



SustainCo Inc.

Condensed Consolidated Interim Financial Statements

For the three and six months ended February 28, 2014 and 2013

(Unaudited)

(Expressed in Canadian Dollars)

Notice of No Auditor Review of Interim Financial Statements

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

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

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

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

	February 28, 2014	August 31, 2013
Assets		
Current assets		
Cash and cash equivalents	\$ 3,095,783	\$ 1,594,877
Accounts receivable, net of \$40,000 allowance (August 31, 2013 - \$73,313)	2,932,740	749,698
Unbilled receivables	409,839	-
Inventories (note 4)	407,493	57,395
Prepaid expenses	365,160	31,736
Current assets held for sale (note 15)	-	23,606,036
	7,211,015	26,039,742
Property and equipment (note 6)	212,599	54,137
Intangible assets (note 7)	257,000	282,000
Goodwill and unallocated purchase price (note 5)	1,001,552	-
Deferred income taxes	6,000	-
Non-current assets held for sale (note 15)	-	12,154,558
	\$ 8,688,166	\$ 38,530,437
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	\$ 2,561,659	\$ 1,350,489
Bank indebtedness (note 16)	1,090,491	-
Acquisition payable (note 5)	600,000	-
Deferred revenue	-	54,368
Due to related party (note 9)	128,199	978,146
Notes payable (note 13)	5,050,000	2,800,000
Current liabilities held for sale (note 15)	-	32,595,216
	9,430,349	37,778,219
Non-current liabilities held for sale (note 15)	-	165,378
	9,430,349	37,943,597
Shareholders' equity		
Share capital (note 8)	15,053,154	14,188,904
Share-based payment reserve (note 8)	1,455,935	1,455,935
Deficit	(17,251,272)	(15,057,999)
	(742,183)	586,840
	\$ 8,688,166	\$ 38,530,437

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

Subsequent events (note 17)

Approved on behalf of the Board

Signed: "Emlyn J. David"

Director

Signed: "Michael Galloro"

Director

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

	Three months ended February 28,		Six months ended February 28,	
	2014	2013	2014	2013
Sales	\$ 2,481,253	\$ 1,034,748	\$ 3,213,831	\$ 2,116,618
Cost of sales (note 4)	2,034,412	947,511	2,773,045	1,567,966
Gross margin	446,841	87,237	440,786	548,652
General and administrative (note 12)	974,407	527,489	1,542,729	1,057,584
Research and development	50,434	-	50,434	-
Share-based payments (note 8)	-	173,805	-	173,805
Loss on disposal of equipment	18,481	-	18,481	-
Amortization and depreciation (note 6&7)	15,605	5,950	41,977	11,790
	1,058,927	707,244	1,653,621	1,243,179
Loss from continuing operations before finance expense, transaction costs, and income taxes	(612,086)	(620,007)	(1,212,835)	(694,527)
Finance expense	141,436	7,603	244,393	10,430
Deferred income taxes	8,000	-	8,000	-
Transaction costs (note 5)	23,610	193,843	23,610	226,613
Gain on sale of Urban Mechanical (note 15)	(467,565)	-	(467,565)	-
Net loss from continuing operations	(317,567)	(821,453)	(1,021,273)	(931,570)
Discontinued operations (note 15)	(500,000)	715,861	(1,172,000)	715,861
Net loss and comprehensive loss	\$ (817,567)	\$ (105,592)	\$ (2,193,273)	\$ (215,709)
Net loss per share				
Basic and diluted from continuing operations	\$ (0.01)	\$ (0.03)	\$ (0.03)	\$ (0.04)
Basic and diluted from discontinued operations	\$ (0.01)	\$ 0.03	\$ (0.03)	\$ 0.03
Weighted Average shares outstanding	38,154,501	27,746,432	33,773,286	22,498,682

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

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

	Share Capital	Share-based payment reserve	Deficit	Total
Balance, August 31, 2012	\$ 7,901,791	\$ 242,103	\$ (1,744,482)	\$ 6,399,412
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
Shares-based payments	-	173,805	-	173,805
Net loss for the period	-	-	(215,709)	(215,709)
Balance, February 28, 2013	\$ 14,188,904	\$ 490,080	\$ (1,960,191)	\$ 12,718,793
Balance, August 31, 2013	\$ 14,188,904	\$ 1,455,935	\$ (15,057,999)	\$ 586,840
Private placement, net of issuance costs	864,250	-	-	864,250
Net loss for the period	-	-	(2,193,273)	(2,193,273)
Balance, February 28, 2014	\$ 15,053,154	\$ 1,455,935	\$(17,251,272)	\$ (742,183)

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

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

	Three months ended February 28,		Six months ended February 28,	
	2014	2013	2014	2013
Cash flow from operating activities				
Net loss from continuing operations	\$ (317,567)	\$ (821,453)	\$ (1,021,273)	\$ (931,570)
Add (deduct) items not involving cash				
Amortization and depreciation	15,605	5,950	41,977	11,790
Deferred income taxes	8,000	-	8,000	-
Share-based payments	-	173,805	-	173,805
Gain on sale of Urban Mechanical	(500,000)	-	(500,000)	-
Loss on disposal of equipment	-	-	20,864	-
Change in non-cash working capital				
Accounts receivable	850,635	72,601	679,326	(414,305)
Unbilled receivables	(409,839)	-	(409,839)	-
Prepaid expenses	(44,485)	7,403	(260,491)	28,779
Inventory	12,716	26,658	21,216	(7,989)
Deferred revenue	-	-	(54,368)	-
Accounts payable and accrued liabilities	(370,280)	113,507	(255,507)	(410,300)
Cash used in continuing operations	(755,215)	(421,529)	(1,730,095)	(1,549,790)
Cash used in discontinued operations	-	(403,413)	(1,782,956)	(403,413)
	(755,215)	(824,942)	(3,513,051)	(1,953,203)
Cash flow from financing activities				
Private placement, net of issuance costs	864,250	1,082,866	864,250	1,082,866
Issuance of notes payable	1,062,000	-	1,750,000	-
Due to related party	(249,947)	-	(349,947)	-
Repayment of bank indebtedness, net	(84,424)	-	(84,424)	-
Repayment of VCI loan payable	(625,000)	-	(625,000)	-
Repayment of finance leases, net	-	(850)	-	(2,491)
Cash provided by continuing operations	966,879	1,082,016	1,554,879	1,080,375
Cash provided by discontinued operations	-	(907,072)	1,243,827	(907,072)
	966,879	174,944	2,798,706	173,303
Cash flow from investing activities				
Investment in property and equipment	(45,359)	(312)	(45,359)	(10,995)
Proceeds from the sale of Urban Mechanical	3,000,000	-	3,000,000	-
Investment in VCI	(625,000)	-	(625,000)	-
Cash used in continuing operations	2,329,641	(312)	2,329,641	(10,995)
Cash used in discontinued operations	-	(159,737)	(132,871)	(159,737)
	2,329,641	(160,049)	2,196,770	(170,732)
Total cash used by continuing operations	2,541,305	660,175	2,154,425	(480,410)
Total cash used by discontinued operations	-	(1,470,222)	(672,000)	(1,470,222)
Cash and cash equivalents, beginning of period	535,997	242,786	1,594,877	1,383,371
Cash and cash equivalents (bank indebtedness), end of the period	\$ 3,077,302	\$ (567,261)	\$ 3,077,302	\$ (567,261)

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

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)

For the six months ended February 28, 2014 and 2013

1. Nature of Operations

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

SustainCo conducts its operations through two subsidiaries, Clean Energy Developments Corp. (“CleanEnergy”) and VCI Controls Inc. (“VCI” or “VCI Controls”). The Company sold its wholly owned subsidiary Urban Mechanical Contracting Ltd. (“Urban Mechanical” or “Urban”).

CleanEnergy is a Canadian industry leading geexchange 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.

VCI is a leading supplier of building technologies and services that improve comfort, safety, energy efficiency, and occupant productivity. It is an industry leader in the development of intelligent building technology, including the integration of all building systems utilizing the latest in communications technologies and standards. VCI's business focuses on digital controls and mechanical services, performance monitoring, and energy efficiency solutions.

2. Basis of Presentation

Statement of compliance

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

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on April 29, 2014.

Basis of measurement and functional currency

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

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

Principles of consolidation

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

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)*For the six months ended February 28, 2014 and 2013*

3. Summary of Significant Accounting Policies

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

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

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

Investment in associate

The Company holds a 50% interest in an associate, EnergyEx Ltd., but does not exercise significant influence over operating or financial policies over the associate. No value has been ascribed to the value of the Company's investment. The Company accounts for the investment in associate using the cost method.

Use of estimates

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

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

4. Inventories

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

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

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)
For the six months ended February 28, 2014 and 2013
5. Acquisition of VCI

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 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 \$1,225,000.

The Purchase Price will be satisfied through the payment of \$725,000 cash (with \$625,000 paid in December, \$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 acquired by the Company through an assignment by TMI as part of the Agreements. The Company will cancel the Debt upon closing of the transactions contemplated by the Agreements, which is subject to TSX Venture Exchange approval. While the acquisition is pending final exchange approval, the Company has acquired control of VCI as at the date of entering into the share purchase agreements. \$23,610 of transaction costs expensed during the six months ended February 28, 2014 relate to this transaction. As part of this transaction, \$600,000 of consideration remains payable as at February 28, 2014.

For accounting purposes, VCI has been consolidated from the date of acquiring control in December 2013. Although the acquisition did not officially close on signing of the agreements, control was effectively acquired by the Company through officers of the Company being placed on the board and in executive capacities. The Company currently holds a majority of seats on the board of VCI.

The purchase consideration was as follows:

Share consideration - 4,444,444 shares @ \$0.1125 per share on close	\$ 500,000
Cash on signing	625,000
Cash on close	30,000
Contingent cash payment 1 year from the date of close	70,000
Total purchase price	\$ 1,225,000

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)
For the six months ended February 28, 2014 and 2013
5. Acquisition of VCI – continued

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

Cash	\$ 4,219
Accounts receivable	2,862,368
Inventories	392,178
Prepaid expenses	72,933
Property and equipment	148,559
Deferred tax	14,000
Bank indebtedness	(1,179,134)
Accounts payable and accrued liabilities	(1,466,677)
Intercompany payable	(625,000)
Identified net assets acquired	\$ 223,448
Consideration paid	\$ 1,225,000
Identified net assets acquired	(223,448)
Goodwill and unallocated purchase price	\$ 1,001,552

6. Property and Equipment

	Computer equipment	Equipment	Vehicles	Furniture & fixtures	Leasehold improvements	Total
Cost						
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
Additions from acquisition	300,298	167,771	58,024	360,963	23,250	910,306
Additions	26,797	2,658	3,034	6,151	8,841	47,481
Disposals	(6,574)	(11,907)	-	-	-	(18,481)
At February 28, 2014	\$ 339,803	\$ 177,996	\$ 61,058	\$ 407,824	\$ 32,091	\$ 1,018,772
Accumulated depreciation						
At August 31, 2012	\$ 1,140	\$ 336	\$ -	\$ 823	\$ -	\$ 2,299
Expense for the year	9,924	5,128	-	7,978	-	23,030
At August 31, 2013	11,064	5,464	-	8,801	-	25,329
Additions from acquisition	261,287	130,622	38,738	311,569	19,531	761,747
Expense for the period	6,323	4,066	1,755	5,741	1,212	19,097
At February 28, 2014	\$ 278,674	\$ 140,152	\$ 40,493	\$ 326,111	\$ 20,743	\$ 806,173
Net book value						
At August 31, 2013	\$ 8,218	\$ 14,010	\$ -	\$ 31,909	\$ -	\$ 54,137
At February 28, 2014	\$ 61,129	\$ 37,844	\$ 20,565	\$ 81,713	\$ 11,348	\$ 212,599

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)
For the six months ended February 28, 2014 and 2013
7. Intangible Assets

	February 28, 2014	August 31, 2013
Customer relationships	\$ 70,000	\$ 70,000
Exclusivity contracts	180,000	180,000
Brand name	68,000	68,000
	318,000	318,000
Accumulated amortization	(61,000)	(36,000)
Closing balance	\$ 257,000	\$ 282,000

Amortization of \$25,000 was recognized in the period (2013 – \$nil).

8. Share Capital
(a) Authorized

An unlimited number of common shares

(b) Issued

	Number of shares	Amount
Issued as at August 31, 2012	17,308,600	\$ 7,901,791
Private placement, net of issuance costs	2,534,492	1,008,694
Shares issued for Urban Mechanical acquisition	9,597,125	5,278,419
Issued as at February 28, 2013 & August 31, 2013	29,440,217	\$ 14,188,904
Private placement, net of issuance costs	12,857,140	864,250
Issued as at February 28, 2014	42,297,357	\$ 15,053,154

In December 2013, the Company raised funds as part of a non-brokered private placement of 12,857,140 common shares at a price of \$0.07 per share for gross proceeds of \$900,000 less share issuance costs of \$35,750.

In January 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 \$125,763 of non-cash agent options).

In December 2012, the Company issued 9,597,125 common shares as part of the consideration for the acquisition of Urban Mechanical (Note 15).

(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.

Share based payments of \$nil were recognized in the period (2012 - \$173,805).

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)
For the six months ended February 28, 2014 and 2013
8. Share Capital – continued
(c) Stock options – continued

The option details of the Company are as follows:

	Number of Options	Weighted average exercise price	Vested
Outstanding, August 31, 2012	170,440	\$0.50	170,440
Granted	500,000	\$0.50	500,000
	500,000	\$0.55	-
Outstanding, February 28, 2013	1,170,440	\$0.52	670,440
Outstanding, August 31, 2013	2,195,440	\$0.62	2,195,440
Expired	(595,440)	\$0.59	(595,440)
Outstanding, February 28, 2014	1,600,000	\$0.65	1,600,000

	Number of Options	Weighted average remaining life (years)	Vested
Weighted average exercise price \$0.50	300,000	1.51	300,000
\$0.68	1,300,000	4.10	1,300,000
Balance at February 28, 2014	1,600,000	3.61	1,600,000

During six months ended February 28, 2014, the Company recognized share-based payment expenses of \$nil (2013 – \$173,805).

(d) Warrants

	Number of warrants	Weighted average exercise price	Weighted average remaining life
Outstanding, August 31, 2013 & February 28, 2014	7,322,492	\$0.75	0.57

(e) Agent options

	Number of warrants	Weighted average exercise price	Weighted average remaining life (years)
Outstanding, August 31, 2013 & February 28, 2014	681,559	\$0.50	0.55

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.

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)*For the six months ended February 28, 2014 and 2013*

9. Related Party Balances and Transactions

- (a) A corporation that holds significant influence over the Company, was owed approximately \$128,199 (August 31, 2013 - \$378,146), which is outstanding consideration payable for the qualifying transaction. These amounts are non-interest bearing and due on demand.
- (b) During the period, rent of \$88,250 (2013 - \$73,250) was paid to a company controlled by a beneficial owner that held significant influence over the Company. In addition, rent of \$16,096 (2013 - \$nil) 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 \$500,000 (August 31, 2013 - \$1,000,000) was owed to a corporation controlled by an officer and director of the Company. The promissory note bears interest at 12% per annum and is due upon demand. Interest of \$8,712 was paid during the period (2013 - \$16,664). Refer to note 15 for additional details.
- (d) A promissory note of \$nil (August 31, 2013 - \$500,000) was owed to a beneficial owner that holds significant influence over the Company as part of the Urban Mechanical acquisition, bearing interest of 10% per annum. \$12,500 of interest was paid during the period (2013 - \$11,781). This note was disposed of during the sale of 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 was forgiven upon the sale of Urban Mechanical.
- (e) A promissory note of \$100,000 was repaid during the period to a corporation controlled by an officer and director of the Company, which was non-interest bearing. The funds were used for general working capital.
- (f) A loan payable totalling \$nil from a corporation controlled by a beneficial owner that holds significant influence over the Company was owed at February 28, 2014 (August 31, 2013 - \$44,354). This loan was in place prior to the acquisition of Urban Mechanical and was disposed of during the sale of discontinued operations. The loan was repayable in equal monthly principal payments of \$9,608 plus interest at 5.75% per annum.
- (g) As at February 28, 2014, included in accounts receivable is a non-interest bearing, unsecured loan, which is due upon demand from an associate corporation of \$11,100 (August 31, 2013 - \$nil).

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)*For the six months ended February 28, 2014 and 2013*

10. Financial Instruments and Risk Management

Capital management

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

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

Financial instrument risk exposure and management**Liquidity risk**

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

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

As at February 28, 2014, the Company had a working capital deficiency of \$2,219,334. The Company is in the process of finalizing the term note agreements, which includes the \$5,050,000 of notes payable at period-end and \$75,000 of subscriptions received subsequent to period-end. The intention will be to convert these notes from current liabilities into secured notes with a 5 year term (note 17). Consequently, after giving effect to these subsequent events, management estimates the Company will have approximately \$2,800,000 of working capital, which is sufficient for the next 12 months.

Foreign exchange risk

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

Interest rate risk

The Company is subject to cash flow interest rate risk due to fluctuations in the prevailing levels of market interest rates. Bank indebtedness is floating at Royal Bank prime plus 1.60%.

Notes payable owed by the Company are fixed rate instruments. The risk exists of a change in interest rates when the Company is required to renew its debt.

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)
For the six months ended February 28, 2014 and 2013

10. Financial Instruments and Risk Management – continued

Credit risk

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

Accounts receivable subject the Company to credit risk. There is a provision for amounts outstanding at February 28, 2014 of \$40,000 (August 31, 2013 - \$73,313) for certain balances greater than 90 days past due. The Company believes the remaining amounts will be collected. Holdbacks are received upon substantial completion of the projects.

Accounts receivable aging	February 28, 2014		August 31, 2013	
Within 30	\$	1,646,057	\$	184,105
31 to 60		362,885		183,219
61 to 90		235,671		53,141
Over 90		422,308		27,214
Holdbacks		265,819		302,019
Total accounts receivable	\$	2,932,740	\$	749,698

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

Concentration risk

The concentration of revenue generated from major customers is not significant, with the three largest customers combined accounting for less than 20% of gross revenue.

11. Commitments

The Company is committed to the rental of premises and vehicles. Minimum lease payments are as follows:

2014	\$	170,242
2015		105,000
2016		62,000
2017		62,000
2018		52,000
Thereafter		23,000
	\$	451,242

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)
For the six months ended February 28, 2014 and 2013
12. General and Administrative Expense

	Three months ended February 28,		Six months ended February 28,	
	2014	2013	2014	2013
Salaries and wages	\$ 273,744	\$ 297,102	\$ 606,529	\$ 529,472
Office expense	338,230	119,959	438,312	186,734
Marketing and sales	162,348	3,861	166,016	18,769
Professional fees	148,920	(21,192)	256,259	156,929
Travel	11,633	39,207	29,355	67,667
Management information systems	27,995	-	27,995	-
Materials management	18,623	-	18,623	-
Filing fees	200	15,647	200	25,108
Consulting fees	-	72,905	-	72,905
Bad debts	(7,286)	-	(560)	-
	\$ 974,407	\$ 527,489	\$ 1,542,729	\$ 1,057,584

13. Notes payable

Total notes payable of \$5,050,000 bear interest at 12% per annum. The Company intends to roll these notes into a 5 year secured term note unit private placement. Each secured term note unit would consist of (i) \$1,000 principal secured term note and (ii) 100 warrants. The secured term notes will bear interest at 12% per annum and mature 5 years from the closing date. The warrants will have an exercise price of \$0.25 per common share, for a period of 24 months.

Commissions of \$250,280 relating to these notes were included in prepaid expenses, which will be transferred upon conversion and closing of these notes payables into 5 year secured term notes.

14. Contingent Liabilities

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

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)
For the six months ended February 28, 2014 and 2013
15. Discontinued Operations, Assets and Liabilities Held for Sale
Acquisition of Urban Mechanical

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

On closing, Urban Mechanical had \$1,721,581 of long term debt outstanding. The purchase price was satisfied by the Company through the issuance of 9,597,125 common shares of the Company at an issue price of \$0.55 per share, the payment of \$500,000 in cash, payable within 90 days after closing and the assignment to the vendor by the Company of a \$500,000 term loan previously advanced by the Company to Urban Mechanical. Transaction costs of \$226,613 incurred during the six months ended February 28, 2013 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

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, and the forgiveness of \$500,000 of debt owed by the Company for the original acquisition of Urban Mechanical, less the assumption of \$500,000 of debt from Urban Mechanical by the Company. Accordingly, the Urban Mechanical results of operations and assets and liabilities are shown as discontinued operations. The Company closed the sale of Urban Mechanical on December 11, 2013. The Company expects the transaction to result in a net loss on disposal for tax purposes.

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)
For the six months ended February 28, 2014 and 2013
15. Discontinued Operations, Assets and Liabilities Held for Sale – continued

The proceeds from disposition are summarized as follows:

Cash	\$ 3,000,000
Forgiveness of debt	500,000
Transaction costs	(32,435)
Proceeds net of transaction costs	\$3,467,565

Net assets disposed at carrying value	3,000,000
Gain on disposition of discontinued operations	\$ 467,565

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

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	February 28, 2014	August 31, 2013
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
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

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)
For the six months ended February 28, 2014 and 2013
15. Discontinued Operations, Assets and Liabilities Held for Sale – continued
Sale of Urban Mechanical – continued

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

	Three months ended February 28,		Six months ended February 28,	
	2014	2013	2014	2013
Sales	\$ -	\$ 12,405,578	\$ 25,720,579	\$ 12,405,578
Cost of sales	-	10,164,132	24,569,055	10,164,132
Gross margin	-	2,241,446	1,151,524	2,241,446
General and administrative	-	1,218,901	1,062,196	1,218,901
Depreciation	-	51,157	36,187	51,157
	-	1,270,058	1,098,383	1,270,058
Income before finance expense, income taxes and impairment	-	971,388	53,141	971,388
Finance expense	-	215,527	85,712	215,527
Deferred income taxes	-	40,000	-	40,000
Loss from discontinued operations before impairment	-	715,861	(32,571)	715,861
Impairment in unallocated purchase price	500,000	-	1,139,429	-
Net loss from discontinued operations	\$ (500,000)	\$ 715,861	\$ (1,172,000)	\$ 715,861

16. Bank Indebtedness

The demand operating loan bears interest at the Royal Bank prime rate plus 1.60% at February 28, 2014. Security for the above indebtedness is comprised of a general security agreement, postponement and assignment of claim of amounts due to related parties, corporate guarantees totaling \$1,500,000, personal guarantees totaling \$750,000 and life insurance on two directors of VCI. The maximum amount of credit available under this demand operating loan is \$1,500,000.

During the period ended February 28, 2014, interest of approximately \$8,463 (2013 - \$nil) related to the above indebtedness has been charged to interest expense.

VCI is subject to a financial covenant related to its bank indebtedness which consists of a maximum threshold for its liabilities to tangible net worth ratio. At February 28, 2014, VCI is not in compliance with this financial covenant, but is working with the lender to remedy the situation.

SustainCo has sufficient financial resources to rectify the bank covenants and has made a commitment to VCI to do so.

Notes to the Condensed Consolidated Interim Financial Statements - (unaudited)*For the six months ended February 28, 2014 and 2013*

17. Subsequent Events

Private Placement - debt

Subsequent to the period-end, the Company raised an additional \$75,000 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.

Agreement with Cennatek Bioanalytical Services Inc.

Subsequent to the period, the Company entered into an agreement with Cennatek Bioanalytical Services Inc. ("CENNATEK") to provide a loan instrument of up to \$500,000 towards the development of its brand of BioLiNE® biomass projects. BioLiNE converts agricultural waste and marginal vegetation such as cattail into liquid fertilizer and high quality biomass fibre.

The Company secured several key conditions in the agreement, including providing SustainCo with a 5% earned equity interest in CENNATEK, as well as SustainCo securing the right of first refusal to provide development solutions and services that includes engineering, project management, comprehensive site energy work, and operations and maintenance work required for all of CENNATEK's projects. From a financing perspective, SustainCo secures an additional right of first refusal to invest in each project at project finance.

CENNATEK has an active list of BioLiNE biomass projects in development.