



## **SustainCo Inc.**

**Condensed Consolidated Interim Financial Statements**

**For the three and six months ended February 28, 2015 and 2014**

**(Unaudited, Expressed in Canadian Dollars)**

## **Notice of No Auditor Review of Interim Financial Statements**

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

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

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

**Consolidated Interim Statements of Financial Position***(Unaudited, Expressed in Canadian Dollars)*

	February 28, 2015	August 31, 2014
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 185,187	\$ 1,514,837
Accounts receivable, net of \$79,000 allowance (August 31, 2014 - \$79,000)	3,264,351	3,417,880
Unbilled receivables	463,107	400,862
Inventories (note 6)	336,369	351,827
Prepaid expenses	112,688	128,736
	<b>4,361,702</b>	<b>5,814,142</b>
Property and equipment (note 7)	169,110	191,904
Intangible assets (note 9)	384,167	416,667
Goodwill (note 4 & 8)	599,802	599,802
	<b>\$ 5,514,781</b>	<b>\$ 7,022,515</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Trade payables and accrued liabilities	\$ 2,117,846	\$ 2,676,250
Bank indebtedness (note 14)	535,748	1,095,863
Acquisition payable (note 4)	70,000	70,000
Deferred revenue	502,796	319,775
Due to related party (note 11)	125,000	128,199
	<b>3,351,390</b>	<b>4,290,087</b>
Debentures (note 15)	4,825,313	4,796,246
	<b>8,176,703</b>	<b>9,086,333</b>
<b>Shareholders' equity (deficiency)</b>		
Share capital (note 10)	15,442,371	15,442,371
Share-based payment reserve (note 10)	1,483,253	1,483,253
Deficit	(19,587,546)	(18,989,442)
	<b>(2,661,922)</b>	<b>(2,063,818)</b>
	<b>\$ 5,514,781</b>	<b>\$ 7,022,515</b>

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

Nature of operations and going concern (note 1)

Subsequent events (note 18)

Approved on behalf of the Board

Signed: "Emlyn J. David"

Director

Signed: "Michael Galloro"

Director

**Consolidated Interim Statements of Loss and Comprehensive Loss**  
*(Unaudited, Expressed in Canadian Dollars)*

	Three months ended February 28,		Six months ended February 28,	
	2015	2014	2015	2014
Sales	\$ 2,710,410	\$ 2,481,253	\$ 5,614,240	\$ 3,213,831
Cost of sales (note 6)	1,883,250	2,034,412	4,158,482	2,773,045
Gross margin	827,160	446,841	1,455,758	440,786
Marketing, general and administrative (note 11 & 13)	950,114	974,407	1,642,867	1,542,729
Finance expense (note 14 & 15)	178,225	141,436	354,449	244,393
Amortization and depreciation (note 7 & 9)	27,548	15,605	55,354	41,977
Research and development	-	50,434	-	50,434
Transaction costs (note 4 & 5)	-	23,610	-	23,610
Loss on disposal of equipment	1,192	18,481	1,192	18,481
Loss from continuing operations before income taxes	329,919	777,132	598,104	1,480,838
Deferred income taxes	-	8,000	-	8,000
Loss from continuing operations	329,919	785,132	598,104	1,488,838
Loss from discontinued operations (note 5)	-	32,435	-	704,435
<b>Net loss and comprehensive loss</b>	<b>\$ 329,919</b>	<b>\$ 817,567</b>	<b>\$ 598,104</b>	<b>\$ 2,193,273</b>
<b>Net loss per share</b>				
Basic and diluted from continuing operations	\$ 0.01	\$ 0.02	\$ 0.01	\$ 0.04
Basic and diluted from discontinued operations	\$ -	\$ 0.00	\$ -	\$ 0.02
Weighted average shares outstanding	46,741,801	38,154,501	46,741,801	33,773,286

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

**Consolidated Interim Statements of Changes in Shareholders' Equity (Deficiency)***(Unaudited, Expressed in Canadian Dollars)*

	<b>Share Capital</b>	<b>Share-based payment reserve</b>	<b>Deficit</b>	<b>Total</b>
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
Net loss for the period	-	-	(2,193,273)	(2,193,273)
<b>Balance, February 28, 2014</b>	<b>\$ 15,036,121</b>	<b>\$ 1,455,935</b>	<b>\$ (17,251,272)</b>	<b>\$ (759,216)</b>
Balance, August 31, 2014	\$ 15,442,371	\$ 1,483,253	\$ (18,989,442)	\$ (2,063,818)
Net loss for the period	-	-	(598,104)	(598,104)
<b>Balance, February 28, 2015</b>	<b>\$ 15,442,371</b>	<b>\$ 1,483,253</b>	<b>\$ (19,587,546)</b>	<b>\$ (2,661,922)</b>

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

**Consolidated Interim Statements of Cash Flows**  
*(Unaudited, Expressed in Canadian Dollars)*

	Three months ended February 28,		Six months ended February 28,	
	2015	2014	2015	2014
<b>Cash flow from operating activities</b>				
Net loss from continuing operations	\$ (329,919)	\$ (785,132)	\$ (598,104)	\$ (1,488,838)
Add (deduct) items not involving cash				
Accretion	16,409	-	29,067	-
Amortization and depreciation	27,548	15,605	55,354	41,977
Loss on disposal of equipment	1,192	18,481	1,192	18,481
Deferred income taxes	-	8,000	-	8,000
Change in non-cash working capital				
Accounts receivable	312,690	850,635	153,529	679,326
Unbilled receivables	(182,608)	(409,839)	(62,245)	(409,839)
Inventory	9,297	12,716	15,458	42,080
Prepaid expenses	(36,982)	(44,485)	16,048	(260,491)
Deferred revenue	202,774	-	183,021	(54,368)
Accounts payable and accrued liabilities	(560,500)	(370,280)	(558,404)	(255,507)
Cash used in continuing operations	(540,099)	(704,299)	(765,084)	(1,679,179)
Cash used in discontinued operations	-	(32,435)	-	(1,815,391)
	(540,099)	(736,734)	(765,084)	(3,494,570)
<b>Cash flow from financing activities</b>				
Private placement, net of issuance costs	-	864,250	-	864,250
Issuance of notes payable	-	1,062,000	-	1,750,000
Due to related party	(3,199)	(249,947)	(3,199)	(349,947)
Repayment of bank indebtedness, net	(156,176)	(84,424)	(560,115)	(84,424)
Repayment of VCI loan payable	-	(625,000)	-	(625,000)
Cash (used) generated by continuing operations	(159,375)	966,879	(563,314)	1,554,879
Cash generated by discontinued operations	-	-	-	1,243,827
	(159,375)	966,879	(563,314)	2,798,706
<b>Cash flow from investing activities</b>				
Investment in property and equipment	(2,338)	(45,359)	(2,852)	(45,359)
Proceeds from sale of property and equipment	1,600	-	1,600	-
Proceeds from the sale of Urban Mechanical	-	3,000,000	-	3,000,000
Investment in VCI	-	(625,000)	-	(625,000)
Cash (used) generated by continuing operations	(738)	2,329,641	(1,252)	2,329,641
Cash used in discontinued operations	-	-	-	(132,871)
	(738)	2,329,641	(1,252)	2,196,770
<b>Cash (used) generated by continuing operations</b>	<b>(700,212)</b>	<b>2,592,221</b>	<b>(1,329,650)</b>	<b>2,205,341</b>
<b>Total cash used by discontinued operations</b>	<b>-</b>	<b>(32,435)</b>	<b>-</b>	<b>(704,435)</b>
<b>Cash, beginning</b>	<b>885,399</b>	<b>535,997</b>	<b>1,514,837</b>	<b>1,594,877</b>
<b>Cash, ending</b>	<b>\$ 185,187</b>	<b>\$ 3,095,783</b>	<b>\$ 185,187</b>	<b>\$ 3,095,783</b>

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

**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)***For the six months ended February 28, 2015 and 2014*

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**1. Nature of Operations and Going Concern**

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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 six months ended February 28, 2015, the Company incurred a loss of \$598,104. As a result, the Company has an accumulated deficit of \$19,587,546 and working capital of \$1,010,312 at February 28, 2015. 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, one of the Company’s banks reduced the line of credit maximum to \$500,000 (see notes 14 and 18). 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.

**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)***For the six months ended February 28, 2015 and 2014*

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**2. Basis of Presentation**

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**Statement of compliance**

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". These condensed consolidated interim financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the audited financial statements of the Company for the year ended August 31, 2014, which have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These unaudited condensed consolidated interim financial statements were authorized for issue by the Board of Directors on April 28, 2015.

**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**

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These condensed consolidated interim financial statements have been prepared following the same accounting policies used in the preparation of the audited financial statements of the Company for the year ended August 31, 2014.

Certain comparative figures have been reclassified to provide additional clarity and correspond with current grouping and classification disclosures.

**Use of estimates**

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

The critical assumptions concerning the key sources of estimation uncertainty are consistent with those in the audited financial statements of the Company for the year ended August 31, 2014.



**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)**
*For the six months ended February 28, 2015 and 2014*


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**4. Acquisition**


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*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.

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
<b>Total purchase price</b>	<b>\$ 1,131,250</b>

**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)**
*For the six months ended February 28, 2015 and 2014*
**4. Acquisition – continued**

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

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
<b>Identified net assets acquired</b>	<b>\$ 531,448</b>
Consideration paid	\$ 1,131,250
Identified net assets acquired	(531,448)
<b>Goodwill</b>	<b>\$ 599,802</b>

**5. Discontinued Operations**
**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.

**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)**  
*For the six months ended February 28, 2015 and 2014*

## 5. Discontinued Operations – continued

### Sale of Urban Mechanical – continued

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

	Three months ended February 28,		Six months ended February 28,	
	2015	2014	2015	2014
Sales	\$ -	\$ -	\$ -	\$ 25,720,579
Cost of sales	-	-	-	24,569,055
Gross margin	-	-	-	1,151,524
General and administrative	-	-	-	1,062,196
Depreciation	-	-	-	36,187
Finance expense	-	-	-	85,712
Impairment in goodwill	-	32,435	-	671,864
	-	32,435	-	1,855,959
<b>Net (loss) from discontinued operations</b>	<b>\$ -</b>	<b>\$ (32,435)</b>	<b>\$ -</b>	<b>\$ (704,435)</b>

## 6. Inventories

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

During the six months ended February 28, 2015, the Company recognized an impairment charge on inventory of \$nil (2014 - \$20,864), which has been included in cost of sales. Total raw materials, equipment and spare parts charged to cost of sales for the period was \$1,322,923 (2014 - \$587,407).

**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)**  
*For the six months ended February 28, 2015 and 2014*

## 7. Property and Equipment

	Computer equipment	Equipment	Vehicles	Furniture & fixtures	Leasehold improvements	Total
<b>Cost</b>						
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)
<b>At August 31, 2014</b>	<b>280,720</b>	<b>179,531</b>	<b>58,102</b>	<b>407,785</b>	<b>32,591</b>	<b>958,729</b>
Additions	-	2,852	-	-	-	2,852
Disposals	-	(26,263)	(12,932)	-	-	(39,195)
<b>At February 28, 2015</b>	<b>\$ 280,720</b>	<b>\$ 156,120</b>	<b>\$ 45,170</b>	<b>\$ 407,785</b>	<b>\$ 32,591</b>	<b>\$ 922,386</b>
<b>Accumulated depreciation</b>						
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)
<b>At August 31, 2014</b>	<b>222,145</b>	<b>144,354</b>	<b>41,531</b>	<b>334,695</b>	<b>24,100</b>	<b>766,825</b>
Expense for the period	8,787	3,534	2,227	6,008	2,298	22,854
Disposals	-	(25,576)	(10,827)	-	-	(36,403)
<b>At February 28, 2015</b>	<b>\$ 230,932</b>	<b>\$ 122,312</b>	<b>\$ 32,931</b>	<b>\$ 340,703</b>	<b>\$ 26,398</b>	<b>\$ 753,276</b>
<b>Net book value</b>						
At August 31, 2014	\$ 58,575	\$ 35,177	\$ 16,571	\$ 73,090	\$ 8,491	\$ 191,904
At February 28, 2015	\$ 49,788	\$ 33,808	\$ 12,239	\$ 67,082	\$ 6,193	\$ 169,110

## 8. Goodwill

The Company completed the acquisition of VCI in fiscal 2014, resulting in goodwill of \$599,802.

**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)**  
*For the six months ended February 28, 2015 and 2014*

## 9. Intangible Assets

	Customer relationships		Exclusivity contracts		Brand or trade name		Total
<b>Cost</b>							
At August 31, 2013	\$	70,000	\$	180,000	\$	68,000	\$ 318,000
Additions from acquisition		325,000		-		135,000	460,000
<b>At August 31, 2014</b>		<b>395,000</b>		<b>180,000</b>		<b>203,000</b>	<b>778,000</b>
<b>At February 28, 2015</b>	<b>\$</b>	<b>395,000</b>	<b>\$</b>	<b>180,000</b>	<b>\$</b>	<b>203,000</b>	<b>\$ 778,000</b>
<b>Accumulated depreciation</b>							
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
<b>At August 31, 2014</b>		<b>113,333</b>		<b>180,000</b>		<b>68,000</b>	<b>361,333</b>
Expense for the period		32,500		-		-	32,500
<b>At February 28, 2015</b>	<b>\$</b>	<b>145,833</b>	<b>\$</b>	<b>180,000</b>	<b>\$</b>	<b>68,000</b>	<b>\$ 393,833</b>
<b>Net book value</b>							
At August 31, 2014	\$	281,667	\$	-	\$	135,000	\$ 416,667
At February 28, 2015	\$	249,167	\$	-	\$	135,000	\$ 384,167

## 10. Share Capital

### (a) Authorized

An unlimited number of common shares

### (b) Issued

	Number of shares		Amount
Issued as at August 31, 2013	29,440,217	\$	14,188,904
Private placement, net of issuance costs	12,857,140		847,217
Issued as at February 28, 2014	42,297,357	\$	15,036,121
<b>Issued as at August 31, 2014 and February 28, 2015</b>	<b>46,741,801</b>	<b>\$</b>	<b>15,442,371</b>

### (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.

**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)**  
*For the six months ended February 28, 2015 and 2014*

## 10. Share Capital – continued

### (c) Stock options – continued

The option details of the Company are as follows:

Weighted average exercise price	Number of Options	Weighted average remaining life (years)	Vested
\$0.50	500,000	1.51	500,000
\$0.68	850,000	3.10	850,000
<b>Balance at February 28, 2015</b>	<b>1,350,000</b>	<b>2.51</b>	<b>1,350,000</b>

595,440 options expired unexercised during the six months ended February 28, 2014 from accelerated expiration due to consultants and employees leaving the Company.

### (d) Warrants

	Number of warrants	Weighted average exercise price	Weighted average remaining life
Outstanding, February 28, 2015	507,500	\$0.25	2.28

2,534,492 warrants expired unexercised during the six months ended February 28, 2015.

### (e) Agent options

	Number of agent options	Weighted average exercise price	Weighted average remaining life
Outstanding, February 28, 2015	26,178	\$0.25	2.28

202,759 agent options expired unexercised during the six months ended February 28, 2015.

## 11. Related Party Balances and Transactions

- A corporation that holds significant influence over the Company, is owed approximately \$125,000 (August 31, 2014 - \$128,199), which is outstanding consideration payable for the qualifying transaction. These amounts are non-interest bearing and due on demand.
- During the period, rent of \$nil (2014 - \$88,250) was paid to a company controlled by a beneficial owner that formerly held significant influence over the Company. In addition, rent of \$18,600 (2014 - \$16,096) was paid to a company controlled by an officer of the Company, for additional office space used by the Company.
- \$nil of interest was paid during the period (2014 - \$12,500) 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. This note was disposed of during the sale of discontinued operations.
- A promissory note of \$nil (2014 - \$100,000) was repaid during the period to a corporation controlled by an officer and director of the Company, plus interest of \$nil (2014 - \$4,373). The funds were used for general working capital.

**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)**
*For the six months ended February 28, 2015 and 2014*
**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 14).

**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 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.

<b>Accounts receivable aging</b>	<b>February 28, 2015</b>		<b>August 31, 2014</b>	
Within 30	\$	1,814,657	\$	2,182,423
31 to 60		331,749		483,784
61 to 90		152,226		233,815
Over 90		645,881		313,442
Holdbacks		319,838		204,416
<b>Total accounts receivable</b>	<b>\$</b>	<b>3,264,351</b>	<b>\$</b>	<b>3,417,880</b>

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.

**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)**  
*For the six months ended February 28, 2015 and 2014*

## 12. Financial Instruments and Risk Management – continued

### Concentration risk

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

### 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

	Three months ended February 28,		Six months ended February 28,	
	2015	2014	2015	2014
Salaries and wages	\$ 578,927	\$ 524,206	\$ 944,923	\$ 856,991
Office expense	226,945	183,122	416,411	286,872
Professional and consulting fees	115,760	242,775	236,634	350,114
Travel	28,482	31,590	44,899	49,312
Bad debts	-	(7,286)	-	(560)
	\$ 950,114	\$ 974,407	\$ 1,642,867	\$ 1,542,729

The Company settled a liability resulting in a one-time gain of \$96,746, which has been treated as a reduction to salaries and wages expense for the six months ended February 28, 2015. The grouping of certain items has been changed for 2014 to improve clarity and comparability.

## 14. Bank Indebtedness

The demand operating loan bears interest at the Royal Bank prime rate plus 3.60% (6.45% at February 28, 2015), which was increased from Royal Bank prime rate plus 1.60%. Security for the above indebtedness is comprised of a general security agreement, postponement and assignment of claim of amounts due to related parties, and corporate guarantees totaling \$1,500,000. 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.

During the six months ended February 28, 2015, interest of approximately \$20,385 (2014 - \$8,463) related to the above indebtedness has been charged to interest expense.

VCI is subject to a financial covenant related to its bank indebtedness which consists of a maximum threshold for its liabilities to tangible net worth ratio. At February 28, 2015, VCI is in compliance with this financial covenant.



**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)**
*For the six months ended February 28, 2015 and 2014*
**15. 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.

	<b>February 28, 2015</b>	August 31, 2014
Opening balance	\$ 4,796,246	\$ -
Debenture issued June 2014	-	5,075,000
Less costs	-	(256,266)
Less warrant component	-	(25,832)
Less deferred tax liability	-	(9,314)
	<b>4,796,246</b>	4,783,588
Adjustments		
Accretion of liability	<b>29,067</b>	12,658
Liability component of debentures	<b>\$ 4,825,313</b>	\$ 4,796,246

**16. Contingent Liabilities**

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

**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)**
*For the six months ended February 28, 2015 and 2014*
**17. Segmented Information**

<b>Six months ended Feb 28, 2015</b>	Corporate	Geoexchange services	Controls and Mechanical contracting	<b>Total</b>
Capital expenditures	\$ -	\$ -	\$ 2,852	\$ <b>2,852</b>
Total assets	211,796	733,031	4,569,954	<b>5,514,781</b>
<b>Statement of operations</b>				
Revenue	-	629,310	4,984,930	<b>5,614,240</b>
Cost of sales	-	(439,744)	(3,718,738)	<b>(4,158,482)</b>
General and administrative	(469,926)	(130,434)	(1,042,507)	<b>(1,642,867)</b>
Other expenses	(333,035)	(605)	(20,809)	<b>(354,449)</b>
Amortization and depreciation	-	(2,644)	(52,710)	<b>(55,354)</b>
Segmented (loss) income	\$ (802,961)	\$ 55,883	\$ 148,974	\$ <b>(598,104)</b>

The Company settled a liability resulting in a one-time gain of \$96,746, which was treated as a reduction to general and administrative expenses in the geoexchange services division for the six months ended February 28, 2015.

<b>Six months ended Feb 28, 2014</b>	Corporate	Geoexchange services	Controls and Mechanical contracting	<b>Total</b>
Capital expenditures	\$ -	\$ -	\$ 45,359	\$ <b>45,359</b>
Total assets	3,297,705	699,142	4,691,319	<b>8,688,166</b>
<b>Statement of operations</b>				
Revenue	-	882,820	2,331,011	<b>3,213,831</b>
Cost of sales	-	(970,667)	(1,802,378)	<b>(2,773,045)</b>
General and administrative	(582,897)	(478,429)	(481,403)	<b>(1,542,729)</b>
Other expenses	(242,640)	(21,559)	(80,719)	<b>(344,918)</b>
Amortization and depreciation	-	(31,936)	(10,041)	<b>(41,977)</b>
Segmented (loss) income	\$ (825,537)	\$ (619,771)	\$ (43,530)	\$ <b>(1,488,838)</b>

**Notes to the Condensed Interim Consolidated Financial Statements – (unaudited)**
*For the six months ended February 28, 2015 and 2014*
**17. Segmented Information – continued**

<b>Three months ended Feb 28, 2015</b>	Corporate	Geoexchange services	Controls and Mechanical contracting	<b>Total</b>
Capital expenditures	\$ -	\$ -	\$ 2,338	\$ <b>2,338</b>
<b>Statement of operations</b>				
Revenue	-	374,425	2,335,985	<b>2,710,410</b>
Cost of sales	-	(251,268)	(1,631,982)	<b>(1,883,250)</b>
General and administrative	(229,159)	(122,224)	(598,731)	<b>(950,114)</b>
Other expenses	(168,756)	(290)	(9,179)	<b>(178,225)</b>
Depreciation	-	(1,368)	(26,180)	<b>(27,548)</b>
Loss (gain) on disposal of equipment	-	-	(1,192)	<b>(1,192)</b>
Segmented (loss) income	\$ (397,915)	\$ (725)	\$ 68,721	\$ <b>(329,919)</b>

  

<b>Three months ended Feb 28, 2014</b>	Corporate	Geoexchange services	Controls and Mechanical contracting	<b>Total</b>
Capital expenditures	\$ -	\$ -	\$ 45,359	\$ <b>45,359</b>
<b>Statement of operations</b>				
Revenue	-	150,242	2,331,011	<b>2,481,253</b>
Cost of sales	-	(232,034)	(1,802,378)	<b>(2,034,412)</b>
General and administrative	(317,843)	(175,161)	(481,403)	<b>(974,407)</b>
Other expenses	(141,819)	(19,423)	(80,719)	<b>(241,961)</b>
Amortization and depreciation	-	(5,564)	(10,041)	<b>(15,605)</b>
Segmented (loss) income	\$ (459,662)	\$ (281,940)	\$ (43,530)	\$ <b>(785,132)</b>

**18. Subsequent Events**
*Bank indebtedness*

Subsequent to the period, the personal guarantees associated with the Company's bank indebtedness were discharged.

*Stock options*

Subsequent to the period, the Company granted 2,250,000 stock options to directors and officers. Each option is exercisable for a period of 5 years from the date of grant at a price of \$0.10 per share. ¼ of the options vested immediately, with ¼ vesting every six months thereafter until fully vested.