



SustainCo Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended May 31, 2015

SustainCo Inc.
Management's Discussion & Analysis
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July 28, 2015

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 nine months ended May 31, 2015 and 2014. It is supplemental to, and should be read in conjunction with the Company's unaudited condensed consolidated interim financial statements for the nine months ended May 31, 2015, and the 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 geexchange component. Geexchange 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

CleanEnergy has completed a \$500,000 project at the Calgary International Airport to initialize the geexchange system it has previously installed. CleanEnergy has been flushing the largest geexchange loop in Canada over the course of the last three months.

CleanEnergy has completed building the geexchange system for the Ontario Ministry of Natural Resources' Fire Management Facility. The Geexchange system will assist MNR to achieve a LEED designation.

SustainCo Solutions & Services continues to execute the awarded contract worth over \$575,000 for energy management controls at Phase II of Kipling Acres Homes for the Aged, a City of Toronto property.

SustainCo Solutions & Services has been executing a contract worth over \$280,000 by Canadian Food Inspection Agency to upgrade and integrate the energy management and control system in their lab in Saint-Hyacinthe, Quebec.

SustainCo Solutions & Services completed a series of contracts and work orders worth over \$550,000 by Defence Construction Canada- CFB Borden and Public Works and Government Services of Canada- CFB Borden. The work was comprised of a number of General Contractor and Project Management mandates including: roof replacement, HVAC upgrades, cooling tower maintenance and generator repairs. In addition, SustainCo has a standing offer to provide: HVAC Services, BAS Controls Services, Electrical Services, Millwrighting, and Insulation, as required from time to time.

Collaboration with University of Ottawa

The Company and the University of Ottawa are collaborating on a pilot project to test the wireless monitoring system in Brooks Residence in order to reduce the overall utility consumption and increase social engagement among the student population.

The university is capitalizing on a prime opportunity to engage students, building operators and the Residence Management Board, as well as provide them with tools to manage the university's peak energy activities. Brooks Residence, which houses over 700 students in 202 units, paves a path for a dynamic sustainability program.

SustainCo is providing the design, equipment, installation, monitoring and analysis of real-time energy data for the university. With SustainCo's device level sensors and the analytics platform, SustainCo's system provides immediate awareness of real-time electricity costs and consumption based on daily activities, as well as empowers the users to bring about measurable change to support environmental sustainability.

SustainCo Debentures Listed on Canadian Securities Exchange

The Company listed its previously issued debentures on the Canadian Securities Exchange (CSE) under the ticker SMS.DB and commenced trading on May 7, 2015.

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, \$60,000 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.

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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

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 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

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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.

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.

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Selected Financial Information

Selected Quarterly Financial Information

	Q3-2015 \$	Q2-2015 \$	Q1-2015 \$	Q4-2014 \$	Q3-2014 \$	Q2-2014 \$	Q1-2014 \$	Q4-2013 \$
Revenue	3,416,203	2,710,410	2,903,830	2,761,250	2,370,561	2,481,253	732,578	312,662
Net loss from continuing operations	452,355	329,919	268,185	1,020,984	717,186	785,132	703,706	8,207,099
Net loss (income) from discontinued operations	-	-	-	-	-	32,435	672,000	5,106,418
Net loss	452,355	329,919	268,185	1,020,984	717,186	817,567	1,375,706	11,446,695
Basic & diluted loss per share – continuing operations	0.01	0.01	0.01	0.02	0.02	0.02	0.02	0.22
Basic & diluted (income) loss per share – discontinued operations	-	-	-	-	-	0.00	0.02	0.23

* 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

Results of Operations

Sales and Direct Costs

	Three months ended May 31,		Nine months ended May 31,	
	2015	2014	2015	2014
Revenue				
Geoexchange services	\$ 452,054	\$ 199,266	\$ 1,081,364	\$ 1,082,086
Controls and Mechanical contracting	2,964,149	2,171,295	7,949,079	4,502,306
Total Revenue	3,416,203	2,370,561	9,030,443	5,584,392
Cost of sales				
Geoexchange services	(347,878)	(202,526)	(787,622)	(1,173,193)
Controls and Mechanical contracting	(2,237,410)	(1,850,584)	(5,956,148)	(3,652,962)
Total Cost of sales	(2,585,288)	(2,053,110)	(6,743,770)	(4,826,155)
Gross margin				
Geoexchange services	104,176	(3,260)	293,742	(91,107)
Controls and Mechanical contracting	726,739	320,711	1,992,931	849,344
Gross margin	\$ 830,915	\$ 317,451	\$ 2,286,673	\$ 758,237

Revenues from geoexchange services for the three and nine months ended May 31, 2015 were \$452,054 and \$1,081,364 respectively. This is an increase from the three months ended May 31, 2014 of \$150,242 but a slight decrease for the nine months then ended of \$1,081,364. This is due to the change in mix of large scale projects such as the University of Toronto Scarborough and Calgary airport projects. Cost of sales of \$347,878 and \$787,622 for the three and nine months ended May 31, 2015 relate to direct materials and expenditures, equipment costs and materials for products and services sold. Margins increased from negative 1.6% to positive 23.0% in the quarter compared to the prior year and from negative 8.4% to positive 27.2% for the nine months ended May 31, 2015. This is due to the significantly lower margin associated with the University

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of Toronto Scarborough project in the prior year versus this year, as well as better cross-utilization of staff in the period.

Revenues from controls and mechanical contracting services for the three months ended May 31, 2015 of \$2,964,149 was better than the prior year period of \$2,171,295. As the Company only began including results from VCI in Q2-2014, the revenue for the nine months ended May 31, 2015 of \$7,949,079 increased significantly from \$4,502,306. Cost of sales for the 3rd quarter of 2015 of \$2,237,410 relate to direct materials and expenditures for products and services sold. This increased from the prior year of \$1,850,584 due to the higher sales in the quarter. Margins were 24.5% for the quarter for this division versus 14.8% in the prior year quarter, which increased due to several projects that were completed in 2015 that had a higher margin than the prior year.

Marketing, General and Administrative Costs

For the three months ended May 31, 2015 and 2014:

	Corporate		Geoexchange services		Controls and Mechanical contracting	
	2015	2014	2015	2014	2015	2014
Salaries and wages	\$ 152,942	\$ 156,492	\$ 47,062	\$ 69,299	\$ 383,032	\$ 369,343
Professional and consulting fees	46,437	33,542	5,882	21,264	75,019	97,108
Office costs	43,420	50,733	32,070	25,277	159,228	30,350
Travel costs	-	2,441	7,233	10,926	10,799	23,462
Bad debts	-	60	682	(155)	45,000	-
	\$ 242,799	\$ 243,268	\$ 92,929	\$ 126,611	\$ 673,078	\$ 520,263

For the nine months ended May 31, 2015 and 2014:

	Corporate		Geoexchange services		Controls and Mechanical contracting	
	2015	2014	2015	2014	2015	2014
Salaries and wages	\$ 486,037	\$ 471,834	\$ 63,353	\$ 360,486	\$ 978,569	\$ 619,805
Professional and consulting fees	101,031	254,002	30,389	57,063	232,552	190,963
Office costs	124,228	97,828	108,073	147,925	418,828	147,479
Travel costs	1,429	2,441	20,866	40,281	40,636	43,419
Bad debts	-	60	682	(715)	45,000	-
	\$ 712,725	\$ 826,165	\$ 223,363	\$ 605,040	\$ 1,715,585	\$ 1,001,666

Marketing, general and administrative costs decreased in the three months ended May 31, 2015 vs. the comparable period in the prior year in both the corporate and geoexchange services divisions as the Company continues to reduce overhead wherever possible. While there was an increase in marketing, general and administrative costs in the controls and mechanical contracting division, this is mainly attributable to a refundable scientific research and experimental development tax credit received last year of \$107,600.

For the nine months ended May 31, 2015 versus 2014, the increase is largely due to the acquisition of VCI subsequent to the first quarter of 2014. As such, the operating results of VCI were not included until the 2nd quarter of 2014. This was partially offset by the decrease in marketing, general and administrative costs in geoexchange services at CleanEnergy, with a notable decrease from \$605,040 in 2014 to \$223,363. There was a one-time \$96,746 gain for the nine month ended May 31, 2015 period which was recorded as a reduction in salaries and wages after finalizing severance owed for the geoexchange services division. There were also a number of staff reductions, increased cross-utilization of staff, and other cost cutting measures implemented.

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Amortization and Depreciation

Amortization and depreciation for the three and nine months ended May 31, 2015 was \$27,713 and \$83,067. This is a slight increase from the comparable periods of 2014 of \$27,479 and \$69,456. This includes amortization of intangible assets acquired with CleanEnergy and VCI CONTROLS, and depreciation of property and equipment.

Finance Expense

Finance expenses of \$171,060 and \$525,509 were incurred for the three and nine months ended May 31, 2015 and relate to interest and bank charges on the Company's bank indebtedness and debentures. This is an increase from \$160,348 and \$404,741 in 2014. This increase is attributable to the additional notes payable that were raised during fiscal 2014, with a total of \$5,075,000 as at November 30, 2014, bearing interest at 12% per annum which were converted into debentures during the year and the additional bank indebtedness that was assumed through the acquisition of VCI.

Discontinued Operations

In the three and nine months ended May 31, 2015, the Company had a loss from discontinued operations of \$nil and \$nil versus \$nil and \$704,435 in 2014. 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 three and nine months ended May 31, 2015 of \$452,355 (2014 - \$717,186) and \$1,050,459 (2014 - \$2,910,459) decreased compared to the previous year periods. The main factors for this difference in net loss recorded in the prior year includes the loss from discontinued operations of \$704,435 (2015 - \$nil) from the operations of Urban Mechanical, as well as better gross profit compared to the prior year (\$2,286,673 versus \$758,237).

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 May 31, 2015, the Company had working capital of \$675,360 and cash of \$222,179. 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. 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 \$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.
- (b) During the period, rent of \$nil (2014 - \$88,250) 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 \$27,900 (2014 - \$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) \$nil of interest was paid during the year (2014 - \$12,500) to a beneficial owner that formerly held significant influence over the Company as part of the Urban Mechanical acquisition (The Edward J. Winter Family Trust). This note was disposed of during the sale of discontinued operations.
- (d) A promissory note of \$nil (2014 - \$100,000) was repaid during the year to a corporation controlled by an officer and director of the Company (CanGap Capital Corp., Mr. David), plus interest of \$nil (2014 - \$4,373). The funds were used for general working capital.

Financial Instruments Risk Exposure and Management

The Company's financial instruments consist of cash, accounts receivable, trade payables and accrued liabilities, due to related party, and debentures. Due to the short-term nature of most 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 maximum exposure is limited to the carrying amount of financial assets on the statement of financial position that includes cash and accounts receivable.

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.

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Accounts receivable aging	May 31, 2015		August 31, 2014
Within 30	\$	1,071,368	\$ 2,182,423
31 to 60		709,132	483,784
61 to 90		249,009	233,815
Over 90		372,374	313,442
Holdbacks		211,288	204,416
Total accounts receivable	\$	2,613,171	\$ 3,417,880

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.

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

A number of new standards, amendments to standards and interpretations are not yet effective, 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.

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 technologies 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 greater and larger projects.

The Company's objective is to refocus on vertically integrating and building the Company to be a 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, for example Building Performance mandates such as the finance, consulting, and conceptual 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:

- energy audits and mechanical and electrical design;
- asset advisory services;
- energy monitoring/management and automation;
- leading edge clean technology licensing or exclusivity; and
- mechanical services.

With these strategic enhancements to the Company, the Company plans to offer consumers a "one stop shop" of solutions ("Building Performance") 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.

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These Building Performance solutions and services are expected to include:

1. **Performance Monitoring:** The Company licensed the use of the Panoramic Power device level energy monitoring system. The Company intends to seek new clients through the use of low cost data acquisition and upselling on the retrofit mandates that are leveraged from the ongoing analysis and recommendations to clients.
2. **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.
3. **Energy audits and Mechanical and Electrical Engineering and Design:** The Company intends to augment its current mechanical engineering and design capabilities within CleanEnergy. The Company is exploring potential acquisitions to enhance general audit, mechanical and electrical engineering design capabilities.

The Mechanical Services growth is expected to include:

The Company is exploring acquisition opportunities to expand its mechanical services business into additional geographical areas. Mechanical Services mandates lead to additional mechanical and electrical project work for the Company. The Mechanical Services team typically maintain equipment as well as execute additional projects confirmed by client.

The Building Automation System growth is expected to include:

1. The Company is exploring the acquisition and R&D of wireless controls system to augment existing wireless energy monitoring capabilities, and provide a customized solution set to manage various building systems and/or device level equipment through wireless/wired controls that are more cost effective for customers.
2. The Company is exploring the licensing and/or R&D of a holistic energy management software system for presentment, alarms and controls for customers. This Energy Management software system is meant to provide a more customer-centric opportunity to manage energy and utilities more cost effectively.

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 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.

- VCI has been retained by a national refrigerated food distributor for the completion of a feasibility and design study for a \$1.9 million generator system. Upon acceptance and meeting key conditions, the company would be retained to build and commission the system for this site retrofit.

SustainCo's Building Performance group assessed and created the opportunity for the natural gas generator package. The system will be utilized for both emergency and non-emergency requirements, and will capitalize on Demand Response and electricity price differences in the market. The feasibility study will be completed within the next thirty days, and upon acceptance the project is expected to be completed in 2015.

- SustainCo Solutions & Services through its operating group, VCI Controls Inc., has been awarded a contract worth over \$280,000 by Canadian Food Inspection Agency to upgrade and integrate the energy management and control system in their lab in Saint-

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Hyacinthe, Quebec.

SustainCo has been working with this client and this facility for over 25 years on various building automation system requirements. The work commenced in February 2015 and is to be completed in December 2015. Work will be managed out of the SustainCo Montreal office.

- SustainCo Solutions & Services was awarded a contract worth over \$575,000 for energy management controls at Phase II of Kipling Acres Homes for the Aged, a City of Toronto property.

Kipling Acres long-term care facility sits on 10 acres and is home to 192 residents, both seniors and young adults. SustainCo had previously completed work on Phase I, and has been contracted to execute Phase II, which consists of the addition of 145 beds, and incorporates energy management controls. These controls include energy efficiency hot water in floor heating for both perimeter and interior heating, and in conjunction with Heat Recovery Roof Ventilation Units. SustainCo is using Open Protocol Honeywell BACnet Building Automation System, to interface with equipment.

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 is providing resources on technical design and estimation for the national refrigerated food distributor project via VCI CONTROLS.
- CleanEnergy has expanded its dealer network for Water Furnace geothermal heat pumps to include another 200 dealer network in Western Canada.
- 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.

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 3,550,000 common shares, outstanding warrants to purchase an aggregate of 507,500 common shares, and outstanding agent options to purchase an aggregate of 26,178 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 nine months ended May 31, 2015, the Company incurred a loss of \$1,050,459. As a result, the Company has an accumulated deficit of \$20,039,901 and working capital of \$675,360 at May 31, 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. 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 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.

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Additional Information

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