SustainCo Inc.

Consolidated Financial Statements

For the years ended August 31, 2013 and 2012

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of SustainCo Inc.

We have audited the accompanying consolidated financial statements of SustainCo Inc., which comprise the statement of financial position as at August 31, 2013, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of SustainCo Inc. as at August 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The consolidated financial statements as at August 31, 2012 and for the year then ended were audited by MSCM LLP of Toronto, Canada, prior to its merger with MNP LLP. MSCM LLP expressed an unmodified opinion on those statements on December 31, 2012.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada

December 26, 2013

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	August 31, 2013	August 31, 2012
Assets		
Current assets		
Cash	**$ 1,594,877**	$ 1,383,371
Accounts receivable, net of allowance of $73,313 (2012 - $nil)	**749,698**	1,317,330
Inventories *(note 6)*	**57,395**	102,943
Note receivable *(note 5)*	**-**	500,000
Prepaid expenses	**31,736**	70,763
Current assets held for sale *(note 5)*	**23,606,036**	-
	26,039,742	3,374,407
Property and equipment *(note 7)*	**54,137**	68,768
Intangible assets *(note 4&9)*	**282,000**	318,000
Goodwill *(note 4&8)*	**-**	4,617,003
Non-current assets held for sale *(note 5)*	**12,154,558**	-
	$ 38,530,437	$ 8,378,178
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	**$ 1,350,489**	$ 831,786
Deferred revenue	**54,368**	-
Due to related party *(note 11)*	**978,146**	1,142,714
Notes payable *(note 15)*	**2,800,000**	-
Current portion of finance lease obligations *(note 13)*	**-**	4,266
Current liabilities held for sale *(note 5)*	**32,595,216**	-
	37,778,219	1,978,766
Non-current liabilities held for sale *(note 5)*	**165,378**	-
	37,943,597	1,978,766
Shareholders' equity		
Share capital *(note 10)*	**14,188,904**	7,901,791
Contributed surplus *(note 10)*	**1,455,935**	242,103
Deficit	**(15,057,999)**	(1,744,482)
	586,840	6,399,412
	$ 38,530,437	$ 8,378,178

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

Subsequent events *(note 18)*

Approved on behalf of the Board

Signed: *"Emlyn J. David"*

Director

Signed: *"Michael Galloro"*

Director

Consolidated Statements of Loss and Comprehensive Loss
(Expressed in Canadian Dollars)

	Year ended August 31, 2013	2012
Sales	**$ 3,437,779**	$ 426,851
Cost of sales *(note 6)*	**2,967,887**	287,283
Gross margin	**469,892**	139,568
General and administrative *(note 14)*	**2,498,799**	369,895
Share-based payments *(note 10)*	**1,139,660**	-
Depreciation *(note 7&9)*	**59,030**	2,299
	3,697,489	372,194
Loss from continuing operations before finance expense, transaction costs, impairment and income taxes	**(3,227,597)**	(232,626)
Finance expense *(note 11)*	**135,886**	1,304
Transaction costs *(note 4&5)*	**226,613**	705,134
Impairment in goodwill *(note 8)*	**4,617,003**	-
Net loss from continuing operations	**(8,207,099)**	(939,064)
Discontinued operations *(note 5)*	**(5,106,418)**	-
Net loss and comprehensive loss	**$ (13,313,517)**	$ (939,064)
Net loss per share		
Basic and diluted from continuing operations	**$ (0.32)**	$ (0.27)
Basic and diluted from discontinued operations	**$ (0.20)**	$ -
Weighted Average shares outstanding	**25,997,976**	3,466,633

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

Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Share Capital	Contributed Surplus	Deficit	Total
Balance, August 31, 2011	$ 773,977	$ 116,340	$ (805,418)	$ 84,899
Shares issued for CleanEnergy	5,000,000	-	-	5,000,000
Private placement, net of issuance costs	1,845,814	125,763	-	1,971,577
Shares issued for consulting on transaction	282,000	-	-	282,000
Net loss for the year	-	-	(939,064)	(939,064)
Balance, August 31, 2012	$ 7,901,791	$ 242,103	$ (1,744,482)	$ 6,399,412
Shares issued for Urban Mechanical	5,278,419	-	-	5,278,419
Private placement, net of issuance costs	1,008,694	74,172	-	1,082,866
Share-based payments	-	1,139,660	-	1,139,660
Net loss for the year	-	-	(13,313,517)	(13,313,517)
Balance, August 31, 2013	**$ 14,188,904**	**$ 1,455,935**	**$(15,057,999)**	**$ 586,840**

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

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Year ended August 31, 2013	2012
Cash flow from operating activities		
Net loss from continuing operations	**$ (8,207,099)**	$ (939,064)
Add (deduct) items not involving cash		
Depreciation	**59,030**	2,299
Share-based payments	**1,139,660**	-
Impairment in goodwill	**4,617,003**	-
Non-cash transaction costs	**-**	282,000
Change in non-cash working capital		
Accounts receivable	**567,632**	(1,317,330)
Prepaid expenses	**39,027**	(70,763)
Inventory	**45,548**	(102,943)
Deferred revenue	**54,368**	-
Accounts payable and accrued liabilities and due to related party	**(245,864)**	1,952,191
Cash used in continuing operations	**(1,930,695)**	(193,610)
Cash used in discontinued operations	**(1,789,236)**	-
	(3,719,931)	(193,610)
Cash flow from financing activities		
Private placement, net of issuance costs	**1,082,866**	1,971,577
Issuance of notes payable	**3,287,500**	-
Repayment of notes payable	**(487,500)**	-
Due to related party	**100,000**	-
Repayment of finance leases, net	**(4,266)**	(537)
Cash provided by continuing operations	**3,978,600**	1,971,040
Cash provided by discontinued operations	**299,387**	-
	4,277,987	1,971,040
Cash flow from investing activities		
Investment in property and equipment	**(8,399)**	(1,267)
Investment in note receivable	**-**	(500,000)
Cash used in continuing operations	**(8,399)**	(501,267)
Cash used in discontinued operations	**(338,151)**	-
	(346,550)	(501,267)
Total cash provided by continuing operations	**2,039,506**	-
Total cash used by discontinued operations	**(1,828,000)**	1,276,163
Cash, beginning of the year	**1,383,371**	107,208
Cash, end of the year	**$ 1,594,877**	$ 1,383,371
Supplementary cash flow information:		
Shares issued for acquisition of Urban Mechanical	**$ 6,278,419**	$ -
Shares issued for acquisition of CleanEnergy	**$ -**	$ 5,000,000
Agent options issued	**$ 74,172**	$ 125,763

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

1. Nature of Operations

SustainCo Inc. (formerly Bellair Ventures 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 mid-tier 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 year, the Company sold Urban Mechanical (note 5).

2. Basis of Presentation

Statement of compliance

The Company’s financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the IFRS Interpretations Committee (“IFRIC”).

These consolidated financial statements were authorized for issue by the Board of Directors on December 26, 2013.

Basis of measurement and functional currency

The consolidated financial statements are prepared on the historical cost basis. The accompanying consolidated 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 consolidated 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

Revenue recognition

Revenue from long-term service contracts, consisting of design and engineering services and installation of mechanical and geoexchange systems, is recognized using the percentage-of-completion method of accounting. The degree of completion is determined by comparing the costs incurred to the total costs anticipated for the contract. Where the contract outcome cannot be measured reliably, revenue is recognized only to the extent that the expenses incurred are eligible to be recovered.

Advance payments received from customers, in excess of revenue recognized, are classified as deferred revenue until the service is provided or the product delivered.

Product revenue is recognized when the significant risks and rewards are transferred to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits will be received, and the costs incurred or to be incurred can be measured reliably.

Financial instruments

All financial instruments are classified into one of the following categories: fair value through profit and loss ("FVTPL"), held-to-maturity, loans and receivables, available-for-sale financial assets, or other financial liabilities. Loans and receivables, held-to-maturity investments, and other financial liabilities which are measured at amortized cost. FVTPL financial instruments are subsequently measured at fair value and all gains and losses are included in net income or loss in the period which they arise. Available-for-sale financial instruments are subsequently measured at fair value with revaluation gains and losses included in other comprehensive income or loss until the instrument is derecognized or impaired.

Cash, accounts receivable, and the note receivable are classified as loans and receivables, which are measured at amortized cost less any provision for impairment. Trade payables and accrued liabilities, due to related party, notes payable and finance lease obligations are classified as other financial liabilities which are measured at amortized cost. The Company had neither available-for-sale nor held-to-maturity instruments during the years ended August 31, 2013 and 2012.

Foreign currency translation

Transactions in foreign currencies are initially recorded at the functional currency rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the end of the reporting period. All differences are recorded in the statement of loss and comprehensive loss.

3. Summary of Significant Accounting Policies – continued

Income taxes

Deferred tax assets and liabilities are recognized for the future income tax consequences of events that have been included in the consolidated financial statements or income tax returns of the Company. Deferred taxes are provided for using the asset and liability method. Under this method, deferred taxes are recognized for all significant temporary differences between the tax and financial statement bases of assets, liabilities and certain carry forward items.

Deferred tax assets are recognized only to the extent that, in the opinion of management, it is more likely than not that the deferred tax assets will be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment or substantive enactment.

Equipment

Equipment is stated at cost, net of accumulated depreciation and accumulated impairment losses, if any.

Such cost includes the cost of replacing parts of the equipment. Likewise, when a major inspection is performed, its cost is recognized in the carrying value of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of loss and comprehensive loss as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a declining balance basis over the expected useful life of the asset at the following rates:

Office furniture & equipment – 20%

Computer equipment – 30-40%

Job equipment – 20-30%

Vehicles – 30%

Leasehold improvements – straight-line over the lease term

An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the statement of loss and comprehensive loss in the period the asset is derecognized.

The assets’ residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

3. Summary of Significant Accounting Policies – continued

Leases

Finance leases, which transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in the statement of loss and comprehensive loss.

Leased assets are amortized over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is amortized over the shorter of the estimated useful life of the asset and the lease term.

Operating lease payments are recognized as an expense in the statement of loss and comprehensive loss on a straight line basis over the lease term.

Intangible assets

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization expense on the intangible assets with finite lives is recognized in the statement of loss and comprehensive loss.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statement of loss and comprehensive loss when the asset is derecognized.

Intangible assets consist of customer relationships, exclusivity contracts, and brand names. Customer relationships are amortized over five years, and exclusivity contracts over the expected life of the contract. The brand name is an indefinite life intangible, which is tested for impairment annually.

Inventories

Inventories are valued at the lower of cost and net realizable value.

The costs incurred to bring each product to its present location and condition are accounted for as follows:

- Raw materials – purchased cost on a first in, first out basis.
- Work in progress – cost of direct materials and labour.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

3. Summary of Significant Accounting Policies – continued

Impairment of non-financial assets

At the end of each reporting period, the Company assesses whether there is an indication that an asset or cash-generating unit ("CGU") may be impaired. If any indication exists, or when annual impairment testing for an asset or CGU is required, the Company estimates the recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying value of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered to be impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU, using an appropriate valuation model. These calculations are corroborated by calculation multiples or other available fair value indicators.

Impairment losses are recognized in the statement of loss and comprehensive loss in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses no longer exist or may be decreased. If such indication exists, the Company estimates the asset or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the statement of loss and comprehensive loss.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU to which goodwill relates. Where the recoverable amount of the CGU, including goodwill, is less than its carrying value, an impairment loss is recognized (Note 8). Impairment losses related to goodwill cannot be reversed in future periods.

Stock-based compensation

The Company has in effect a stock option plan which is described in Note 10(c). All stock-based awards granted are accounted for using the fair value based method. Fair value is calculated using the Black-Scholes valuation model. Any consideration paid by eligible participants on the exercise of stock options is credited to share capital. The contributed surplus associated with options is transferred to share capital upon exercise.

3. Summary of Significant Accounting Policies – continued

Loss per share

Basic loss per share is computed by dividing net loss available to common shareholders by the weighted average number of common shares outstanding during the year. The Company applies the treasury stock method in the calculation of diluted loss per share. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

Use of estimates

The preparation of these consolidated 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 following are the critical assumptions concerning the key sources of estimation uncertainty at August 31, 2013, that have a significant risk of causing adjustments to the carrying values of assets and liabilities.

Assessment of impairments

The Company's impairment tests for goodwill and intangible assets are based on value in use calculations that use a discounted cash flow model. The value-in-use calculations employ the following key assumptions: future cash flows, growth projections including economic risk assumptions and estimates of achieving key operating metrics. The cash flows are derived from the Company's budget for the future and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

Purchase price allocation

The estimated purchase price and purchase price allocation of Urban Mechanical remains subject to the completion of the determination of fair value of the net identifiable assets acquired. The purchase price allocation of CleanEnergy was completed during the current fiscal year. Both allocations are subject to assumptions regarding future cash flows, growth projections and estimates of achieving key operating metrics.

Percentage of completion

The Company uses the percentage of completion method in accounting for its contract revenues. Use of the percentage of completion method requires the Company to estimate the contract work performed to date as a proportion of the total contract work to be performed and it is management's judgment that use of the costs to date in proportion to the total estimated costs provides the most appropriate measure of percentage of completion.

3. Summary of Significant Accounting Policies – continued

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, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.

IFRS 10 - Consolidated Financial Statements, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company.

IFRS 12 - Disclosure of Interests in Other Entities, effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, is a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles.

IFRS 13 - Fair Value Measurement defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets. This standard is effective for annual periods beginning on or after January 1, 2013, with early application permitted.

The Company is currently assessing the effects of these new standards.

4. Acquisitions

CleanEnergy

On July 26, 2012, the Company completed its qualifying transaction by acquiring all of the issued and outstanding shares of Clean Energy Developments Corp. for $5 million in consideration satisfied by the issuance of 10,000,000 of the Company's common shares. In addition, working capital of CleanEnergy on closing was paid for in cash by SustainCo.

The purchase consideration was as follows:

Purchase price to vendors - 10,000,000 shares @ $0.50 per share	$ 5,000,000
Payment for working capital in excess of $nil	981,684
Total purchase price	**$ 5,981,684**

The allocation of the purchase price to the identifiable assets acquired and liabilities assumed is based upon fair values at the date of acquisition as set out below:

Cash	$ (128,172)
Accounts receivable	1,207,179
Inventories	136,636
Restricted cash	107,274
Prepaid expenses	37,553
Customer relationships	70,000
Exclusivity contracts	180,000
Brand name	68,000
Property, plant and equipment	69,801
Accounts payable and accrued liabilities	(309,324)
Deferred revenue	(69,463)
Finance lease obligations	(4,803)
Identified net assets acquired	**$ 1,364,681**

Identified net assets acquired	$ (1,364,681)
Consideration paid	5,981,684
Goodwill	**$ 4,617,003**

The goodwill is attributable to the sustainable business platform provided by CleanEnergy and the skills and technical talent of CleanEnergy's workforce. Total transaction costs were $705,134.

The purchase price allocation was completed in 2013, with prior period balances being restated to reflect the allocation. In the previous financial statements for the year ended August 31, 2012, the excess of purchase price over net assets identified in the amount of $4,935,003 was temporarily recorded to "unallocated purchase price". In fiscal 2013, after the purchase price allocation was completed, the 2012 figures have been restated to include customer relationship of $70,000, exclusivity contract of $180,000, and brand $68,000 (for cumulative intangible assets $318,000). The remainder of unallocated purchase price of $4,617,003 has been classified as goodwill.

5. Discontinued Operations

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 $226,613 incurred during the year 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**

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**

5. Discontinued Operations – continued

Acquisition of Urban Mechanical – continued

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.

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 now shown as discontinued operations. Subsequent to the year-end, the Company closed the sale of Urban Mechanical (Note 18).

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

	2013	2012
Assets		
Current assets		
Cash	**$ 10,894**	$ -
Accounts receivable	**20,779,550**	-
Unbilled receivables	**1,467,824**	-
Inventories	**776,611**	-
Income tax recoverable	**267,049**	-
Prepaid expenses	**304,108**	-
Current assets held for sale	**$ 23,606,036**	$ -
Property and equipment	**$ 2,627,726**	$ -
Unallocated purchase price	**9,526,832**	-
Non-current assets held for sale	**$ 12,154,558**	$ -

	2013	2012
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	**$ 21,799,089**	$ -
Deferred revenue	**8,565,116**	-
Due to related party	**1,564,968**	-
Current portion of loans payable	**631,357**	-
Current portion of finance lease obligation	**34,686**	-
Current liabilities held for sale	**$ 32,595,216**	$ -
Loans payable	**$ 71,987**	$ -
Finance lease obligation	**93,391**	-
Non-current liabilities held for sale	**$ 165,378**	$ -

5. Discontinued Operations – continued

Sale of Urban Mechanical – continued

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

	Year ended August 31, 2013	2012
Sales	**$ 48,284,401**	$ -
Cost of sales	**47,383,618**	-
Gross margin	**900,783**	-
General and administrative	**4,061,786**	-
Depreciation	**162,078**	-
	4,223,864	-
Loss before finance expense, income taxes and impairment	**(3,323,081)**	-
Finance expense	**520,576**	-
Loss from discontinued operations before impairment	**(3,843,657)**	-
Impairment in goodwill	**1,262,761**	-
Net loss from discontinued operations	**$ (5,106,418)**	$ -

Property and equipment

Property and equipment for Urban Mechanical includes primarily job equipment, leasehold improvements, vehicles, computer & software, and furniture & fixtures, with a carrying value at August 31, 2013 of $2,627,726.

Lease obligations

Urban Mechanical has finance lease obligations for equipment of $128,077.

Loans payable

Urban Mechanical has loans payable of $570,000 that are due upon demand bearing interest at 15%. In addition, it had vehicle finance loans totalling $133,344.

6. Inventories

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

During the year, the Company recognized an impairment charge on inventory of $79,241 (2012 - $nil), which has been included in cost of sales.

7. Property and Equipment

	Computer equipment	Job equipment	Office furniture & equipment	Total
Cost				
At August 31, 2011	$ -	$ -	$ -	$ -
Additions	19,282	11,075	40,710	71,067
At August 31, 2012	**19,282**	**11,075**	**40,710**	**71,067**
Additions	-	8,399	-	8,399
At August 31, 2013	**$ 19,282**	**$ 19,474**	**$ 40,710**	**$ 79,466**
Depreciation				
At August 31, 2011	$ -	$ -	$ -	$ -
Expense for the year	1,140	336	823	2,299
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**
Net book value				
At August 31, 2012	$ 18,142	$ 10,739	$ 39,887	$ 68,768
At August 31, 2013	$ 8,218	$ 14,010	$ 31,909	$ 54,137

8. Goodwill

As described in Note 4, the Company completed the acquisition of CleanEnergy in 2012, resulting in goodwill of $4,617,003. During the year, the Company performed an impairment test, which compared the carrying amount of CleanEnergy to the recoverable amount. The recoverable amount determined in the impairment test was lower than the carrying amount. The Company performed the second step of the impairment test, resulting in recognizing a full impairment of goodwill of $4,617,003. The recoverable amount determined was based on the estimated fair value less cost to sell as determined for CleanEnergy. This impairment in goodwill was due to a number of factors, including the focus on integration and operations at Urban Mechanical during the year, and a re-organization of CleanEnergy.

The Company considered as part of the impairment test at the time the recoverable amount of its other long-lived assets and concluded that these assets were not impaired.

9. Intangible Assets

		2013		2012
Customer relationships	$	70,000	$	70,000
Exclusivity contracts		180,000		180,000
Brand name		68,000		68,000
		318,000		318,000
Accumulated amortization		(36,000)		-
Closing balance at August 31, 2013	**$**	**282,000**	**$**	**318,000**

10. Share Capital

(a) Authorized

An unlimited number of common shares

(b) Issued

	Number of shares		Amount
Issued as at August 31, 2011	1,956,600	$	773,977
Shares issued for CleanEnergy acquisition *(note 4)*	10,000,000		5,000,000
Shares issued for consulting	564,000		282,000
Private placement, net of issuance costs	4,788,000		1,845,814
Issued as at August 31, 2012	17,308,600	$	7,901,791
Shares issued for Urban Mechanical acquisition *(note 5)*	9,597,125		5,278,419
Private placement, net of issuance costs	2,534,492		1,008,694
Issued as at August 31, 2013	**29,440,217**	**$**	**14,188,904**

Shares issued for consulting

The Company paid a success fee of 564,000 shares valued at $0.50 per share in relation to its acquisition of CleanEnergy which was expensed under transaction costs (note 4).

Private placements

On June 6, 2012, CleanEnergy completed a brokered private placement of 4,788,000 subscription receipts at $0.50 per subscription receipt for gross proceeds of $2,394,000. Concurrent with the qualifying transaction, the subscription receipts were exchanged for units of SustainCo. Each unit consisted of one common share and one warrant of the Company exercisable at $0.75. Share issuance costs for the placement were $548,186, which includes $125,763 allocated to agent options under contributed surplus. The total proceeds net of share issuance costs were attributed to the common shares.

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, less share issuance costs of $258,552 (including $74,172 of non-cash agent options).

10. Share Capital – continued

Private placements – continued

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.

(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.

The option details of the Company are as follows:

	Number of Options	Weighted average exercise price	Vested
Outstanding, August 31, 2011	255,660	$0.50	255,660
Expired	(85,220)	$0.50	(85,220)
Outstanding, August 31, 2012	170,440	$0.50	170,440
Granted during the period:			
	500,000	$0.50	500,000
	500,000	$0.55	125,000
	1,400,000	$0.68	1,400,000
Forefeited:	(375,000)	$0.55	-
Outstanding, August 31, 2013	**2,195,440**	**$0.62**	**2,195,440**

During the year, the Company granted 500,000 options at an exercise price of $0.50 per share as disclosed during the qualifying transaction. The options are exercisable for a period of four years and vested immediately. The value of the options of $172,700 was recorded as an addition to contributed surplus and share-based payment expense.

The Company also granted 500,000 options at an exercise price of $0.55 per share in February 2013. The options were exercisable for a period of three years and were to vest in four equal installments every three months over a period of one year. 125,000 of these options vested during the year, with the remainder being forfeited. The value of the vested portion of options is $47,703, which was recorded as an addition to share-based payment expense and contributed surplus.

1,400,000 options were granted at an exercise price of $0.68 per share in April 2013. The options are exercisable for a period of five years and vested immediately. The value of the options of $919,257 was recorded as an addition to contributed surplus and share-based payment expense during the year.

10. Share Capital – continued

(c) Stock options – continued

The Company uses the Black-Scholes option pricing model to determine the fair value of options granted using the following assumptions:

Volatility	100%
Risk-free interest rate	1.03% to 1.29%
Expected life (years)	3 to 5 years
Dividend yield	Nil
Forfeiture rate	0%
Share price	\$0.50 to \$0.85
Fair value of option	\$0.35 to \$0.66

Weighted average exercise price	Number of Options	Weighted average remaining life (years)	Vested
\$0.50	670,440	1.55	670,440
\$0.55	125,000	0.05	125,000
\$0.68	1,400,000	4.59	1,400,000
Balance at August 31, 2013	**2,195,440**	**3.41**	**2,195,440**

(d) Warrants

	Number of warrants	Weighted average exercise price	Weighted average remaining life
Outstanding, August 31, 2011	-	N/A	
Issued during private placement	4,788,000	\$0.75	
Outstanding, August 31, 2012	4,788,000	\$0.75	1.90
Issued during private placement	2,534,492	\$0.75	
Outstanding, August 31, 2013	**7,322,492**	**\$0.75**	**1.07**

As part of the private placement that closed during the year, the Company issued 2,534,492 warrants (2012 – 4,788,000), exercisable for a period of two years at \$0.75 per warrant for one common share of the Company.

10. Share Capital – continued

(e) Agent options

	Number of warrants	Weighted average exercise price	Weighted average remaining life (years)
Outstanding, August 31, 2011	-	N/A	N/A
Issued during private placement	478,800	$0.50	
Outstanding, August 31, 2012	478,800	$0.50	1.90
Issued during private placement	202,759	$0.50	
Outstanding, August 31, 2013	**681,559**	**$0.50**	**1.04**

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.

In fiscal 2012 as part of the private placement, 478,800 agent options were issued as compensation. 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 and will expire 2 years from the date of issuance. The value of agent options issued of $125,763 was included as contributed surplus.

In January 2013 as part of the private placement, the agent was issued 202,759 broker warrants (also referred to here as agent options) at an exercise price of $0.50 per broker warrant. Each broker warrant entitles the holder to (a) one Common Share; and (b) one Common Share purchase warrant, which shall further entitle 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. The broker warrants were valued at $74,172 and were recorded as an addition to contributed surplus.

The value of the broker warrants issued during the year was estimated using the Black-Scholes option pricing model, based on the following assumptions: volatility of 100%; risk-free interest rate of 1.18% (2012 – 1.01%); current value of unit of $0.63 (2012 - $0.50); dividend yield of nil; forfeiture rate of nil; and expected life of 2 years.

11. Related Party Balances and Transactions

(a) A corporation that holds significant influence over the Company, 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 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, 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. 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. Refer to note 18 for subsequent events.

11. Related Party Balances and Transactions – continued

(d) A promissory note of $500,000 (2012 - $nil) 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. $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, 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 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 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).

12. 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.

12. Financial Instruments and Risk Management

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 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.

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 consolidated statement of financial position that includes cash and accounts receivable.

Interest rate risk

Notes payable owed by the Company are fixed rate instruments.

12. Financial Instruments and Risk Management – continued

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%

As at August 31, 2013 $473,453 is receivable from a single customer.

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.

13. Finance Lease Obligations and Commitments

Future minimum payments under finance leases, along with the balance of the obligations under finance leases are as follows:

	August 31, 2013	August 31, 2012
Not later than one year	$ -	$ 4,509
Less amounts representing interest	-	(243)
Present value of obligations under finance lease	**$ -**	**$ 4,266**
Current portion	$ -	$ 4,266
Present value of obligations under finance lease	**$ -**	**$ 4,266**

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

2014	$ 80,944
2015	60,000
2016	60,000
2017	55,000
	$ 255,944

14. General and Administrative Expense

		2013		2012
Salaries and wages	$	1,236,760	$	130,836
Office expense		355,853		64,619
Professional fees		445,989		127,511
Travel		166,958		23,796
Advertising & promotion		31,243		4,274
Filing fees		54,773		24,627
Consulting fees		81,549		7,200
Bad debts		125,674		(12,968)
	$	**2,498,799**	**$**	**369,895**

15. Notes payable

The Company issued $487,500 in short-term loans on May 7, 2013, which were repaid in full plus $12,500 of interest on June 15, 2013.

An additional $2,800,000 was raised in 2013, bearing interest at 12% per annum. These notes are part of the proceeds, which the Company intends to roll 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.

16. 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.

17. Income Taxes

The reconciliation of income taxes calculated at the statutory rate on the net loss is as follows:

	2013	2012
Net loss from continuing operations	$ 8,207,099	$ 939,064
Statutory rate	26.5%	27.0%
Expected income tax recovery at combined basic federal and provincial tax rate	$ (2,174,880)	$ (253,550)
Effect on income taxes of:		
Tax rate changes and other adjustments	28,420	45,440
Non-deductible expenses	246,940	-
Undeducted share issue costs	(48,860)	(148,010)
Effect of non-deductible goodwill impairment	1,233,770	-
Addition of unrecognized tax assets on acquisition	-	(3,609,170)
Utilization of losses not previously recognized	-	3,354,530
Change in tax benefits not recognized	714,610	610,760
Income tax recovery	$ -	$ -

The 2013 statutory tax rate of 26.5% differs from the 2012 statutory tax rate of 27% because of the reduction in federal and provincial substantively enacted tax rates.

Deferred income tax assets and liabilities have not been recognized in respect of the following deductible temporary differences:

	2013	2012
Non-capital loss carried forward	$ 5,298,650	$ 2,209,203
Net capital losses carried forward	225,000	225,000
Property and equipment	12,720	230,370
Share issuance costs	420,960	469,820
Cumulative eligible capital	248,120	-

The Company has accumulated non-capital losses for income tax purposes that expire as follows:

2028	$ 21,680
2029	349,490
2030	66,570
2031	708,490
2032	1,062,970
2033	3,089,450
	$ 5,298,650

18. Subsequent Events

Sale of Urban Mechanical

Subsequent to the year-end, the Company closed its sale of Urban Mechanical in December 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.

Acquisition of VCI Controls Inc.

Subsequent to the year-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

Subsequent to the year-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.

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.