SustainCo Inc.

Consolidated Financial Statements

For the years ended August 31, 2019 and 2018

(Expressed in Canadian Dollars)

Independent Auditor's Report

To the Shareholders of SustainCo Inc.:

Opinion

We have audited the consolidated financial statements of SustainCo Inc. and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2019 and August 31, 2018, and the consolidated statements of income (loss) and comprehensive income (loss), changes in shareholders' equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at August 31, 2019 and August 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 1 the consolidated financial statements, which indicates that the Company reported net income of $4,914 during the year ended August 31, 2019 and, as of that date, the Company had working capital of $1,440,837. At August 31, 2019 the Company has an accumulated deficit of $21,011,038. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Andrew Kevin Spidle.

MNP LLP

Mississauga, Ontario — Chartered Professional Accountants

December 18, 2019 — Licensed Public Accountants

MNP LLP

Consolidated Statements of Financial Position
As at
(Expressed in Canadian Dollars)

		August 31, 2019		August 31, 2018
Assets				
Current assets				
Cash	**$**	**276,603**	$	93,548
Accounts receivable *(note 9)*		**3,876,199**		3,980,307
Unbilled receivables *(note 18)*		**464,943**		702,039
Inventories *(note 4)*		**245,455**		297,026
Prepaid expenses		**97,873**		81,295
		4,961,073		5,154,215
Property and equipment *(note 5)*		**89,386**		101,813
Intangible assets *(note 7)*		**135,000**		156,667
Goodwill *(note 6)*		**599,802**		599,802
Total assets	**$**	**5,785,261**	$	6,012,497
Liabilities				
Current liabilities				
Bank indebtedness (*note 11*)	**$**	**-**	$	352,909
Accounts payables and accrued liabilities		**2,111,540**		1,822,058
Deferred revenue (*note 18)*		**863,696**		885,238
Notes payable *(note 12)*		**-**		50,000
Promissory notes payable *(note 12)*		**545,000**		618,330
Income tax payable		**-**		19,173
		3,520,236		3,747,708
Deferred income taxes		**35,775**		40,453
Total liabilities		**3,556,011**		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		**(21,011,038)**		(21,015,952)
Total shareholders' equity		**2,229,250**		2,224,336
Total liabilities and shareholders' equity	**$**	**5,785,261**	$	6,012,497

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

Nature of operations and going concern *(note 1)*
Contingent liabilities and Commitments *(note 13)*

Approved on behalf of the Board

Signed: *"Emlyn J. David"*

Director

Signed: *"Michael Galloro"*

Director

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Expressed in Canadian Dollars)

	For the years ended August 31,	
	2019	2018
Sales *(note 14)*	**$ 15,931,266**	$ 13,687,391
Cost of sales *(note 4)*	**12,567,272**	10,518,926
Gross profit	**3,363,994**	3,168,465
General and administrative *(note 10)*	**3,258,648**	3,081,323
Amortization and depreciation *(notes 5 & 7)*	**52,540**	92,824
Finance expense *(notes 11 & 12)*	**72,368**	73,046
Share-based payments *(note 8)*	**-**	55,351
Inventory provision (*note 4*)	**58,989**	**-**
Bad debt expense (recovery)	**(14,054)**	-
Gain on disposal of equipment *(note 5)*	**(24,059)**	(296)
Gain on settlement of debt (*note 12*)	**(50,000)**	**-**
Gain on settlement of payables (*note 17)*	**-**	(64,000)
Income (loss) from operations before income taxes	**9,562**	(69,783)
Current tax expense *(note 19)*	**(9,326)**	(65,296)
Deferred tax recovery (expense) *(note 19)*	**4,678**	11,222
Net income (loss) and comprehensive income (loss)	**4,914**	(123,857)
Net income (loss) per share		
Basic and diluted	**$ 0.00**	$ (0.01)
Weighted average shares outstanding	**15,776,223**	15,776,223

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

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the years ended August 31,	
	2019	2018
Cash provided by (used in)		
Operating activities		
Net income (loss)	**$ 4,914**	$ (123,857)
Items not involving cash:		
Accretion (*note 12*)	**58,270**	65,003
Amortization and depreciation *(notes 5 & 7)*	**52,540**	92,824
Share-based payments *(note 8)*	**-**	55,351
Deferred income taxes	**(4,678)**	(11,222)
Gain on disposal of equipment (*note 5*)	**(24,059)**	(296)
Inventory provision (*note 4*)	**58,989**	-
Gain on settlement of debt (*note 12*)	**(50,000)**	(64,000)
Change in non-cash working capital:		
Accounts receivable	**104,108**	(402,511)
Unbilled receivables	**237,096**	(71,364)
Inventories	**(7,418)**	13,710
Prepaid expenses	**(16,578)**	9,975
Deferred revenue	**(21,542)**	(123,021)
Accounts payable and accrued liabilities	**289,482**	(33,942)
Income tax payable	**(19,173)**	(40,408)
Net cash provided by (used in) operating activities	**661,951**	(633,758)
Financing activities		
Repayment of notes payable (*note 12*)	**-**	(24,500)
Repayment of promissory notes payable (*note 12*)	**(131,600)**	-
Bank indebtedness (repayment) (*note 11*)	**(352,909)**	352,909
Acquisition payable	**-**	(30,000)
Net cash provided by (used in) financing activities	**(484,509)**	298,409
Investing activities		
Investment in property and equipment *(note 5)*	**(20,231)**	(44,584)
Proceeds from sale of property and equipment *(note 5)*	**25,844**	1,176
Net cash provided by (used in) investing activities	**5,613**	(43,408)
Increase (decrease) in cash	**183,055**	(378,757)
Cash, beginning of year	**93,548**	472,305
Cash, end of year	**$ 276,603**	$ 93,548

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

Consolidated Statements of Changes in Shareholders' Equity
(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)*	-	55,351	-	55,351
Net loss for the year	-	-	(123,857)	(123,857)
Balance, August 31, 2018	$ 21,011,132	$ 2,229,156	$ (21,015,952)	$ 2,224,336
Net income for the year	-	-	4,914	4,914
Balance, August 31, 2019	**$ 21,011,132**	**$ 2,229,156**	**$ (21,011,038)**	**$ 2,229,250**

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 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 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. The Company reported net income of $4,914 for the year ended August 31, 2019 compared to a net loss of $123,857 in the prior year. The Company has working capital of $1,440,837 as at August 31, 2019 (August 31, 2018 – $1,406,507) and an accumulated deficit of $21,011,038 (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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations of the IFRS Interpretations Committee ("IFRIC").

These consolidated financial statements were authorized for issuance by the Board of Directors on December 18, 2019.

Basis of measurement and functional currency

The consolidated financial statements are prepared on the historical cost basis except as noted for certain items disclosed in Note 3.

The consolidated financial statements are presented in Canadian dollars, the functional currency of the Company and its subsidiaries.

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 and obtain benefits from its activities. All intercompany balances and transactions have been eliminated.

3. Summary of Significant Accounting Policies

Revenue recognition

Effective September 1, 2018 and applied on a modified retrospective basis, the Company adopted IFRS 15 *Revenue from Contracts with Customers*, which supersedes previous accounting standards for revenue, including IAS 18, *Revenue* (IAS 18) and IAS 11, *Construction Contracts* (IAS 11). 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 Company adopted this standard using the full retrospective approach, and the application of IFRS 15 has not resulted in any differences between the previous carrying amounts and the carrying amounts at the date of the initial application of IFRS 15. The standard requires revenue to be recognized in a manner that depicts the transfer of control 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. This is achieved by applying the following five steps:

1. Identify the contract with a customer;
2. Identify the performance obligations in the contract;
3. Determine the transaction price;
4. Allocate the transaction price to the performance obligations in the contract; and
5. Recognize revenue when (or as) the entity satisfies a performance obligation.

3. Summary of Significant Accounting Policies - continued

Revenue recognition (continued)

Under IFRS 15, revenue is recognized as a performance obligation is satisfied, i.e. when control of the goods or services underlying the particular performance obligation is transferred to the customer.

For construction and other project revenue, the Company considers the promise of goods and services as a single performance obligation that is satisfied over time as the control of goods and services are transferred to the customer. This is estimated using the percentage of completion method using the cost input method, because the Company considers the performance obligation to be distinct within the terms of the contract. The Company reviews its project costs on contracts to determine if each of these costs is contributing to the transfer of control of goods or services to the customer. The exclusion of certain project costs from the determination of progress will either increase or decrease revenue being recognized over the life of the project. A loss is recognized where expected costs to complete a contract exceed the contract revenues.

Service revenue is recognized when services have been performed and collection of the receivable is reasonably assured.

Product revenue and repairs revenue are recognized when control is transferred to the buyer, the amount of revenue can be measured reliably, it is probable that the economic benefits will be received, and the costs incurred or to be incurred can be measured reliably.

Change orders and claims

Change order and claims, referred to as contract modifications were previously recognized as per guidance provided in IAS 11. Under such guidance, revenue can be recognized on contract modifications only when certain conditions are met, including the fact that it is probable the customer will approve the modification and the amount of revenue arising from such contract modifications. IFRS 15 also provides guidance on the recognition of revenue from contract modifications. Such guidance is based, among other factors, on the fact that the contract modification is approved, and it is highly probable that a significant reversal in the amount of cumulative revenue recognized on such contract modifications will not occur when the uncertainty is subsequently resolved. Given that under IAS 11, the Company had only recognized contract modifications that have been approved by customers, the new higher level of probability to be applied under IFRS 15 had no impact on revenue recognition for the Company.

Measure of anticipated revenues and determination of progress

For revenue recognized based on the percentage of completion method using cost input method, the Company reviews its project costs on contracts to determine if each of these costs is contributing to the transfer of control of goods or services to the customer. The exclusion of certain project costs from the determination of progress will either increase or decrease revenue being recognized over the life of the project.

3. Summary of Significant Accounting Policies – continued

Financial instruments

Effective September 1, 2018, the Company has adopted IFRS 9 Financial Instruments and applied it on a modified retrospective basis. IFRS 9 - *Financial Instruments* was issued by the IASB to establish principles for the financial reporting of financial assets and financial liabilities, including requirements for classification and measurement, impairment, and hedge accounting. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*. The Company has elected not to restate comparative information for prior periods with respect to classification and measurement (including impairment) requirements. Therefore, comparative periods have not been restated. There were no differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of IFRS 9. The adoption of IFRS 9 resulted in changes in accounting policies which are described below.

Classification

On initial recognition, the Company determines the classification of financial instruments based on the following categories:

1. Measured at amortized cost
2. Measured at fair value through profit or loss (FVTPL)
3. Measured at fair value through other comprehensive income (FVOCI)

The classification under IFRS 9 is based on the business model under which a financial asset is managed and on its contractual cash flow characteristics. Assets held for the collection of contractual cash flows and for which those cash flows correspond solely to principal repayments and interest payments are measured at amortized cost. Contracts with embedded derivatives where the host is a financial instrument in the scope of the standard will be assessed as a whole for classification.

A financial asset is measured at amortized cost if both of the following criteria are met:

1. Held within a business model whose objective is to hold assets to collect contractual cash flows; and
2. Contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Equity investments held for trading are classified as FVTPL. For all other equity investments that are not held for trading, the Company may irrevocably elect, on initial recognition, to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis.

Financial liabilities are classified as either amortized cost or as financial liabilities at FVTPL. The Company determines the classification of its financial liabilities at initial recognition.

3. Summary of Significant Accounting Policies – continued

Financial instruments – continued

Financial liabilities are classified as measured at amortized cost unless they fall into one of the following categories: financial liabilities at FVTPL, financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition, financial guarantee contracts, commitments to provide a loan at a below-market interest rate, or contingent consideration recognized by an acquirer in a business combination. The Company's loans payable, accounts payable and accrued liabilities do not fall into any of the exemptions and are therefore classified as measured at amortized cost.

The Company has assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS39, as follows:

Financial instrument	Original classification under IAS 39	New classification under IFRS 9
Financial assets		
Cash	Fair value through profit or loss	Amortized cost
Accounts receivable, excluding HST	Loans and receivables	Amortized cost
Financial liabilities		
Bank indebtedness	Other financial liabilities	Amortized cost
Trade and accrued liabilities	Other financial liabilities	Amortized cost
Notes payable	Other financial liabilities	Amortized cost
Promissory notes payable	Other financial liabilities	Amortized cost

Measurement

Initial recognition – A financial asset or financial liability is initially recorded at its fair value, which is typically the transaction price, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. In the event that fair value is determined to be different from the transaction price, and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets, then the difference between fair value and transaction price is recognized as a gain or loss at the time of initial recognition.

3. Summary of Significant Accounting Policies – continued

Financial instruments - continued

Amortized cost – The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses. The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

Fair value through profit or loss – Changes in fair value after initial recognition, whether realized or not, are recognized through the statements of net income (loss) and comprehensive income (loss). Income arising in the form of interest, dividends, or similar, is recognized through the statements of net income (loss) and comprehensive income (loss) when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

Fair value through other comprehensive income – Changes in fair value after initial recognition, whether realized or not, are recognized through other comprehensive income. Income arising in the form of interest, dividends, or similar, is recognized through the statements of net income (loss) and comprehensive income (loss) when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

Impairment

In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model. The expected credit loss model requires the Company to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition.

The Company has applied the simplified approach to recognize lifetime expected credit losses for its accounts receivable. In general, the Company anticipates that the application of the expected credit loss model of IFRS 9 results in earlier recognition of credit losses for the respective items.

Derecognition

Financial assets – The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset have expired or when contractual rights to the cash flows have been transferred. Gains and losses from the derecognition are recognized in the statements of net income (loss) and comprehensive income (loss).

Financial liabilities – The Corporation derecognizes a financial liability when the obligation specified in the contract is discharged, canceled or expired. The difference between the carrying amount of the derecognized financial liability and the consideration paid or payable, including non-cash assets transferred or liabilities assumed, is recognized in the statements of net income (loss) and comprehensive income (loss).

3. Summary of Significant Accounting Policies – continued

Foreign currency translation

Transactions in foreign currencies are initially recorded at the exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the end of the reporting period. All differences are recorded in the consolidated statement of income (loss) and comprehensive income (loss).

Income taxes

Income tax expense comprises of current and deferred tax expense. Income tax expense is recognized in the consolidated statement of income (loss) and comprehensive income (loss), except to the extent that they relate to items recognized directly in equity or in other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax assets and liabilities are recognized for temporary differences which are differences between the carrying amounts of assets and liabilities in the consolidated statements of financial position and its tax base, the carry-forward of unused tax losses and unused tax credits. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled.

Deferred tax assets are recognized only to the extent future recovery is probable. At each reporting period end, deferred tax assets are reduced to the extent that it is no longer probably that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Goodwill

Goodwill arises from business combinations and represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired.

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. Segment results include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

Provisions and warranties

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of the economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the liability. The unwinding of the discount is recognized as a finance cost.

3. Summary of Significant Accounting Policies – continued

Property and equipment

Property and equipment are stated at cost, net of accumulated depreciation and accumulated impairment losses, if any. Such cost includes the cost of replacing parts of the property and equipment. Likewise, when a major inspection is performed, its cost is recognized in the carrying value of the equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the statement of income (loss) and comprehensive income (loss) as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Depreciation is calculated on a declining balance basis over the expected useful life of the asset at the following rates:

Office furniture and equipment	– 10 to 20%
Computer equipment	– 30 to 40%
Job equipment	– 20 to 30%
Vehicles	– 20 to 30%
Leasehold improvements	– straight-line over the expected lease term

An item of equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying value of the asset) is included in the consolidated statement of income (loss) and comprehensive income (loss) in the period the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year end, and adjusted prospectively if appropriate.

Intangible assets

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization expense on the intangible assets with finite lives is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of income (loss) and comprehensive income (loss) when the asset is derecognized.

Intangible assets consist of customer relationships, exclusivity contracts, and brand names. Customer relationships are amortized over five years, and exclusivity contracts over the expected life of the contract. The brand name is an indefinite life intangible that is not amortized, which is tested for impairment annually.

3. Summary of Significant Accounting Policies – continued

Inventories

Inventories are valued at the lower of cost and net realizable value.

The costs incurred to bring each product to its present location and condition are accounted for as follows:

- Raw materials, equipment, and spare parts – purchased cost on a first in, first out basis.

Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Impairment of non-financial assets

At the end of each reporting period, the Company assesses whether there is an indication that an asset or cash-generating unit ("CGU") may be impaired. If any indication exists, or when annual impairment testing for an asset or CGU is required, the Company estimates the recoverable amount. The recoverable amount is the higher of an asset's or CGU's fair value less costs to sell and its value in use. Where the carrying value of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered to be impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU, using an appropriate valuation model. These calculations are corroborated by calculation multiples or other available fair value indicators.

Impairment losses are recognized in the statement of income (loss) and comprehensive income (loss) in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at the end of each reporting period as to whether there is any indication that previously recognized impairment losses no longer exist or may be decreased. If such indication exists, the Company estimates the asset's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income (loss) and comprehensive income (loss).

Goodwill and indefinite life intangibles are tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill and indefinite life intangibles by assessing the recoverable amount of each CGU to which goodwill relates. Where the recoverable amount of the CGU, including goodwill and indefinite life intangibles, is less than its carrying value, an impairment loss is recognized. Impairment losses related to goodwill cannot be reversed in future periods (refer to Note 6 for additional details on Goodwill).

3. Summary of Significant Accounting Policies – continued

Stock-based compensation

The Company has in effect a stock option plan which is described in Note 8(c). All stock-based awards granted are accounted for using the fair value-based method. Fair value is calculated using the Black-Scholes valuation model. Any consideration paid by eligible participants on the exercise of stock options is credited to share capital. The contributed surplus associated with options is transferred to share capital upon exercise.

Net income (loss) per share

Basic income (loss) per share is computed by dividing net income (loss) available to common shareholders by the weighted average number of common shares outstanding during the year. The Company applies the treasury stock method in the calculation of diluted income (loss) per share. Diluted income (loss) per share excludes all dilutive potential common shares if their effect is anti-dilutive.

Accounting assumptions, estimates and judgments

The preparation of these consolidated financial statements requires management to make estimates, judgments 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 following are the critical assumptions, estimates and judgments concerning the key sources of estimation uncertainty at August 31, 2019, that have a significant risk of causing adjustments to the carrying values of assets and liabilities.

Assessment of impairments

The Company's impairment tests for non-financial assets are based on the greater of value in use calculations that use a discounted cash flow model and estimated fair value less cost to sell. The value-in-use calculations employ the following key assumptions: future cash flows, growth projections including economic risk assumptions and estimates of achieving key operating metrics. The cash flows are derived from the Company's budget for the future and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset base of the asset or CGU being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. The estimated fair value less cost to sell is based on assessment of comparable company multiples and precedent transactions.

3. Summary of Significant Accounting Policies – continued

Accounting assumptions, estimates and judgments – continued

Allowances for expected credit losses

An 'expected credit loss' impairment model applies which requires a loss allowance to be recognized based on expected credit losses. This applies to financial assets measured at amortized cost. The estimated present value of future cash flows associated with the asset is determined and an impairment loss is recognized for the difference between this amount and the carrying amount as follows: the carrying amount of the asset is reduced to estimated present value of the future cash flows associated with the asset, discounted at the financial asset's original effective interest rate, either directly or through the use of an allowance account and the resulting loss is recognized in the statement of income (loss) and comprehensive income (loss) for the period. In a subsequent period, if the amount of the impairment loss related to financial assets measured at amortized cost decreases, the previously recognized impairment loss is reversed through the consolidated statement of income (loss) and comprehensive income (loss) to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized. The assumptions used for this estimate, which are based on the Company's historical collection history, are presented in Note 9.

Stock-based compensation

The Company uses the Black-Scholes options pricing model to determine the amount of stock-based compensation. Such models require assumptions related to share price volatility, expected life of options and discount rate. Changes in these assumptions affects the fair value of the options and the amount of stock-based compensation to be recognized in profit or loss over the vesting period.

Deferred income taxes

Management uses estimates when determining deferred income assets. These estimates are used to determine the recoverability of non capital tax loss carry forward and other tax amounts. Significant judgment is required to determine the probable future cash flows in order to recognize the deferred tax asset. Changes in market conditions, changes in tax legislation, and other factors, could adversely affect the ongoing value of deferred tax assets. The carrying amount of deferred income tax assets is reassessed at each reporting period and reduced to the extent that it is no longer probable that sufficient taxable income will be available to utilize all or part of the deferred income tax assets. Unrecognized deferred income tax assets are reassessed at each reporting period and are recognized to the extent that it is probable that there will be sufficient taxable income for the asset to be recovered.

Estimated useful lives of intangible assets

Management estimates the useful lives of intangible assets based on the period during which the assets are expected to be available for use and also estimates their recoverability to assess if there has been an impairment. The amounts and timing of recorded expenses for amortization and impairments of intangible assets for any period are affected by these estimates. The estimates are reviewed at least annually and are updated if expectations change as a result of commercial obsolescence and legal or other limits to use. It is possible that changes in these factors may cause significant changes in the estimated useful lives of the Company's intangible assets in the future

3. Summary of Significant Accounting Policies – continued

Accounting assumptions, estimates and judgments – continued

Litigation risk and claims risk

Disputes are common in the industry and as such, in the normal course of business, the Company is involved in various legal actions and proceedings which arise from time to time, some of which may be substantial, including the legal proceedings discussed in Note 13. The Company must make certain assumptions and rely on estimates regarding potential outcomes of legal proceedings in order to determine if a provision is required. Estimating and recording the future outcome of litigation proceedings requires management to make significant judgments and assumptions, which are inherently subject to risks and uncertainties. Management regularly analyzes current information about these matters, and external legal counsel are often used for these assessments. In making decisions regarding the need for provisions, management considers the degree of probability of an unfavorable outcome and the ability to make a sufficiently reliable estimate of the amount of loss. The outcome of these matters may have a material effect on the financial position, results of operations or cash flows of the Company, and there is no guarantee that there will not be a future rise in litigation which, depending on the nature of the litigation, could impact the financial position, results of operations, or cash flows of the Company.

Percentage of completion

The Company measures the percentage of completion using the cost input method in accounting for its contract revenues which requires the Company to determine the contract work performed to date as a proportion of the estimated total contract work to be performed and it is management's judgment that use of the costs to date in proportion to the total estimated costs provides the most appropriate measure of percentage of completion.

3. Summary of Significant Accounting Policies – continued

Future changes in accounting standards

New standards, amendments to standards and interpretations not yet effective for the year ended August 31, 2019 that have not yet been applied in preparing these consolidated financial statements but may affect the Company are highlighted below:

IFRS 16 – Leases - In January 2016, the IASB issued IFRS 16. The new standard requires that for most leases, lessees must initially recognize a lease liability for the obligation to make lease payments and a corresponding right-of-use asset for the right to use the underlying asset for the lease term. Lessor accounting under IFRS 16 is substantially unchanged, lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between an operating or finance lease. This standard will be effective for annual periods beginning on or after January 1, 2019.

At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right-of-use to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense or fair value gain (loss) on the right-of-use asset, depending on the classification of the asset. The standard includes two recognition exemptions for leases; leases of 'low-value' assets and 'short-term' leases. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events. The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Company is currently assessing the effects of these new standards and intends to adopt them on their effective date. The Company anticipates it will need to account for a large portion of its leases disclosed in Note 13 as right-of-use assets with a corresponding lease liability as part of the adoption of IFRS 16.

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 year was $2,939,935 (2018 - $2,865,437).

Inventories are stated at the lower of cost or market. The Company periodically reviews the value of items in inventory and provides write-downs or write-offs of inventory based on its assessment of market conditions. During the year ended August 31, 2019, the Company incurred a one-time charge of $58,989 (2018 – $Nil). Included in inventory is an allowance of $53,284 (2018 - $22,150).

(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 for the year	18,980	20,629	4,175	800	-	44,584
Disposals for the year	(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 for the year	6,131	5,203	5,248	1,730	1,919	20,231
Disposals for the year	(20,547)	-	-	-	-	(20,547)
At August 31, 2019	**$ 171,985**	**$ 125,875**	**$ 20,259**	**$ 234,809**	**$ 11,260**	**$ 564,188**
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 for the year	(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 year	12,577	13,214	2,534	1,565	983	30,873
Disposals for the year	(18,762)	-	-	-	-	(18,762)
At August 31, 2019	**$ 144,592**	**$ 97,300**	**$ 12,896**	**$ 210,585**	**$ 9,429**	**$ 474,802**
Net book value						
At August 31, 2018	$ 35,624	$ 36,586	$ 4,649	$ 24,059	$ 895	$ 101,813
At August 31, 2019	**$ 27,393**	**$ 28,575**	**$ 7,363**	**$ 24,224**	**$ 1,831**	**$ 89,386**

The Company disposed of equipment for total proceeds of $25,844 (2018 - $1,176), resulting in a gain of $24,059 for the year ended August 31, 2019 (2018 - $296).

6. Goodwill

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

In 2019, the Company performed an impairment test, which compared the carrying amount of VCI to the recoverable amount. VCI is regarded as its own CGU, as it is the smallest identifiable group of assets that generates cash inflows; it includes VCI's trade name, customer relationships, and goodwill as listed in Note 7.

Using a five year (and related terminal value) discounted future cash flow model, the Company determined the recoverable amount by calculating its value in use. The recoverable amount of the CGU was determined to be above its carrying value as at August 31, 2019.

The key assumptions used in the discounted future cash flow model in fiscal 2019 include projections surrounding pricing, competition, market trends, growth rates and expense cuts. The model used average annual revenue growth rates between 2% and 3%, gross margin of 22% and post-tax discount rates of 20%. Operating expenses were projected to grow in line with revenue growth. A sensitivity analysis was performed using different gross margin rates of 20% to 25% as well as revenue between 0.5% and 4% growth, and concluded there was no impairment on the VCI CGU. Management believes that the discount rate reasonably reflects the risks associated with cash flow projections for the business.

(Expressed in Canadian Dollars)

7. Intangible Assets

	Customer relationships	Brand or trade name	Total
Cost			
At August 31, 2018 and 2019	**$ 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 year	21,667	-	21,667
At August 31, 2019	**$ 395,000**	**$ 68,000**	**$ 463,000**
Net book value			
At August 31, 2018	$ 21,667	$ 135,000	$ 156,667
At August 31, 2019	**$ -**	**$ 135,000**	**$ 135,000**

Indefinite life intangible assets are tested for impairment annually (refer to Note 6 for details on impairment testing and assumptions used).

(Expressed in Canadian Dollars)

8. Share Capital

(a) Authorized

An unlimited number of common shares.

(b) Issued

As of August 31, 2019, there were 15,776,223 common shares outstanding (August 31, 2018 – 15,776,223) 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	0.58	72,500
$0.15	700,000	2.96	700,000
Balance at August 31, 2019	**772,500**	**2.74**	**772,500**

For the year ended August 31, 2019, the Company recognized share-based payment expense of $Nil (2018 - $55,351). The Company did not issue any stock options during the years ended August 31, 2019 and 2018.

(d) Warrants

Weighted average exercise price	Number of warrants	Weighted average remaining life (years)
$0.65	1,251,750	1.94
Balance at August 31, 2019	**1,251,750**	**1.94**

All warrants are fully vested. The Company did not issue any warrants during the years ended August 31, 2019 and 2018.

(Expressed in Canadian Dollars)

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 contractual maturities of financial liabilities are as follows:

	Carrying Amount	Contractual cash flows	Within 1 year	1 to 2 years	2 to 5 years	5+ years
Accounts payable and accrued liabilities	$2,111,540	$ 2,111,540	$ 2,111,540	$ -	$ -	$ -
Promissory notes payable	545,000	545,000	545,000			
	$2,656,540	$ 2,656,540	$ 2,656,540	$ -	$ -	$ -

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	**ECL Rate**	**August 31, 2019**	August 31, 2018
Within 30	0.50%	**$ 1,499,380**	$ 1,871,517
31 to 60	0.50%	**1,240,054**	937,020
61 to 90	1.10%	**298,498**	352,591
Over 90	2.70%	**421,544**	684,403
Holdbacks	0.50%	**444,407**	266,157
Expected credit loss		**(27,684)**	(131,381)
Total accounts receivable		**$ 3,876,199**	$ 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. For the year ended August 31, 2019, there was an allowance for expected credit losses of $27,684 (2018 - $131,381).

9. Financial Instruments and Risk Management - continued

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. No bank indebtedness subject to a floating rate was outstanding as of the end of the year and the Company had a de minimus exposure to interest rate risk on existing indebtedness. 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. One particular customer account comprises 26% of total outstanding accounts receivable, all of which is within 90 days aging.

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)

9. Financial Instruments and Risk Management - continued

Financial Instruments – Categories and fair value of financial instruments

Fair value measurements recognized in the consolidated statements of financial position, if any, must be categorized in accordance with the following levels:

(i) Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;

(ii) Level 2: inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and;

(iii) Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at August 31, 2019				
		$		
		Carrying Value		**Fair Value**
	FVTPL	**FVTOCI**	**Amortized Costs**	**Total**
Financial Assets and Liabilities				
Cash	-	-	276,603	276,603
Accounts receivables	-	-	3,876,199	3,876,199
Bank indebtedness	-	-	-	-
Accounts payable and accrued liabilities	-	-	(2,111,540)	(2,111,540)
Notes payable	-	-	-	-
Promissory notes payable	-	-	(545,000)	(545,000)

As at August 31, 2018				
		$		
		Carrying Value		**Fair Value**
	FVTPL	**FVTOCI**	**Amortized Costs**	**Total**
Financial Assets and Liabilities				
Cash	-	-	93,548	93,548
Accounts receivables	-	-	3,980,307	3,980,307
Bank indebtedness	-	-	(352,909)	(352,909)
Accounts payable and accrued liabilities	-	-	(1,822,058)	(1,822,058)
Notes payable	-	-	(50,000)	(50,000)
Promissory notes payable	-	-	(618,330)	(618,330)

The carrying values of the Company’s short-term financial assets and liabilities approximate their fair values due to their short periods to maturity.

(Expressed in Canadian Dollars)

10. General and Administrative Expense

	For the years ended August 31, 2019	2018
Salaries and wages	**$ 1,956,121**	$ 1,887,132
Office expense	**766,405**	777,853
Professional and consulting fees	**404,002**	198,744
Travel	**132,120**	133,471
Bad debts	**-**	84,123
	$ 3,258,648	$ 3,081,323

11. Bank Indebtedness

As at August 31, 2019, bank indebtedness was $Nil (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) and is due upon demand. Security for the above indebtedness comprises of a general security agreement and the postponement and assignment of claim of amounts due to related parties.

During the year ended August 31, 2019, interest of approximately $8,849 (2018 - $4,029) related to the above indebtedness, was paid and 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 August 31, 2019, VCI is in compliance with this financial covenant.

12. Notes Payable and Promissory Notes Payable

Notes Payable

The Company was advanced $100,000 as notes payable during 2016. The notes were repayable upon demand and non-interest bearing. The Company repaid $25,500 during the year ended August 31, 2017, and an additional $24,500 during the year ended August 31, 2018. The outstanding balance of $50,000 was forgiven and recognized as a gain on settlement of debt during the year ended August 31, 2019.

Promissory Notes Payable

	2019	2018
Opening balance	**$ 618,330**	$ 553,327
Repayment	**(131,600)**	-
Accretion	**58,270**	65,003
Closing balance	**$ 545,000**	$ 618,330

The promissory notes are non-interest bearing. In 2018, the notes were purchased from their respective noteholders by a related party to the Company.

(Expressed in Canadian Dollars)

13. Contingent Liabilities and Commitments

During the year ended August 31, 2019, a lawsuit was filed against the Company by a former employee for a claim of approximately $815,000. 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.

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:

2020	$	255,614
2021		251,413
2022		188,914
2023		94,132
2024		-
Total	**$**	**790,073**

14. Revenues

	For the year ended August 31,	
	2019	2018
Construction and other project revenue	**$ 12,023,670**	$ 9,808,458
Repairs revenue	**1,139,917**	1,353,412
Service revenue	**2,756,725**	2,508,873
Product revenue	**10,954**	16,648
	$ 15,931,266	$ 13,687,391

A 5% increase in the total cost to complete for all active projects would affect revenue recognized by $133,595 (2018 - $142,752).

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

15. Related Party Balances and Transactions

Remuneration of key management personnel of the Company for the year ended August 31, 2019, included $350,000 of short-term compensation (2018 - $350,000).

The Company did not issue any stock options to key management personal during the years ended August 31, 2019 and 2018. $55,351 of share-based compensation expense was recognized in 2018 due to the vesting of the options granted in 2017.

As at August 31, 2019, included in accounts payable is $139,249 payable to key management personnel (August 31, 2018 - $120,276).

(Expressed in Canadian Dollars)

16. Segmented Information

The Company's segments have been organized based on its principal business operations (Geoexchange services, Controls and Mechanical contracting, and Corporate), all within Canada.

Year ended August 31, 2019	**Corporate**	**Geoexchange services**	**Controls and Mechanical contracting**	**Total**
Capital expenditures	$ -	$ 5,203	$ 15,028	**$ 20,231**
Total assets	251,325	27,467	5,506,469	**5,785,261**
Statement of operations				
Revenue	-	3,198,399	12,732,867	**15,931,266**
Cost of sales	-	(2,215,360)	(10,351,912)	**(12,567,272)**
General and administrative	(650,565)	(244,932)	(2,363,151)	**(3,258,648)**
Finance expense	(58,487)	(4,232)	(9,649)	**(72,368)**
Inventory provision	-	-	(58,989)	**(58,989)**
Bad debt recovery	-	12,252	1,802	**14,054**
Gain on disposal of equipment	-	-	24,059	**24,059**
Gain on settlement of debt	50,000	-	-	**50,000**
Amortization and depreciation	-	(3,303)	(49,237)	**(52,540)**
Income tax expense	-	-	(4,648)	**(4,648)**
Segmented income (loss)	**$ (659,052)**	**$ 742,824**	**$ (78,858)**	**$ 4,914**

Year ended August 31, 2018	**Corporate**	**Geoexchange services**	**Controls and Mechanical contracting**	**Total**
Capital expenditures	$ -	$ 20,629	$ 23,955	**$ 44,584**
Total assets	254,396	574,569	5,183,532	**6,012,497**
Statement of operations				
Revenue	-	954,321	12,733,070	**13,687,391**
Cost of sales	-	(759,525)	(9,759,401)	**(10,518,926)**
General and administrative	(517,718)	(148,981)	(2,414,624)	**(3,081,323)**
Finance expense	(65,175)	(2,915)	(4,956)	**(73,046)**
Share-based payments	(55,351)	-	-	**(55,351)**
Gain on disposal of equipment	-	-	296	**296**
Amortization and depreciation	-	(1,053)	(91,771)	**(92,824)**
Gain on settlement of payables	-	-	64,000	**64,000**
Income tax expense	-	-	(54,074)	**(54,074)**
Segmented income (loss)	**$ (638,244)**	**$ 41,847**	**$ 472,540**	**$ (123,857)**

(Expressed in Canadian Dollars)

17. Gain on Settlement of Payables

The Company recognized a gain on settlement of payables of $Nil during the year (2018 - $64,000) based on negotiations with various vendors and service providers.

18. Unbilled Receivables and Deferred Revenue

		Unbilled Receivables
Opening balance, August 31, 2017	$	630,675
Net excess of revenue earned over billings		71,364
Balance, August 31, 2018		702,039
Net excess of billings over revenue earned		(237,096)
Balance, August 31, 2019	**$**	**464,943**

		Deferred Revenue
Opening balance, August 31, 2017	$	1,008,259
Net excess of revenue earned over billings		(123,021)
Balance, August 31, 2018		885,238
Net excess of revenue earned over billings		(21,542)
Balance, August 31, 2019	**$**	**863,696**

Included in deferred revenue is $Nil (2018 - $121,544) of accrued contract loss.

19. Income Taxes

Current Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income taxes rate of 26.5% (2018 – 26.5%) to the effective tax rate is as follows:

		2019		2018
Net income (loss) before recovery of income taxes	**$**	**9,562**	$	(69,783)
Expected income tax expense (recovery)	**$**	**2,610**	$	(18,427)
Tax rate changes and other adjustments		**-**		(236)
Share based compensation and non-deductible expenses		**13,930**		22,648
Change in tax benefits not recognized		**(11,892)**		50,089
Income tax expense	**$**	**4,648**	$	54,074

(Expressed in Canadian Dollars)

19. Income taxes (continued)

The Company's income tax expense (recovery) is allocated as follows:

		2019		2018
Current tax expense	$	**9,326**	$	65,296
Deferred tax expense (recovery)		**(4,678)**		(11,222)
	$	**4,648**	$	54,074

Deferred Tax

The following table summarizes the components of deferred tax:

		2019		2018
Deferred Tax Assets				
Property and equipment	$	**-**	$	-
Share issuance costs		**-**		-
Schedule 13 Reserves		**-**		9,150
Non-capital losses carried forward		**2,067**		17,473
	$	**2,067**	$	26,623
Deferred Tax Liabilities				
Intangible assets	$	**(35,775)**	$	(41,869)
Notes payable		**-**		(15,441)
Property and equipment		**(2,067)**		(7,735)
Revenue reserves		**-**		(2,031)
Net deferred tax liability	$	**(35,775)**	$	(40,453)

Net Deferred Tax Liability

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

Movement in Net Deferred Tax Liabilities

		2019		2018
Balance at the beginning of the year	$	**(40,453)**	$	(51,675)
Recognized in profit/loss		**4,678**		11,222
Balance at the end of the year	$	**(35,775)**	$	(40,453)

(Expressed in Canadian Dollars)

19. Income taxes (continued)

Unrecognized Deferred Tax Assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

Net deferred tax assets	**2019**	2018
Property and equipment	**$ 7,860**	$ 51,571
Intangible assets	**193,500**	219,564
Share issuance costs	**1,460**	2,906
Non-capital losses carried forward	**9,479,910**	9,514,893
Net capital losses carried forward	**5,910,590**	5,910,090
Other	**30,810**	-

The Canadian non-capital loss carry-forwards expire as noted in the table below. Share issue and finance costs will be fully amortized in 2020. The net capital loss carry-forward may be carried forward indefinitely, but can only be used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The Company's Canadian non-capital income tax losses expire as follows:

2031	$ 1,130,770
2032	227,870
2033	1,738,020
2034	2,318,690
2035	1,571,600
2036	1,193,000
2037	334,270
2038	209,480
2039	764,000
	$ 9,487,700