SustainCo Inc.

Condensed Interim Consolidated Financial Statements

For the three months ended November 30, 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 unaudited condensed interim consolidated 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 a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

SustainCo Inc.

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

		November 30, 2015		August 31, 2015
Assets				
Current assets				
Cash	**$**	**10,806**	$	33,042
Accounts receivable, net of $205,420 allowance (Aug 31, 2015 - $215,579)		**3,311,046**		3,483,364
Unbilled receivables		**404,245**		425,338
Inventories *(note 4)*		**317,608**		326,511
Prepaid expenses		**59,838**		66,142
		4,103,543		4,334,397
Property and equipment *(note 5)*		**120,472**		127,942
Intangible assets *(note 6)*		**335,417**		351,667
Goodwill		**599,802**		599,802
	$	**5,159,234**	$	5,413,808
Liabilities				
Current liabilities				
Trade payables and accrued liabilities	**$**	**2,359,802**	$	2,540,418
Bank indebtedness *(note 11)*		**489,128**		525,104
Acquisition payable		**60,000**		60,000
Deferred revenue		**495,112**		447,064
Due to related parties *(note 8)*		**435,000**		260,000
		3,839,042		3,832,586
Debentures *(note 12)*		**4,866,609**		4,856,864
		8,705,651		8,689,450
Shareholders' deficiency				
Share capital *(note 7)*		**15,442,371**		15,442,371
Share-based payment reserve *(note 7)*		**1,628,086**		1,600,869
Deficit		**(20,616,874)**		(20,318,882)
		(3,546,417)		(3,275,642)
	$	**5,159,234**	$	5,413,808

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

Nature of operations and going concern *(note 1)*

Approved on behalf of the Board

Signed: *"Emlyn J. David"* — Director

Signed: *"Michael Galloro"* — Director

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

	For the three months ended November 30,			
		2015		2014
Sales	**$**	**2,812,563**	$	2,903,830
Cost of sales *(note 4)*		**2,133,150**		2,275,232
Gross profit		**679,413**		628,598
Marketing, general and administrative *(note 10)*		**759,712**		692,753
Finance expense *(note 11 & 12)*		**165,864**		176,224
Amortization and depreciation *(note 5 & 6)*		**24,612**		27,806
Share-based payments *(note 7)*		**27,217**		-
Net loss and comprehensive loss	**$**	**(297,992)**	$	(268,185)
Net loss per share				
Basic and diluted	**$**	**(0.01)**	$	(0.01)
Weighted average shares outstanding		**46,741,801**		46,741,801

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

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

	Share Capital	Share-based payment reserve	Deficit	Total
Balance, August 31, 2014	$ 15,442,371	$ 1,483,253	$ (18,989,442)	$ (2,063,818)
Net loss for the period	-	-	(268,185)	(268,185)
Balance, November 30, 2014	$ 15,442,371	$ 1,483,253	$ (19,257,627)	$ (2,332,003)
Balance, August 31, 2015	$ 15,442,371	$ 1,600,869	$ (20,318,882)	$ (3,275,642)
Share-based payments	-	27,217	-	27,217
Net loss for the period	-	-	(297,992)	(297,992)
Balance, November 30, 2015	**$ 15,442,371**	**$ 1,628,086**	**$ (20,616,874)**	**$ (3,546,417)**

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

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

	For the three months ended November 30, 2015	2014
Cash flow from operating activities		
Net loss	**$ (297,992)**	$ (268,185)
Add (deduct) items not involving cash		
Accretion	**9,745**	12,658
Amortization and depreciation	**24,612**	27,806
Share-based payments	**27,217**	-
Change in non-cash working capital		
Accounts receivable	**172,318**	(159,161)
Unbilled receivables	**21,093**	120,363
Inventory	**8,903**	6,161
Prepaid expenses	**6,304**	53,030
Deferred revenue	**48,048**	(19,753)
Accounts payable and accrued liabilities	**(180,616)**	2,096
	(160,368)	(224,985)
Cash flow from financing activities		
Advance from related party *(note 8)*	**175,000**	-
Repayment of bank indebtedness, net	**(35,976)**	(403,939)
	139,024	(403,939)
Cash flow from investing activities		
Investment in property and equipment	**(892)**	(514)
	(892)	(514)
Decrease in cash	**(22,236)**	(629,438)
Cash, beginning of period	**33,042**	1,514,837
Cash, ending of period	**$ 10,806**	$ 885,399

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

1. Nature of Operations and Going Concern

SustainCo Inc. (formerly Bellair Ventures Inc.), (the “Company” or “SustainCo”), was incorporated under the *Canada Business Corporation Act* on August 22, 2008. The address of the Company’s corporate office is 1 Royal Gate Boulevard, Suite D, Vaughan, Ontario. 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 condensed interim 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 three months ended November 30, 2015 of $281,741. As a result, the Company has an accumulated deficit of $20,600,623 and working capital of $264,501 at November 30, 2015. The Company has taken and continues to take steps to reduce these losses and ultimately become profitable; however, losses may continue for the 2016 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 condensed interim consolidated financial statements do not include any adjustments to the carrying values and classifications of assets and liabilities that would be necessary should the Company be unable to continue as a going concern.

2. Basis of Presentation

Statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". These condensed interim consolidated 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, 2015, which has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These financial statements were authorized for issue by the Board of Directors on January 26, 2016.

Basis of measurement and functional currency

The consolidated financial statements are prepared on the historical cost basis.

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

These condensed interim consolidated 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, 2015.

Use of estimates

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

The 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, 2015.

4. Inventories

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

Total raw materials, equipment and spare parts charged to cost of sales for the three months ended November 30, 2015 was $592,730 (2014 - $710,333).

5. Property and Equipment

	Computer equipment	Equipment	Vehicles	Furniture & fixtures	Leasehold improvements	Total
Cost						
At August 31, 2014	$ 280,720	$ 179,531	$ 58,102	$ 407,785	$ 32,591	$ 958,729
Additions	2,309	3,747	-	1,779	-	7,835
Disposals	(106,865)	(76,373)	(22,368)	(160,766)	-	(366,372)
At August 31, 2015	**176,164**	**106,905**	**35,734**	**248,798**	**32,591**	**600,192**
Additions	892	-	-	-	-	892
Disposals	-	-	-	-	-	-
At November 30, 2015	**$ 177,056**	**$ 106,905**	**$ 35,734**	**$ 248,798**	**$ 32,591**	**$ 601,084**
Accumulated depreciation						
At August 31, 2014	$ 222,145	$ 144,354	$ 41,531	$ 334,695	$ 24,100	$ 766,825
Expense for the year	17,578	11,870	4,181	9,949	1,961	45,539
Disposals	(104,240)	(72,206)	(18,949)	(144,719)	-	(340,114)
At August 31, 2015	**135,483**	**84,018**	**26,763**	**199,925**	**26,061**	**472,250**
Expense for the period	3,056	1,466	679	2,691	470	8,362
Disposals	-	-	-	-	-	-
At November 30, 2015	**$ 138,539**	**$ 85,484**	**$ 27,442**	**$ 202,616**	**$ 26,531**	**$ 480,612**
Net book value						
At August 31, 2015	$ 40,681	$ 22,887	$ 8,971	$ 48,873	$ 6,530	$ 127,942
At November 30, 2015	$ 38,517	$ 21,421	$ 8,292	$ 46,182	$ 6,060	$ 120,472

6. Intangible Assets

	Customer relationships	Exclusivity contracts	Brand or trade name	Total
Cost				
At Aug 31, 2014, 2015, and November 30, 2015	$ 395,000	$ 180,000	$ 203,000	$ 778,000
Accumulated depreciation				
At August 31, 2014	113,333	180,000	68,000	361,333
Expense for the year	65,000	-	-	65,000
At August 31, 2015	$ 178,333	$ 180,000	$ 68,000	$ 426,333
Expense for the period	16,250	-	-	16,250
At November 30, 2015	$ 194,583	$ 180,000	$ 68,000	$ 442,583
Net book value				
At August 31, 2015	$ 216,667	$ -	$ 135,000	$ 351,667
At November 30, 2015	$ 200,417	$ -	$ 135,000	$ 335,417

7. Share Capital

(a) Authorized

An unlimited number of common shares

(b) Issued

	Number of shares		Amount
Issued as at August 31, 2015 & November 30, 2015	46,741,801	$	15,442,371

(c) Stock options

The Company adopted a stock option plan under which it is authorized to grant options to officers, directors, employees, and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The options granted can be exercised for a maximum of 5 years and vest as determined by the Board of Directors. The exercise price of each option may not be less than the discounted fair market value of the common shares on the date of grant.

The option details of the Company are as follows:

Weighted average exercise price	Number of Options	Weighted average remaining life (years)	Vested
$0.10	2,250,000	4.34	1,125,000
$0.50	500,000	0.76	500,000
$0.68	800,000	2.34	800,000
Balance at November 30, 2015	**3,550,000**	**3.38**	**2,425,000**

The Company recognized a share-based payment expense of $27,217 (2014 - $nil).

(d) Warrants

	Number of warrants	Weighted average exercise price	Weighted average remaining life
Outstanding, November 30, 2015	507,500	$0.25	1.53

(e) Agent options

	Number of agent options	Weighted average exercise price	Weighted average remaining life
Outstanding, November 30, 2015	26,178	$0.25	1.53

8. Related Party Balances and Transactions

(a) A corporation that holds significant influence over the Company is owed $125,000 (August 31, 2015 - $125,000), 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 $9,300 (2014 - $9,300) was paid to a company controlled by a former officer of the Company, for office space used by the Company.

(c) During the period, proceeds from a promissory note of $175,000 was received from a corporation controlled by an officer and director of the Company. In 2015, $135,000 was received from a corporation controlled by an officer and director of the Company for a total of $310,000. The promissory notes bear interest of 12% and are repayable upon demand.

9. 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 11).

Financial instrument risk exposure and management

Liquidity risk

The Company is exposed to liquidity risk or the risk of not meeting its financial obligations as they come due. The Company constantly monitors and manages its cash flows to assess the liquidity necessary to fund operations (see note 1).

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

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.

9. Financial Instruments and Risk Management – continued

Credit risk

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

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

Accounts receivable aging	**November 30, 2015**	August 31, 2015
Within 30	$ 1,511,056	$ 1,492,358
31 to 60	595,687	1,149,097
61 to 90	565,958	345,558
Over 90	384,104	235,172
Holdbacks	254,241	261,179
Total accounts receivable	**$ 3,311,046**	$ 3,483,364

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.

Concentration risk

The concentration of revenue generated from major customers is not significant, with the three largest customers combined accounting for less than 25% 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.

10. General and Administrative Expense

	For the three months ended November 30,	
	2015	2014
Salaries and wages	**$ 444,202**	$ 365,996
Office expense	**178,464**	189,466
Professional and consulting fees	**120,591**	120,874
Travel	**16,455**	16,417
	$ 759,712	$ 692,753

11. Bank Indebtedness

As at November 30, 2015, bank indebtedness is made up of a $375,000 demand operating loan and $114,128 bank overdraft (August 31, 2015 - $315,000 and $210,104 respectively).

The demand operating loan bears interest at the Royal Bank prime rate plus 3.60% (6.30% at November 30, 2015). Security for the above indebtedness is comprised of a general security agreement, and postponement and assignment of claim of amounts due to related parties. The operating loan maximum is $500,000. The operating loan agreement expired at the end of December 2015. The Company is actively working with the bank to renew this facility.

During the three months ended November 30, 2015, interest of approximately $3,972 (2014 - $11,527) 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 November 30, 2015, VCI was in compliance with this financial covenant.

12. Debentures

The Company has outstanding secured term note units, 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 have a maturity date of June 2019, 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 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 was 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.

		November 30, 2015		August 31, 2015
Opening balance	**$**	**4,856,864**	$	4,796,246
Adjustments				
Accretion of liability		**9,745**		60,618
Liability component of debentures	**$**	**4,866,609**	$	4,856,864

13. Contingent Liabilities and Commitments

The Company is involved in several 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.

The Company has a lease commitment until 2019 for the rental of office space and vehicles. The minimum payments payable over the next five years are as follows:

2016	$ 146,600
2017	205,000
2018	159,000
2019	42,000
Total	**$ 552,600**

14. Segmented Information

Three months ended Nov 30, 2015	Corporate	Geoexchange services	Controls and Mechanical contracting	Total
Capital expenditures	$ -	$ -	$ 892	**$ 892**
Total assets	24,781	397,243	4,737,210	**5,159,234**
Statement of operations				
Revenue	-	195,956	2,616,607	**2,812,563**
Cost of sales	-	(168,404)	(1,964,746)	**(2,133,150)**
General and administrative	(210,946)	(70,719)	(478,047)	**(759,712)**
Other expenses	(188,866)	(243)	(3,972)	**(193,081)**
Amortization and depreciation	-	(1,269)	(23,343)	**(24,612)**
Segmented (loss) income	$ (399,812)	$ (44,679)	$ 146,499	**$ (297,992)**

Three months ended Nov 30, 2014	Corporate	Geoexchange services	Controls and Mechanical contracting	Total
Capital expenditures	$ -	$ -	$ 514	**$ 514**
Total assets	898,065	483,950	4,963,376	**6,345,391**
Statement of operations				
Revenue	-	254,885	2,648,945	**2,903,830**
Cost of sales	-	(188,476)	(2,086,756)	**(2,275,232)**
General and administrative	(240,767)	(8,210)	(443,776)	**(692,753)**
Other expenses	(164,279)	(315)	(11,630)	**(176,224)**
Amortization and depreciation	-	(1,276)	(26,530)	**(27,806)**
Segmented (loss) income	$ (405,046)	$ 56,608	$ 80,253	**$ (268,185)**