SustainCo Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended May 31, 2017

July 26, 2017

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 and nine months ended May 31, 2017 and May 31, 2016. It is supplemental to, and should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended May 31, 2017 and the audited annual consolidated financial statements and the accompanying notes for the year ended August 31, 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.

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 VCI CONTROLS Inc. ("VCI" or "VCI CONTROLS") and Clean Energy Developments Corp. ("CleanEnergy").

VCI CONTROLS Inc.

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 disparate building systems utilizing the latest in communications technologies and standards. VCI's business focuses on building automation and controls, HVAC mechanical services, real-time performance monitoring, and energy efficient retrofit and solutions.

Founded in 1981, VCI has an installed customer base of over 1,400 clients including 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.

With headquarters in Toronto, VCI employs over 70 people in Halifax, Montreal, Pembroke, Ottawa, and Toronto.

CleanEnergy Overview

CleanEnergy is a Canadian industry leading geoexchange company that provides heating and cooling solutions for multi-residential and commercial buildings using energy from the earth. It provides a complete energy solution, including engineering and design, geothermal installation, equipment and controls, and project management.

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 is currently retrofitting a large number of boiler plant, booster pump and BAS systems across a number of buildings for a multi-residential asset owner. The combined value of these contracts is in excess of two million dollars.

During the nine months ended May 31, 2017, a project that CleanEnergy worked on went into receivership. The total receivable related to this project was $122,069 as at May 31, 2017. The amount was fully provided for during the nine months ended May 31, 2017.

Unionization

On November 30, 2016, the Company announced that the Ontario Labour Relations Board has ordered the certification of the United Association of Journeymen and Apprentices of the Plumbing and Pipefitting Industry of the United States and Canada, Local 787, effective June 1, 2017, as the exclusive bargaining agent for the refrigeration and air-conditioning mechanics and apprentices employed by VCI Controls Inc.

The Company will be making adjustments to its business model to ensure continuity and continued profitability and growth.

Appointment and Resignation of Directors

In March 2017, Mr. Daniel Hay resigned from the Board of Directors and Mr. Adam Szweras was appointed to the Board of Directors.

Mr. Szweras is a securities law partner with Fogler, Rubinoff LLP. His law practice focuses on financings and going public transactions. Mr. Szweras represents several mid-market public companies and assists companies in listing on the Toronto Stock Exchange and the TSX Venture Exchange. He also represents brokerage firms and has helped numerous clients with their financings and cross-border transactions. Mr. Szweras has a particular expertise with Capital Pool Company program and often acts as a strategic advisor to his clients.

Mr. Szweras acts a director and officer for several public companies and he is Chairman and founder of Foundation Markets Inc., a Merchant Bank and Exempt Market Dealer.

His extensive knowledge of business management, governance of public and private companies and its network of established contacts is a valued contribution to any management team.

Selected Financial Information

Selected Quarterly Financial Information

	Q3-2017 $	Q2-2017 $	Q1-2017 $	Q4-2016 $	Q3-2016 $	Q2-2016 $	Q1-2016 $	Q4-2015 $
Revenue	3,515,750	3,496,698	3,482,385	3,416,625	4,333,584	3,726,051	2,812,563	3,274,937
Net income (loss)	242,222	(71,052)	182,019	(110,103)	(64,680)	(245,291)	(297,992)	(278,981)
Basic & diluted earnings (loss) per share	0.03	(0.01)	0.02	(0.01)	(0.03)	(0.11)	(0.13)	(0.13)

Results of Operations

Sales and Direct Costs

The Company had the following sales and direct costs:

	For the three months ended		For the nine months ended	
	May 31, 2017	May 31, 2016	**May 31, 2017**	May 31, 2016
Revenue				
Geoexchange services	**$ 74,582**	$ 494,487	**$ 382,235**	$ 1,121,949
Controls and Mechanical contracting	**3,441,168**	3,839,097	**10,112,598**	9,750,249
Total Revenue	**3,515,750**	4,333,584	**10,494,833**	10,872,198
Cost of sales				
Geoexchange services	**(77,362)**	(444,316)	**(265,515)**	(990,388)
Controls and Mechanical contracting	**(2,494,771)**	(2,823,326)	**(7,471,590)**	(7,261,486)
Total Cost of sales	**(2,572,133)**	(3,267,642)	**(7,737,105)**	(8,251,874)
Gross margin				
Geoexchange services	**(2,780)**	50,171	**116,720**	131,561
Controls and Mechanical contracting	**946,397**	1,015,771	**2,641,008**	2,488,763
Gross margin	**$ 943,617**	$ 1,065,942	**$ 2,757,728**	$ 2,620,324

Total revenues from Geoexchange services was $74,582 and $382,235 for the three and nine months ended May 31, 2017, a decrease of 84.9% and 65.9% from the same periods in 2016 due to a decreased number of projects. Revenues are earned on services provided for the design and engineering of geoexchange projects, the sale of geoexchange equipment and the installation of geoexchange systems. Cost of sales relate to direct materials and expenditures, equipment costs and materials for products and services sold. Margins have decreased from the prior year to (3.7)% from 10.1% in Q3 2017 and increased to 30.5% from 11.7% for the nine months ended May 31, 2017 due to the variability in margins from project to project.

The Controls and Mechanical contracting services recognized revenue of $3,441,168 and $10,112,598 for the three and nine months ended May 31, 2017, which is a decrease of 10.4% and an increase of 3.7% from the same periods in the prior year. Revenues are earned from engineering services, building automation controls, mechanical and electrical installation, performance monitoring, and operations and maintenance services for multi-residential and ICI facilities. The cost of sales relate to direct materials and expenditures for products and services sold. Margins for this division were 27.5% and 26.1% for the three and nine months ended May 31, 2017, which is a slight increase compared to the same periods last year.

General and Administrative Costs

For the three months ended May 31, 2017 and May 31, 2016:

	Corporate		Geoexchange services		Controls and Mechanical contracting		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Salaries and wages	**$ 94,873**	$ 132,706	**$ 3,777**	$ (7,064)	**$ 330,318**	$ 434,619	**$ 428,968**	$ 560,261
Professional and consulting fees	**21,810**	15,212	**3,000**	7,150	**28,340**	71,900	**53,150**	94,262
Office costs	**14,155**	19,517	**14,530**	5,232	**187,775**	181,716	**216,460**	206,465
Travel costs	**666**	-	**4,012**	3,708	**46,916**	15,103	**51,594**	18,811
Bad debts	**-**	-	**(3,504)**	(5,656)	**-**	-	**(3,504)**	(5,656)
	$ 131,504	$ 167,435	**$ 21,815**	$ 3,370	**$ 593,349**	$ 703,338	**$ 746,668**	$ 874,143

For the nine months ended May 31, 2017 and May 31, 2016:

	Corporate		Geoexchange services		Controls and Mechanical contracting		Total	
	2017	2016	**2017**	2016	**2017**	2016	**2017**	2016
Salaries and wages	**$ 296,933**	$ 409,457	**$ 5,349**	$ 83,607	**$ 1,031,731**	$ 996,445	**$ 1,334,013**	$ 1,489,509
Professional and consulting fees	**36,941**	70,962	**14,289**	19,970	**190,603**	261,138	**241,833**	352,070
Office costs	**41,504**	84,727	**21,159**	62,548	**536,692**	464,359	**599,355**	611,634
Travel costs	**1,085**	1,099	**13,363**	16,441	**98,923**	44,199	**113,371**	61,739
Bad debts	-	-	**117,565**	34,508	**(74,914)**	-	**42,651**	34,508
	$ 376,463	$ 566,245	**$ 171,725**	$ 217,074	**$ 1,783,035**	$ 1,766,141	**$ 2,331,223**	$ 2,549,460

General and administrative costs in Q3 2017 were consistent with the same period in the prior year, with a slight decrease during the quarter. General and administrative costs in the Corporate segment decreased from $167,435 to $131,504, which comes mainly from reduced salaries and wages. In the Geoexchange division, there was an increase compared to the prior year mainly due to an increase in salaries and wages and office costs. There was a decrease for the Controls and Mechanical contracting division, mainly from decreased salaries and wages and professional and consulting fees. Overall, the Company has had success reducing general and administrative costs wherever possible, with an overall reduction of general and administrative costs to $2,331,223 vs. $2,549,460 for the nine months ended May 31, 2017 compared to 2016.

Amortization and Depreciation

Amortization and depreciation was lower in 2017 for both the three months and nine months compared to the same periods in the prior year. This consists of amortization and depreciation of intangible assets acquired with VCI Controls, as well as equipment within the two segments. There were minor capital expenditures during the nine months ended May 31, 2017 of $17,417 (2016 - $Nil).

Finance Expense

Finance expenses of $21,988 and $71,864 (2016 - $185,444 and $538,409) were incurred for the three and nine months ended May 31, 2017 and relate to interest and bank charges on the Company's bank indebtedness, promissory notes and previously outstanding debentures. The Company restructured its debt near the end of fiscal 2016. As expected, the Company experienced decreased finance expenses compared to the prior year.

Share-based Payments

Total share-based payments for the three and nine months ended May 31, 2017 was $2,399, compared to $11,889 and $58,426 in 2016. These share-based payments are a non-cash cost.

Net Income (Loss)

The Company recorded a net income of $242,222 for the 3rd quarter of 2017 vs. a loss of $64,680 in the prior year. The Controls and Mechanical contracting division recorded a net income of $323,036 (2016 – $268,798) for the quarter. The Geoexchange services divisions reported a net loss of $24,903 (2016 – net income $24,452), and the Corporate division reported a net loss of $55,911 (2016 - $357,930) during the three months ended May 31, 2017.

For the nine months ended May 31, 2017, SustainCo recorded a net income of $353,189 (2016 – net loss of $607,963), mainly due to the decrease in finance expense and general and administrative expenses.

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, 2017, the Company had working capital of $1,748,407. As at the date of this report, the Company's working capital has not materially changed from that reported at May 31, 2017. 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 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 may continue for the 2017 fiscal year. See the going concern risk for further details.

Related Party Balances and Transactions

(a) Due to related parties is as follows:

		May 31, 2017		August 31, 2016
Promissory notes payable (i)	**$**	**-**	$	90,917
Consideration payable (ii)		**-**		125,000
Demand loan payable (iii)		**-**		158,685
	$	**-**	$	374,602

(i) Notes payable to a corporation controlled by an officer and director of the Company bearing interest at 12% per annum. During the nine months ended May 31, 2017, $97,344 was repaid, which consists of $90,917 in promissory notes (August 31, 2016 – $90,000) and accrued interest of $6,427. Total interest expense on these promissory notes for the three and nine months ended May 31, 2017 was $1,160 and $6,427.

(ii) A corporation that previously held 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. During the nine months ended May 31, 2017, this amount owing was settled for $30,000, resulting in a gain on settlement of debt of $95,000.

(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 $14,314. During the nine months ended May 31, 2017, total amount of $166,564 was repaid. During the three and nine months ended May 31, 2017, interest of $1,482 and $7,879 has accrued on the balance.

Additional related party disclosures

(b) During the period, rent of $nil (2016 - $15,000) was paid to a company controlled by a former officer of the Company (Mr. Carnevale), for additional office space used by the Company.

Financial Instruments Risk Exposure and Management

The Company's financial instruments consist of cash, accounts receivable, trade payables and accrued liabilities, bank indebtedness, due to related parties, 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.

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		May 31, 2017		August 31, 2016
Within 30	**$**	**1,577,657**	$	1,868,206
31 to 60		**465,906**		670,473
61 to 90		**660,498**		453,736
Over 90		**437,990**		574,648
Holdbacks		**424,676**		383,800
Total accounts receivable	**$**	**3,566,727**	$	3,950,863

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

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. The Company also has notes payable bearing a fixed rate of interest.

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

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.

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended August 31, 2017, 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, 2018, with early adoption permitted, specifies how and when to recognize revenue and enhances relevant disclosures to be applied to all contracts with customers.

IFRS 16 - Leases was issued by the IASB on January 13, 2016. The Company will be required to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019. The new standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. This standard substantially carries forward the lessor accounting requirements of IAS 17, while requiring enhanced disclosures to be provided by lessors.

The Company is currently assessing the effects of these new standards.

Subsequent events

On June 7, 2017, the Company announced that it intends to complete a private placement offering (the "Offering") for aggregate gross proceeds of $950,000, issuing an aggregate of 6,333,333 common shares at a price of $0.15 per share, to an insider of the Company. The Offering is subject to the approval of disinterested shareholders and the TSX Venture Exchange. The proceeds of the Offering will be used to help secure a surety facility and general working capital. The common shares issued pursuant to the Offering are subject to a four month hold.

On June 14, 2017, the Company announced that it has completed the Offering announced on June 7, 2017, above. The Company received the approval of disinterested shareholders in respect of the Offering.

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.

Disclosure of Outstanding Share Data

As at the date of this report, there were 15,776,223 issued and outstanding common shares in the capital of the Company. The Company has outstanding options to purchase an aggregate of 112,500 common shares, outstanding warrants to purchase an aggregate of 1,277,125 common shares, and outstanding agent options to purchase an aggregate of 1,309 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.

While the Company has turned a profit for the nine months ended March 31, 2017, 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 $20,683,759 and working capital of $1,748,406 at May 31, 2017. 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 geoexchange 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.

Additional Information

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