SustainCo Inc.

Condensed Interim Consolidated Financial Statements

For the three months ended November 30, 2016 and 2015

(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.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited, Expressed in Canadian Dollars)

		November 30, 2016		August 31, 2016
Assets				
Current assets				
Cash	**$**	**31,087**	$	20,400
Accounts receivable, net of $144,966 allowance (Aug 31, 2016 - $214,367)		**4,290,198**		3,950,863
Unbilled receivables		**834,883**		688,882
Inventories *(note 4)*		**303,616**		295,740
Prepaid expenses		**83,365**		89,790
		5,543,149		5,045,675
Property and equipment *(note 5)*		**112,380**		131,251
Intangible assets *(note 7)*		**270,417**		286,667
Goodwill *(note 6)*		**599,802**		599,802
	$	**6,525,748**	$	6,063,395
Liabilities				
Current liabilities				
Trade payables and accrued liabilities	**$**	**2,505,675**	$	2,627,851
Bank indebtedness *(note 12)*		**142,860**		60,357
Acquisition payable		**60,000**		60,000
Deferred revenue		**1,370,957**		1,074,798
Notes payable *(note 13)*		**95,500**		100,000
Due to related parties *(note 9)*		**380,508**		374,602
		4,555,500		4,297,608
Notes payable *(note 13)*		**619,494**		599,451
		5,174,994		4,897,059
Shareholders' equity (deficiency)				
Share capital *(note 8)*		**20,061,132**		20,061,132
Share-based payment reserve *(note 8)*		**2,144,551**		2,142,152
Deficit		**(20,854,929)**		(21,036,948)
		1,350,754		1,166,336
	$	**6,525,748**	$	6,063,395

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 Income (Loss) and Comprehensive Income (Loss)
(Unaudited, Expressed in Canadian Dollars)

	For the three months ended November 30,	
	2016	2015
Sales *(note 15)*	**$ 3,482,385**	$ 2,812,563
Cost of sales *(note 4)*	**2,655,175**	2,133,150
Gross profit	**827,210**	679,413
General and administrative *(note 11)*	**574,703**	759,712
Amortization and depreciation *(note 5 & 7)*	**38,897**	24,612
Finance expense *(note 9, 12 & 13)*	**29,192**	165,864
Share-based payments *(note 8)*	**2,399**	27,217
Net income (loss) and comprehensive income (loss)	**$ 182,019**	$ (297,992)
Net income (loss) per share		
Basic and diluted	**$ 0.02**	$ (0.13)
Weighted average shares outstanding	**9,442,890**	2,337,090

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

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

	Share Capital	Share-based payment reserve	Deficit	Total
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)
Balance, August 31, 2016	$ 20,061,132	$ 2,142,152	$ (21,036,948)	$ 1,166,336
Share-based payments	-	2,399	-	2,399
Net income for the period	-	-	182,019	182,019
Balance, November 30, 2016	**$ 20,061,132**	**$ 2,144,551**	**$ (20,854,929)**	**$ 1,350,754**

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, 2016	2015
Cash flow from operating activities		
Net income (loss)	**$ 182,019**	$ (297,992)
Add (deduct) items not involving cash		
Accretion	**20,043**	9,745
Amortization and depreciation	**38,897**	24,612
Share-based payments	**2,399**	27,217
Change in non-cash working capital		
Accounts receivable	**(339,335)**	172,318
Unbilled receivables	**(146,001)**	21,093
Inventory	**(7,876)**	8,903
Prepaid expenses	**6,425**	6,304
Deferred revenue	**296,159**	48,048
Accounts payable and accrued liabilities	**(122,176)**	(180,616)
	(69,446)	(160,368)
Cash flow from financing activities		
Repayment of notes payable	**(4,500)**	-
Advance from related party	**5,906**	175,000
Proceeds from (repayment of) bank indebtedness, net	**82,503**	(35,976)
	83,909	139,024
Cash flow from investing activities		
Investment in property and equipment	**(3,776)**	(892)
	(3,776)	(892)
Increase (decrease) in cash	**10,687**	(22,236)
Cash, beginning of period	**20,400**	33,042
Cash, ending of period	**$ 31,087**	$ 10,806

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

1. Nature of Operations and Going Concern

SustainCo 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 Blvd., Suite D, Vaughan, Ontario, Canada. The Company is listed on the TSX Venture Exchange Inc. (the "TSX-V" or the "Exchange") under the trading symbol "SMS".

SustainCo conducts its operations through two wholly-owned subsidiaries, Clean Energy Developments Corp. ("CleanEnergy") and VCI CONTROLS Inc. ("VCI" or "VCI CONTROLS").

CleanEnergy is a Canadian industry leading geoexchange company that provides heating and cooling solutions for residential and commercial buildings using energy from the earth. It provides a complete energy solution and is able to provide engineering and design, geo installation, equipment and control systems as well as manage the complete project.

VCI is a leading supplier of building technologies and services that improve comfort, safety, energy efficiency, and occupant productivity. It is an industry leader in the development of intelligent building technology, including the integration of all building systems utilizing the latest in communications technologies and standards. VCI's business focuses on digital controls and mechanical services, performance monitoring, and energy efficiency solutions.

These consolidated financial statements are prepared on the assumption that the Company is a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. While the Company has turned a profit for the three months ended November 30, 2016, over the past two years the Company has incurred significant losses including operating losses for the years ended August 31, 2016 and 2015 of $718,066 and $1,329,440 respectively. As a result, the Company has an accumulated deficit of $20,854,929 and working capital of $987,649 at November 30, 2016. These 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, 2016, 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 23, 2017.

Basis of measurement and functional currency

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

The condensed interim 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, 2016.

The Company adopted Amendments to IAS 1, Presentation of Financial Statements ("IAS 1"). The Company will be required to adopt amendments to IAS 1, which includes amendments to further encourage companies to apply judgment in determining what information to disclose in their financial statements for annual periods beginning on or after January 1, 2016. There was no material impact to the financial statements.

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, 2016.

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, 2016 was $826,478 (2015 - $592,730).

5. Property and Equipment

	Computer equipment	Equipment	Vehicles	Furniture & fixtures	Leasehold improvements	Total
Cost						
At August 31, 2015	$ 176,164	$ 106,905	$ 35,734	$ 248,798	$ 32,591	$ 600,192
Additions	81,450	11,202	-	-	-	92,652
Disposals	(80,007)	(16,663)	-	(18,246)	(20,250)	(135,166)
At August 31, 2016	**177,607**	**101,444**	**35,734**	**230,552**	**12,341**	**557,678**
Additions	2,278	1,498	-	-	-	3,776
At November 30, 2016	**$ 179,885**	**$ 102,942**	**$ 35,734**	**$ 230,552**	**$ 12,341**	**$ 561,454**
Accumulated depreciation						
At August 31, 2015	$ 135,483	$ 84,018	$ 26,763	$ 199,925	$ 26,061	$ 472,250
Expense for the year	44,540	7,948	2,826	23,416	1,880	80,610
Disposals	(75,590)	(14,593)	-	(16,000)	(20,250)	(126,433)
At August 31, 2016	**104,433**	**77,373**	**29,589**	**207,341**	**7,691**	**426,427**
Expense for the period	19,371	1,552	499	755	470	22,647
At November 30, 2016	**$ 123,804**	**$ 78,925**	**$ 30,088**	**$ 208,096**	**$ 8,161**	**$ 449,074**
Net book value						
At August 31, 2016	$ 73,174	$ 24,071	$ 6,145	$ 23,211	$ 4,650	$ 131,251
At November 30, 2016	$ 56,081	$ 24,017	$ 5,646	$ 22,456	$ 4,180	$ 112,380

6. Goodwill

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

7. Intangible Assets

	Customer relationships	Exclusivity contracts	Brand or trade name	Total
Cost				
At August 31, 2016 & November 30, 2016	**$ 395,000**	**$ 180,000**	**$ 203,000**	**$ 778,000**
Accumulated depreciation				
At August 31, 2015	178,333	180,000	68,000	426,333
Expense for the year	65,000	-	-	65,000
At August 31, 2016	**$ 243,333**	**$ 180,000**	**$ 68,000**	**$ 491,333**
Expense for the year	16,250	-	-	16,250
At November 30, 2016	**$ 259,583**	**$ 180,000**	**$ 68,000**	**$ 507,583**
Net book value				
At August 31, 2016	$ 151,667	$ -	$ 135,000	$ 286,667
At November 30, 2016	$ 135,417	$ -	$ 135,000	$ 270,417

8. Share Capital

(a) Authorized

An unlimited number of common shares

(b) Issued

	Number of shares	Amount
Issued as at August 31, 2016 and November 30, 2016	9,442,890	$ 20,061,132

(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
$2.00	77,500	3.33	77,500
$13.60	35,000	1.34	35,000
Balance at November 30, 2016	**112,500**	**2.71**	**112,500**

On September 1, 2016, 17,500 stock options exercisable at $10.00 expired. For the three months ended November 30, 2016, the Company recognized share-based payment expense of $2,399 (2015 - $27,217).

8. Share Capital – continued

(d) Warrants

Weighted average exercise price	Number of warrants	Weighted average remaining life (years)
$0.65	1,251,750	4.69
$5.00	25,375	0.53
Balance at November 30, 2016	**1,277,125**	**4.61**

(e) Agent options

	Number of agent options	Weighted average exercise price	Weighted average remaining life
Outstanding, November 30, 2016	1,309	$5.00	0.53

9. Related Party Balances and Transactions

(a) Due to related parties is as follows:

	November 30, 2016	August 31, 2016
Promissory notes payable (i)	**$ 93,637**	$ 90,917
Consideration payable (ii)	**125,000**	125,000
Demand loan payable (iii)	**161,871**	158,685
	$ 380,508	$ 374,602

(i) Notes payable to a corporation controlled by an officer and director of the Company bearing interest at 12% per annum. As at November 30, 2016, the balance payable comprises $90,000 in promissory notes (August 31, 2016 – $90,000) and accrued interest of $3,637. Total interest expense on these promissory notes for the three months ended November 30, 2016 was $2,720.

(ii) A corporation that holds significant influence over the Company is owed $125,000 (August 31, 2016 - $125,000), which is outstanding consideration payable for the qualifying transaction. These amounts are non-interest bearing and are due on demand.

(iii) The Company has a demand loan outstanding in the amount of $152,250 from a corporation controlled by an officer and director of the Company bearing interest at 8% per annum. Total accrued interest on the demand loan was $9,621. During the three months ended November 30, 2016, interest of $3,186 has accrued on the balance.

Additional related party disclosures

(b) During the period, rent of $nil (2015 - $9,300) was paid to a company controlled by an officer of the Company, for additional office space used by the Company.

10. 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 12).

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, bank indebtedness, acquisition payable, notes payable, and due to related parties 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.

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, 2016**		August 31, 2016
Within 30	**$**	**2,380,596**	$	1,868,206
31 to 60		**387,856**		670,473
61 to 90		**554,181**		453,736
Over 90		**590,266**		574,648
Holdbacks		**377,299**		383,800
Total accounts receivable	**$**	**4,290,198**	$	3,950,863

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.

10. Financial Instruments and Risk Management – continued

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.

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.

11. General and Administrative Expense

	For the three months ended Novmeber 30,			
		2016		2015
Salaries and wages	**$**	**334,415**	$	444,202
Office expense		**170,015**		178,464
Professional and consulting fees		**104,031**		120,591
Travel		**18,235**		16,455
Bad debts		**(51,993)**		-
	$	**574,703**	$	759,712

12. Bank Indebtedness

As at November 30, 2016, bank indebtedness was $142,860 (August 31, 2016 - $60,357).

The demand operating loan bears interest at the Royal Bank prime rate plus 3.60% (6.30% at November 30, 2016). 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 Company previously entered into a forbearance agreement with the bank, which reduces the operating loan maximum to $650,000.

During the three ended November 30, 2016, interest of approximately $1,362 (2015 - $3,972) 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, 2016, VCI is in compliance with this financial covenant.

13. Notes Payable

The Company repaid $4,500 of notes payable during the three months ended November 30, 2016. $95,500 remain, which are repayable upon demand and are non-interest bearing.

In addition, the Company has $834,500 of promissory notes payable outstanding as at November 30, 2016. The Company recognized accretion interest of $20,043 during the three months ended November 30, 2016 (2015 - $nil).

14. Contingent Liabilities and Commitments

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

2017	$	194,250
2018		200,000
2019		92,000
2020		47,000
2021		23,000
Thereafter		4,000
Total	**$**	**560,250**

15. Revenues

		Three months ended November 30,		
		2016		2015
Construction and other project revenue	**$**	**2,411,626**	$	1,930,963
Repairs revenue		**157,637**		268,925
Service revenue		**735,415**		508,128
Product revenue		**177,707**		104,547
	$	**3,482,385**	$	2,812,563

16. Segmented Information

Three months ended Nov 30, 2016	Corporate	Geoexchange services	Controls and Mechanical contracting	**Total**
Capital expenditures	$ -	$ 1,498	$ 2,278	**$ 3,776**
Total assets	7,954	579,017	5,938,777	**6,525,748**
Statement of operations				
Revenue	-	170,388	3,311,997	**3,482,385**
Cost of sales	-	(111,637)	(2,543,538)	**(2,655,175)**
General and administrative	(114,058)	(5,675)	(454,970)	**(574,703)**
Finance expense	(23,102)	(1,458)	(4,632)	**(29,192)**
Share-based payments	(2,399)	-	-	**(2,399)**
Amortization and depreciation	-	(37)	(38,860)	**(38,897)**
Segmented (loss) income	$ (139,559)	$ 51,581	$ 269,997	**$ 182,019**

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)**
Finance expense	(161,649)	(243)	(3,972)	**(165,864)**
Share-based payments	(27,217)	-	-	**(27,217)**
Amortization and depreciation	-	(1,269)	(23,343)	**(24,612)**
Segmented (loss) income	$ (399,812)	$ (44,679)	$ 146,499	**$ (297,992)**