SustainCo Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended August 31, 2013

December 26, 2013

Introduction

This management discussion and analysis ("MD&A") of the financial condition and results of operations of SustainCo Inc., (the "Company" or "SustainCo"), is for the year ended August 31, 2013 and 2012. It is supplemental to, and should be read in conjunction with the Company's audited annual consolidated financial statements and the accompanying notes for the year ended August 31, 2013.

The Company's financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"). Comparative financial information has been restated to conform to IFRS, unless otherwise stated. All amounts presented herein are stated in Canadian dollars, unless otherwise indicated.

Readers are cautioned that this MD&A contains certain forward-looking statements. Please see the "Notice concerning forward-looking statements" section at the end of this document for a discussion concerning the use of such information in this MD&A.

Company Overview

SustainCo was incorporated under the Canada Business Corporation Act on August 22, 2008. The Company is listed on the TSX Venture Exchange Inc. (the "TSX-V" or the "Exchange") under the ticker symbol "SMS".

SustainCo is the leading provider of sustainable infrastructure solutions and services through a broad offering including energy modelling, facility technology solutions, and facility maintenance services to customers in the multi-residential and industrial commercial institutional (ICI) sectors across Canada. SustainCo focuses on both new build and retrofit markets. The Company conducted its operations through its wholly owned subsidiary, Clean Energy Developments Corp. ("CleanEnergy").

CleanEnergy Overview

CleanEnergy is a Canadian industry leading geoexchange company that provides heating and cooling solutions for residential and commercial buildings using energy from the earth. It provides a complete energy solution and is able to provide engineering and design, geo installation, equipment and control systems, as well as manage the complete project. In a highly fragmented Canadian market, CleanEnergy is the only complete solution provider that operates nationally. CleanEnergy is currently the commercial geoexchange leader in Canada and intends to continue to build market share by doing increasingly larger projects in this growing market segment. For further information on CleanEnergy's performance please see the "Overall Performance" and "Outlook" sections below for a summary of CleanEnergy's completed and ongoing projects and contracts.

Overall Performance

CleanEnergy Overall Performance

CleanEnergy continues to execute large-scale projects, including municipal, commercial and residential projects and continues to focus on building its brand and reputation through strategic partnerships and the dealer network. CleanEnergy had revenue of $3.4 million this year and has successfully positioned itself to be the industry leading commercial geoexchange company. During the year ended August 31, 2013, CleanEnergy achieved the following:

- CleanEnergy closed on sales of $1,340,000 for the geoexchange retrofit of several elementary schools in Delta, British Columbia. This is part of a large British Columbia wide program to perform energy saving retrofits on hundreds of schools in the province.
- CleanEnergy substantially completed the Terminal portion of the Calgary Airport project worth about $3 million out of the total contract valued at $4.5 million in revenue. The Calgary Airport Authority continues its major development project at YYC, including building a new runway and doubling the size of the Air Terminal Building with the addition of a new concourse, which will be the new home for International and U.S. flights. YYC has chosen to incorporate geoexchange as part of its sustainable design principles that are expected to reduce the carbon footprint by 4,900 tonnes per year, which is equivalent to taking 1,200 cars off the road permanently.
- CleanEnergy completed construction of its geothermal system on a state of the art mental hospital in Ontario for $1.5 million. Mental Health Centre Penetanguishene aims to achieve Leadership in Energy and Environmental Design (LEED®) Gold certification for the design and construction of the new facility. CleanEnergy's geothermal system will help the Health Centre achieve the necessary points to reach a LEED® Gold certification.
- CleanEnergy completed its geoexchange installation at the Central Nova Scotia Regional Civic Centre in Truro, Nova Scotia for $880,000. This facility will feature a NHL-sized ice surface with seating for 3,200 spectators. It will also be home to an indoor aquatic centre, an exercise track, a fitness centre, and space for events like concerts, tradeshows, and community gatherings.
- CleanEnergy completed $450,000 of geoexchange heating and cooling solutions for a 72 unit senior's affordable living complex in London, Ontario.

Highlights

SustainCo as New Operating Brand

In February 2013, the Company commenced using its new operating name, SustainCo, as its corporate identity. SustainCo represents the corporate brand while its operating entity, CleanEnergy, will continue to utilize their known sub-brands in the market place. In July 2013, the Company formalized its name change from Bellair Ventures Inc. to SustainCo Inc.

The SustainCo brand is consistent with the corporate direction to provide sustainable infrastructure solutions and services to our customers. Our range of services and solutions offer long-term customer value and environmental sustainability through alternative energy solutions, energy efficiency, and innovative facility technology solutions. SustainCo offers sustainable energy and facility maintenance services to customers in the education, government, municipal, healthcare, and ICI sectors across Canada. The combined company will continue to focus both on the new build and retrofit markets.

The SustainCo brand will focus on providing thought leadership in the industry while the sub-brands of the operating entities will continue to market as CleanEnergy.

Private Placement

On January 15, 2013, the Company completed a brokered private placement of 2,534,492 units of the Company (each, a "Unit") at a purchase price of $0.50 per Unit, for gross proceeds of $1,267,246. Proceeds of the private placement will be used for targeted acquisitions and general working capital purposes.

Each Unit is comprised of: one common share of the Company (a "Common Share"); and one Common Share purchase warrant (a "Warrant"). Each Warrant entitles the holder to purchase one Common Share at an exercise price of $0.75 for a period of 24 months following the closing (the "Closing"), subject to adjustment in certain events.

Portfolio Strategy Securities Inc. (the "Agent") acted as agent for private placement. As compensation, the Company paid the Agent a cash commission equal to 8% of the gross proceeds. The Agent was also issued 202,759 broker warrants ("Broker Warrant") at an exercise price of $0.50 per Broker Warrant. Each Broker Warrant is comprised of (a) one Common Share; and (b) one Common Share purchase warrant, which entitles the Agent to purchase one Common Share at an exercise price of $0.75 per Common Share for a period of 24 months from date of Closing, subject to adjustment in certain events.

Discontinued operations

Urban Mechanical Contracting Ltd. ("Urban Mechanical")

The Company originally purchased Urban Mechanical in order to implement a vertical integration strategy to meet the increasing demand of the industrial commercial institutional ("ICI") marketplace through the combination of Clean Energy Developments Corp. ("CleanEnergy"), a national leader of sustainable design build energy solutions, with Urban Mechanical, a mechanical contracting business with a history spanning more than 45 years (including predecessor businesses) in low-rise residential, high-rise residential and ICI installations. This combination was expected to provide the delivery of end-to-end sustainable solutions for asset owners, managers and construction leaders.

The Company acquired all of the issued and outstanding shares of Urban Mechanical on December 5, 2012 pursuant to a share purchase agreement dated September 6, 2012 between the Company (then as Bellair Ventures Inc.) as purchaser, The Edward J. Winter Family Trust as vendor, and Edward Winter and Marco Winter as principals. The purchase price paid was $8,278,419, being $10,000,000 less $1,721,581 of long term debt outstanding at closing. The purchase price paid at closing was satisfied through (a) the issuance of 9,597,125 common shares of the Company at an issue price of $0.55 per share, (b) the assignment by the Company of a loan payable by Urban Mechanical of $500,000 and (c) the promise to pay $500,000 in cash within 90 days after closing (which amount has not been paid and the forgiveness of which is a condition of closing the transaction of purchase and sale). The balance of the purchase price, being $2,000,000, was to be paid through the issuance of up to 3,636,363 common shares of the Company which were not issued at closing as security for a working capital adjustment and other amounts which may have been payable in connection with indemnification claims. The working capital of Urban Mechanical determined as at December 5, 2012 in accordance with the share purchase agreement was in a deficit position of approximately $6,000,000, which was $9,000,000 less than the required working capital amount of $3,000,000. As such, none of those 3,636,363 common shares are expected to be issued to The Edward J. Winter Family Trust. As a result of the working capital adjustment, the purchase price was deemed to be reduced by $2,000,000, for a total purchase price paid of $6,278,419.

Subsequent to the purchase of Urban Mechanical, the Company has found that the resources required to fund and operate Urban Mechanical were greater than originally anticipated. While Urban Mechanical has a substantial backlog of revenue to be realized from uncompleted construction contracts, the working capital deficit created unplanned financial pressures on the Company as a whole and necessitated cash flow management strategies. This, in turn, diverted the Company's attention away from providing solutions and services that offer long-term customer value and environmental sustainability through a broad offering including alternative energy solutions, energy efficiency, innovative facility technology solutions, and facility maintenance services to customers in the multi-residential and ICI sectors across Canada. As a result, the Company had been forced to delay its growth strategy and strategic acquisitions due to the funding requirements for Urban Mechanical.

The Company was approached by the Purchaser in August, 2013 with respect to a potential sale of Urban Mechanical. The board considered other strategic alternatives while executing cash-flow management strategies on a stand-alone basis. As a result of the strategic review process undertaken by the board and upon careful consideration of the terms of the share purchase agreement, the board concluded that the best strategy to alleviate the financial pressures of the Company would be the sale of Urban Mechanical.

On October 15, 2013, the Company and the Purchaser entered into the Purchase Agreement, which was publicly announced by the Company prior to the commencement of trading on October 16, 2013. Under the terms of the Purchase Agreement, the Purchaser will purchase all of the issued and outstanding shares of Urban Mechanical for a purchase price of $3,000,000 on an "as is, where is" basis, except for certain limited representations and warranties given by the Company as set out in the Purchase Agreement.

The closing of the transaction was subject to a number of conditions, including the approval of the shareholders of the Company, the approval of the TSX Venture Exchange, receipt by the Company of full and final releases by the Purchaser, The Edward J. Winter Family Trust and Edward J. Winter, among others, in favour of the Company with respect to all matters other than those pertaining to the Purchase Agreement but including the release and forgiveness by The Edward J. Winter Family Trust of a debt payable by the Company to The Edward J. Winter Family Trust of $500,000, and receipt by the Purchaser of full and final releases by the Company in favour of the Purchaser, Urban Mechanical, The Edward J. Winter Family Trust and Edward J. Winter, among others, with respect to all matters other than those pertaining to the Purchase Agreement but including the release and forgiveness of any and all debt payable by Urban Mechanical to the Company which was advanced before October 15, 2013 (excluding certain amounts advanced as a short-term loan), which advances as at such date amounted to approximately $2.5 million.

It is a condition of closing in favour of the Purchaser that the debt payable by Urban Mechanical to CanGap Merchant Capital LP ("CanGap") at closing not exceed $250,000.

The Company closed its sale of Urban Mechanical in December 2013 for gross proceeds of $3,000,000 in cash. Prior to closing the sale, the Company assumed $500,000 of the CanGap debt from Urban Mechanical and CanGap divested itself of the remaining $250,000 balance to satisfy the closing condition.

Selected Financial Information

Selected annual information

	2013	2012	2011
Total revenue	$ 3,437,779	$ 426,851	$ nil
Net loss from continuing operations	$ 8,207,099	$ 939,064	$ 351,120
Net loss from discontinued operations	$ 5,106,418	$ nil	$ nil
Net loss	$ 13,313,517	$ 939,064	$ 351, 120
Net loss per share from continuing operations	$ 0.32	$ 0.27	$ 0.26
Net loss per share from discontinued operations	$ 0.20	$ nil	$ nil
Total assets	$ 38,530,437	$ 8,378,178	$ 107,208
Long-term liabilities	$ 165,378	$ nil	$ nil
Dividends per share	$ nil	$ nil	$ nil

Selected Quarterly Financial Information

	Q4-2013 $	Q3-2013 $	Q2-2013 $	Q1-2013 $	Q4-2012 $	Q3-2012 $	Q2-2012 $	Q1-2012 $
Revenue	312,662	1,008,499	1,034,748	1,081,870	426,851	-	-	-
Net loss	11,446,695	1,651,113	105,592	110,117	801,435	53,354	60,975	23,300
Basic & diluted loss per share	0.44	0.06	0.00	0.01	0.19	0.04	0.03	0.01

The Company completed its qualifying transaction in Q4 2012.

Results of Operations

The Company had the following sales and direct costs:

	Year ended August 31, 2013	2012
Sales	$ 3,437,779	$ 426,851
Cost of sales	2,967,887	287,283
Gross margin	$ 469,892	$ 139,568

Revenues are earned on services provided for the design and engineering of geoexchange projects, the sale of geoexchange equipment and the installation of geoexchange systems. The increase in revenue to $3,437,779 in 2013 is mainly attributable to having a full year of operations with CleanEnergy in 2013 as compared to 2012 (where CleanEnergy was acquired in July 2012). Prior to the qualifying transaction in July 2012, the Company did not generate any revenue.

Margins for the year ended August 31, 2013 were 13.7% (2012 – 32.6%), which has decreased from the prior year. The margins earned in fiscal 2013 are closer to what can be expected in the future. In 2012, there were limited operations post-acquisition, with certain projects ongoing at the time having margins that are higher than typical. Direct cost of sales includes direct labour and expenditures for services provided, as well as equipment costs and materials for geoexchange projects.

Year ended August 31, 2013, compared with year ended August 31, 2012

For the year ended August 31, 2013, the Company reported a net loss from continuing operations of $8,207,099 versus $939.064 in the prior year.

A large portion of this loss is attributable to an impairment charge to goodwill related to the acquisition of CleanEnergy for $4,617,003. This was recorded after an impairment assessment of the carrying value of CleanEnergy versus its recoverable amount at the end of fiscal 2013, which was due to a number of factors, including the shift in focus on integration and operations at Urban Mechanical during the year, and re-organization of CleanEnergy. This impairment is not expected to recur.

General and administrative expenses were $2,498,799 during 2013. This includes items such as salaries and wages, professional fees, filing fees, and other office expenses. While this is an increase from the prior year, it includes operations from CleanEnergy for the entire year.

During the year, the Company had $1,139,660 of share-based payments, versus $nil in the same period in 2012. This is due to stock options granted during 2013, with the value of share-based payments was determined using the Black-Scholes option pricing model. These share-based payments are a non-cash cost.

Finance expenses of $135,886 were incurred in year ended August 31, 2013, and relate to interest and bank charges on the Company's notes payable and capital leases. This increase is attributable to the notes payable that were raised during 2013, with a total of $2,800,000 raised as at August 31, 2013, bearing interest at 12% per annum.

Transaction costs of $226,613 recorded during the nine months ended May 31, 2013 relate to the acquisition of Urban Mechanical. During the prior year, $705,134 were classified as transaction costs, which relate to the purchase of CleanEnergy.

The net loss for discontinued operations was $5,106,418 in 2013 ($nil in 2012). Discontinued operations relate to the results of Urban Mechanical from the date of acquisition in December 2012 through to August 31, 2013 (refer to "Discontinued Operations" for additional details).

Three months ended August 31, 2013, compared with three months ended August 31, 2012

The fourth quarter of 2013 had a significant decrease in revenue from continuing operations. This is mainly due to the timing of completion of the various larger scale projects by CleanEnergy. In addition, the Company at the time was focused on managing and negotiating the disposition of its discontinued operations, Urban Mechanical.

Liquidity and Capital Resources

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations.

As at August 31, 2013, the Company had a working capital deficiency of $11,738,477. Subsequent to year-end, the Company sold Urban Mechanical for cash proceeds of $3,000,000 (Note 5), thereby eliminating $8,989,180 of working capital deficiency attributed to Urban Mechanical while increasing cash by $3,000,000. The Company is in the process of finalizing the term note agreements, which includes the $2,800,000 of notes payable at year-end and $1,388,000 of subscriptions received subsequent to year-end. The intention will be to convert these notes from current liabilities into secured notes with a 5 year term (Note 18). In addition, the acquisition of VCI (Note 18) will result in a reduction in working capital of approximately $725,000. Consequently, after giving effect to these subsequent events, management estimates the Company will have approximately $3,400,000 of working capital, which is sufficient for the next 12 months. Please see the "Outlook" section for further details.

Related Party Balances and Transactions

(a) A corporation that holds significant influence over the Company (Alter NRG Corp.), was owed approximately $378,146 (August 31, 2012 - $1,142,714), which is outstanding consideration payable for the qualifying transaction. These amounts are non-interest bearing and due on demand.

(b) During the year, rent of $219,750 was paid to a company controlled by a beneficial owner (Urban Alliance Inc., Mr. Winter) that held significant influence over the Company. In addition, rent of $12,650 was paid to a company controlled by an officer of the Company (Bridgepoint Group Ltd., Mr. Carnevale), for additional office space used by the Company.

(c) A promissory note of $1,000,000 (August 31, 2012 - $nil) was owed to a corporation controlled by an officer and director of the Company (CanGap Merchant Capital LP, Mr. David). The promissory note bears interest at 9% per annum and is due upon demand. Interest of $50,671 was paid during the year (2012 - $nil) and has been included in discontinued operations.

(d) A promissory note of $500,000 (2012 - $nil) was owed to a beneficial owner (The Edward J. Winter Family Trust) that holds significant influence over the Company as part of the Urban Mechanical acquisition, bearing interest of 10% per annum. $36,986 of interest was paid during the period (2012 - $nil). This note is included in discontinued operations. An additional $500,000 non-interest bearing amount was owed to the same beneficial owner, with payment due upon demand as part of the original purchase price on the acquisition of Urban Mechanical, which remained unpaid.

(e) A promissory note of $100,000 (August 31, 2012 - $nil) is owed to a corporation controlled by an officer and director of the Company (CanGap Capital Corp., Mr. David), which is non-interest bearing. The funds were used for general working capital.

(f) A loan payable totalling $64,968 from a corporation controlled by a beneficial owner (The Edward J. Winter Family Trust) that holds significant influence over the Company was owed at August 31, 2013. This loan was in place prior to the acquisition of Urban Mechanical and is included in discontinued operations. The loan is repayable in equal monthly principal payments of $9,608 plus interest at 5.75% per annum. The loan matures on October 15, 2016.

(g) A corporation controlled by an officer and director of the Company (Mr. David) made a payment of $44,354 to a vendor on behalf of the Company. This amount was repaid during the year by the Company, with no interest.

(h) Remuneration of key management personnel of the Company for the year ended August 31, 2013, included $590,633 of short-term compensation (2012 - $84,646) and $697,990 of share-based compensation (2012 – $nil).

Financial Instruments Risk Exposure and Management

The Company's financial instruments consist of cash, accounts receivable, trade payables and accrued liabilities, due to party, and notes payable. Due to the short-term nature of these financial assets and liabilities, the carrying values approximate the fair values.

The Company did not hold or issue any derivative financial instruments during the year.

Credit risk

The Company's cash is held at chartered Canadian financial institutions. Management reviews the strength of these institutions on a regular basis.

Accounts receivable subject the Company to credit risk. The Company believes the remaining amounts will be collected. Holdbacks are received upon substantial completion of the projects.

Accounts receivable aging		**2013**		**2012**
Within 30	$	184,105	$	446,460
31 to 60		183,219		174,231
61 to 90		53,141		21,639
Over 90		27,214		116,455
Holdbacks		302,019		558,545
Total accounts receivable	**$**	**749,698**	**$**	**1,317,330**

The maximum exposure is limited to the carrying amount of financial assets on the statement of financial position that includes cash and accounts receivable. As at August 31, 2013 $473,453 is receivable from a single customer.

Concentration risk

Revenue generated from major customers was as follows:

	Year ended August 31,	
	2013	2012
Largest customer	**39%**	66%
Second largest customer	**39%**	21%
Third largest customer	**4%**	6%

Future Changes in Accounting Standards

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended August 31, 2013, and have not been applied in preparing these consolidated financial statements but may affect the Company.

- IFRS 9 - Financial Instruments: Classification and Measurement, effective for annual periods yet to be determined
- IFRS 10 - Consolidated Financial Statements, effective for annual periods beginning on or after January 1, 2013.
- IFRS 12 - Disclosure of Interests in Other Entities, effective for annual periods beginning on or after January 1, 2013.
- IFRS 13 - Fair Value Measurement defines fair value, effective for annual periods beginning on or after January 1, 2013.

The Company is assessing the effects of these new standards.

Outlook

The goal of SustainCo is to be at the forefront of advancing sustainability principles in leading organizations. The Company will continue to look for and promote leading edge services and technology combined with our experienced design and delivery teams to create a tremendous value proposition for our customers. The Company foresees the rapid growth of the Company and each of the subsidiaries in order to meet the increasing demand of larger projects.

Effect of the Sale of Urban Mechanical on the Company

The financial results of Urban Mechanical will no longer be consolidated with that of the Company, effective from the date of closing. However, revenue and expenses incurred prior to the date of closing will continue to be consolidated with the operations of the Company and CleanEnergy.

The Company's objective is to refocus on vertically integrating and building the Company to be a true turnkey business that offers a complete range of sustainable infrastructure solutions and services. It is anticipated this will allow the Company to take advantage of the higher margin areas of the full service business model initially envisioned for the Company, such as the finance, consulting, and design solutions, as well as simultaneously enabling the Company to capitalize on life-cycle cross selling. This is expected to result in the creation of more revenue streams along the entire life cycle of a project, without compromising control over the process and competitive prices to consumers.

With the disposition of Urban Mechanical, the Company is expected to be in a position to refocus its capital on acquiring businesses and/or individuals to build and complete the Company's full service business model. The Company has identified key areas for these acquisitions/hires:

- mechanical and electrical design, installation, retrofits, and maintenance;
- lighting design, installation, retrofits, and maintenance;
- sustainability infrastructure consulting services;
- energy management and automation; and
- equipment design, installation, automation, and maintenance.

With these strategic additions to the Company, the Company plans to offer consumers a "one stop shop" of solutions from the inception of a project, to the implementation of the project, to finally the maintenance and long term servicing of a completed project. The Company's competitive advantage is expected to be the ability to bridge design, build, and maintenance and take advantage of the synergies between each acquisition target.

These "one stop shop" solutions are expected to include:

i. Design: Conceptualization of a project at the stages of inception, including:

(a) Consulting Services: The Company intends to offer consulting services for both new build and retrofit projects. It will also seek to help clients identify the best sustainable infrastructure solutions for a site while taking into consideration the site's use and the client's objectives and budget.

(b) Financing: The Company intends to offer financing solutions, which will allow the Company to take a stake in a project as a lender and/or equity stakeholder. On the consumer's end, such financing is expected to increase the consumer's accessibility to sustainable infrastructure. On the Company's end it is expected to add to accessibility and appeal to the consumer, potentially creating a significant revenue stream.

(c) Mechanical and Electrical Engineering and Design: The Company intends to offer mechanical engineering and design through CleanEnergy. The Company is exploring potential acquisitions to enhance mechanical and electrical engineering design capabilities.

ii. Build: Implementation of design, including:

(a) Mechanical and Electrical Installation: The Company intends to offer project management and mechanical installation services through CleanEnergy. The Company is aiming to build out these offerings via acquisitions and/or outsourcing to enable electrical installation services.

(b) Equipment: The Company intends to continue to enhance its sustainable equipment and product lines through exclusive licencing and distribution arrangements.

iii. Maintain: Operations and maintenance of installed systems, including:

(a) Operations and Maintenance Services: The Company intends to offer long-term services to operate and maintained installed systems.

(b) Energy Monitoring: To ensure the performance of the Company's products and systems, the Company intends to explore the possibility of monitoring the long-term energy consumption and outflows of the systems.

The Company's objective is to bundle these services and solutions, thereby taking advantage of the client's needs along the entire lifecycle of a project. The Company's refocused full service business model is expected to allow for improved margins, the creation of additional revenue streams, and increased accessibility and appeal to consumers.

Acquisition of VCI Controls Inc.

In December 2013, the Company entered into agreements with PriceCo Inc. ("PriceCo") and Tannenberg Management Inc. ("TMI"), the shareholders of VCI Controls Inc. ("VCI"), for the purchase of all of the issued and outstanding shares in the capital of VCI.

The Company has entered into a share purchase agreement and assignment agreement with PriceCo and TMI respectively (collectively the "Agreements") for the purchase of all of the issued and outstanding subordinate voting and multiple voting shares in the capital of VCI for the aggregate purchase price of $2,300,000.

The Purchase Price will be satisfied through the payment of $100,000 cash (with $30,000 due on closing, and the remaining $70,000 due 1 year from closing), the issuance of 4,444,444 common shares in the Company (the "Shares") at an issue price of $0.1125 per Share for an aggregate value equal to $500,000, and the assumption of debt in the amount of $1,700,000 owing to TMI by PriceCo (the "Debt"). The Debt was also acquired by the Company through an assignment by TMI for the purchase price of $625,000. The Company will cancel the Debt upon closing of the transactions contemplated by the Agreements, which is subject to TSX Venture Exchange approval.

Secured Term Note Private Placement

The Company intends to consolidate pre-existing debt into a secured term note unit, with an expected total of $5,000,000. Each Unit to be issued pursuant to the secured note offering shall be comprised of: (i) one $1,000 principal amount secured term note (each, a "Term Note") of the Company; and (ii) one hundred (100) common share purchase warrants (each common share purchase warrant, a "Warrant") of the Company. The Term Notes will bear interest at a rate of 12% per annum and will have a maturity date that is five (5) years following the closing, with a redemption feature exercisable by the Company after a period of 24 months following the closing. Each Warrant, initially intended to be exercisable for a period of 24 months following the closing at an exercise price of $1.00 per Common Share, will now be exercisable for a period of 36 months following the Closing at an exercise price of $0.25 per Common Share, subject to adjustment in certain events. Following the closing, the Company intends to apply to list the Term Notes with the Canadian National Stock Exchange.

CleanEnergy Outlook

CleanEnergy's strengthening reputation has allowed it to bid on a number of projects. The following is a list of projects that CleanEnergy is currently involved in:

- CleanEnergy intends to continue working and bidding on projects with respect to the British Columbia wide program to perform energy saving retrofits on hundreds of schools in the province.

- CleanEnergy entered into a Letter of Intent with a clean technology company to provide CleanEnergy the exclusive use of the GeoModule(TM), a hardware and software package used to design optimal hybrid geoexchange systems.

- In addition to its completion of the Terminal project, CleanEnergy continues its involvement in the Calgary Airport project with the construction of the Piers portion of the project, which is worth approximately $1.5 million out of the total contract valued at $4.5 million in revenue. The Calgary Airport Authority continues with its major development project at YYC, including building a new runway and doubling the size of the Air Terminal Building with the addition of a new concourse, which will be the new home for International and U.S. flights. YYC has chosen to incorporate geoexchange as part of its sustainable design principles that are expected to reduce the carbon footprint by 4,900 tonnes per year, which is equivalent to taking 1,200 cars off the road permanently.

- CleanEnergy recently began work on the construction of a new Environmental Sci and Chem building at the University of Toronto Scarborough in Toronto, Ontario. The innovative 110,000 square foot facility will provide sustainable and flexible research and study spaces for students and faculty. CleanEnergy's geothermal system will help achieve the necessary points to reach a LEED® Gold certification.

Disclosure of Outstanding Share Data

As at the date of this report, there were 29,440,217 issued and outstanding common shares in the capital of the Company. The Company has outstanding options to purchase an aggregate of 1,650,000 common shares, outstanding warrants to purchase an aggregate of 7,322,492 common shares, and outstanding agent options to purchase an aggregate of 1,363,118 common shares (assuming warrants obtained from exercising of the agent options are also exercised).

Risk Factors

The Company's overall performance and results of operations are subject to a number of risks and uncertainties. The Company is subject to certain risks and uncertainties from both financial and operational factors. Some of the key risks are highlighted as follows:

Revenue Risk

The Company may experience delays in achieving revenues. Revenues may be delayed or negatively impacted by issues encountered by the Company or its customers including:

- unforeseen engineering and environmental problems;
- delays or inability to obtain required financing, licenses, permits and regulatory approvals;
- supply interruptions or labour disputes;
- foreign exchange fluctuations and collection risk; and
- competition from other geoexchange suppliers or alternate less capital intensive energy solutions.

There is no assurance that the business will perform as expected or that returns from the business will support the expenditures needed to develop it.

Sales Cycle and Fixed Price Contracts

The Company may enter into sales contracts with fixed pricing, which may be impacted by changes over the period of implementation. The success of sales execution will require collaboration between the Company and its customers.

There is no assurance that delays or problems in the implementation process used for all customers will not adversely affect the Company's activities, operating results or financial position.

Sensitivity to Fixed Costs

Fixed costs, including costs associated with operating losses, leases, labour costs and depreciation will account for a significant portion of the Company's costs and expenses. As a result, reduced productivity resulting from reduced demand, equipment failure, weather or other factors could significantly affect financial results.

Reliance on Management and Key Personnel

The Company's success and future operations are dependent upon the abilities, expertise, experience, judgment and efforts of senior management and key technical and field personnel of the Company. Any loss of the services of these personnel could have a materially adverse impact on the Company's business, technical capabilities, operating results or financial condition or could result in delays to or abandonment of the Company's projects.

Loss of Contracts

The Company may lose contracts or customer arrangements through competitive bidding or early termination, which would cause its revenue and profitability to decline. In addition, some customers of the Company may terminate their contracts or arrangements before the end of the contract term. If the Company loses contracts or customer arrangements through competitive bidding, early termination or other competitive pressures, it may not be able to replace the lost revenue, which will result in a decrease in its revenue. Whether the Company will be the successful bidder for any particular contract is subject to significant uncertainty.

Competition

The geoexchange industry is competitive; however, it is anticipated that the Company will be the only public company offering a turn-key solution. There are smaller privately-owned companies which are providing segments of the geoexchange process but not a complete solution. There can be no assurance that such competitors will not substantially increase the resources devoted to the development and marketing of a complete solution that competes with those of the Company or that new or existing competitors will not enter the various markets in which the Company will be active.

There can be no assurance that the Company's competitors will not develop new and unknown technologies, with which the Company may have difficulty competing. As well, without remaining cost competitive there is also a risk that the Company may lose business to its competitors.

Dependence on Suppliers

The ability of the Company to compete and grow will be dependent on the Company having access, at a reasonable cost and in a timely manner, to skilled labour, equipment, parts and components. Failure of suppliers to deliver such skilled labour, equipment, parts and components at a reasonable cost and in a timely manner would be detrimental to the Company's ability to compete and grow. No assurances can be given that the Company will be successful in maintaining its required supply of skilled labour, equipment, parts and components.

Environmental Liability

The Company will be subject to various environmental laws and regulations enacted in the jurisdictions in which it operates which govern the manufacture, processing, importation, transportation, handling and disposal of certain materials used in the Company's operations. There can be no assurance that the Company's procedures will prevent environmental damage occurring from spills of materials handled by the Company or that such damage has not already occurred. On occasion, substantial liabilities to third parties may be incurred. The Company may have the benefit of insurance maintained by it or the operator, however, the Company may become liable for damages against which it cannot adequately insure or against which it may elect not to insure because of high costs or other reasons.

Disclosure Controls and Procedures

Disclosure controls and procedures (the "Disclosure Procedures") are designed to provide reasonable assurance that all relevant information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure.

The Company's management conducted an evaluation of the effectiveness of the Disclosure Procedures. Based on this evaluation, management has concluded that, subject to certain limitations indicated in the MD&A, our Disclosure Procedures are effective to ensure that information required to be disclosed in reports that we file or submit under Canadian securities legislation is recorded, processed, summarized, and reported within the time periods specified in those rules and forms.

It should be noted that while management believes that our Disclosure Procedures are effective and will provide a reasonable level of assurance, they do not expect that they will prevent all errors and frauds. A control system, no matter how well designed or operated, can only provide reasonable and not absolute assurance that the objectives of the control system are met.

Notice Concerning Forward-looking Statements

Certain statements in this MD&A constitute forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Examples of such statements include the intention to grow the business and operations of the Company. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this MD&A. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to: the ability of the Company to obtain necessary financing; the economy generally; consumer interest in the services and products of the Company; competition; and anticipated and unanticipated costs. While the Company anticipates that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements. These forward-looking statements should not be relied upon as representing the Company's views as of any date subsequent to the date of this MD&A. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company. Additional factors are noted under "Risk Factors" in this MD&A. These forward-looking statements are made as of the date of the MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances.

Additional Information

Additional information relating to the Company is available on SEDAR at www.sedar.com.