



SustainCo Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended November 30, 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 three months ended November 30, 2015 and 2014. It is supplemental to, and should be read in conjunction with the Company’s unaudited condensed interim consolidated financial statements for the three months ended November 30, 2015 and the audited annual consolidated financial statements and accompanying notes for the year ended August 31, 2015. This MD&A is dated January 26, 2016.

The Company’s financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”). All amounts presented herein are stated in Canadian dollars, unless otherwise indicated. Additional information relating to the Company is available on SEDAR at www.sedar.com.

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, 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. (“VCI” or “VCI CONTROLS”).

VCI CONTROLS Inc.

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

CleanEnergy Overview

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

Overall Performance

Projects

VCI 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.

VCI 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.

VCI 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 comprised of a number of retrofit mandates including HVAC upgrades, cooling tower maintenance and generator repairs. In addition, VCI has a standing offer to provide HVAC Services and BAS Controls Services.

CleanEnergy has completed building the geoexchange system for the Ontario Ministry of Natural Resources' Fire Management Facility. The Geoexchange system will assist the facility in achieving a LEED designation.

SustainCo Inc.
Management's Discussion & Analysis
For the three months ended November 30, 2015



Selected Financial Information

Selected Quarterly Financial Information

	Q1-2016 \$	Q4-2015 \$	Q3-2015 \$	Q2-2015 \$	Q1-2015 \$	Q4-2014 \$	Q3-2014 \$	Q2-2014 \$
Revenue	2,812,563	3,274,937	3,416,203	2,710,410	2,903,830	2,761,250	2,370,561	2,481,253
Net loss from continuing operations	297,992	278,981	452,355	329,919	268,185	1,020,984	717,186	785,132
Net loss (income) from discontinued operations	-	-	-	-	-	-	-	32,435
Net loss	297,992	278,981	452,355	329,919	268,185	1,020,984	717,186	817,567
Basic & diluted loss per share – continuing operations	0.01	0.00	0.01	0.01	0.01	0.02	0.02	0.02
Basic & diluted (income) loss per share – discontinued operations	-	-	-	-	-	-	-	0.00

* Figures have been restated to give effect to Urban Mechanical as discontinued operations

Results of Operations

Sales and Direct Costs

The Company had the following sales and direct costs:

	Three months ended November 30,	
	2015	2014
Revenue		
Geoexchange services	\$ 195,956	\$ 254,885
Controls and Mechanical contracting	2,616,607	2,648,945
Total Revenue	2,812,563	2,903,830
Cost of sales		
Geoexchange services	(168,404)	(188,476)
Controls and Mechanical contracting	(1,964,746)	(2,086,756)
Total Cost of sales	(2,133,150)	(2,275,232)
Gross margin		
Geoexchange services	27,552	66,409
Controls and Mechanical contracting	651,861	562,189
Gross margin	\$ 679,413	\$ 628,598

Revenues from geoexchange services for the three months ended November 30, 2015 were \$195,956 (2014 – \$254,885), which decreased 23% from the prior year. Cost of sales of \$168,404 (2014 - \$188,476) relate to direct materials and expenditures, equipment costs and materials for products and services sold. Margins decreased from the prior year from 26% to 14.1%.

Revenues from controls and mechanical contracting services for the three months ended November 3, 2015 were \$2,616,607 (2014 - \$2,648,945), which is a decrease of 1.2%. Cost of sales of \$1,964,746 (2014 - \$2,086,756) relate to direct materials and expenditures for products

SustainCo Inc.
Management's Discussion & Analysis
For the three months ended November 30, 2015



and services sold. Margins for this division were 24.9% for the first quarter, which is an increase from last year at 21.2%.

General and Administrative Costs

	Corporate		Geoexchange services		Controls and Mechanical contracting	
	2015	2014	2015	2014	2015	2014
Salaries and wages	\$ 157,737	\$ 173,556	\$ 44,476	\$ (48,465)	\$ 241,989	\$ 240,905
Professional and consulting fees	22,800	28,154	5,414	13,590	92,377	79,130
Office costs	30,409	37,789	12,630	35,726	135,425	115,951
Travel costs	-	1,268	8,199	7,359	8,256	7,790
	\$ 210,946	\$ 240,767	\$ 70,719	\$ 8,210	\$ 478,047	\$ 443,776

General and administrative costs increased by \$66,959 in the first quarter. General and administrative costs in the Corporate segment decreased from \$240,767 in 2015 to \$210,946. In the Geoexchange division there was an increase from \$8,210 in 2014 to \$70,719 which was due to a recovery recognized in the prior year. There was also a modest increase in the Controls and Mechanical contracting division from 2014 to 2015. The Company is continuing to evaluate cost cutting measures to reduce general and administrative costs wherever possible.

Amortization and Depreciation

Amortization and depreciation decreased slightly to \$24,612 in 2015 from \$27,806 in 2014. This consists of amortization and depreciation of intangible assets acquired with CleanEnergy and VCI Controls, as well as equipment within the two segments.

Finance Expense

Finance expenses of \$165,864 (2014 - \$176,224) were incurred and relate to interest and bank charges on the Company's bank indebtedness and debentures.

Share-based Payments

During the three months ended November 30, 2015, the Company had \$27,217 of share-based payments, versus \$nil in 2014. These share-based payments are a non-cash cost.

Net Loss

The net loss for the three months ended November 30, 2015 of \$297,992 (2014 - \$268,185) increased slightly compared to the previous year.

SustainCo Inc.
Management's Discussion & Analysis
For the three months ended November 30, 2015



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 November 30, 2015, the Company had working capital of \$264,501. As at January 15, 2016, the Company's working capital has decreased, with the Company utilizing the full amount of its bank facilities. Working capital provides funds for the Company to meet its operational and capital requirements. The bank facility expired at the end of December 2015. The Company is actively working with the bank to renew this facility.

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 2016 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 \$125,000 (Aug 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 (Bridgepoint Group Ltd., Mr. Carnevale), for office space used by the Company.
- (c) During the period, 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 note bears interest of 12% and is repayable upon demand.

Financial Instruments Risk Exposure and Management

The Company's financial instruments consist of cash, accounts receivable, trade payables and accrued liabilities, due to party, and notes payable. Due to the short-term nature of these financial assets and liabilities, the carrying values approximate the fair values. The Company did not hold or issue any derivative financial instruments during the year.

SustainCo Inc.
Management's Discussion & Analysis
For the three months ended November 30, 2015



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 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.

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 for the year ended August 31, 2016, 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.

SustainCo Inc.
Management's Discussion & Analysis
For the three months ended November 30, 2015

IFRS 15 - Revenue from Contracts with Customers, effective for annual periods beginning on or after January 1, 2018, 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 technology combined with our experienced design and delivery teams to create a differentiated value proposition for our customers.

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

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

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

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

VCI Outlook

VCI 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.

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

- VCI was awarded a contract for over 50 buildings in the Halton Region. The contract has a total value of \$1,200,000 over two years.
- VCI was awarded a contract worth over \$270,000 for an energy management system for The Bishop Strachan School in Toronto.
- VCI was awarded a series of contracts worth over \$525,000 by a Fortune 100 company for several energy retrofit measures in their Toronto area facility.
- VCI currently has a backlog which is \$900,000 more than the same period in the prior year.

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 was awarded \$750,000 of project work recently, which provides substantial work for the upcoming year.

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.

Risk Factors

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

Going Concern Risk

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

Over the past two years the Company has incurred significant losses including operating losses for the years ended August 31, 2015 and 2014 of \$1,329,440 and \$3,227,008 respectively and losses for the three months ended November 30, 2015 of \$297,992. As a result, the Company has an accumulated deficit of \$20,616,874 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 are expected to 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. In addition, the Company is dependent on renewing its current bank facilities. 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.

SustainCo Inc.

Management's Discussion & Analysis

For the three months ended November 30, 2015

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 geexchange and controls/mechanical contracting industry is competitive; however, it is anticipated that the Company will be one of a smaller number of public companies 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.