SustainCo Inc.

Condensed Interim Consolidated Financial Statements

For the three months ended November 30, 2018 and 2017

(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
As at
(Unaudited, Expressed in Canadian Dollars)

		November 30, 2018		August 31, 2018 *(Audited)*
Assets				
Current assets				
Cash	**$**	**400,191**	$	93,548
Accounts receivable, net of $131,381 allowance (August 31, 2018 - $131,381)		**4,411,978**		3,980,307
Unbilled receivables		**590,881**		702,039
Inventories *(note 4)*		**295,915**		297,026
Prepaid expenses		**96,207**		81,295
		5,795,172		5,154,215
Property and equipment *(note 5)*		**101,464**		101,813
Intangible assets *(note 7)*		**140,417**		156,667
Goodwill *(note 6)*		**599,802**		599,802
	$	**6,636,855**	$	6,012,497
Liabilities				
Current liabilities				
Bank indebtedness (*note 11*)	**$**	**179,758**	$	352,909
Trade payables and accrued liabilities		**2,055,010**		1,822,058
Deferred revenue		**1,227,511**		885,238
Notes payable *(note 12)*		**50,000**		50,000
Promissory notes payable *(note 12)*		**634,581**		618,330
Current income tax payable		**19,173**		19,173
		4,166,033		3,747,708
Deferred income taxes		**40,453**		40,453
		4,206,486		3,788,161
Shareholders' equity				
Share capital *(note 8)*		**21,011,132**		21,011,132
Share-based payment reserve *(note 8)*		**2,229,156**		2,229,156
Deficit		**(20,809,919)**		(21,015,952)
		2,430,369		2,224,336
	$	**6,636,855**	$	6,012,497

The accompanying notes are an integral part of these condensed interim 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 and Comprehensive Income
For the three months ended November 30, 2018 and 2017
(Unaudited, Expressed in Canadian Dollars)

		For the three months ended November 30,		
		2018		2017
Sales *(note 14)*	**$**	**4,811,248**	$	3,535,220
Cost of sales *(note 4)*		**3,783,267**		2,711,016
Gross profit		**1,027,981**		824,204
General and administrative *(note 10)*		**764,542**		687,936
Amortization and depreciation *(notes 5 & 7)*		**23,134**		22,017
Finance expense *(notes 11 & 12)*		**19,272**		19,470
Share-based payments *(note 8)*		**-**		22,028
Income from operations before income taxes		**221,033**		72,753
Tax expense		**(15,000)**		-
Net income and comprehensive income after income taxes		**206,033**		72,753
Net income per share				
Basic and diluted	**$**	**0.01**	$	0.00
Weighted average shares outstanding		**15,776,223**		15,776,223

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

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Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the three months ended November 30, 2018 and 2017
(Unaudited, Expressed in Canadian Dollars)

		Share Capital		Share-Based Payment Reserve		Deficit		Total
Balance, August 31, 2017	$	21,011,132	$	2,173,805	$	(20,892,095)	$	2,292,842
Share-based payments *(note 8)*		-		22,028		-		22,028
Net income for the period		-		-		72,753		72,753
Balance, November 30, 2017	$	21,011,132	$	2,195,833	$	(20,819,342)	$	2,387,623
Balance, August 31, 2018	$	21,011,132	$	2,229,156	$	(21,015,952)	$	2,224,336
Net income for the period		-		-		206,033		206,033
Balance, November 30, 2018	**$**	**21,011,132**	**$**	**2,229,156**	**$**	**(20,809,919)**	**$**	**2,430,369**

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

Condensed Interim Consolidated Statements of Cash Flows
For the three months ended November 30, 2018 and 2017
(Unaudited, Expressed in Canadian Dollars)

	For the three months ended November 30,	
	2018	2017
Cash flow from (used in) operating activities		
Net income	**$ 206,033**	$ 72,753
Add (deduct) items not involving cash		
Accretion (*note 12*)	**16,251**	16,251
Amortization and depreciation *(notes 5 & 7)*	**23,134**	22,017
Share-based payments *(note 8)*	**-**	22,028
Change in non-cash working capital		
Accounts receivable	**(431,671)**	(328,795)
Unbilled receivables	**111,158**	(200,244)
Inventories	**1,111**	11,686
Prepaid expenses	**(14,912)**	19,956
Deferred revenue	**342,273**	(130,294)
Accounts payable and accrued liabilities	**232,952**	163,793
	486,329	(330,849)
Cash flow used in financing activities		
Repayment of notes payable (*note 12*)	**-**	(4,500)
Repayment of bank indebtedness (*note 11*)	**(173,151)**	-
Acquisition payable	**-**	(25,000)
	(173,151)	(29,500)
Cash flow used in investing activities		
Investment in property and equipment *(note 5)*	**(6,535)**	(8,696)
	(6,535)	(8,696)
Increase (decrease) in cash	**306,643**	(369,045)
Cash, beginning of period	**93,548**	472,305
Cash, end of period	**$ 400,191**	$ 103,260

The accompanying notes are an integral part of these condensed interim 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 geoexchange company that provides heating and cooling solutions for residential and commercial buildings using energy from the earth.

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. Although the Company has generated net income of $206,033 for the three months ended November 30, 2018 (2017 - $72,753) and has working capital of $1,629,139 as at November 30, 2018 (August 31, 2018 - $1,406,507), the Company has an accumulated deficit of $20,809,919 (August 31, 2018 - $21,015,952). As a result, there is significant 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, the Company may 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 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, 2018, 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 16, 2019.

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, 2018.

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, 2018.

3. Summary of Significant Accounting Policies – continued

Changes in accounting standards

A number of new standards, amendments to standards and interpretations are not yet effective for the year ended August 31, 2019 and have not yet been applied in preparing these consolidated financial statements but may affect the Company.

IFRS 9 - Financial Instruments, 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 in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

The Company is currently assessing the effects of these new standards and intends to adopt them on their effective date.

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, 2018 was $928,167 (2017 - $709,762).

(Expressed in Canadian Dollars)

5. Property and Equipment

	Computer equipment	Equipment	Vehicles	Furniture & fixtures	Leasehold improvements	Total
Cost						
At August 31, 2017	$ 169,077	$ 100,043	$ 16,041	$ 234,058	$ 9,341	$ 528,560
Additions	18,980	20,629	4,175	800	-	44,584
Disposals	(1,656)	-	(5,205)	(1,779)	-	(8,640)
At August 31, 2018	$ 186,401	$ 120,672	$ 15,011	$ 233,079	$ 9,341	$ 564,504
Additions	1,907	2,970	1,658	-	-	6,535
At November 30, 2018	**$ 188,308**	**$ 123,642**	**$ 16,669**	**$ 233,079**	**$ 9,341**	**$ 571,039**
Accumulated depreciation						
At August 31, 2017	$ 138,797	$ 75,460	$ 13,895	$ 207,899	$ 6,576	$ 442,627
Expense for the year	13,297	8,626	1,131	2,900	1,870	27,824
Disposals	(1,317)	-	(4,664)	(1,779)	-	(7,760)
At August 31, 2018	$ 150,777	$ 84,086	$ 10,362	$ 209,020	$ 8,446	$ 462,691
Expense for the period	2,998	2,325	478	616	467	6,884
At November 30, 2018	**$ 153,775**	**$ 86,411**	**$ 10,840**	**$ 209,636**	**$ 8,913**	**$ 469,575**
Net book value						
At August 31, 2018	$ 35,624	$ 36,586	$ 4,649	$ 24,059	$ 895	$ 101,813
At November 30, 2018	**$ 34,533**	**$ 37,231**	**$ 5,829**	**$ 23,443**	**$ 428**	**$ 101,464**

6. Goodwill

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

(Expressed in Canadian Dollars)

7. Intangible Assets

		Customer relationships		Brand or trade name		Total
Cost						
At August 31, 2018 and November 30, 2018	**$**	**395,000**	**$**	**203,000**	**$**	**598,000**
Accumulated depreciation						
At August 31, 2017	$	308,333	$	68,000	$	376,333
Expense for the year		65,000		-		65,000
At August 31, 2018		373,333		68,000		441,333
Expense for the period		16,250		-		16,250
At November 30, 2018	**$**	**389,583**	**$**	**68,000**	**$**	**457,583**
Net book value						
At August 31, 2018	$	21,667	$	135,000	$	156,667
At November 30, 2018	**$**	**5,417**	**$**	**135,000**	**$**	**140,417**

8. Share Capital

(a) Authorized

An unlimited number of common shares.

(b) Issued

As of November 30, 2018, there were 15,776,223 common shares outstanding (August 31, 2018 – 15,776,223 common shares outstanding) and share capital of $21,011,132 (August 31, 2018 – $21,011,132).

(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	72,500	1.33	72,500
$0.15	700,000	3.71	700,000
Balance at November 30, 2018	**772,500**	**3.49**	**772,500**

(Expressed in Canadian Dollars)

8. Share Capital (continued)

In August 2017, the Company granted 700,000 options with an exercise price of $0.15 per share, for a period of 5 years from the date of grant. The options vest 30% upon grant, with the remainder vesting 35% per six months thereafter. The Company uses the Black-Scholes option pricing model to determine the fair value of options granted. The assumptions used were the following: volatility of 193%; risk-free interest rate of 1.42%; expected life of 5 years; dividend yield of Nil; forfeiture rate of Nil; share price of $0.125.

For the three months ended November 30, 2018, the Company recognized share-based payment expense of $Nil (2017 - $22,028).

(d) Warrants

Weighted average exercise price	Number of warrants	Weighted average remaining life (years)
$0.65	1,251,750	2.69
Balance at November 30, 2018	**1,251,750**	**2.69**

9. Financial Instruments and Risk Management

Capital management

The Company's capital consists of debt and equity. 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 (note 1).

The carrying value of accounts receivable, trade payables and accrued liabilities, bank indebtedness, acquisition payable, notes and debentures 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.

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 recorded amounts will be collected. Holdbacks are received upon substantial completion of the projects.

Accounts receivable aging		**November 30, 2018**		August 31, 2018
Within 30	**$**	**2,158,545**	$	1,871,517
31 to 60		**609,712**		937,020
61 to 90		**559,105**		352,591
Over 90		**602,657**		553,022
Holdbacks		**481,959**		266,157
Total accounts receivable	**$**	**4,411,978**	$	3,980,307

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.

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 0% interest.

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.

(Expressed in Canadian Dollars)

10. General and Administrative Expense

	For the three months ended November 30,	
	2018	2017
Salaries and wages	**$ 453,043**	$ 422,548
Office expense	**191,148**	194,862
Professional and consulting fees	**99,765**	47,851
Travel	**20,586**	22,675
	$ 764,542	$ 687,936

11. Bank Indebtedness

As at November 30, 2018, bank indebtedness was $179,758 (August 31, 2018 - $352,909).

The demand operating loan bears interest at the Royal Bank prime rate plus 1.6% (1.6% at August 31, 2018). Security for the above indebtedness is comprised of a general security agreement, and postponement and assignment of claim of amounts due to related parties.

During the three months ended November 30, 2018, interest of approximately $2,236 (2017 - $578) 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, 2018, VCI is in compliance with this financial covenant.

12. Notes Payable

The Company was advanced $100,000 as notes payable during 2016. The notes are repayable upon demand and are non-interest bearing. The Company repaid $24,500 of notes payable during the year ended August 31, 2018 (2017 - $25,500). During the three months ended November 30, 2018, the Company repaid $Nil (2017 - $4,500) leaving $50,000 outstanding as of November 30, 2018 (August 31, 2018 - $50,000).

In August 2016, in connection with the extinguishment of debentures, the Company issued $834,500 of promissory notes payable. The notes have a three-year term and are non-interest bearing. The Company determined the fair value of the notes on initial recognition to be $593,981 based on a discount rate of 12%. As of November 30, 2018, the principal balance remaining was $676,600 (August 31, 2018 - $676,600). The Company recognized accretion interest of $16,251 during the three months ended November 30, 2018 (2017 - $16,251) resulting in a carrying value of $634,581 as of November 30, 2018 (August 31, 2018 - $618,330).

(Expressed in Canadian Dollars)

13. 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:

2019	$	176,707
2020		105,698
2021		81,568
2022		41,076
2023		6,609
Total	**$**	**411,658**

14. Revenues

	Three months ended November 30,			
		2018		2017
Construction and other project revenue	**$**	**3,824,363**	$	2,574,787
Repairs revenue		**263,402**		358,386
Service revenue		**720,855**		598,447
Product revenue		**2,628**		3,600
	$	**4,811,248**	$	3,535,220

Certain prior year balances have been reclassified to conform to the current year's presentation.

(Expressed in Canadian Dollars)

15. Segmented Information

Three months ended November 30,	**Corporate**	**Geoexchange services**	**Controls and Mechanical contracting**	**Total**
Capital expenditures	$ -	$ 2,970	$ 3,565	**$ 6,535**
Total assets	130,650	1,281,880	5,224,325	**6,636,855**
Statement of operations				
Revenue	-	983,865	3,827,383	**4,811,248**
Cost of sales	-	(763,547)	(3,019,720)	**(3,783,267)**
General and administrative	(120,306)	(52,524)	(591,712)	**(764,542)**
Finance expense	(16,314)	(243)	(2,715)	**(19,272)**
Amortization and depreciation	-	(248)	(22,886)	**(23,134)**
Tax expense	-	-	(15,000)	**(15,000)**
Segmented income (loss)	**$ (136,620)**	**$ 167,303**	**$ 175,350**	**$ 206,033**

Three months ended November 30, 2017	Corporate	Geoexchange services	Controls and Mechanical contracting	**Total**
Capital expenditures	$ -	$ 2,114	$ 6,582	**$ 8,696**
Total assets	53,264	749,045	5,302,906	**6,105,215**
Statement of operations				
Revenue	-	569,858	2,965,362	**3,535,220**
Cost of sales	-	(454,182)	(2,256,834)	**(2,711,016)**
General and administrative	(119,437)	(28,573)	(539,926)	**(687,936)**
Finance expense	(16,316)	(2,463)	(691)	**(19,470)**
Share-based payments	(22,028)	-	-	**(22,028)**
Amortization and depreciation	-	(112)	(21,905)	**(22,017)**
Segmented income (loss)	$ (157,781)	$ 84,528	$ 146,006	**$ 72,753**