SustainCo
Sustainable Infrastructure Solutions

SustainCo Inc.

MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three and nine months ended May 31, 2019 and 2018

July 17, 2019

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, 2019 and 2018. 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, 2019, and the audited annual consolidated financial statements and the accompanying notes for the year ended August 31, 2018.

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 geoexchange company that provides heating and cooling solutions for multi-residential and commercial buildings using energy from the earth.

Corporate Updates

Subsequent to period end, a lawsuit was filed against the Company by a former employee. The Company believes the employment was terminated for cause. Since it presently is not possible to determine the outcome of this matter, no provision has been made in the financial statements. The resolution could have a significant effect on the Company's earnings in the year that a determination is made; however, in management's opinion, the final resolution of all legal matters will not have a material adverse effect on the Company's financial position.

Selected Financial Information

Selected Quarterly Financial Information

	Q3-2019	Q2-2019	Q1-2019	Q4-2018	Q3-2018	Q2-2018	Q1-2018 $	Q4-2017 $
Revenue	3,568,506	3,730,914	4,811,248	3,532,666	3,694,830	2,924,675	3,535,220	3,329,382
Net income (loss)	251,902	(490,830)	206,033	(267,289)	26,585	44,094	72,753	(208,336)
Basic & diluted earnings (loss) per share	0.02	(0.03)	0.01	(0.02)	0.00	0.00	0.00	(0.03)

Results of Operations

<u>Sales and Direct Costs</u>

The Company had the following sales and direct costs:

	May 31, 2019	May 31, 2018	**May 31, 2019**	May 31, 2018
Revenue				
Geoexchange services	**$ 1,218,639**	$ 44,497	**$ 3,140,880**	$ 648,017
Controls and Mechanical contracting	**2,349,867**	3,650,333	**8,969,788**	9,506,708
Total Revenue	**3,568,506**	3,694,830	**12,110,668**	10,154,725
Cost of sales				
Geoexchange services	**(608,785)**	(30,793)	**(2,182,654)**	(519,268)
Controls and Mechanical contracting	**(1,901,624)**	(2,754,079)	**(7,379,966)**	(7,058,313)
Total Cost of sales	**(2,510,409)**	(2,784,872)	**(9,562,620)**	(7,577,581)
Gross margin				
Geoexchange services	**609,854**	13,704	**958,226**	128,749
Controls and Mechanical contracting	**448,243**	896,254	**1,589,822**	2,448,395
Gross margin	**$ 1,058,097**	$ 909,958	**$ 2,548,048**	$ 2,577,144

Total revenues from geoexchange services was $1,218,639 and $3,140,880 for the three and nine months ended May 31, 2019, respectively, an increase of 2,638.7% and 384.7% from the same periods in 2018. Revenues are earned on services provided for the installation of geoexchange systems. Cost of sales relate to direct materials and expenditures, equipment costs and materials for products and services sold. Margins increased from the prior year from 30.8% to 50.0% for Q3 2019 and increased from 19.9% from the prior year to 30.5% for the nine months ended May 31, 2019 due to the variability in margins from project to project.

The controls and mechanical contracting services recognized revenue of $2,349,867 and $8,969,788 for the three and nine months ended May 31, 2019, respectively, which is a decrease of 35.6% and 5.6% 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 19.1% and 17.7% for the three and nine months ended May 31, 2019, respectively, which decreased compared to the same periods last year (24.6% and 25.8%, respectively).

General and Administrative Costs

For the three months ended May 31, 2019 and 2018:

	Corporate		Geoexchange services		Controls and Mechanical contracting		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Salaries and wages	**$ 99,861**	$ 95,918	**$ 21,180**	$ 21,400	**$ 389,094**	$ 427,652	**$ 510,135**	$ 544,970
Professional and consulting fees	**21,471**	22,381	**41,983**	3,000	**19,625**	21,250	**83,079**	46,631
Office costs	**16,190**	14,574	**9,765**	10,692	**186,305**	190,203	**212,260**	215,469
Travel costs	**4,636**	2,395	**5,750**	6,175	**22,344**	20,414	**32,730**	28,984
	$ 142,158	$ 135,268	**$ 78,678**	$ 41,267	**$ 617,368**	$ 659,519	**$ 838,204**	$ 836,054

For the nine months ended May 31, 2019 and 2018:

	Corporate		Geoexchange services		Controls and Mechanical contracting		Total	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018
Salaries and wages	**$ 285,793**	$ 279,469	**$ 28,140**	$ 37,485	**$ 1,169,331**	$1,177,760	**$ 1,483,264**	$ 1,494,714
Professional and consulting fees	**133,250**	48,370	**118,844**	9,000	**79,705**	68,108	**331,799**	125,478
Office costs	**34,277**	33,320	**23,267**	23,434	**525,988**	485,919	**583,532**	542,673
Travel costs	**13,706**	8,704	**19,434**	21,591	**74,961**	68,376	**108,101**	98,671
	$ 467,026	$ 369,863	**$ 189,685**	$ 91,510	**$ 1,849,985**	$1,800,163	**$ 2,506,696**	$ 2,261,536

General and administrative costs increased slightly by $2,150 from $836,054 in Q3 2018 to $838,204 in Q3 2019. General and administrative costs in the Corporate segment increased slightly by $6,890 from $135,268 in Q3 2018 to $142,158 in Q3 2019. In the Geoexchange division, there was an increase of $37,411 from $41,267 in Q3 2018 to $78,678 in Q3 2019 mainly due to an increase in professional and consulting fees. There was a decrease of $42,151 for the Controls and Mechanical contracting division from $659,519 in Q3 2018 to $617,368 in Q3 2019, mainly due to a decrease in salaries and wages expense. Overall, to date, the Company incurred an increase of $245,160 in general and administrative costs, from $2,261,536 for the nine months ended May 31, 2018 compared to $2,506,696 in 2019, mainly due to an increase in professional and consulting fees across all divisions.

Amortization and Depreciation

Amortization and depreciation was $7,034 and $42,966 for the three and nine months ended May 31, 2019, respectively, versus $23,469 and $68,840 in 2018. 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 for the nine months ended May 31, 2019 at $15,769 (2018 - $30,894).

Finance Expense

Finance expenses of $18,814 and $60,805 (2018 - $17,345 and $55,110) were incurred for the three and nine months ended May 31, 2019, respectively, and relate to interest on the Company's bank indebtedness and notes payable.

Share-based Payments

Total share-based payments for the three and nine months ended May 31, 2019 was $Nil, compared to $7,464 and $49,185 in 2018. These share-based payments are a non-cash cost.

Net Income (Net Loss)

The Company generated net income of $251,902 for the three months ended May 31 2019 vs. $26,585 in the prior year. The controls and mechanical contracting division recorded a net loss of $169,549 (2018 – net income of $213,688) and the corporate division reported a net loss of $108,454 (2018 - $159,027) during the three months ended May 31, 2019. The geoexchange services division reported a net income of $529,905 (2018 – net loss of $28,076).

For the nine months ended May 31, 2019, the Company recorded a net loss of $32,895 (2018 - net income of $143,432).

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, 2019, the Company had working capital of $1,387,920. As at the date of this report, the Company's working capital has not materially changed from that reported at May 31, 2019. 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 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. See the going concern risk for further details.

Financial Instruments Risk Exposure and Management

The Company's financial instruments consist of cash, accounts receivable, trade payables and accrued liabilities, notes payable and current income tax 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, 2019**	August 31, 2018
Within 30	**$ 1,696,397**	$ 1,871,517
31 to 60	**645,033**	937,020
61 to 90	**617,416**	352,591
Over 90	**413,084**	553,022
Holdbacks	**327,334**	266,157
Total accounts receivable	**$ 3,699,264**	$ 3,980,307

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 0% 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

Standards issued and effective for the period ended May 31, 2019:

IFRS 9 – Financial Instruments ("IFRS 9") uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9, except that an entity choosing to measure a financial liability at fair value will present the portion of any change in its fair value due to changes in the entity's own credit risk in other comprehensive income, rather than within profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39.

IFRS 15 - Revenue from Contracts with Customers, specifies how and when to recognize revenue and enhances relevant disclosures to be applied to all contracts with customers. IFRS 15 introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of promised goods or services to a customer and at an amount that reflects the consideration expected to be received in exchange for transferring those goods or services.

The Company has assessed the impact of these standards and have determined that they do not have a significant impact on the Company's condensed consolidated interim financial statements.

Standard issued but not yet effective for the period ended May 31, 2019:

IFRS 16 - Leases ("IFRS 16") was issued by the IASB in January 2016 and specifies the requirements to recognize, measure, present and disclose leases. IFRS 16 introduces a single accounting model for lessees and for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee will be 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. IFRS 16 is effective for annual periods beginning on or after January 1, 2019 with early adoption permitted.

The Company has not early adopted this standard and is currently assessing the impact that it will have on the condensed consolidated interim financial statements.

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 new and innovative technologies and services to create a differentiated value proposition for its customers.

The Company's objective is to add a range of sustainable infrastructure solutions and services. This will allow the Company to take advantage of the higher margin areas of the full service business model envisioned by the Company.

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 772,500 common shares, and outstanding warrants to purchase an aggregate of 1,251,750 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.

The Company incurred a net loss of $32,895 for the nine months ended May 31, 2019 (2018 - net income of $143,432) and has an accumulated deficit of $21,048,847 (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

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.