SustainCo Inc.

Consolidated Financial Statements

For the years ended August 31, 2014 and 2013

(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 statements of financial position as at August 31, 2014 and 2013, and the statements of loss and comprehensive loss, changes in shareholders' equity and cash flows for the years 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes material uncertainty that raises significant doubt about the Company's ability to continue as a going concern.

MNP LLP

Chartered Professional Accountants
Licensed Public Accountants

Toronto, Canada
December 22, 2014

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	August 31, 2014	August 31, 2013
Assets		
Current assets		
Cash	$ 1,514,837	$ 1,594,877
Accounts receivable, net of $79,000 allowance (August 31, 2013 - $73,313)	3,417,880	749,698
Unbilled receivables	400,862	-
Inventories *(note 6)*	351,827	57,395
Prepaid expenses	128,736	31,736
Current assets held for sale *(note 5)*	-	23,606,036
	5,814,142	26,039,742
Property and equipment *(note 7)*	191,904	54,137
Intangible assets *(note 9)*	416,667	282,000
Goodwill *(note 4 & 8)*	599,802	-
Non-current assets held for sale *(note 5)*	-	12,154,558
	$ 7,022,515	$ 38,530,437
Liabilities		
Current liabilities		
Trade payables and accrued liabilities	$ 2,676,250	$ 1,350,489
Bank indebtedness *(note 15)*	1,095,863	-
Acquisition payable *(note 5)*	70,000	-
Deferred revenue	319,775	54,368
Due to related party *(note 11)*	128,199	978,146
Notes payable *(note 14)*	-	2,800,000
Current liabilities held for sale *(note 5)*	-	32,595,216
	4,290,087	37,778,219
Debentures *(note 16)*	4,796,246	-
Non-current liabilities held for sale *(note 5)*	-	165,378
	9,086,333	37,943,597
Shareholders' equity (deficiency)		
Share capital *(note 10)*	15,442,371	14,188,904
Share-based payment reserve *(note 10)*	1,483,253	1,455,935
Deficit	(18,989,442)	(15,057,999)
	(2,063,818)	586,840
	$ 7,022,515	$ 38,530,437

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

Nature of operations and going concern *(note 1)*
Subsequent events *(note 20)*

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)

	For the year ended August 31, 2014	2013
Sales	**$ 8,345,642**	$ 3,437,779
Cost of sales *(note 6)*	**6,886,001**	2,967,887
Gross margin	**1,459,641**	469,892
Marketing, general and administrative *(note 11 & 13)*	**3,752,667**	2,498,799
Finance expense *(note 11)*	**628,277**	135,886
Amortization and depreciation *(note 7 & 9)*	**139,236**	59,030
Research and development	**52,799**	-
Transaction costs *(note 4 & 5)*	**26,167**	226,613
Loss on disposal of equipment	**16,817**	-
Impairment in intangible assets *(note 9)*	**232,000**	-
Impairment in goodwill *(note 8)*	**-**	4,617,003
Share-based payments *(note 10)*	**-**	1,139,660
Loss from continuing operations before income taxes	**3,388,322**	8,207,099
Income tax recovery - deferred *(note 19)*	**(161,314)**	-
Loss from continuing operations	**3,227,008**	8,207,099
Discontinued operations *(note 5)*	**704,435**	5,106,418
Net loss and comprehensive loss	**$ 3,931,443**	$ 13,313,517
Net loss per share		
Basic and diluted from continuing operations	**$ 0.08**	$ 0.32
Basic and diluted from discontinued operations	**$ 0.02**	$ 0.20
Weighted average shares outstanding	**39,129,713**	25,997,976

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

Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(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
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
Private placement, net of issuance costs	847,217	-	-	847,217
Issuance of warrants and broker warrants	-	27,318	-	27,318
Shares issued for purchase of VCI	406,250	-	-	406,250
Net loss for the year	-	-	(3,931,443)	(3,931,443)
Balance, August 31, 2014	**$ 15,442,371**	**$ 1,483,253**	**$(18,989,442)**	**$ (2,063,818)**

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

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the year ended August 31, 2014	2013
Cash flow from operating activities		
Net loss from continuing operations	**$ (3,227,008)**	$ (8,207,099)
Add (deduct) items not involving cash		
Accretion	**12,658**	-
Amortization and depreciation	**139,236**	59,030
Deferred income tax recovery	**(161,314)**	-
Impairment in intangible assets	**232,000**	-
Impairment in goodwill	**-**	4,617,003
Share-based payments	**-**	1,139,660
Loss on disposal of equipment	**16,817**	-
Change in non-cash working capital		
Accounts receivable	**194,186**	567,632
Unbilled receivables	**(400,862)**	-
Inventory	**101,181**	45,548
Prepaid expenses	**(24,067)**	39,027
Deferred revenue	**265,407**	54,368
Accounts payable and accrued liabilities	**(127,665)**	(245,864)
Cash used in continuing operations	**(2,979,431)**	(1,930,695)
Cash used in discontinued operations	**(1,815,391)**	(1,789,236)
	(4,794,822)	(3,719,931)
Cash flow from financing activities		
Private placement, net of issuance costs	**847,217**	1,082,866
Issuance of notes payable	**1,850,000**	3,287,500
Repayment of notes payable	**(75,000)**	(487,500)
Issuance cost on debentures	**(254,780)**	-
Due to related party	**(349,947)**	100,000
Repayment of bank indebtedness, net	**(79,052)**	-
Repayment of VCI loan payable	**(625,000)**	-
Repayment of finance leases, net	**-**	(4,266)
Cash generated by continuing operations	**1,313,438**	3,978,600
Cash generated by discontinued operations	**1,243,827**	299,387
	2,557,265	4,277,987
Cash flow from investing activities		
Investment in property and equipment	**(61,195)**	(8,399)
Proceeds from sale of property and equipment	**6,583**	-
Proceeds from the sale of Urban Mechanical	**3,000,000**	-
Investment in VCI	**(655,000)**	-
Cash generated (used) in continuing operations	**2,290,388**	(8,399)
Cash used in discontinued operations	**(132,871)**	(338,151)
	2,157,517	(346,550)
Total cash generated by continuing operations	**624,395**	2,039,506
Total cash used by discontinued operations	**(704,435)**	(1,828,000)
Cash, beginning	**1,594,877**	1,383,371
Cash, ending	**$ 1,514,837**	$ 1,594,877
Supplementary cash flow information:		
Shares issued for acquisition of VCI	**$ 406,250**	$ -
Shares issued for acquisition of Urban Mechanical	**$ -**	$ 5,278,419
Agent options issued	**$ 1,486**	$ 74,172

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

1. Nature of Operations and Going Concern

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 VCI CONTROLS Inc. ("VCI" or "VCI CONTROLS").

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.

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.

These consolidated financial statements are prepared on the assumption that the Company is a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. Over the past two years the Company has incurred significant losses including operating losses for the years ended August 31, 2014 and 2013 of $3,227,008 and $8,207,099 respectively and losses from discontinued operations of $704,435 and $5,106,418 respectively. As a result, the Company has an accumulated deficit of $18,989,442 and working capital of $1,524,055 at August 31, 2014. The Company has taken and continues to take steps to reduce these losses and ultimately become profitable; however, losses are expected to continue for the 2015 fiscal year. In addition, subsequent to the year end, one of the Company's banks reduced the line of credit maximum to $500,000 (see notes 15 and 20). As a result, there is substantial doubt surrounding the Company's ability to continue as a going concern. In order to rectify these problems, in addition to increasing revenues and decreasing costs in order to reduce losses, the Company will require additional financing in the form of debt or equity. Failure to obtain such financing could result in delay or indefinite postponement of the Company's strategic goals. These consolidated financial statements do not include any adjustments relative to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

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 22, 2014.

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. Revenue earned in excess of billings issued are recorded as unbilled receivables. Advance payments received from customers, in excess of revenue recognized, are classified as deferred revenue until the service is provided or the product delivered.

Service revenue is recognized on a straight-line basis over the term of the service agreement.

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.

3. Summary of Significant Accounting Policies – continued

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 initially measured at fair value and then at amortized cost. FVTPL financial instruments are subsequently re-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 and accounts receivable are classified as loans and receivables, which are measured at amortized cost less any provision for impairment. Trade payables and accrued liabilities, bank indebtedness, acquisition payable, due to related party, notes payable and debentures 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, 2014 and 2013. The Company assesses at each reporting period whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset and that loss has an impact on the estimated future cash flows of the financial asset that can be reliably estimated.

Foreign currency translation

Transactions in foreign currencies are initially recorded at the exchange 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.

Assets held for sale

Current and non-current assets held for sale are measured at the lower of carrying amount and fair value less costs to sell. Current and non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset or disposal group is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

3. Summary of Significant Accounting Policies – continued

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when the related asset is realized or liability is settled, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

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 – 10-20%
Computer equipment – 30-40%
Job equipment – 20-30%
Vehicles – 20-30%
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 depreciated 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'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. 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, 2014, 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 the greater of value in use calculations that use a discounted cash flow model and estimated fair value less cost to sell. 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. The estimated fair value less cost to sell is based on assessment of comparable company multiples and precedent transactions.

Purchase price allocation

The purchase price allocation of CleanEnergy and VCI requires the Company to estimate the fair value of the acquired assets and liabilities. 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

Changes in accounting standards

The Company adopted the following accounting standards:

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 adoption of these standards had no significant impact on these consolidated financial statements.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended August 31, 2014, 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 beginning on or after January 1, 2018, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.

IFRS 15 - Revenue from Contracts with Customers, effective for annual periods beginning on or after January 1, 2017, with early adoption permitted, specifies how and when to recognize revenue and enhances relevant disclosures to be applied to all contracts with customers.

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

4. Acquisition

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., for the purchase of all of the issued and outstanding shares of VCI.

The Company 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 $1,131,250.

The Purchase Price was satisfied through the payment of $725,000 cash (with $625,000 paid in December, $30,000 on closing, and the remaining $70,000 due 1 year from closing) and the issuance of 4,444,444 common shares in the Company (the "Shares") at an issue price of $0.1125 per Share, discounted by $93,750 due to restrictions on the shares for an aggregate value equal to $406,250. $26,167 of transaction costs expensed during the year ended August 31, 2014 relate to this transaction. As part of this transaction, $70,000 of consideration remains payable as at August 31, 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 held a majority of seats on the board of VCI prior to receiving final exchange approval. The Company closed the acquisition formally in June 2014.

The purchase consideration was as follows:

Share consideration - 4,444,444 shares @ $0.1125 per share on close	$	500,000
Discount to fair value on share consideration		(93,750)
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	**$**	**1,131,250**

4. Acquisition – continued

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

Accounts receivable	$ 2,862,368
Inventories	392,178
Prepaid expenses	72,935
Property and equipment	148,559
Bank indebtedness	(1,174,915)
Accounts payable and accrued liabilities	(1,452,677)
Intercompany payable	(625,000)
Deferred tax	(152,000)
Customer relationships	325,000
Trade name	135,000
Identified net assets acquired	**$ 531,448**

Consideration paid	$ 1,131,250
Identified net assets acquired	(531,448)
Goodwill	**$ 599,802**

Revenue and net loss before income taxes relating to VCI for the period from December 18, 2013 to August 31, 2014 was $6,959,137 and $399,160.

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.

5. Discontinued Operations – continued

Acquisition of Urban Mechanical – continued

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 carrying values of identifiable assets acquired and liabilities assumed at the date of acquisition is as follows:

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

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

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

5. Discontinued Operations – continued

Sale of Urban Mechanical

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

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

		2014		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

		2014		2013
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,	
	2014	2013
Sales	**$ 25,720,579**	$ 48,284,401
Cost of sales	**24,569,055**	47,383,618
Gross margin	**1,151,524**	900,783
General and administrative	**1,062,196**	4,061,786
Depreciation	**36,187**	162,078
	1,098,383	4,223,864
Income before finance expense, income taxes and impairment	**53,141**	(3,323,081)
Finance expense	**85,712**	520,576
Loss from discontinued operations before impairment	**(32,571)**	(3,843,657)
Impairment in goodwill	**671,864**	1,262,761
Net (loss) from discontinued operations	**$ (704,435)**	$ (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 $2,627,726 at August 31, 2013.

Lease obligations

Urban Mechanical had finance lease obligations for equipment of $128,077 at August 31, 2013.

Loans payable

Urban Mechanical had loans payable of $570,000 that were due upon demand bearing interest at 15%. In addition, it had vehicle finance loans totalling $133,344 at August 31, 2013.

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 $48,895 (2013 - $79,241), which has been included in cost of sales. Total raw materials, equipment and spare parts charged to cost of sales for the year was $2,100,303 (2013 - $277,991).

7. 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	38,476	4,193	3,034	6,151	9,341	61,195
Disposals	(77,336)	(11,907)	(2,956)	(39)	-	(92,238)
At August 31, 2014	**$ 280,720**	**$ 179,531**	**$ 58,102**	**$ 407,785**	**$ 32,591**	**$ 958,729**
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 year	17,233	8,268	5,161	14,325	4,569	49,556
Disposals	(67,439)	-	(2,368)	-	-	(69,807)
At August 31, 2014	**$ 222,145**	**$ 144,354**	**$ 41,531**	**$ 334,695**	**$ 24,100**	**$ 766,825**
Net book value						
At August 31, 2013	$ 8,218	$ 14,010	$ -	$ 31,909	$ -	$ 54,137
At August 31, 2014	$ 58,575	$ 35,177	$ 16,571	$ 73,090	$ 8,491	$ 191,904

The Company disposed of equipment resulting in a net loss of $16,817 for the year ended August 31, 2014 (2013 - $nil).

8. Goodwill

The Company completed the acquisition of CleanEnergy in 2012, resulting in goodwill of $4,617,003. During 2013, 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 higher of value in use and the estimated fair value less cost to sell as determined for CleanEnergy. The Company determined the estimated fair value less cost to sell as the recoverable amount, based on assessing comparable company multiples and precedent transactions. This impairment in goodwill was due to a number of factors, including the focus on integration and operations at Urban Mechanical during fiscal 2013, and a re-organization of CleanEnergy.

The Company completed the acquisition of VCI in fiscal 2014, resulting in goodwill of $599,802. For 2014, the Company performed an impairment test, which compared the carrying amount of VCI to the recoverable amount. The recoverable amount determined in the impairment test was higher than the carrying amount. The recoverable amount was determined to be the value in use, based on estimated future cash flows. Using a 5 years (and related terminal value) discounted cash flow model with multiple scenarios, the Company created a range of outcomes in determining the recoverable amount. As a result of this analysis the Company concluded the recoverable amount of the CGU was greater than its carrying amount. The key assumptions used in the discounted cash flow model include projections surrounding revenue growth of 2%.

9. Intangible Assets

	Customer relationships	Exclusivity contracts	Brand or trade name	Total
Cost				
At August 31, 2012	$ 70,000	$ 180,000	$ 68,000	$ 318,000
Additions	-	-	-	-
Disposals	-	-	-	-
At August 31, 2013	**70,000**	**180,000**	**68,000**	**318,000**
Additions from acquisition	325,000	-	135,000	460,000
At August 31, 2014	**$ 395,000**	**$ 180,000**	**$ 203,000**	**$ 778,000**
Accumulated depreciation				
At August 31, 2012	$ -	$ -	$ -	$ -
Expense for the year	14,000	22,000	-	36,000
At August 31, 2013	**14,000**	**22,000**	**-**	**36,000**
Expense for the year	57,333	36,000	-	93,333
Impairment	42,000	122,000	68,000	232,000
At August 31, 2014	**$ 113,333**	**$ 180,000**	**$ 68,000**	**$ 361,333**
Net book value				
At August 31, 2013	$ 56,000	$ 158,000	$ 68,000	$ 282,000
At August 31, 2014	$ 281,667	$ -	$ 135,000	$ 416,667

An impairment charge of $232,000 was recognized on customer relationships and exclusivity contracts recognized on the acquisition of CleanEnergy (2013 - $nil). This was recorded after an impairment assessment of the intangibles acquired with CleanEnergy, which was due to a number of factors, including the shift in focus on integration and operations at VCI, and re-organization of CleanEnergy. The recoverable amount determined was based on its value in use.

10. 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 August 31, 2013	29,440,217	$	14,188,904
Private placement, net of issuance costs	12,857,140		847,217
Shares issued for VCI Controls acquisition	4,444,444		406,250
Issued as at August 31, 2014	**46,741,801**	**$**	**15,442,371**

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).

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.

In June 2014, the Company issued 4,444,444 shares as part of the consideration for the acquisition of VCI (see note 4).

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 $52,783.

In December 2012, the Company issued 9,597,125 common shares as part of the consideration for the acquisition of Urban Mechanical (see note 5).

10. Share Capital – continued

(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, 2012	170,440	$0.50	170,440
Granted - QT	500,000	$0.50	500,000
Granted - February 2013	500,000	$0.55	125,000
Granted - April 2013	1,400,000	$0.68	1,400,000
Forfeited	(375,000)	$0.55	-
Outstanding, August 31, 2013	2,195,440	$0.62	2,195,440
Expired	(845,440)	$0.62	(845,440)
Outstanding, August 31, 2014	**1,350,000**	**$0.61**	**1,350,000**

During 2013, 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.

845,440 options expired unexercised from accelerated expiration due to employees leaving the Company.

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	500,000	2.01	500,000
$0.68	850,000	3.59	850,000
Balance at August 31, 2014	**1,350,000**	**3.00**	**1,350,000**

(d) Warrants

	Number of warrants	Weighted average exercise price	Weighted average remaining life
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
Issued during debenture placement	507,500	$0.25	
Expired	(4,788,000)	$0.75	
Outstanding, August 31, 2014	**3,041,992**	**$0.67**	**0.78**

As part of the private placement that closed during 2013, the Company issued 2,534,492 warrants, exercisable for a period of two years at $0.75 per warrant for one common share of the Company.

As part of the debenture private placement in 2014, the Company issued 507,500 warrants, exercisable for a period of three years at $0.25 per warrant for one common share of the Company (see note 16).

10. Share Capital – continued

(e) Agent options

	Number of agent options	Weighted average exercise price	Weighted average remaining life (years)
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
Issued during debenture placement	26,178	$0.25	
Expired	(478,800)	$0.50	
Outstanding, August 31, 2014	**228,937**	**$0.47**	**0.65**

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.

In June 2014 as part of the debenture private placement (note 16), the agent was issued 26,178 broker warrants (also referred to here as agent options) at an exercise price of $0.25 per broker warrant. Each broker warrant entitles the holder to one Common Share at an exercise price of $0.25 per Common Share for a period of 36 months from date of Closing, subject to adjustment in certain events. The broker warrants were valued at $1,486 and were recorded as an addition to contributed surplus.

The fair 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 1.24% (2013 – 1.18%); current value of share/unit of $0.12 (2013 - $0.63); dividend yield of nil; forfeiture rate of nil; and expected life of 3 years (2013 – 2 years).

11. Related Party Balances and Transactions

(a) A corporation that holds significant influence over the Company, is 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 year, rent of $88,250 (2013 - $219,750) was paid to a company controlled by a beneficial owner that formerly held significant influence over the Company. In addition, rent of $32,927 (2013 - $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 $500,000 (August 31, 2013 - $1,000,000) that was owed to a corporation controlled by an officer and director of the Company was converted into debentures. The remainder was disposed of with the disposition of Urban Mechanical.

11. Related Party Balances and Transactions – continued

(d) A promissory note of $nil (August 31, 2013 - $500,000) was owed to a beneficial owner that formerly held 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 year (2013 - $36,986). 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 year to a corporation controlled by an officer and director of the Company, plus interest of $4,373. The funds were used for general working capital.

(f) A loan payable totalling $nil (2013 - $64,968) from a corporation controlled by a beneficial owner that formerly held significant influence over the Company was owed. This loan was in place prior to the acquisition of Urban Mechanical and is included in discontinued operations. The loan was repayable in equal monthly principal payments of $9,608 plus interest at 5.75% per annum.

(g) A corporation controlled by an officer and director of the Company made a payment of $nil (2013 - $44,354) to a vendor on behalf of the Company. This amount was repaid by the Company, with no interest.

(h) Remuneration of key management personnel of the Company for the year ended August 31, 2014, included $490,000 of short-term compensation (2013 - $442,483) and $nil of share-based compensation (2013 – $697,990).

12. Financial Instruments and Risk Management

Capital management

The Company's capital currently consists of debt and equity (deficiency). 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.

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 (note 15).

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 (see note 1).

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

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		**2014**		2013
Within 30	$	2,182,423	$	184,105
31 to 60		483,784		183,219
61 to 90		233,815		53,141
Over 90		313,442		27,214
Holdbacks		204,416		302,019
Total accounts receivable	**$**	**3,417,880**	$	749,698

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

Debentures owed by the Company are fixed rate instruments. The Company is subject to interest rate risk from its bank indebtedness, which is subject to a floating interest rate, which changes based on prevailing market conditions.

12. Financial Instruments and Risk Management – continued

Concentration risk

The concentration of revenue generated from major customers is not significant in 2014, with the three largest customers combined accounting for less than 20% of gross revenue.

In 2013, the largest customer accounted for 39%, the second largest customer accounted for 39% and the third largest customer accounted for 4% of revenues.

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. General and Administrative Expense

	For the year ended August 31,	
	2014	2013
Salaries and wages	**$ 2,015,763**	$ 1,236,760
Office expense	**940,289**	441,869
Professional and consulting fees	**587,459**	527,538
Travel	**117,122**	166,958
Bad debts	**92,034**	125,674
	$ 3,752,667	$ 2,498,799

14. 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 rolled into a 5 year secured term note unit private placement in 2014 (note 16).

15. Bank Indebtedness

The demand operating loan bears interest at the Royal Bank prime rate plus 1.60% (4.6% at August 31, 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 year ended August 31, 2014, interest of approximately $43,707 (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 August 31, 2014, VCI is not in compliance with this financial covenant. Subsequent to the period, the Company signed a forbearance agreement related to the bank indebtedness (see note 20).

16. Debentures

In June 2014, the Company completed the private placement and consolidation of pre-existing debt into a secured term note unit, totalling $5,075,000. Each secured term note unit is 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 bear interest at a rate of 12% per annum and has 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 is 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. A total of 507,500 warrants were issued in conjunction with the debentures.

The Company paid certain finders a finder's fee and costs of $256,266, inclusive of broker warrant costs. The Company issued 26,178 broker warrants, valued at $1,486 which are exercisable at $0.25 per warrant for a period of three years from closing.

The residual valuation method was used to determine the value of the warrants attached. Under this approach, the liability component was valued first, and the difference between the proceeds of the debentures and the fair value of the liability assigned to the warrant component. The fair value of the liability was calculated based on the present value model using a discount rate of 12.75%, which approximates the interest rate that would have been applicable to non-convertible debt without warrants. A deferred tax liability of $9,314 was recognized directly in equity for this compound financial instrument.

16. Debentures – continued

	2014	2013
Debenture issued June 2014	$ 5,075,000	$ -
Less costs	(256,266)	-
Less warrant component	(25,832)	-
Less deferred tax liability	(9,314)	-
	4,783,588	-
Adjustments		
Accretion of liability	12,658	-
Liability component of debentures	$ 4,796,246	$ -

17. 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 adverse effect on the financial position of the Company.

18. Segmented Information

Year ended August 31, 2014	Corporate	Geoexchange services	Controls and Mechanical contracting	**Total**
Capital expenditures	$ -	$ -	$ 61,195	**$ 61,195**
Total assets	1,634,644	569,018	4,818,853	**7,022,515**
Statement of operations				
Revenue	-	1,386,505	6,959,137	**8,345,642**
Cost of sales	-	(1,565,392)	(5,320,609)	**(6,886,001)**
General and administrative	(1,201,825)	(714,246)	(1,836,596)	**(3,752,667)**
Other expenses	(579,663)	(5,083)	(122,497)	**(707,243)**
Amortization and depreciation	-	(60,127)	(79,109)	**(139,236)**
Loss (gain) on disposal of equipment	-	(17,331)	514	**(16,817)**
Impairment in intangible assets	-	(232,000)	-	**(232,000)**
Income tax recovery - deferred	9,314	-	152,000	**161,314**
Segmented (loss) income	$ (1,772,174)	$ (1,207,674)	$ (247,160)	**$ (3,227,008)**

The Company did not have segments in fiscal 2013 other than between continuing and discontinued operations.

Notes to the Consolidated Financial Statements
For the years ended August 31, 2014 and 2013

19. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income taxes rate of 26.5% (2013 – 26.5%) to the effective tax rate is as follows:

		2014		2013
Net (Income) Loss before recovery of income taxes	**$**	**3,388,322**	$	8,207,099
Expected income tax recovery		**(897,905)**		(2,174,880)
Tax rate changes and other adjustments		**(55,829)**		28,420
Non-deductible expenses		**25,253**		246,940
Undeducted share issue costs		**(13,987)**		(48,860)
Effect of nondeductible goodwill impairment		**-**		1,233,770
Change in tax benefits not recognized		**781,154**		714,610
Income tax (recovery) expense	**$**	**(161,314)**	$	-
The Company's income tax (recovery) is allocated as follows:				
Current tax (recovery) expense	**$**	**-**	$	-
Deferred tax (recovery) expense		**(161,314)**		-

The following table summarizes the components of deferred tax:

		2014		2013
Deferred Tax Assets				
Non-capital losses carried forward	**$**	**294,170**	$	-
Share issuance & financing costs		**73,870**		-
Tax Credits		**27,810**		-
Property, plant and equipment		**9,860**		-
Deferred Tax Liabilities				
Adjustment to Completed Contract		**(167,540)**		-
Intangible Asset		**(110,420)**		-
Convertible debentures		**(73,870)**		-
Holdbacks		**(53,880)**		-
Net deferred tax liabilities	**$**	**-**	$	-

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

19. Income Taxes - continued

Movement in net deferred tax liabilities:

		2014		2013
Balance at the beginning of the year	$	-	$	-
Recognized upon acquisiton (Note 4)		152,000		-
Recognized in equity (Note 16)		9,314		-
Recognized in profit/loss		(161,314)		-
Balance at the end of the year	$	-	$	-

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

		2014		2013
Property, plant and equipment	$	**41,600**	$	12,720
Share issuance & financing costs		**261,890**		420,960
Non-capital losses carried forward		**7,624,380**		5,298,650
Net capital losses carried forward		**5,863,850**		225,000
Cumulative eligible capital	$	**238,590**	$	248,120

The Canadian non-capital loss carry forwards expire as noted in the table below. The net capital loss carry forward may be carried forward indefinitely, but can only be used to reduce capital gains. Share issue and financing costs will be fully amortized in 2018. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

2031	$	**1,380,750**
2032		**1,132,190**
2033		**2,856,940**
2034		**3,365,740**
	$	**8,735,620**

20. Subsequent Events

Bank indebtedness

Subsequent to the period, the Company entered into a forbearance agreement with the bank, which reduces the operating loan maximum to $800,000, which will be further reduced by $50,000 per month until it reaches $500,000.

The operating loan interest will be calculated at Royal Bank prime plus 3.6%.