



**SustainCo Inc.**

**Condensed Interim Consolidated Financial Statements**

**For the three months ended November 30, 2019 and 2018**

**(Unaudited, Expressed in Canadian Dollars)**

### **Notice of No Auditor Review of Interim Financial Statements**

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by an entity's auditor.

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**Condensed Interim Consolidated Statements of Financial Position**

**As at**

*(Unaudited, Expressed in Canadian Dollars)*

	<b>November 30, 2019</b>	August 31, 2019 <i>(Audited)</i>
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 119,087	\$ 276,603
Accounts receivable <i>(note 9)</i>	4,114,966	3,876,199
Unbilled receivables <i>(note 16)</i>	809,242	464,943
Inventories <i>(note 4)</i>	241,722	245,455
Prepaid expenses	93,760	97,873
	<b>5,378,777</b>	<b>4,961,073</b>
Property and equipment <i>(note 5)</i>	797,244	89,386
Intangible assets <i>(note 7)</i>	135,000	135,000
Goodwill <i>(note 6)</i>	599,802	599,802
	<b>\$ 6,910,823</b>	<b>\$ 5,785,261</b>
<b>Liabilities</b>		
<b>Current liabilities</b>		
Bank indebtedness <i>(note 11)</i>	\$ 212,988	\$ -
Accounts payables and accrued liabilities	2,869,546	2,111,540
Deferred revenue <i>(note 16)</i>	507,508	863,696
Promissory notes payable <i>(note 12)</i>	545,000	545,000
Short-term finance lease obligations <i>(note 13)</i>	218,449	-
	<b>4,353,491</b>	<b>3,520,236</b>
Finance lease obligations <i>(note 13)</i>	493,899	-
Deferred income taxes	35,775	35,775
	<b>4,883,165</b>	<b>3,556,011</b>
<b>Shareholders' equity</b>		
Share capital <i>(note 8)</i>	21,011,132	21,011,132
Share-based payment reserve <i>(note 8)</i>	2,229,156	2,229,156
Deficit	(21,212,630)	(21,011,038)
	<b>2,027,658</b>	<b>2,229,250</b>
	<b>\$ 6,910,823</b>	<b>\$ 5,785,261</b>

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

Nature of operations and going concern *(note 1)*

Approved on behalf of the Board

Signed: "Emlyn J. David"

Director

Signed: "Michael Galloro"

Director

**Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)**  
**For the three months ended November 30, 2019 and 2018**

*(Unaudited, Expressed in Canadian Dollars)*

	<b>For the three months ended November 30,</b>	
	<b>2019</b>	<b>2018</b>
Sales <i>(note 14)</i>	\$ <b>4,388,675</b>	\$ 4,811,248
Cost of sales <i>(note 4)</i>	<b>3,835,595</b>	3,783,267
Gross profit	<b>553,080</b>	1,027,981
General and administrative <i>(note 10)</i>	<b>644,119</b>	764,542
Amortization and depreciation <i>(notes 5 &amp; 7)</i>	<b>68,302</b>	23,134
Finance expense <i>(notes 11, 12 &amp; 13)</i>	<b>17,468</b>	19,272
Bad debt expense	<b>24,783</b>	-
Income (loss) from operations before income taxes	<b>(201,592)</b>	221,033
Current tax expense	-	(15,000)
<b>Net income (loss) and comprehensive income (loss) after income taxes</b>	<b>(201,592)</b>	206,033
<b>Net income (loss) per share</b>		
Basic and diluted	\$ <b>(0.01)</b>	\$ 0.01
Weighted average shares outstanding	<b>15,776,223</b>	15,776,223

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

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**Condensed Interim Consolidated Statements of Changes in Shareholders' Equity**  
**For the three months ended November 30, 2019 and 2018**  
*(Unaudited, Expressed in Canadian Dollars)*

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	Share Capital	Share-Based Payment Reserve	Deficit	Total
Balance, August 31, 2018	\$ 21,011,132	\$ 2,229,156	\$ (21,015,952)	\$ 2,224,336
Net income for the period	-	-	206,033	206,033
Balance, November 30, 2018	\$ 21,011,132	\$ 2,229,156	\$ (20,809,919)	\$ 2,430,369
Balance, August 31, 2019	\$ 21,011,132	\$ 2,229,156	\$ (21,011,038)	\$ 2,229,250
Net loss for the period	-	-	(201,592)	(201,592)
<b>Balance, November 30, 2019</b>	<b>\$ 21,011,132</b>	<b>\$ 2,229,156</b>	<b>\$ (21,212,630)</b>	<b>\$ 2,027,658</b>

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

**Condensed Interim Consolidated Statements of Cash Flows**  
**For the three months ended November 30, 2019 and 2018**  
*(Unaudited, Expressed in Canadian Dollars)*

	<b>For the three months ended November 30,</b>	
	<b>2019</b>	<b>2018</b>
<b>Cash flow from (used in) operating activities</b>		
Net income (loss)	\$ (201,592)	\$ 206,033
Add (deduct) items not involving cash		
Accretion	17,115	16,251
Amortization and depreciation ( <i>notes 5 &amp; 7</i> )	68,302	23,134
Change in non-cash working capital		
Accounts receivable	(238,767)	(431,671)
Unbilled receivables	(344,299)	111,158
Inventories	3,733	1,111
Prepaid expenses	4,113	(14,912)
Deferred revenue	(356,188)	342,273
Accounts payable and accrued liabilities	758,006	232,952
	<b>(289,577)</b>	<b>486,329</b>
<b>Cash flow used in financing activities</b>		
Bank indebtedness (repayment) ( <i>note 11</i> )	212,988	(173,151)
Payment of finance lease obligations	(67,165)	-
	<b>145,823</b>	<b>(173,151)</b>
<b>Cash flow used in investing activities</b>		
Investment in property and equipment ( <i>note 5</i> )	(13,762)	(6,535)
	<b>(13,762)</b>	<b>(6,535)</b>
<b>Increase (decrease) in cash</b>	<b>(157,516)</b>	<b>306,643</b>
<b>Cash, beginning of period</b>	<b>276,603</b>	<b>93,548</b>
<b>Cash, end of period</b>	<b>\$ 119,087</b>	<b>\$ 400,191</b>

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

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## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended November 30, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

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### 1. Nature of Operations and Going Concern

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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.

VCI is a supplier of building technologies and services that improve comfort, safety, energy efficiency, and occupant productivity. VCI’s business focuses on digital controls and mechanical services, performance monitoring, and energy efficiency solutions.

These condensed interim consolidated financial statements are prepared on the assumption that the Company is a going concern, which contemplates the realization of assets and the settlement of liabilities in the normal course of operations. The Company reported a net loss of \$201,592 for the three months ended November 30, 2019, compared to a net income of \$206,033 in the prior year. The Company has working capital of \$1,025,286 as at November 30, 2019 (August 31, 2019 – \$1,440,837) and an accumulated deficit of \$21,212,630 (August 31, 2019 – \$21,011,038). 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 condensed interim 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.

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**Notes to the Condensed Interim Consolidated Financial Statements**

*For the three months ended November 30, 2019 and 2018*

*(Unaudited – Expressed in Canadian Dollars)*

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## **2. Basis of Presentation**

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### **Statement of compliance**

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "Interim Financial Reporting". These condensed interim consolidated financial statements do not include all notes of the type normally included within the annual financial report and should be read in conjunction with the audited financial statements of the Company for the year ended August 31, 2019, which has been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board.

These financial statements were authorized for issue by the Board of Directors on January 27, 2020.

### **Basis of measurement and functional currency**

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

The condensed interim consolidated financial statements are presented in Canadian dollars, the Company's functional currency.

### **Principles of consolidation**

The Company consolidates its interest in entities which it controls. Control comprises the power to govern an entity's financial and operating policies so as to obtain benefits from its activities. All intercompany balances and transactions have been eliminated.

## **3. Summary of Significant Accounting Policies**

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These condensed interim consolidated financial statements have been prepared following the same accounting policies used in the preparation of the audited financial statements of the Company for the year ended August 31, 2019 except as noted below.

### **Use of estimates**

The preparation of these condensed interim consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The critical assumptions concerning the key sources of estimation uncertainty are consistent with those in the audited financial statements of the Company for the year ended August 31, 2019.



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**Notes to the Condensed Interim Consolidated Financial Statements**

*For the three months ended November 30, 2019 and 2018*

*(Unaudited – Expressed in Canadian Dollars)*

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### **3. Summary of Significant Accounting Policies – continued**

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#### **Changes in accounting policies**

IFRS 16, Leases (“IFRS 16”) sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. The Company adopted IFRS 16 using the modified retrospective method of adoption with the date of initial application of September 1, 2019. Under this method, the standard is retrospectively applied with the cumulative effect of initially applying the standard recognized at the date of initial application. The Company elected to use the following practical expedients: (i) the transition application practical expedient allowing the standard to only be applied to contracts that were previously identified as leases applying IAS 17, Leases (ii) the transition application practical expedient to elect to not apply IFRS 16 to leases that expired within 12 months following the adoption date of September 1, 2019; (iii) the recognition exemption to not apply IFRS 16 to lease contracts for which the underlying asset is of low value, and (iv) the recognition exemption to not apply IFRS 16 to lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option.

Before the adoption of IFRS 16, the Company classified each of its leases at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Company; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the interim consolidated statements of income (loss) and comprehensive income (loss) on a straight-line basis over the lease term.

Upon adoption of IFRS 16, the Company applied a single recognition and measurement approach for all leases that it is the lessee, except for short-term leases and leases of low-value assets. The Company recognized lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

The Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Unless the Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term. Right-of-use assets are subject to impairment.

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**Notes to the Condensed Interim Consolidated Financial Statements**
*For the three months ended November 30, 2019 and 2018*
*(Unaudited – Expressed in Canadian Dollars)*


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**3. Summary of Significant Accounting Policies – continued**


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**Changes in accounting policies - continued**

Lease obligations: At the commencement date of the lease, the Company recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. In calculating the present value of lease payments, the Company uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is re-measured if there is a modification, a change in the lease term, a change in the in substance fixed lease payments or a change in the assessment to purchase the underlying asset.

The adoption of IFRS 16 had the following impacts as at September 1, 2019:

	<b>As at August 31, 2019</b>		<b>As at September 1, 2019</b>	
	(as presented)			
<b>Assets</b>				
Property and equipment, net	\$	89,386	\$	777,265
<b>Liabilities</b>				
Current portion of lease obligations	\$	-	\$	200,230
Long-term portion of lease obligations	\$	-	\$	487,648
	\$	-	\$	687,879

Upon adoption of IFRS 16 on September 1, 2019, the Company recorded a lease obligation and corresponding right-of-use asset for \$687,879 (Notes 5 & 13).

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended November 30, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

### 4. Inventories

The Company maintains inventory, which consist of raw materials, equipment, and spare parts for sale or for use.

Total raw materials, equipment, and spare parts charged to cost of sales for the three months ended November 30, 2019 was \$832,481 (2018 - \$928,167).

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

### 5. Property and Equipment

	Computer equipment	Equipment	Vehicles	Furniture & fixtures	Building & Leasehold improvements	Total
<b>Cost</b>						
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
Change in accounting policy IFRS 16	-	-	190,868	-	497,011	687,879
Adjusted balance, September 1, 2019	\$ 171,985	\$ 125,875	\$ 211,127	\$ 234,809	\$ 508,271	\$ 1,252,067
Additions for the period	-	12,893	-	869	-	13,762
Additions of right of use assets	-	-	74,519	-	-	74,519
<b>At November 30, 2019</b>	<b>\$ 171,985</b>	<b>\$ 138,768</b>	<b>\$ 285,646</b>	<b>\$ 235,678</b>	<b>\$ 508,271</b>	<b>\$ 1,340,348</b>
<b>Accumulated depreciation</b>						
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
Expense for the period	2,286	8,096	511	157	118	11,168
Depreciation of right of use assets	-	-	21,271	-	35,863	57,134
<b>At November 30, 2019</b>	<b>\$ 146,878</b>	<b>\$ 105,396</b>	<b>\$ 34,678</b>	<b>\$ 210,742</b>	<b>\$ 45,410</b>	<b>\$ 543,104</b>
<b>Net book value</b>						
At September 1, 2019	\$ 27,393	\$ 28,575	\$ 198,231	\$ 24,224	\$ 498,842	\$ 777,265
<b>At November 30, 2019</b>	<b>\$ 25,107</b>	<b>\$ 33,372</b>	<b>\$ 250,968</b>	<b>\$ 24,936</b>	<b>\$ 462,861</b>	<b>\$ 797,244</b>

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**Notes to the Condensed Interim Consolidated Financial Statements**
*For the three months ended November 30, 2019 and 2018*
*(Unaudited – Expressed in Canadian Dollars)*


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**6. Goodwill**


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

**7. Intangible Assets**


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	<b>Customer relationships</b>	<b>Brand or trade name</b>	<b>Total</b>
<b>Cost</b>			
<b>At August 31, 2019 and November 30, 2019</b>	<b>\$ 395,000</b>	<b>\$ 203,000</b>	<b>\$ 598,000</b>
<b>Accumulated depreciation</b>			
At August 31, 2018	\$ 373,333	\$ 68,000	\$ 441,333
Expense for the year	21,667	-	21,667
<b>At August 31, 2019 and November 30, 2019</b>	<b>\$ 395,000</b>	<b>\$ 68,000</b>	<b>\$ 463,000</b>
<b>Net book value</b>			
<b>At August 31, 2019 and November 30, 2019</b>	<b>\$ -</b>	<b>\$ 135,000</b>	<b>\$ 135,000</b>

Indefinite life intangible assets are tested for impairment annually.

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**Notes to the Condensed Interim Consolidated Financial Statements**

For the three months ended November 30, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

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## 8. Share Capital

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**(a) Authorized**

An unlimited number of common shares.

**(b) Issued**

As of November 30, 2019, there were 15,776,223 common shares outstanding (August 31, 2019 - 15,776,223) and share capital of \$21,011,132 (August 31, 2019 - \$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:

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Weighted average exercise price	Number of Options	Weighted average remaining life (years)	Vested
\$2.00	72,500	0.33	72,500
\$0.15	700,000	2.71	700,000
<b>Balance at November 30, 2019</b>	<b>772,500</b>	<b>2.49</b>	<b>772,500</b>

For the three months ended November 30, 2019, the Company recognized share-based payment expense of \$Nil (2018 - \$Nil). The Company did not issue any stock options during the three months ended November 30, 2019 and 2018.

**(d) Warrants**

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Weighted average exercise price	Number of warrants	Weighted average remaining life (years)
\$0.65	1,251,750	1.69
<b>Balance at November 30, 2019</b>	<b>1,251,750</b>	<b>1.69</b>

All warrants are fully vested. The Company did not issue any warrants during the periods ended November 30, 2019 and 2018.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended November 30, 2019 and 2018

(Unaudited – 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	\$ 2,869,546	\$ 2,869,546	\$ 2,869,546	\$ -	\$ -	\$ -
Bank indebtedness	212,988	212,988	212,988	-	-	-
Promissory notes payable	545,000	545,000	545,000	-	-	-
Finance lease obligations (net of discount)	712,348	712,348	218,449	422,303	71,596	-
	<b>\$ 4,339,882</b>	<b>\$ 4,339,882</b>	<b>\$ 3,845,983</b>	<b>\$ 422,303</b>	<b>\$ 71,596</b>	<b>\$ -</b>

#### 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	November 30,	
		2019	August 31, 2019
Within 30	0.50%	\$ 2,046,900	\$ 1,499,380
31 to 60	0.50%	944,154	1,240,054
61 to 90	1.10%	253,077	298,498
Over 90	2.70%	302,778	421,544
Holdbacks	0.50%	596,956	444,407
Expected credit loss		(28,899)	(27,684)
<b>Total accounts receivable</b>		<b>\$ 4,114,966</b>	<b>\$ 3,876,199</b>

The maximum exposure is limited to the carrying amount of financial assets on the condensed interim consolidated statement of financial position that includes cash and accounts receivable. For the period ended November 30, 2019, there was an allowance for expected credit losses of \$28,899 (August 31,

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**Notes to the Condensed Interim Consolidated Financial Statements**

*For the three months ended November 30, 2019 and 2018*

*(Unaudited – Expressed in Canadian Dollars)*

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2019 - \$27,684).

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**9. Financial Instruments and Risk Management - continued**

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**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.

**Concentration risk**

During the period ended November 30, 2019, there was one customer accounting for approximately 49% of gross revenue, of which it comprises 45% of 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.

## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended November 30, 2019 and 2018

(Unaudited – 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 condensed interim 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).

<b>As at November 30, 2019</b>		\$		
	FVTPL	Carrying Value		Fair Value
		FVTOCI	Amortized Costs	Total
<b>Financial Assets and Liabilities</b>				
Cash	-	-	119,087	119,087
Accounts receivables	-	-	4,114,966	4,114,966
Bank indebtedness	-	-	(212,988)	(212,988)
Accounts payable and accrued liabilities	-	-	(2,869,546)	(2,869,546)
Promissory notes payable	-	-	(545,000)	(545,000)
Finance lease obligations	-	-	(712,348)	(712,348)

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

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



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**Notes to the Condensed Interim Consolidated Financial Statements**
*For the three months ended November 30, 2019 and 2018*
*(Unaudited – Expressed in Canadian Dollars)*


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**10. General and Administrative Expense**


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	<b>For the three months ended November 30,</b>	
	<b>2019</b>	<b>2018</b>
Salaries and wages	\$ 487,260	\$ 453,043
Office expense	115,187	191,148
Professional and consulting fees	41,801	99,765
Travel	(129)	20,586
	<b>\$ 644,119</b>	<b>\$ 764,542</b>

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**11. Bank Indebtedness**


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As at November 30, 2019, bank indebtedness was \$212,988 (August 31, 2019 - \$Nil).

The demand operating loan bears interest at the Royal Bank prime rate plus 1.6% (1.6% at August 31, 2019). 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 three months ended November 30, 2019, interest of approximately \$803 (2018 - \$2,236) related to the above indebtedness has been charged to interest expense.

VCI is subject to a financial covenant related to its bank indebtedness which consists of a maximum threshold for its liabilities to tangible net worth ratio. At November 30, 2019, VCI is in compliance with this financial covenant.

**12. Promissory Notes Payable**


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	<b>As at November 30, 2019</b>	<b>As at August 31, 2019</b>
Opening balance	\$ 545,000	\$ 618,330
Repayment	-	(131,600)
Accretion	-	58,270
Closing balance	<b>\$ 545,000</b>	<b>\$ 545,000</b>

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

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**Notes to the Condensed Interim Consolidated Financial Statements**
*For the three months ended November 30, 2019 and 2018*
*(Unaudited – Expressed in Canadian Dollars)*


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**13. Finance Lease Obligations**


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Upon adoption of IFRS 16 on September 1, 2019, the Company recorded a lease obligation for \$687,879.

The carrying amounts of the Company's lease obligations and movements during the period ended November 30, 2019 were as follows:

<b>Balance, August 31, 2019</b>	\$	-
IFRS 16 adjustment		687,879
<b>Balance, September 1, 2019</b>	<b>\$</b>	<b>687,879</b>
Additions		74,519
Interest expense		17,115
Payment		(67,165)
<b>Balance, November 30, 2019</b>	<b>\$</b>	<b>712,348</b>
Less: Current portion	\$	218,449
Long-term portion	\$	493,899

**14. Revenues**


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	<b>Three months ended November 30,</b>	
	<b>2019</b>	<b>2018</b>
Construction and other project revenue	\$ 3,578,103	\$ 3,824,363
Repairs revenue	198,620	263,402
Service revenue	611,161	720,855
Product revenue	791	2,628
	<b>\$ 4,388,675</b>	<b>\$ 4,811,248</b>

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## Notes to the Condensed Interim Consolidated Financial Statements

For the three months ended November 30, 2019 and 2018

(Unaudited – Expressed in Canadian Dollars)

### 15. Segmented Information

Three months ended November 30, 2019	Corporate	Geoexchange services	Controls and Mechanical contracting	Total
Capital expenditures	\$ -	\$ -	\$ 13,762	\$ 13,762
Total assets	148,193	22,754	6,739,876	6,910,823
<b>Statement of operations</b>				
Revenue	-	-	4,388,675	4,388,675
Cost of sales	-	-	(3,835,595)	(3,835,595)
General and administrative	(159,574)	(430)	(484,115)	(644,119)
Finance expense	(136)	634	(17,966)	(17,468)
Bad debt expense	-	-	(24,783)	(24,783)
Amortization and depreciation	-	-	(68,302)	(68,302)
<b>Segmented income (loss)</b>	<b>\$ (159,710)</b>	<b>\$ 204</b>	<b>\$ (42,086)</b>	<b>\$ (201,592)</b>

Three months ended November 30, 2018	Corporate	Geoexchange services	Controls and Mechanical contracting	Total
Capital expenditures	\$ -	\$ 2,970	\$ 3,565	\$ 6,535
Total assets	130,650	1,281,880	5,224,325	6,636,855
<b>Statement of operations</b>				
Revenue	-	983,865	3,827,383	4,811,248
Cost of sales	-	(763,547)	(3,019,720)	(3,783,267)
General and administrative	(120,306)	(52,524)	(591,712)	(764,542)
Finance expense	(16,314)	(243)	(2,715)	(19,272)
Amortization and depreciation	-	(248)	(22,886)	(23,134)
Tax expense	-	-	(15,000)	(15,000)
<b>Segmented income (loss)</b>	<b>\$ (136,620)</b>	<b>\$ 167,303</b>	<b>\$ 175,350</b>	<b>\$ 206,033</b>

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**Notes to the Condensed Interim Consolidated Financial Statements**
*For the three months ended November 30, 2019 and 2018*
*(Unaudited – Expressed in Canadian Dollars)*


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**16. Unbilled Receivables and Deferred Revenue**


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	<b>Unbilled receivables</b>
<b>Balance, August 31, 2018</b>	\$ 702,039
Net excess of billings over revenue earned	(237,096)
<b>Balance, August 31, 2019</b>	\$ 464,943
Net excess of revenue earned over billings	344,299
<b>Balance, November 30, 2019</b>	\$ 809,242

	<b>Deferred revenue</b>
<b>Balance, August 31, 2018</b>	\$ 885,238
Net excess of revenue earned over billings	(21,542)
<b>Balance, August 31, 2019</b>	\$ 863,696
Net excess of revenue earned over billings	(356,188)
<b>Balance, November 30, 2019</b>	\$ 507,508

**17. Contingent Liabilities**


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***Contingent liabilities***

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.