoudes" *Director*

"Preston Maddin" *Director*

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

QSolar Limited

Consolidated Interim Statements of Operations and Comprehensive Loss

(Expressed in Canadian Dollars)

(Unaudited)

	Three months Ended June 30, 2014	*Three months Ended June 30, 2013*	*Six months Ended June 30, 2014*	*Six months Ended June 30, 2013*
Revenues	**$ 707,414**	$ 281,550	**$ 1,036,490**	$ 307,073
Cost of revenues	**559,458**	383,465	**695,520**	423,165
Gross profit (loss)	**147,956**	(101,915)	**340,970**	(116,092)
Selling, general and administrative expenses (S*chedule)*	**1,082,274**	1,293,684	**1,983,316**	2,091,463
Loss from operations	**(934,318)**	(1,395,599)	**(1,642,346)**	(2,207,555)
Interest and other income	**1,887**	6,504	**6,879**	6,504
Loss for the period	**(932,431)**	(1,389,095)	**(1,635,467)**	(2,201,051)
Unrealized foreign exchange gain (loss)	**(77,598)**	44,853	**(13,442)**	73,578
Comprehensive loss for the period	**$ (1,010,029)**	$ (1,344,242)	**$ (1,648,909)**	$ (2,127,473)
Basic and diluted loss per common share	**$ (0.01)**	$ (0.02)	**$ (0.02)**	$ (0.03)
Weighted average number of common shares outstanding	**73,363,934**	70,525,416	**72,409,679**	63,603,546

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

QSolar Limited

Consolidated Interim Statements of Changes in Shareholders' Equity

(Expressed in Canadian Dollars)

(Unaudited)

	Share Capital						
	Number of Shares Outstanding	*Share Capital*	*Equity Portion of Convertible Debenture*	*Reserves*	*Foreign exchange reserve*	*Deficit*	*Total Shareholders' Equity*
Balance, December 31, 2012	55,865,520	$ 4,327,128	$ 62,483	$ 1,535,312	$ (19,996)	$ (6,488,889)	$ (583,962)
Shares issued for cash	14,031,333	10,523,500	-	-	-	-	10,523,500
Shares issued for exercise of share purchase warrants	735,709	354,125	-	(137,625)	-	-	216,500
Shares issued for debt settlement	800,000	600,000	-	-	-	-	600,000
Share issuance costs	-	(1,474,565)	-	428,110	-	-	(1,046,455)
Foreign translation adjustment	-	-	-	-	73,578	-	73,578
Loss for the period	-	-	-	-	-	(2,201,051)	(2,201,051)
Balance, June 30, 2013	71,432,562	14,330,188	62,483	1,825,797	53,582	(8,689,940)	7,582,110
Shares issued for exercise of share purchase warrants	10,000	4,001	-	-	-	-	4,001
Share issuance costs	-	36,810	-	(36,810)	-	-	-
Share-based compensation	-	-	-	1,613,208	-	-	1,613,208
Foreign translation adjustment	-	-	-	-	24,025	-	24,025
Loss for the period	-	-	-	-	-	(5,411,423)	(5,411,423)
Balance, December 31, 2013	71,442,562	14,370,999	62,483	3,402,195	77,607	(14,101,363)	3,811,921
Shares issued for exercise of share purchase warrants	2,306,350	936,484	-	-	-	-	936,484
Equity portion of convertible debenture	-	-	(30,487)	62,483	-	-	31,996
Share-based compensation	-	-	-	14,734	-	-	14,734
Foreign translation adjustment	-	-	-	-	(13,442)	-	(13,442)
Loss for the period	-	-	-	-	-	(1,635,467)	(1,635,467)
Balance, June 30, 2014	73,748,912	$ 15,307,483	$ 31,996	$ 3,479,412	$ 64,165	$ (15,736,830)	$ 3,146,226

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

QSolar Limited

Consolidated Interim Statements of Cash Flows

(Expressed in Canadian Dollars)

(Unaudited)

		Six Months Ended June 30, 2014		*Six Months Ended June 30, 2013*
Cash flows from operating activities				
Loss for the period	$	(1,635,467)	$	(2,201,051)
Adjustments				
Depreciation on equipment		61,880		41,092
Interest paid on convertible debenture		31,114		45,775
Share based compensation		14,734		-
Non-cash accretion of interest on convertible debenture		43,063		55,684
Changes in non-cash working capital				
Trade and other receivables		(186,718)		(361,100)
Inventories		312,690		(1,133,292)
Accounts payable and accrued liabilities		(110,555)		(36,053)
Due to related parties		(201,096)		(216,750)
Customer deposit		1,521		395,176
Net cash used in operating activities		(1,668,834)		(3,410,519)
Cash flows from investing activities				
Purchase of equipment		(75,984)		(130,964)
Net cash used in investing activities		(75,984)		(130,964)
Cash flows from financing activities				
Issuance of common shares		936,484		9,693,545
Repayment of convertible debentures		(568,000)		-
Issuance cost paid on convertible debentures		(3,779)		-
Interest paid on convertible debentures		(31,114)		(45,775)
Net cash provided by financing activities		333,591		9,647,770
Effect of foreign exchange on cash		(13,264)		73,578
Change in cash during the period		(1,424,491)		6,179,865
Cash, beginning of period		2,550,546		151,466
Cash, end of period	$	1,126,055	$	6,331,331

There were no significant non-cash transactions for the period ended June 30, 2014.

Significant non-cash transactions for the period ended June 30, 2013 consisted of debt settlement of $600,000 included in amounts due to related parties.

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

QSolar Limited

Notes to the Consolidated Interim Financial Statements

June 30, 2014

(Expressed in Canadian Dollars)

(Unaudited)

1. CORPORATE INFORMATION

QSolar Limited (the "Company") was incorporated as a private company by Certificate of Incorporation issued pursuant to the provisions of the Business Corporations Act (Alberta) on September 2, 1999.

The Company's common shares are listed on the Canadian Securities Exchange ("CSE" or "the Exchange") effective March 25, 2011 under the symbol "QSL". The Company is a technology company in the photovoltaic solar panel manufacturing field.

The registered office of the Company is located at Suite 2110, 205 – 5th Street SW, Calgary, Alberta, Canada.

These unaudited consolidated interim financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") on a going concern basis, which contemplates that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. Accordingly, these unaudited consolidated interim financial statements do not include any adjustments to the amounts and classification of the assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

The Company has incurred losses since its inception and at June 30, 2014 had a working capital of $2,767,474 (December 31, 2013 – working capital of $3,447,095). The ability of the Company to continue as a going-concern depends upon its ability to raise additional funding to finance expansion of its manufacturing facilities in China, and provide operating working capital and ultimately on generating future profitable operations. The Company has historically relied on equity and debt financing and loans from its founding shareholders and officers to satisfy its capital requirements and will continue to rely upon debt and equity capital to finance its activities. These circumstances comprise a material uncertainty which may lend significant doubt as to the ability of the Company to meet its obligations as they fall due and accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern.

2. BASIS OF PREPARATION

a) Statement of Compliance

These unaudited consolidated interim financial statements, including comparatives have been prepared using accounting policies consistent with IFRS, International Accounting Standards ("IAS"), and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The unaudited consolidated interim financial statements were authorized for issue by the Board of Directors on August 26, 2014.

b) Basis of Measurement

The unaudited consolidated interim financial statements have been prepared on a historical cost basis, except for certain financial instruments classified at fair value through profit or loss which are stated at their fair value. In addition, these unaudited consolidated interim financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

The preparation of these unaudited consolidated interim financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the unaudited consolidated interim financial statements and reported amounts of expenses during the year. Actual results could differ from these estimates.

These unaudited consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the unaudited consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the year in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

a) the recoverability of receivables;
b) valuation of inventory;
c) the estimated useful lives and impairment of equipment;
d) the fair values of financial instruments and share based payments;
e) realizable value of deferred income tax assets; and
f) warranty reserve provision.

Critical accounting judgments

Examples of significant judgments, apart from those involving estimation, include:

a) determination of functional currencies.

3. SIGNIFICANT ACCOUNTING POLICIES

These unaudited consolidated interim financial statements should be read in conjunction with the audited annual consolidated financial statements of the company's most recently completed year ended December 31, 2013. These statements do not include all disclosures required in consolidated annual financial statements but rather are prepared in accordance with recommendations for consolidated interim financial statements in accordance with International Accounting Standard 34, Interim Financial Reporting ("IAS 34") as issued by the International Accounting Standards Board ("IASB"). These statements follow the same accounting policies and methods of their application as those followed in the December 31, 2013 consolidated financial statements.

Adoption of New Standards

The Company has adopted the following new standards, along with any consequential amendments, effective January 1, 2014. These changes were made in accordance with the applicable transitional provisions.

IAS 32 – Financial Instruments: Presentation ("IAS 32")

The IASB amended IAS 32, "Financial Instruments: Presentation" to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off';
- the application of simultaneous realization and settlement;
- the offsetting of collateral amounts; and
- the unit of account for applying the offsetting requirements.

IAS 36 – Impairment of Assets ("IAS 36")

The amendments to IAS 36 restrict the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognized or reversed. The amendments also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less cost of disposal. The amendments should be applied retrospectively.

IFRIC 21 – Levies ("IFRIC 21")

An interpretation of IAS 37 – Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods on or after January 1, 2015 or later periods. Many are not applicable or do not have a significant impact to the Company and have been excluded. The following have not yet been adopted and are being evaluated to determine their impact on the Company.

IFRS 8 – Operating Segments:

Amended to require disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics. Effective for annual periods commencing on or after July 1, 2014.

IFRS 9 – Financial Instruments ("IFRS 9")

In November 2009, the IASB issued IFRS 9 Financial Instruments as the first step in its project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flow of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument.

IFRS 9 amends some of the requirements of IFRS 7 Financial Instruments: Disclosures, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income, and guidance on financial liabilities and derecognition of financial instruments. In July 2013, the IASB tentatively decided to defer the mandatory effective date until finalization of the impairment, classification and measurement requirements, with earlier adoption still permitted. The Company will evaluate the impact the final standard will have on its consolidated financial statements when issued.

4. TRADE RECEIVABLES AND OTHER

		June 30, 2014		*December 31, 2013*
Trade receivables, net of allowance for doubtful accounts	$	137,466	$	3,124
Prepayments		28,787		33,196
Value added tax pool – Europe		17,043		16,451
Value added tax pool – China		591,698		535,505
	$	774,994	$	588,276

Trade receivables are generally payable on delivery at factory. No trade receivables were considered impaired at June 30, 2014.

During the period ended June 30, 2014, sales to the two largest customers amounted to 39% and 28% of total revenue (December 31, 2013 – 18% and 16%). As at June 30, 2014, the customer with the largest trade receivable balance amounted to 82% (December 31, 2013 – 100%) of total trade receivables.

QSolar Limited

Notes to the Consolidated Interim Financial Statements

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(Expressed in Canadian Dollars)

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5. INVENTORIES

Inventories are comprised of the following:

	June 30, 2014	*December 31, 2013*
Finished goods	$ 445,778	$ 810,131
Raw materials	972,481	920,818
	$ 1,418,259	$ 1,730,949

6. CUSTOMER DEPOSITS

During the period ended June 30, 2014, the Company received deposits for future purchase orders from customers totaling $4,931 (December 31, 2013 - $3,410).

7. EQUIPMENT

	Machinery	*Computer Equipment*	*Total*
Cost			
Balance, December 31, 2013	$ 516,047	$ 31,196	$ 547,243
Effect of foreign exchange translation	(153)	(26)	(179)
Additions	72,966	3,019	75,985
Balance, June 30, 2014	$ 588,860	$ 34,189	$ 623,049
Accumulated depreciation			
Balance, December 31, 2013	$ (173,837)	$ (8,580)	$ (182,417)
Depreciation for the year	(58,067)	(3,813)	(61,880)
Balance, June 30, 2014	$ (231,904)	$ (12,393)	$ (244,297)
Carrying amounts			
As at December 31, 2013	$ 342,210	$ 22,616	$ 364,826
As at June 30, 2014	$ 356,956	$ 21,796	$ 378,752

(Expressed in Canadian Dollars)

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities for the Company are broken down as follows:

		June 30, 2014		*December 31, 2013*
Accounts payable and accrued liabilities	$	272,591	$	401,959
Payroll and related withholdings payable		25,903		15,377
Warranty provision		58,651		50,364
	$	357,145	$	467,700

9. CONVERTIBLE DEBENTURE

During the year ended December 31, 2012, the Company issued convertible debentures for an aggregate principal amount of $90,000 which matured on March 31, 2014. These convertible debentures bear interest at 10% per annum with interest payable quarterly. The convertible debentures are convertible into common shares at $0.50 per common share.

During the year ended December 31, 2012, the Company issued convertible debentures for an aggregate principal amount of $823,000 which matured on March 31, 2014. These convertible debentures bear interest at 10% per annum with interest payable quarterly. The convertible debentures are convertible into common shares at $0.50 per common share. As at June 30, 2014, $22,512 (December 31, 2013 - $23,013) in interest payment is included in accounts payable and accrued liabilities.

The conversion feature was valued at the date of issuance as the residual value of the present value of the convertible portion of the convertible debentures.

The Company granted a subordinated security interest to the purchasers of the convertible debentures and will have a general security interest over the assets of the Company.

A finder’s fee of $112,040 was paid in cash and 219,467 warrants were issued to the finder. Each finder’s warrant is exercisable to acquire one common share at a price of $0.30 until March 14, 2014. The fair value of warrants was estimated at $52,477 using Black-Scholes options pricing model with the following assumptions:

Risk-free interest rate	1.10%
Expected life	1 year
Annualized volatility	254%
Dividend rate	0%

(Expressed in Canadian Dollars)

9. CONVERTIBLE DEBENTURE (continued)

During the period ended June 30, 2014, the Company redeemed $568,000 of convertible debentures that matured effective March 31, 2014. The Company has extended the balance of $345,000 of convertible debentures that were due to mature for one additional year to March 31, 2015.

The convertible debentures are secured and bear interest at 10% per annum with interest payable quarterly in arrears. The conversion price of the convertible debentures has been re-set at $0.80, being the market price pursuant to Canadian Stock Exchange policies. The Company may redeem all or any portion of the principal debentures during the year with notice provided that the holders may exercise their conversion rights prior to the intended date of redemption.

The conversion feature was valued at the date of issuance as the residual value of the present value of the convertible portion of the convertible debentures.

The Company granted a subordinated security interest to the purchasers of the convertible debentures and will have a general security interest over the assets of the Company.

Opening balance, December 31, 2011	$	-
Gross proceeds on issuance of debentures		913,000
Valuation of conversion feature		(62,483)
Transaction costs		(164,517)
Accretion expense		73,203
Ending balance, December 31, 2012		759,203
Accretion expense		118,978
Ending balance, December 31, 2013		878,181
Accretion expense		34,819
Redemption		(568,000)
Valuation of conversion feature		(31,996)
Transaction costs		(3,779)
Ending balance, June 30, 2014	$	309,225

10. SHARE CAPITAL

Authorized:

Share capital consists of an unlimited number of common shares without par value.

As at June 30, 2014, NIL (December 31, 2013 – 3,130,349) shares of the total of 20,868,987 issued to the founders of QSolar Ltd. are held in escrow pursuant to the rules of the CSE and other regulatory authorities. These shares were being released from escrow over a 36 month period from the date of the capital restructuring on March 18, 2011.

Issued and outstanding common shares:

<u>Year ended December 31, 2013:</u>

On March 11, 2013, the Company issued 698,000 units at a price of $0.75 for total proceeds of $523,500 by way of a private placement. Each unit consists of one common share and one-half share purchase warrant. One whole share purchase warrant entitles the holder to purchase one additional common share of the Company at $1.00 for a period of one year, expiring on March 11, 2014.

The Company incurred finders' fees with this financing amounting to $29,880 cash, plus 39,840 finders' warrants exercisable at $0.75 per share within twelve months, expiring on March 11, 2014. The fair value of the warrants was estimated at $24,975 using the Black-Scholes options pricing model with the following assumptions: risk-free interest rate of 1.03%; dividend yield 0%; volatility of 216%; and an expected life of 1 year.

In March 2013, the Company entered into a private placement subscription from Centrium Enterprises Limited ("Centrium"). Pursuant to the subscription, Centrium purchased a total of 13,333,333 units of the Company ("Units") at $0.75 per Unit to raise total gross proceeds of $10,000,000 (the "Unit Offering").
Each Unit consists of one common share of the Company ("Common Share") and one-half of a Common Share purchase warrant, with one whole Common Share purchase warrant entitling the holder to purchase one additional Common Share at a price of $1.00 per Common Share expiring on April 15, 2015.

The Company paid cash finder's fees of $1,000,000 to eligible finders ("Finders"). The Finders also received finders warrants to acquire 450,450 common shares of the Company at $1.11 per share, expiring on October 15, 2014.

The fair value of the finders' warrants was estimated at $366,325 using the Black-Scholes option pricing model with the following weighted average assumptions: risk free rate of 1.01%, dividend yield of 0%, volatility of 216% and expected life of 2.5 years.

In connection with the Unit Offering and private placement, the Company paid a total of $16,575 in other share issue costs.

On March 12, 2013 the Company issued 800,000 units at a price of $0.75 per unit to settle a shareholder loan of $600,000. Each unit consists of one common share of the Company and one-half of a common share purchase warrant, with one whole common share purchase warrant entitling the holder to purchase one additional common share at a price of $1.00 per common share for a period of two years, expiring on March 12, 2015.

10. SHARE CAPITAL (continued)

Shareholders Rights Plan

The Company has adopted a shareholder rights plan (the “Rights Plan”) to ensure the fair treatment of all Company shareholders in connection with any take-over bid for the outstanding common shares of the Company. The Rights Plan will provide the Company’s shareholders with adequate time to properly evaluate and assess a take-over bid without facing undue pressure or coercion. The Rights Plan also provides the board of directors of the Company with additional time to consider any take-over bid and, if applicable, to explore alternative transactions in order to maximize shareholder value.

The Rights Plan attaches one right to each Common Share now existing and all shares issued in the future (the "Rights") and the Rights are not exercisable or independently transferable until separated from the underlying Common Share ("Separation"). Separation occurs 10 trading days after an individual or group (the "Bidder") acquires or seeks to acquire 20% or more of the voting securities of the Company (a "Take-Over Bid"). Upon Separation, the Rights attached to the securities held by the Bidder are automatically voided while the remaining Rights are exercisable at a substantial discount. As a result, the Bidder will be substantially diluted thereby providing additional time for competing bids to surface and for the shareholders and board of directors to assess various options.

Prior to Separation, the Rights Plan is not dilutive and will not affect reported earnings per share or change the way in which shareholders would otherwise trade Common Shares. Upon Separation, reported earnings per Common Share on a fully diluted or non-diluted basis, may be effected. Holders of rights who do not exercise upon Separation may suffer substantial dilution along with the Bidder.

If a Bidder inadvertently acquires greater than 20% control of the Company's outstanding securities, the board of directors has the discretion to prevent Separation provided the offending party promptly divests itself of securities in excess of the 20% threshold.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL (continued)

Stock options

The Company has an incentive stock option plan in place under which it is authorized to grant options to directors, employees and consultants to acquire up to 10% of the Company's issued and outstanding common shares. Under the plan, the exercise price of each option may not be less than the market price of the Company's stock as calculated on the date of grant less the applicable discount. The options can be granted for a maximum term of 10 years and vesting periods are determined by the Board of Directors.

A summary of the Company's stock options as at June 30, 2014 and December 31, 2013, and changes during those periods is presented below:

	Options Outstanding	Weighted Average Exercise Price
Balance, December 31, 2012	4,600,000	$ 0.13
Issued	2,450,000	0.30
Cancelled	(30,000)	0.15
Balance, December 31, 2013	7,020,000	$ 0.20
Issued	25,000	0.80
Cancelled	(1,950,000)	0.26
Balance, June 30, 2014	5,095,000	$ 0.45

The fair value of the options granted was estimated on the date of grant using the Black-Scholes options pricing model with the following assumptions:

Risk-free interest rate	2.55%
Expected life of options	1 year
Annualized volatility	222%
Dividend rate	0%

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options.

(Expressed in Canadian Dollars)

10. SHARE CAPITAL (continued)

The following share options were outstanding at June 30, 2014:

Exercise Price Per Option ($)	*Expiry Date*	*Number of Options*	*Vested and Exercisable*	*Contractual Life Remaining (in Years)*
0.05	March 17, 2021	1,000,000	1,000,000	6.72
0.15	July 19, 2022	1,820,000	1,820,000	8.06
0.80	September 18, 2023	1,500,000	1,500,000	9.22
0.80	October 1, 2018	200,000	200,000	4.26
1.10	October 1, 2019	200,000	-	5.26
1.40	October 1, 2020	200,000	-	6.26
0.70	December 10, 2023	150,000	150,000	9.45
0.80	April 25, 2015	25,000	25,000	0.82
		5,095,000	4,695,000	7.81

Share purchase warrants

A summary of the Company's issued and outstanding share purchase warrants as at June 30, 2014 and December 31, 2013 and changes during those periods is presented below:

	Number of warrants		***Weighted average exercise price per warrant***
Balance, December 31, 2012	4,503,899	$	0.38
Issued	7,905,957		1.01
Exercised	(745,709)		0.28
Expired	(8,000)		0.25
Balance, December 31, 2013	11,656,147	$	0.81
Exercised	(2,256,350)		0.41
Expired	(499,000)		0.82
Balance, June 30, 2014	8,900,797	$	0.91

(Expressed in Canadian Dollars)

10. SHARE CAPITAL (continued)

The following share purchase warrants were outstanding at June 30, 2014:

Exercise Price Per Warrant ($)	*Expiry Date*	*Number of Warrants*
0.40	December 10, 2014	1,383,680
1.00	March 12, 2015	400,000
1.00	April 15, 2015	6,666,667
1.11	October 15, 2015	450,450
Balance, June 30, 2014		8,900,797

11. RELATED PARTY TRANSACTIONS

As at June 30, 2014, the Company was indebted to (from) $(127,711) (December 31, 2013 - $73,385) officers and directors of the Company. The amounts are non-interest bearing with no specified terms of repayment.

During the period ended June 30, 2014, the following transactions occurred with the key management which included officers and directors of the Company:

		June 30, 2014		*June 30, 2013*
Management and directors' fees (including portions allocated to research and development)	$	113,072	$	235,077
Consulting fees paid to companies controlled by officers and directors (including portions allocated to research and development)		269,330		96,653
Legal fees paid to an officer who is a partner of a legal firm		69,421		64,024
Wages paid to a spouse of an officer and director		24,013		-
	$	475,836	$	395,754

The Company has entered into service agreements with two officers of the Company for the provision of management services at a current cost of US$240,000 per annum for each officer. Annual fees will escalate on each anniversary date at a minimum increase of 5% per annum for every year of the agreement. Included in the agreement, is the provision should the Company be subject to a change of control or the officers terminated without cause, the Company is obligated to pay an amount equal to five times the prior twelve months gross fees.

(Expressed in Canadian Dollars)

12. SEGMENTED FINANCIAL INFORMATION

The Company operates in one segment in which it develops, manufactures and sells photovoltaic solar panels.

Revenues are attributed to countries based on location of customer.

	June 30, 2014	*December 31, 2013*
Africa	$ 35,262	$ -
Asia	940,764	140,987
Australia	26,685	1,357
Europe	15,072	131,827
North America	18,707	11,524
Total	$ 1,036,490	$ 285,695

Non-current assets are situated in the following geographic locations:

As at June 30, 2014:	**Total**	**China**	**UK**	**Canada**
Equipment	$ 378,752	$ 374,529	$ 2,515	$ 1,708

As at December 31, 2013:	**Total**	**China**	**UK**	**Canada**
Equipment	$ 364,826	$ 362,199	$ 271	$ 2,356

13. FINANCIAL AND CAPITAL RISK MANAGEMENT

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

Credit Risk

Credit risk is the risk that the counterparty to a financial instrument will cause a financial loss for the Company by failing to discharge its obligations. Credit risk is primarily associated with trade and other receivables due to uncertainties as to the timing and amount of collectability of trade and other receivables; however, it also arises on cash and cash equivalents and derivative assets. To mitigate exposure to credit risk on financial assets, the Company has established policies to limit the concentration of credit risk, to ensure counterparties demonstrate minimum acceptable credit worthiness and to ensure liquidity of available funds.

The credit risk on cash is limited because the Company invests its cash in reputable financial institutions.

The amounts disclosed in the unaudited consolidated interim statement of financial position with respect to trade receivables are net of an allowance for doubtful accounts, estimated by the management of the Company based on previous experience and its assessment of the current economic environment. As at June 30, 2014, trade receivables are current. The Company mitigates credit risk through credit and reference checks.

The value-added tax ("VAT") pool recorded as other receivables in the consolidated statement of financial position in China represents the excess of the 17% VAT input paid on its purchases over the 17% VAT output charged on sales to domestic customers in China. This excess amount is available for future deduction of VAT output realized on sales.

The value-added tax ("VAT") pool recorded as other receivables in the consolidated statement of financial position in Europe represents either input tax credits receivable or sales taxes payable of the 19% VAT input tax paid or charged to domestic supplies or customers in Europe.

Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at June 30, 2014, the Company had cash balances of $1,126,055 (December 31, 2013 - $2,550,546) and trade and other receivables of $774,994 (December 31, 2013 - $588,276), totalling short term liquid assets of $1,901,049 (December 31, 2013 - $3,138,822) and current liabilities of $679,545 (December 31, 2013 - $1,422,676).

The Company has historically relied on equity and debt financings to satisfy its capital requirements and will continue to depend upon equity capital and debt to finance its activities. There can be no assurance the Company will be able to obtain the required financing in the future on acceptable terms. The ability of the Company to arrange additional financing in the future will depend, in part, on the prevailing market conditions.

Interest rate risk

The Company's convertible debentures bear a fixed rate of 10% and therefore is not exposed to risk in the event of interest rate fluctuations. The Company has not entered into any interest rate swaps or other financial arrangements that mitigate the exposure to interest rate fluctuations.

13. FINANCIAL AND CAPITAL RISK MANAGEMENT (continued)

Foreign currency risk

The Company holds foreign balances of payables, receivables, and cash and is therefore exposed to foreign currency risk. The operating results and the financial position of the Company are reported in Canadian dollars. The fluctuations of the operating currencies in relation to the Canadian dollar will, consequently, have an impact upon the reporting results of the Company and may also affect the value of the Company's assets and liabilities.

The Company's cash, receivables, accounts payable and accrued liabilities and accounts payable to related parties are held in several currencies and therefore are subject to fluctuations against the Canadian dollar.

The Company has not entered into any agreements or purchased any instruments to hedge possible currency risks at this time. The effect on net loss of a 1% change in GBP foreign exchange rates, based on current operations, is not significant.

The RMB is not a freely convertible currency. The People's Republic of China State Administration for Foreign Exchange, under the authority of the People's bank of China, controls the conversion of RMB into foreign currencies. The value of the RMB is subject to changes in central government policies and to international economic and political developments affecting supply and demand in the China foreign exchange trading system market. The Company's cash denominated in RMB amounted to approximately $211,701 and $112,000 as of June 30, 2014 and December 31, 2013 respectively.

Based on management's knowledge and experience of the financial markets, management does not believe that the Company's current financial instruments will be significantly affected by credit risk, liquidity risk, interest rate risk, foreign exchange risk.

Fair value hierarchy

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
Level 3 – Inputs that are not based on observable market data.

The fair value of cash is measured based on level 1 inputs of the fair value hierarchy.

14. CAPITAL MANAGEMENT

The Company's capital structure consists of items included in shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through debt and equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

There were no changes to the Company's approach to capital management during the year. The Company currently has adequate sources of capital to repay its current liabilities but will need to raise additional funds through financing to continue work programs in the future.

15. CONTINGENCIES

Claim by Stockhouse and Counterclaim by QSolar

In February 2012, the Company received a Statement of Claim by Stockhouse Publishing Ltd. (the "Plaintiff") alleging breach of contract for unpaid amounts under an Agreement for an internet advertising program ("Top Campaign Package"). The Plaintiff alleges that the price under the Agreement was $115,372 plus HST, payable in monthly instalments. The Plaintiff alleges that the purchase price under the Agreement was due in its entirety on the date of signing the Agreement, and the Plaintiff offered the Company (the "Defendant") the option of a monthly payment as a convenience only. The Plaintiff also alleges that it fulfilled all of its obligations under the Agreement and is requesting a claim for judgement of $101,125 plus interest and costs.

The Company served written termination notice to terminate the Agreement to the Defendant on September 15, 2011. The Company responded to the Statement of Claim by filing both a Defence Response ("Response") and Counterclaim in March 2012. The Counterclaim seeks damages for the failures under the advertising agreement and repeats the entirety of the allegations the Company has made to the Plaintiff under Part 1 of the Response to the Civil Claim. The Company alleges the Plaintiff failed to perform the services to which the Company was promised; the Company did not receive any actual benefit for the payment that it had paid the Plaintiff and the Plaintiff has been unjustly enriched thereby; and the Company has suffered damages caused by the Plaintiff's misrepresentations and failure to perform the services promised by the Representations as well as by the Plaintiff having prevented a private placement. The Company is seeking damages of $123,768 plus interest and asks that the lawsuit be dismissed with costs. There have been no further developments during the year.

Due to the uncertainty inherent in the claim and counterclaim, management has not recorded any provision for loss or recovery in these financial statements.

Claim by Lazarus and Statement of Defence and Claim or Counterclaim by QSolar

The Company received on December 13, 2012 a copy of a statement of claim filed with the court in Ontario but as yet not served on the Company, from a former accountant, Russell Lazarus Professional Corporation and Russell Lazarus ("Lazarus"), claiming non-payment for services rendered of $28,250, alleging breach of contract and punitive damages of specified amounts, and requesting reinstatement of cancelled stock options and issuance of a second set of stock options previously not issued. The Company filed a statement of defence in March 2013 and intends to file a claim or counterclaim against the parties.

Management has not recorded any provision for loss in these financial statements.

15. CONTINGENCIES (continued)

Statement of Claim by QSolar Against Lazarus

On July 23, 2013, the Company filed a Statement of Claim in Alberta on Russell Lazarus and Russell Lazarus Professional Corporation (collectively "Lazarus") claiming certain breaches on a joint and several basis: damages for fees incurred as a result of breach of Agreement of $259,875, damages for loss of capital that would have been secured but for the breach of Agreement for $3,000,000, and interest and costs of the Action. To date no response has been filed by Lazarus.

Management has not recorded any provision for gain in these financial statements.

Statement of Claim by Fanti Raoul Against QSolar Ltd.

The Company acknowledged service of a statement of claim on September 27, 2013 filed by Fanti Raoul on the Company in the High Court of Justice Queen's Bench Division, London Mercantile Court in London, England issued September 12, 2013 and alleged product purchased by Fanti Raoul from the Company did not meet particular Italian certification standards. The Company has provided notice of filing and service of defence that it is defending this claim on the basis it made no representations and warranties regarding the particular Italian certifications. The Company filed the statement of defence in the High Court of Justice Queen's Bench Division, London Mercantile Court in London, England on November 11, 2013.

Management has not recorded any provision for loss in these financial statements.

Statement of Claim by Ecosystem S.A.S. Against QSolar Ltd.

The Company acknowledged service of a statement of claim received at QSolar's registered office in Calgary on or about May 27, 2014 filed by Ecosystem S.A.S., Italy, under the jurisdiction of the Italian Courts on QSolar Ltd. for the approximate amount of Euro $35,000. In summary form, although not clear, the Italian court filing appears to be pursuant to a purchase order contract for product purchase by Ecosystem. Pursuant to discussions with counsel, due to the nature and issues of the court filing, jurisdiction and amounts, QSolar Ltd. does not intend to pursue any further work on this issue at this time.

Management has not recorded any provision for loss in these financial statements.

16. SUBSEQUENT EVENTS

Extension of European Investor Relations Contract and Grant of Stock Options

Subsequent to June 30, 2014, the Company extended the contract of a consulting firm based in Germany to provide investor relations, corporate communications and general corporate development consulting services in Germany, Austria, Switzerland and throughout Europe. The agreement may be terminated at any time by the Company with 30 days written notice.

In consideration of the extension the Company will pay a monthly fee of €5,000 and granted stock options up to a total of 200,000 common shares with an exercise price of $0.40 per share, 50,000 vesting immediately and the balance of 50,000 options each vesting October 1, 2014, January 1, 2015 and April 1, 2015 respectively, and are exercisable at any time up until the close of business on July 3, 2015, subject to a 30 day exercise provision on termination for those options that have vested..

QSolar Limited

Consolidated Schedule of Selling, General and Administrative Expenses

(Expressed in Canadian Dollars)

(Unaudited)

	Three months ended June 30, 2014	*Three months ended June 30, 2013*	***Six months ended June 30, 2014***	*Six months ended June 30, 2013*
Advertising	**$ 63,379**	$ 193,183	**$ 124,925**	$ 214,044
Bad debts (recovery)	**-**	86,114	**-**	86,114
Bank charges and interest	**1,628**	3,595	**3,099**	9,220
Certification cost	**-**	119	**-**	9,254
Commission expense	**58,361**	3,394	**84,130**	3,539
Consulting fees (*Note 11)*	**104,178**	48,704	**184,983**	101,326
Depreciation on equipment	**31,917**	22,535	**61,880**	41,092
Dues and fees	**3,555**	14,470	**8,998**	16,092
Filing and transfer agent fees	**12,341**	11,778	**17,602**	18,111
Foreign exchange (gain) loss	**655**	(160,915)	**(1,978)**	(140,820)
Interest and financing charges	**16,846**	51,496	**74,177**	113,456
Investor communications	**79,831**	18,152	**100,981**	24,663
Management and directors' fees *(Note 11)*	**31,589**	87,427	**70,902**	172,556
Office and miscellaneous	**4,347**	38,503	**10,198**	43,116
Pilot project costs	**7,173**	102,122	**(2,785)**	102,122
Professional fees *(Note 11)*	**98,942**	120,459	**145,476**	177,934
Rent	**67,360**	107,916	**137,991**	177,137
Repairs and maintenance	**-**	585	**767**	855
Research and development *(Note 11)*	**253,521**	253,503	**502,663**	500,577
Share based compensation	**14,734**	-	**14,734**	-
Small tools and supplies	**18,283**	68,825	**26,069**	89,310
Telephone	**7,188**	3,582	**10,392**	5,313
Travel and hotel	**71,359**	151,540	**167,813**	200,185
Utilities	**6,132**	13,927	**19,171**	26,155
Wages and benefits *(Note 11)*	**126,900**	49,854	**215,782**	97,041
Warranty expense	**2,055**	2,816	**5,346**	3,071
Total selling, general and administrative expenses	**$ 1,082,274**	$ 1,293,684	**$ 1,983,316**	$ 2,091,463