# SustainCo Inc.

**Condensed Consolidated Interim Financial Statements**

**For the three months ended November 30, 2013 and 2012**

**(Unaudited)**

**(Expressed in Canadian Dollars)**

## Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed an audit or review of these condensed consolidated interim financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants.

**Condensed Consolidated Statements of Financial Position**
*(Unaudited - Expressed in Canadian Dollars)*

| | November 30, 2013 | August 31, 2013 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | **$ 535,997** | $ 1,594,877 |
| Accounts receivable, net of allowance of $5,000 (August 31, 2013 - $73,313) | **921,007** | 749,698 |
| Inventories *(note 4)* | **28,031** | 57,395 |
| Prepaid expenses | **247,742** | 31,736 |
| Current assets held for sale *(note 5)* | **28,954,797** | 23,606,036 |
| | **30,687,574** | 26,039,742 |
| Property and equipment *(note 6)* | **40,265** | 54,137 |
| Intangible assets *(note 7)* | **269,500** | 282,000 |
| Non-current assets held for sale *(note 5)* | **11,533,197** | 12,154,558 |
| | **$ 42,530,536** | $ 38,530,437 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade payables and accrued liabilities | **$ 1,465,262** | $ 1,350,489 |
| Deferred revenue | **-** | 54,368 |
| Due to related party *(note 9)* | **878,146** | 978,146 |
| Notes payable *(note 13)* | **3,488,000** | 2,800,000 |
| Current liabilities held for sale *(note 5)* | **37,278,789** | 32,595,216 |
| | **43,110,197** | 37,778,219 |
| Non-current liabilities held for sale *(note 5)* | **209,205** | 165,378 |
| | **43,319,402** | 37,943,597 |
| **Shareholders' equity** | | |
| Share capital *(note 8)* | **14,188,904** | 14,188,904 |
| Share-based payment reserve *(note 8)* | **1,455,935** | 1,455,935 |
| Deficit | **(16,433,705)** | (15,057,999) |
| | **(788,866)** | 586,840 |
| | **$ 42,530,536** | $ 38,530,437 |

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

Subsequent events *(note 15)*

Approved on behalf of the Board

Signed: *"Emlyn J. David"* — Director

Signed: *"Michael Galloro"* — Director

**Condensed Consolidated Statements of Loss and Comprehensive Loss**
*(Unaudited - Expressed in Canadian Dollars)*

| | Three months ended November 30, | |
|---|---|---|
| | **2013** | 2012 |
| Sales | **$ 732,578** | $ 1,081,870 |
| Cost of sales *(note 4)* | **738,633** | 620,455 |
| Gross margin | **(6,055)** | 461,415 |
| General and administrative *(note 12)* | **568,322** | 530,095 |
| Amortization and depreciation *(note 6&7)* | **26,372** | 5,840 |
| | **594,694** | 535,935 |
| Loss from continuing operations before finance expense, transaction costs, and income taxes | **(600,749)** | (74,520) |
| Finance expense | **102,957** | 2,827 |
| Transaction costs *(note 5)* | **-** | 32,770 |
| Net loss from continuing operations | **(703,706)** | (110,117) |
| Discontinued operations *(note 5)* | **(672,000)** | - |
| **Net loss and comprehensive loss** | **$ (1,375,706)** | $ (110,117) |
| **Net loss per share** | | |
| Basic and diluted from continuing operations | **$ (0.02)** | $ (0.01) |
| Basic and diluted from discontinued operations | **$ (0.02)** | $ - |
| Weighted Average shares outstanding | **29,440,217** | 17,308,600 |

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

**Condensed Consolidated Statements of Changes in Shareholders' Equity**
*(Unaudited - Expressed in Canadian Dollars)*

| | Share Capital | Share-based payment reserve | Deficit | Total |
|---|---|---|---|---|
| Balance, August 31, 2012 | $ 7,901,791 | $ 242,103 | $ (1,744,482) | $ 6,399,412 |
| Net loss for the period | - | - | (110,117) | (110,117) |
| Balance, November 30, 2012 | $ 7,901,791 | $ 242,103 | $ (1,854,599) | $ 6,289,295 |
| Balance, August 31, 2013 | $ 14,188,904 | $ 1,455,935 | $ (15,057,999) | $ 586,840 |
| Net loss for the period | - | - | (1,375,706) | (1,375,706) |
| **Balance, November 30, 2013** | **$ 14,188,904** | **$ 1,455,935** | **$(16,433,705)** | **$ (788,866)** |

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

**Condensed Consolidated Statements of Cash Flows**
*(Unaudited - Expressed in Canadian Dollars)*

| | Three months ended November 30, 2013 | 2012 |
|---|---|---|
| **Cash flow from operating activities** | | |
| Net loss from continuing operations | **$ (703,706)** | $ (110,117) |
| Add (deduct) items not involving cash | | |
| Amortization and depreciation | **26,372** | 5,840 |
| Inventory charge | **20,864** | - |
| Change in non-cash working capital | | |
| Accounts receivable | **(171,309)** | (486,906) |
| Prepaid expenses | **(216,006)** | 21,376 |
| Inventory | **8,500** | (34,647) |
| Deferred revenue | **(54,368)** | - |
| Accounts payable and accrued liabilities and due to related party | **114,773** | (523,807) |
| Cash used in continuing operations | **(974,880)** | (1,128,261) |
| Cash used in discontinued operations | **(1,782,956)** | - |
| | **(2,757,836)** | (1,128,261) |
| **Cash flow from financing activities** | | |
| Issuance of notes payable | **688,000** | - |
| Due to related party | **(100,000)** | - |
| Repayment of finance leases, net | **-** | (1,641) |
| Cash provided by continuing operations | **588,000** | (1,641) |
| Cash provided by discontinued operations | **1,243,827** | - |
| | **1,831,827** | (1,641) |
| **Cash flow from investing activities** | | |
| Investment in property and equipment | **-** | (10,683) |
| Cash used in continuing operations | **-** | (10,683) |
| Cash used in discontinued operations | **(132,871)** | - |
| | **(132,871)** | (10,683) |
| **Total cash used by continuing operations** | **(386,880)** | (1,140,585) |
| **Total cash used by discontinued operations** | **(672,000)** | - |
| **Cash, beginning of the year** | **1,594,877** | 1,383,371 |
| **Cash, end of the year** | **$ 535,997** | $ 242,786 |

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

## 1. Nature of Operations

SustainCo Inc., (the "Company" or "SustainCo"), was incorporated under the *Canada Business Corporation Act* on August 22, 2008. The address of the Company's corporate office is 151 Bloor Street West, Suite 1100, Toronto, Ontario, Canada. The Company is listed on the TSX Venture Exchange Inc. (the "TSX-V" or the "Exchange") under the trading symbol "SMS".

SustainCo conducts its operations through two wholly owned subsidiaries, Clean Energy Developments Corp. ("CleanEnergy") and Urban Mechanical Contracting Ltd. ("Urban Mechanical" or "Urban").

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.

Urban Mechanical is a mechanical contractor which, together with its predecessor businesses, has a history spanning more than 45 years in low-rise residential, high-rise residential and industrial commercial institutional ("ICI") installations in Ontario, Canada. Subsequent to the period, the Company sold Urban Mechanical (note 5).

## 2. Basis of Presentation

**Statement of compliance**

The Company's condensed consolidated interim financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". These condensed consolidated interim financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the audited financial statements of the Company for the year ended August 31, 2013, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on January 28, 2014.

**Basis of measurement and functional currency**

The condensed consolidated interim financial statements are prepared on the historical cost basis. The accompanying condensed consolidated interim financial statements have been prepared on the basis of accounting principles applicable to a going concern, which presumes the Company will be able to realize its assets and discharge its liabilities in the normal course of business.

The condensed consolidated interim financial statements are presented in Canadian dollars, the Company's functional currency.

**Principles of consolidation**

The Company consolidates its interest in entities which it controls. Control comprises the power to govern an entity's financial and operating policies so as to obtain benefits from its activities. All intercompany balances and transactions have been eliminated.

## 3. Summary of Significant Accounting Policies

These condensed consolidated interim financial statements have been prepared following the same accounting policies used in the preparation of the audited financial statements of the Company for the year ended August 31, 2013 except as noted below.

The Company has adopted the following IFRS accounting standards as of September 1, 2013 with no material impact on the financial statements:

- IFRS 10: Consolidated financial statements
- IFRS 11: Joint arrangements
- IFRS 12: Disclosure of interest in other entities
- IFRS 13: Fair value measurement

**Use of estimates**

The preparation of these condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The critical assumptions concerning the key sources of estimation uncertainty are consistent with those in the audited financial statements of the Company for the year ended August 31, 2013.

## 4. Inventories

The Company maintains inventory, which consist of raw materials, equipment and spare parts for sale or for use.

During the period, the Company recognized an impairment charge on inventory of $20,864 (2012 - $nil), which has been included in cost of sales.

## 5. Discontinued Operations, Assets and Liabilities Held for Sale

### Acquisition of Urban Mechanical

On December 5, 2012 the Company completed the acquisition of all of the issued and outstanding shares of Urban Mechanical pursuant to the terms and conditions of a share purchase agreement for a purchase price equal to $10,000,000 less all outstanding long term debt of Urban Mechanical and less up to $2,000,000 of shortfall in the working capital target of $3,000,000 as at closing of the Acquisition.

On closing, Urban Mechanical had $1,721,581 of long term debt outstanding. The purchase price was satisfied by the Company through the issuance of 9,597,125 common shares of the Company at an issue price of $0.55 per share, the payment of $500,000 in cash, payable within 90 days after closing and the assignment to the vendor by the Company of a $500,000 term loan previously advanced by the Company to Urban Mechanical. Transaction costs of $32,770 incurred during the three months ended November 30, 2012 relate to this acquisition.

The purchase consideration was as follows:

| | |
|---|---|
| Shares | $ 9,000,000 |
| Less: Long-term debt within Urban Mechanical | (1,721,581) |
| Less: Reduction of shares for working capital below $3,000,000 | (2,000,000) |
| Total share consideration - 9,597,125 shares @ $0.55 per share | 5,278,419 |
| Cash (payable within 90 days of closing) | 500,000 |
| Assignment of term loan | 500,000 |
| **Total purchase price** | **$ 6,278,419** |

## 5. Discontinued Operations, Assets and Liabilities Held for Sale – continued

The estimated allocation of purchase price to the identifiable assets acquired and liabilities assumed has not been finalized. The carrying values of identifiable assets acquired and liabilities assumed at the date of acquisition is as follows:

| | |
|---|---|
| Accounts receivable | $ 12,945,035 |
| Inventories | 810,544 |
| Income taxes recoverable | 241,500 |
| Prepaid expenses | 247,166 |
| Property, plant and equipment | 2,720,423 |
| Bank indebtedness | (943,737) |
| Accounts payable and accrued liabilities | (16,665,902) |
| Loans payable - related party | (1,770,121) |
| Deferred revenue | (1,314,104) |
| Finance lease obligations | (66,424) |
| Loans payable | (715,553) |
| **Identified net liabilities acquired** | **$ (4,511,173)** |

| | |
|---|---|
| Identified net liabilities acquired | $ 4,511,173 |
| Consideration paid | 6,278,419 |
| **Net unallocated purchase price** | **$10,789,592** |

On August 31, 2012, the Company advanced $500,000 to Urban Mechanical prior to the acquisition. The term loan was repayable on demand at any time after 6 months following the date of advance and was subject to interest charged at a rate of 10% per annum. The amount advanced was subject to a security interest granted over all of the personal property of Urban Mechanical. This note receivable was assigned to the vendor of Urban Mechanical upon acquisition on December 5, 2012.

## 5. Discontinued Operations, Assets and Liabilities Held for Sale – continued

### Sale of Urban Mechanical

Since acquisition, the results of Urban Mechanical's operations have been included in the consolidated financial statements. In August 2013, the Company commenced plans to dispose of Urban, and in October 2013, the Company entered into a sales agreement to dispose of all the assets and liabilities of Urban Mechanical. The sale proceeds were $3 million in cash, the forgiveness of $500,000 of debt owed by the Company for the original acquisition of Urban Mechanical, and the assumption of $500,000 of debt from Urban Mechanical by the Company. Accordingly, the Urban Mechanical results of operations and assets and liabilities are shown as discontinued operations. Subsequent to the period-end, the Company closed the sale of Urban Mechanical (note 15).

The breakdown of current and non-current assets and liabilities is presented below:

| | November 30, 2013 | August 31, 2013 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash | **$ 732,952** | $ 10,894 |
| Accounts receivable | **24,079,192** | 20,779,550 |
| Unbilled receivables | **2,843,339** | 1,467,824 |
| Inventories | **776,611** | 776,611 |
| Income tax recoverable | **312,049** | 267,049 |
| Prepaid expenses | **210,654** | 304,108 |
| Current assets held for sale | **$ 28,954,797** | $ 23,606,036 |
| Property and equipment | **$ 2,645,794** | $ 2,627,726 |
| Unallocated purchase price | **8,887,403** | 9,526,832 |
| Non-current assets held for sale | **$ 11,533,197** | $ 12,154,558 |

| | November 30, 2013 | August 31, 2013 |
|---|---|---|
| **Liabilities** | | |
| **Current liabilities** | | |
| Trade payables and accrued liabilities | **$ 25,363,978** | $ 21,799,089 |
| Deferred revenue | **8,511,899** | 8,565,116 |
| Due to related party | **1,536,869** | 1,564,968 |
| Current portion of loans payable | **586,356** | 631,357 |
| Working capital loan payable | **1,200,000** | - |
| Current portion of finance lease obligation | **34,686** | 34,686 |
| Current liabilities held for sale | **$ 37,233,788** | $ 32,595,216 |
| Loans payable | **$ 54,991** | $ 71,987 |
| Finance lease obligation | **199,215** | 93,391 |
| Non-current liabilities held for sale | **$ 254,206** | $ 165,378 |

## 5. Discontinued Operations, Assets and Liabilities Held for Sale – continued

### Sale of Urban Mechanical – continued

The breakdown of revenue, expenses and after tax loss is presented below:

| | Three months ended November 30, 2013 | 2012 |
|---|---|---|
| Sales | $ 25,720,579 | $ - |
| Cost of sales | 24,569,055 | - |
| Gross margin | 1,151,524 | - |
| General and administrative | 1,062,196 | - |
| Depreciation | 36,187 | - |
| | 1,098,383 | - |
| Income before finance expense, income taxes and impairment | 53,141 | - |
| Finance expense | 85,712 | - |
| Loss from discontinued operations before impairment | (32,571) | - |
| Impairment in unallocated purchase price | 639,429 | - |
| **Net loss from discontinued operations** | $ (672,000) | $ - |

## 6. Property and Equipment

| | Computer equipment | Job equipment | Office furniture & equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| At August 31, 2012 | $ 19,282 | $ 11,075 | $ 40,710 | $ 71,067 |
| Additions | - | 8,399 | - | 8,399 |
| **At August 31, 2013 & November 30, 2013** | **$ 19,282** | **$ 19,474** | **$ 40,710** | **$ 79,466** |
| **Accumulated depreciation** | | | | |
| At August 31, 2012 | $ 1,140 | $ 336 | $ 823 | $ 2,299 |
| Expense for the year | 9,924 | 5,128 | 7,978 | 23,030 |
| **At August 31, 2013** | **11,064** | **5,464** | **8,801** | **25,329** |
| Expense for the period | 3,287 | 4,203 | 6,382 | 13,872 |
| **At November 30, 2013** | **$ 14,351** | **$ 9,667** | **$ 15,183** | **$ 39,201** |
| **Net book value** | | | | |
| At August 31, 2013 | $ 8,218 | $ 14,010 | $ 31,909 | $ 54,137 |
| At November 30, 2013 | $ 4,931 | $ 9,807 | $ 25,527 | $ 40,265 |

## 7. Intangible Assets

| | November 31, 2013 | | August 31, 2013 |
|---|---|---|---|
| Customer relationships | $ 70,000 | $ | 70,000 |
| Exclusivity contracts | 180,000 | | 180,000 |
| Brand name | 68,000 | | 68,000 |
| | 318,000 | | 318,000 |
| Accumulated amortization | (48,500) | | (36,000) |
| **Closing balance** | **$ 269,500** | **$** | **282,000** |

Amortization of $12,500 was recognized in the period.

## 8. Share Capital

**(a) Authorized**

An unlimited number of common shares

**(b) Issued**

| | Number of shares | | Amount |
|---|---|---|---|
| Issued as at August 31, 2012 & November 30, 2012 | 17,308,600 | $ | 7,901,791 |
| Issued as at August 31, 2013 & November 30, 2013 | 29,440,217 | $ | 14,188,904 |

There were no issuances of share capital during the period.

**(c) Stock options**

The Company adopted a stock option plan under which it is authorized to grant options to officers, directors, employees, and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The options granted can be exercised for a maximum of 5 years and vest as determined by the Board of Directors. The exercise price of each option may not be less than the discounted fair market value of the common shares on the date of grant.

No stock options issued during the period (2012 – none) and $nil expense recognized (2012 - $nil).

## 8. Share Capital – continued

### (c) Stock options – continued

The option details of the Company are as follows:

| | Number of Options | Weighted average exercise price | Vested |
|---|---|---|---|
| Outstanding, August 31, 2012 & November 30, 2012 | 170,440 | $0.50 | 170,440 |
| Outstanding, August 31, 2013 | 2,195,440 | $0.62 | 2,195,440 |
| Expired | (495,440) | $0.51 | (495,440) |
| **Outstanding, November 30, 2013** | **1,700,000** | **$0.65** | **1,700,000** |

| Weighted average exercise price | Number of Options | Weighted average remaining life (years) | Vested |
|---|---|---|---|
| $0.50 | 300,000 | 1.75 | 300,000 |
| $0.68 | 1,400,000 | 4.34 | 1,400,000 |
| **Balance at November 30, 2013** | **1,700,000** | **3.89** | **1,700,000** |

### (d) Warrants

| | Number of warrants | Weighted average exercise price | Weighted average remaining life |
|---|---|---|---|
| Outstanding, August 31, 2013 & November 30, 2013 | 7,322,492 | $0.75 | 0.82 |

### (e) Agent options

| | Number of warrants | Weighted average exercise price | Weighted average remaining life (years) |
|---|---|---|---|
| Outstanding, August 31, 2013 & Novebmer 30, 2013 | 681,559 | $0.50 | 0.79 |

Each agent option is exercisable at $0.50 for one common share and one warrant of the Company. Each warrant received from the exercise of the agent option will be exercisable at $0.75 for one common share of the Company.

## 9. Related Party Balances and Transactions

(a) A corporation that holds significant influence over the Company, was owed approximately $378,146 (August 31, 2013 - $378,146), which is outstanding consideration payable for the qualifying transaction. These amounts are non-interest bearing and due on demand.

(b) During the period, rent of $88,250 was paid to a company controlled by a beneficial owner that held significant influence over the Company. In addition, rent of $8,133 was paid to a company controlled by an officer of the Company, for additional office space used by the Company.

(c) A promissory note of $1,000,000 (August 31, 2013 - $1,000,000) was owed to a corporation controlled by an officer and director of the Company. The promissory note bears interest at 9% per annum and is due upon demand. Interest of $22,500 was paid during the period (2012 - $nil) and has been included in discontinued operations. Refer to note 15 for subsequent events.

(d) A promissory note of $500,000 (August 31, 2013 - $500,000) was owed to a beneficial owner that holds significant influence over the Company as part of the Urban Mechanical acquisition, bearing interest of 10% per annum. $12,500 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 was repaid during the period to a corporation controlled by an officer and director of the Company, which was non-interest bearing. The funds were used for general working capital.

(f) A loan payable totalling $36,869 from a corporation controlled by a beneficial owner that holds significant influence over the Company was owed at November 30, 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.

## 10. Financial Instruments and Risk Management

**Capital management**

The Company's capital currently consists of debt and equity. Its principal sources of cash are from operations, the issuance of common shares and debt. The Company's objective is to maintain a strong capital base so as to maintain investor, creditor and market confidence.

The Company intends to maintain a flexible capital structure consistent with the objectives mentioned above and to respond to changes in economic conditions and the risk characteristics of underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares, raise secured debt or refinance existing debt with different characteristics.

**Financial instrument risk exposure and management**

**Liquidity risk**

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.

The carrying value of accounts receivable, trade payable and accrued liabilities, due to related party, and notes payables reflected in the consolidated statement of financial position approximates fair value because of the short-term nature of these instruments.

As at November 30, 2013, the Company had a working capital deficiency of $12,422,623. Subsequent to period-end, the Company sold Urban Mechanical for cash proceeds of $3,000,000 (note 5), thereby eliminating $8,278,991 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 $3,488,000 of notes payable at period-end and $1,212,000 of subscriptions received subsequent to period-end. The intention will be to convert these notes from current liabilities into secured notes with a 5 year term (note 15). In addition, the acquisition of VCI (note 15) 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 $3,000,000 of working capital, which is sufficient for the next 12 months.

**Foreign exchange risk**

The Company purchases a portion of its inventory in United States dollars (“USD”) and does not currently engage in hedging activities. Accordingly, the Company is exposed to foreign exchange risk on a portion of its accounts payable and accrued liabilities and its USD bank account balances. However, the foreign exchange exposure to the Company at this time is not significant.

**Interest rate risk**

Notes payable owed by the Company are fixed rate instruments.

## 10. Financial Instruments and Risk Management – continued

### 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** | | |
|---|---|---|
| Within 30 | $ | 157,065 |
| 31 to 60 | | 424,717 |
| 61 to 90 | | 2,768 |
| Over 90 | | - |
| Holdbacks | | 336,457 |
| **Total accounts receivable** | **$** | **921,007** |

The maximum exposure is limited to the carrying amount of financial assets on the condensed consolidated statement of financial position that includes cash and accounts receivable.

### Concentration risk

Revenue generated from major customers was as follows:

| | **2013** | 2012 |
|---|---|---|
| Largest customer | **70%** | 51% |
| Second largest customer | **6%** | 14% |
| Third largest customer | **4%** | 9% |

As at November 30, 2013 $751,379 (2012 - $943,475) is receivable from a single customer.

## 11. Commitments

The Company is committed to the rental of facilities. Future minimum lease payments are as follows:

| | | |
|---|---|---|
| **2014** | $ | 56,968 |
| **2015** | | 60,000 |
| **2016** | | 60,000 |
| **2017** | | 55,000 |
| | $ | 231,968 |

Subsequent to the period, the Company renegotiated certain lease commitments, resulting in the termination of lease commitments beyond fiscal 2014.

## 12. General and Administrative Expense

| | | 2013 | | 2012 |
|---|---|---|---|---|
| Salaries and wages | $ | 332,785 | $ | 232,370 |
| Office expense | | 100,082 | | 66,775 |
| Professional fees | | 107,339 | | 178,121 |
| Travel | | 17,722 | | 28,460 |
| Advertising & promotion | | 3,668 | | 14,908 |
| Filing fees | | - | | 9,461 |
| Bad debts | | 6,726 | | - |
| | **$** | **568,322** | **$** | **530,095** |

## 13. Notes payable

Total notes payable of $3,488,000 bear interest at 12% per annum. The Company intends to roll these notes into a 5 year secured term note unit private placement. Each secured term note unit would consist of (i) $1,000 principal secured term note and (ii) 100 warrants. The secured term notes will bear interest at 12% per annum and mature 5 years from the closing date. The warrants will have an exercise price of $0.25 per common share, for a period of 24 months.

## 14. Contingent Liabilities

The Company is involved in a number of claims in the capacity of plaintiff as well as defendant. The Company or its insurer, where applicable, has filed defenses where the Company has been named defendant. In the opinion of management, the resolution of claims against the Company for an amount differing from the amount reflected in the records will not result in a material effect on the financial position of the Company.

## 15. Subsequent Events

*Sale of Urban Mechanical*

Subsequent to the period-end, the Company closed its sale of Urban Mechanical on December 11, 2013 for gross proceeds of $3,000,000 in cash (note 5). Prior to closing the sale, the Company assumed $500,000 of debt from Urban Mechanical.

## 15. Subsequent Events – continued

*Acquisition of VCI Controls Inc.*

Subsequent to the period-end, 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.

*Private Placement - debt*

Subsequent to the period-end, the Company raised an additional $1,388,000 in funds, which will be a part of the consolidation of pre-existing debt into a secured term note unit. Each Unit to be issued pursuant to the secured note offering shall be comprised of: (i) one CAD $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.

*Private Placement – equity*

Subsequent to the period-end, the Company raised funds as part of a non-brokered private placement of common shares at a price of $0.07 per share for gross proceeds of $900,000. 12,857,140 shares were issued as part of this private placement. Proceeds are intended to be used for targeted acquisitions and general working capital purposes.