



SustainCo Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the year ended August 31, 2014

SustainCo Inc.
Management's Discussion & Analysis
For the year ended August 31, 2013



December 22, 2014

Introduction

This management discussion and analysis (“MD&A”) of the financial condition and results of operations of SustainCo Inc., (the “Company” or “SustainCo”), is for the year ended August 31, 2014 and 2013. It is supplemental to, and should be read in conjunction with the Company’s audited annual consolidated financial statements and the accompanying notes for the year ended August 31, 2014.

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

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

Company Overview

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

SustainCo is a leading provider of sustainable infrastructure solutions and services. The Company focuses on enabling sustainability, energy efficiency and clean and renewable energy projects and technology. The Company operates through its wholly owned subsidiaries of Clean Energy Developments Corp. (“CleanEnergy”) and VCI CONTROLS Inc., operating as SustainCo Solutions & Services (“VCI” or “VCI CONTROLS”).

SustainCo Solutions & Services Overview

SustainCo Solutions & Services, an operating-as brand of VCI CONTROLS Inc., provides comprehensive building performance services, incorporating full life cycle asset optimization, finance, design, build, operations and maintenance services for new build and retrofit facilities. Specifically, it provides: engineering services, building automation controls, performance monitoring, energy and lighting retrofits, mechanical and electrical installation and services, thermal energy systems, and operations and maintenance services for multi-residential and ICI facilities.

With headquarters in Toronto, SustainCo employs over 70 people in Halifax, Montreal, Pembroke, Ottawa, Vaughan, Toronto and Calgary.

Founded in 1981, SustainCo Solutions & Services has an installed customer base of over 1,400 clients including installs in very large and complex buildings such as the National Art Gallery of Canada, the RCMP complex in Ottawa, the Canadian Forces Base in Halifax, and the Billy Bishop Airport in Toronto.

CleanEnergy Overview

CleanEnergy is a Canadian industry leader in thermal energy systems. CleanEnergy provides a complete turn-key solution in design, installation, equipment and control systems of sustainable thermal energy systems. CleanEnergy creates customized designs for each customer site's dynamics, and most sites will incorporate a geoexchange component. Geoexchange is the utilization of ground source heating and cooling. From a customer perspective, CleanEnergy focuses directly on multi-residential and ICI facilities, and indirectly sell equipment through a network of local dealers for smaller applications.

In a highly fragmented Canadian market, CleanEnergy is the only complete solution provider that operates nationally. For further information on CleanEnergy's performance please see the "Overall Performance" and "Outlook" sections below for a summary of CleanEnergy's completed and ongoing projects and contracts.

Overall Performance

Projects

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

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

SustainCo Solutions & Services completed a building automation system for the new TEME facility at CFB Halifax. The Transportation, Electrical and Mechanical Engineering Facility houses offices for the base engineering department and specialty areas for repair and maintenance of the transportation fleet. VCI's contract was valued at \$600,000 and is comprised of 750 direct digital points within the facility. The TEME control system also resides on the VCI/CFB Halifax EMCS network which is connected to more than 110 buildings and sites.

VCI also completed the mechanical and electrical retrofit of Building Q103 at CFB Petawawa. This contract was valued at \$760,000. The building is used for weightlifting and exercise for CFB personnel and for gymnastics for military family. The project comprised of all mechanical and electrical work associated with the decommissioning of a boiler and the upgrade of HVAC and lighting systems.

Prior to work being done the building lacked air conditioning, the single boiler was problematic and the heating coils were freezing in the smaller air handling units. With the work completed, the building has new heating boilers, new lighting, air conditioning. All coils in AHUs have been switched to glycol to help prevent freezing and all systems are now controlled by BAS. VCI also assisted in applying for Enbridge incentives on behalf of the customer.

Secured Term Note Private Placement

In June 2014, the Company completed the private placement and consolidation of pre-existing debt into secured term note units, totaling \$5,075,000. Each secured term note unit issued pursuant to the secured note offering 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 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 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. The Company intends to apply to list the Term Notes with the Canadian National Stock Exchange.

The Company paid certain finders a finder's fee equal, in the aggregate, to 6% of the gross proceeds received under the debt offering from subscribers identified by such finders payable in cash, and that number of Warrants that is equal to 6% of the total value of the debentures sold to such subscribers.

Equity Private Placement

In December 2013, the Company raised funds as part of a non-brokered private placement of common shares at a price of \$0.07 per share for gross proceeds of \$900,000. 12,857,140 shares were issued as part of this private placement. Proceeds are intended to be used for targeted acquisitions and general working capital purposes.

Agreement with Cennatek Bioanalytical Services Inc.

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 loan was subject to due diligence by the Company and execution of a formal loan agreement.

The Company no longer intends on continuing with the proposed loan.

SustainCo Inc.
Management's Discussion & Analysis
For the year ended August 31, 2013



VCI Acquisition

In December 2013, the Company entered into agreements (the "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 subordinate voting and multiple voting shares of VCI for the aggregate purchase price of \$1,131,250 (the "Purchase Price"). In June 2014, the Company received final TSX Venture Exchange approval and closed the acquisition of VCI.

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 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

SustainCo Inc.
Management's Discussion & Analysis
For the year ended August 31, 2013



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:

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

Discontinued operations

Urban Mechanical Contracting Ltd. ("Urban Mechanical")

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

The Company acquired all of the issued and outstanding shares of Urban Mechanical on December 5, 2012, pursuant to a share purchase agreement dated September 6, 2012, between the Company (then known as Bellair Ventures Inc.) as purchaser, The Edward J. Winter Family Trust as vendor, and Edward Winter and Marco Winter as principals. The purchase price paid was \$8,278,419, being \$10,000,000 less \$1,721,581 of long term debt outstanding at closing. The purchase price paid at closing was satisfied through (a) the issuance of 9,597,125 common shares of the Company at an issue price of \$0.55 per share, (b) the assignment by the Company of a loan payable by Urban Mechanical of \$500,000 and (c) the promise to pay \$500,000 in cash within 90 days after closing (which amount has not been paid and the forgiveness of which was a condition of closing the transaction of purchase and sale). The balance of the purchase price, being \$2,000,000, was to be paid through the issuance of up to 3,636,363 common shares of the Company which were not issued at closing as security for a working capital adjustment and other amounts which may have been payable in connection with indemnification claims. The working

SustainCo Inc.
Management's Discussion & Analysis
For the year ended August 31, 2013



capital of Urban Mechanical determined as at December 5, 2012 in accordance with the share purchase agreement was in a deficit position of approximately \$6,000,000, which was \$9,000,000 less than the required working capital amount of \$3,000,000. As such, none of those 3,636,363 common shares are expected to be issued to The Edward J. Winter Family Trust. As a result of the working capital adjustment, the purchase price was deemed to be reduced by \$2,000,000, for a total purchase price paid of \$6,278,419.

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

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

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

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

SustainCo Inc.
Management's Discussion & Analysis
For the year ended August 31, 2013



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

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

Selected Financial Information

Selected annual information

	2014	2013	2012
Total revenue	\$ 8,345,642	\$ 3,437,779	\$ 426,851
Net loss from continuing operations	\$ 3,227,008	\$ 8,207,099	\$ 939,064
Net loss from discontinued operations	\$ 704,435	\$ 5,106,418	\$ nil
Net loss	\$ 3,931,443	\$ 13,313,517	\$ 939,064
Net loss per share from continuing operations	\$ 0.08	\$ 0.32	\$ 0.27
Net loss per share from discontinued operations	\$ 0.02	\$ 0.20	\$ nil
Total assets	\$ 7,022,515	\$ 38,530,437	\$ 8,378,178
Long-term liabilities	\$ 4,796,246	\$ 165,378	\$ nil
Dividends per share	\$ nil	\$ nil	\$ nil

Selected Quarterly Financial Information

	Q4-2014 \$	Q3-2014 \$	Q2-2014 \$	Q1-2014 \$	Q4-2013 \$	Q3-2013 \$	Q2-2013 \$	Q1-2013 \$
Revenue	2,761,250	2,370,561	2,481,253	732,578	312,662	1,008,499	1,034,748	1,081,870
Net loss from continuing operations	1,020,984	717,186	785,132	703,706	8,207,099	1,718,166	821,453	110,117
Net loss (income) from discontinued operations	-	-	32,435	672,000	5,106,418	(67,053)	(715,861)	-
Net loss	1,020,984	717,186	817,567	1,375,706	11,446,695	1,651,113	105,592	110,117
Basic & diluted loss per share – continuing operations	0.02	0.02	0.02	0.02	0.22	0.06	0.03	0.01
Basic & diluted (income) loss per share – discontinued operations	-	-	0.00	0.02	0.23	(0.00)	(0.03)	-

* Figures have been restated to give effect to Urban Mechanical as discontinued operations
Revenue increases in Q2-2014 and on are due to the acquisition of VCI

SustainCo Inc.
Management's Discussion & Analysis
For the year ended August 31, 2013



Results of Operations

Sales and Direct Costs

The Company had the following sales and direct costs:

	Geoexchange services		Controls and Mechanical contracting	
	2014	2013	2014	2013
Revenue	\$ 1,386,505	\$ 3,437,779	\$ 6,959,137	\$ -
Cost of sales	(1,565,392)	(2,967,887)	(5,320,609)	-
Gross margin	\$ (178,887)	\$ 469,892	\$ 1,638,528	\$ -

Revenues from geoexchange services for 2014 were \$1,386,505, which decreased 60% from the prior year. In 2013, the Company substantially completed two of its larger contracts at the Calgary airport. For 2014, the Company did not work on similar sized contracts, with generally smaller scale projects throughout the year. Cost of sales of \$1,565,107 relate to direct materials and expenditures, equipment costs and materials for products and services sold. Margins decreased as well, from 13.6% to negative 12.9%. This is due to the significantly lower revenue base in 2014 as well as the low margin associated with the University of Toronto Scarborough project completed during 2014 as well as cost overruns experienced.

Revenues from controls and mechanical contracting services for 2014 were \$6,959,137, which is from the newly acquired subsidiary, VCI CONTROLS. Cost of sales of \$5,320,609 relate to direct materials and expenditures for products and services sold. Margins were 23.5% for the year for this division. The results from VCI are from the date of acquisition in December 2013.

Marketing, General and Administrative Costs

	Corporate		Geoexchange services		Controls and Mechanical contracting	
	2014	2013	2014	2013	2014	2013
Salaries and wages	\$ 594,265	\$ 450,038	\$ 403,053	\$ 786,722	\$ 1,018,445	\$ -
Professional and consulting fees	401,953	433,259	74,743	94,279	110,763	-
Office costs	153,096	135,466	181,559	306,403	605,634	-
Travel costs	2,451	690	61,558	166,268	53,113	-
Bad debts	50,060	31,203	(6,667)	94,471	48,641	-
	\$ 1,201,825	\$ 1,050,656	\$ 714,246	\$ 1,448,143	\$ 1,836,596	\$ -

Marketing, general and administrative costs increased significantly in 2014. This is attributable to the acquisition of VCI, which added \$1,836,596 of costs in 2014. This was partially offset by the decrease in marketing, general and administrative costs in CleanEnergy, with a significant decrease from \$1,448,143 in 2013 to \$714,963. This was a result of a number of staff reductions and other cost cutting measures.

Corporate marketing, general and administrative costs increased slightly to \$1,201,825 in 2014, versus \$1,050,656 in 2013. This is mainly due to an increase in salaries and wages from 2013 as a result of wage increases implemented partway through fiscal 2013 and the addition of two employees.

SustainCo Inc.
Management's Discussion & Analysis
For the year ended August 31, 2013



Amortization and Depreciation

Amortization and depreciation increased to \$139,236 in 2014 from \$59,030 in 2013. This is mainly due to the amortization of intangible assets acquired with CleanEnergy and VCI Controls, with \$93,333 of amortization relating to these during the year (2013 - \$36,000). Depreciation for 2014 increased due to the addition of assets from the acquisition of VCI.

Finance Expense

Finance expenses of \$628,277 were incurred and relate to interest and bank charges on the Company's bank indebtedness and debentures. This is an increase from \$135,886 in 2013. This increase is attributable to the notes payable that were raised during 2013 and 2014, with a total of \$5,075,000 as at August 31, 2014, bearing interest at 12% per annum which were converted into debentures during the year. In addition, the VCI acquisition included assumption of bank indebtedness, which was charged at a rate of Royal Bank prime plus 1.6%.

Share-based Payments

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

No stock options were granted in 2014.

Transaction Cost

Transaction costs of \$26,167 recorded during 2014 relate to the acquisition of VCI. In 2014, \$226,613 of transactions were incurred which related to the acquisition of Urban Mechanical.

Impairment in Goodwill

In 2013, the Company recognized an impairment in goodwill of \$4,617,003 related to its acquisition of CleanEnergy. This was recorded after an impairment assessment of the carrying value of CleanEnergy versus its recoverable amount at the end of fiscal 2013, which was due to a number of factors, including the shift in focus on integration and operations at Urban Mechanical during the year, and re-organization of CleanEnergy.

In 2014, the Company did not recognize any impairment in goodwill.

Impairment in Intangible Assets

During 2014, the Company recognized an impairment in intangible assets of \$232,000 related to its acquisition of CleanEnergy. 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.

Discontinued Operations

In 2014, the Company had a loss from discontinued operations of \$704,435 versus \$5,106,418 in 2013. These discontinued operations related to its acquisition and disposal of Urban Mechanical. The Company disposed of Urban Mechanical in December 2013 (refer to "Discontinued Operations" for additional details).

Net Loss

The net loss for the year ended August 31, 2014 of \$3,931,443 (2013 - \$13,313,517) decreased compared to the previous year. The two main factors for this difference in net loss recorded in the prior year includes a write down for impairment in goodwill of \$4,617,003 (2014 - \$nil) associated with CleanEnergy as well as a loss from discontinued operations of \$5,106,418 (2014 - \$704,435) from the operations of Urban Mechanical.

Fourth Quarter

The net loss for the fourth quarter ended August 31, 2014 decreased significantly to \$1,020,984 vs. \$11,446,695 in 2013. The two main factors for this difference in net loss recorded in the prior year includes a write down for impairment in goodwill of \$4,617,003 (2014 - \$nil) associated with CleanEnergy as well as a loss from discontinued operations of \$5,106,418 (2014 - \$704,435) from the operations of Urban Mechanical.

Liquidity and Capital Resources

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations. As at August 31, 2014, the Company had working capital of \$1,524,055 and cash of \$1,514,837. Working capital provides funds for the Company to meet its operational and capital requirements.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. 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, the Company's line of credit maximum was reduced to \$500,000 over a period of time. See the going concern risk for further details.

Related Party Balances and Transactions

Related party transactions are recorded at their exchange amount.

- (a) A corporation that holds significant influence over the Company (Alter NRG Corp.), 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 (Urban Alliance Inc., Mr. Winter) that held significant influence over the Company. In addition, rent of \$32,927 (2013 - \$24,069) was paid to a company controlled by an officer of the Company (Bridgepoint Group Ltd., Mr. Carnevale), for additional office space used by the Company.
- (c) A promissory note of \$500,000 that was owed to a corporation controlled by an officer and director of the Company (CanGap Merchant Capital LP, Mr. David) was converted into debentures.
- (d) A promissory note of \$nil (2013 - \$500,000) was owed to a beneficial owner (The Edward J. Winter Family Trust) that holds significant influence over the Company as part of the Urban Mechanical acquisition, bearing interest of 10% per annum. \$12,500 of interest was paid during the year (2013 - \$24,384). 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 (CanGap Capital Corp., Mr. David), which is non-interest bearing. 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 (The Edward J. Winter Family Trust) that holds significant influence over the Company was owed at August 31, 2013. This loan was in place prior to the acquisition of Urban Mechanical and was 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 (Mr. David) made a payment of \$nil (2013 - \$44,354) to a vendor on behalf of the Company. This amount was repaid during the year by the Company, with no interest.
- (h) Remuneration of key management personnel of the Company for the year ended August 31, 2014, included \$490,000 of short-term compensation (2013 - \$590,633) and \$nil of share-based compensation (2013 - \$697,990).

SustainCo Inc.
Management's Discussion & Analysis
For the year ended August 31, 2013



Financial Instruments Risk Exposure and Management

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

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

Credit risk

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

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

Accounts receivable aging	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 statement of financial position that includes cash and accounts receivable.

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.

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.

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.

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.

Subsequent events

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%.

Outlook

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

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

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

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

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

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

- i. Design: Conceptualization of a project at the stages of inception, including:
 - (a) Consulting Services: The Company intends to offer consulting services for both new build and retrofit projects. It will also seek to help clients identify the best sustainable infrastructure solutions for a site while taking into consideration the site's use and the client's objectives and budget.
 - (b) Financing: The Company intends to offer financing solutions, which will allow the Company to take a stake in a project as a lender and/or equity stakeholder. On the consumer's end, such financing is expected to increase the consumer's accessibility to sustainable infrastructure. On the Company's end it is expected to add to accessibility and appeal to the consumer, potentially creating a significant revenue stream.

- (c) Mechanical and Electrical Engineering and Design: The Company intends to offer mechanical engineering and design through CleanEnergy. The Company is exploring potential acquisitions to enhance mechanical and electrical engineering design capabilities.
- ii. Build: Implementation of design, including:
 - (a) Mechanical and Electrical Installation: The Company intends to offer project management and mechanical installation services through CleanEnergy. The Company is aiming to build out these offerings via acquisitions and/or outsourcing to enable electrical installation services.
 - (b) Equipment: The Company intends to continue to enhance its sustainable equipment and product lines through exclusive licencing and distribution arrangements.
- iii. Maintain: Operations and maintenance of installed systems, including:
 - (a) Operations and Maintenance Services: The Company intends to offer long-term services to operate and maintained installed systems.
 - (b) Energy Monitoring: To ensure the performance of the Company's products and systems, the Company intends to explore the possibility of monitoring the long-term energy consumption and outflows of the systems.

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

SustainCo Solutions & Services Outlook

SustainCo Solutions and Services has expanded its Performance Monitoring services with the addition of low-cost wireless device-level energy monitoring and analytics for customers. SustainCo has entered into a strategic partnership with Panoramic Power to provide unmatched visibility into device level energy consumption, which includes analytics, reports and alerts for Canadian customers.

Customers will have real-time visibility into operations and energy loads. Panoramic Power's PowerRadar analytics platform analyzes the data and SustainCo energy experts make ongoing recommendations to enhance and optimize system and building performance while reducing customers' utility bills. SustainCo will be responsible for all installations and professional services of this real-time energy monitoring system.

According to a study by Navigant Research, Global Industrial Energy Management Systems (IEMS) are estimated to grow from \$11.3 billion in 2013 to \$22.4 billion by 2020, and with North America leading the double-digit growth.

The following is a list of projects that VCI is currently involved in:

- VCI has been awarded two contracts worth over \$600,000 by Black & MacDonald for work including: Design Assist, providing the Building Automation System (BAS) equipment, and the commissioning of the system in the Operations Support Building of the Darlington Nuclear Generating Station, Ontario Power Generation.

Through VCI Controls, SustainCo has over 35 years of experience with this particular BAS. The formal contract was awarded in September 2014, and the work is expected to be completed by September 2015.

- VCI has also been awarded a contract worth over \$130,000 by Pomerleau for an Energy Management and Control System for CFB (Canadian Forces Base) Halifax.

The Energy Management and Control System will manage the environmental conditions of the building and proactively report any problems to the building operators.

The work details include providing the Building Automation System (BAS) equipment, installation, and the commissioning of the system. The BAS manages the air-handling units, primary heating system, room controls for ventilation and heating, and networking to the central BAS across the CFB Halifax network.

The work is expected to commence in January 2015 and be completed in September 2015. Work will be managed out of the SustainCo Halifax office.

- SustainCo Solutions & Services has been awarded a series of contracts worth over \$525,000 by a Fortune 100 company for several energy retrofit measures in their Toronto area facility. SustainCo was awarded work to design and install a cooling tower replacement and various valve and refrigeration upgrades, totalling over \$525,000. The work had commenced in July and is expected to be completed by early 2015.

CleanEnergy Outlook

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

- CleanEnergy has been awarded a contract worth over \$500,000 by Ellis Don Construction to initialize the Georexchange system at the new Calgary Airport International Terminal. As part of the contract Clean Energy Developments Corp will be providing the ongoing maintenance services for the new Georexchange Ground Loop.

Clean Energy Developments previously managed and installed the Georexchange System at the terminal expansion project at the Calgary Airport.

Work on the Georexchange system commences immediately and will be completed over the next three months.

"We have had a great relationship with Ellis Don on the Calgary Airport system, and we are pleased to continue to demonstrate our abilities in the development of sustainable thermal energy systems," commented Emlyn J David, CEO of SustainCo.

- CleanEnergy intends to continue working and bidding on projects with respect to the British Columbia wide program to perform energy saving retrofits on hundreds of schools in the province.
- CleanEnergy entered into a Letter of Intent with a clean technology company to provide CleanEnergy the exclusive use of the GeoModule(TM), a hardware and software package used to design optimal hybrid georexchange systems.

Disclosure of Outstanding Share Data

As at the date of this report, there were 46,741,801 issued and outstanding common shares in the capital of the Company. The Company has outstanding options to purchase an aggregate of 1,350,000 common shares, outstanding warrants to purchase an aggregate of 3,041,992 common shares, and outstanding agent options to purchase an aggregate of 431,696 common shares (assuming warrants obtained from exercising of the agent options are also exercised).

Risk Factors

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

Going Concern Risk

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. Management is aware in making its assessment, of material uncertainties related to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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. 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 financial results 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.

Revenue Risk

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

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

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

Sales Cycle and Fixed Price Contracts

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

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

Sensitivity to Fixed Costs

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

Reliance on Management and Key Personnel

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

Loss of Contracts

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

Competition

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

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

Dependence on Suppliers

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

Environmental Liability

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

Notice Concerning Forward-looking Statements

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

SustainCo Inc.
Management's Discussion & Analysis
For the year ended August 31, 2013



should not place undue reliance on forward-looking statements. The factors identified above are not intended to represent a complete list of the factors that could affect the Company. Additional factors are noted under "Risk Factors" in this MD&A. These forward-looking statements are made as of the date of the MD&A, and the Company assumes no obligation to update or revise them to reflect new events or circumstances, except as required by law.

Additional Information

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