SustainCo
Sustainable Infrastructure Solutions

SustainCo Inc.

Condensed Interim Consolidated Financial Statements

For the three and nine months ended May 31, 2020 and 2019

(Unaudited, Expressed in Canadian Dollars)

Notice of No Auditor Review of Interim Financial Statements

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

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

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

Condensed Interim Consolidated Statements of Financial Position
As at
(Unaudited, Expressed in Canadian Dollars)

	May 31, 2020	August 31, 2019 (Audited)
Assets		
Current assets		
Cash	**$ 281,562**	$ 276,603
Accounts receivable *(note 9)*	**2,142,430**	3,876,199
Unbilled receivables (*note 16*)	**480,114**	464,943
Inventories *(note 4)*	**235,083**	245,455
Prepaid expenses	**144,457**	97,873
	3,283,646	4,961,073
Property and equipment *(note 5)*	**666,423**	89,386
Intangible assets *(note 7)*	**135,000**	135,000
Goodwill *(note 6)*	**599,802**	599,802
	$ 4,684,871	$ 5,785,261
Liabilities		
Current liabilities		
Accounts payables and accrued liabilities	**$ 1,350,111**	$ 2,111,540
Deferred revenue (*note 16)*	**270,941**	863,696
Promissory notes payable *(note 12)*	**545,000**	545,000
Short-term finance lease obligations (*note 13*)	**222,875**	-
	2,388,927	3,520,236
Finance lease obligations (*note 13*)	**389,452**	-
Deferred income taxes	**34,385**	35,775
	2,812,764	3,556,011
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	**(21,368,181)**	(21,011,038)
	1,872,107	2,229,250
	$ 4,684,871	$ 5,785,261

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

Nature of operations and going concern *(note 1)*
Subsequent events *(note 20)*

Approved on behalf of the Board

Signed: *"Chris Hazelton"* — Director

Signed: *"Michael Galloro"* — Director

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)
(Unaudited, Expressed in Canadian Dollars)

	For the three months ended May 31,		For the nine months ended May 31,	
	2020	2019	**2020**	2019
Sales *(note 14)*	**$ 1,763,679**	$ 2,349,867	**$ 8,292,178**	$ 8,969,788
Cost of sales *(note 4)*	**1,176,002**	1,901,624	**6,623,625**	7,379,966
Gross profit	**587,677**	448,243	**1,668,553**	1,589,822
General and administrative *(note 10)*	**583,808**	759,526	**2,079,984**	2,317,011
Amortization and depreciation *(notes 5 & 7)*	**66,026**	6,787	**200,289**	42,223
Finance expense *(notes 11, 12 & 13)*	**17,511**	18,635	**56,231**	56,642
Bad debt expense	**9,240**	10,932	**23,918**	(30,916)
Government assistance *(note 18)*	**(226,514)**	-	**(226,514)**	-
Inventory provision (*note 4*)	**-**	-	**-**	53,284
Gain on disposal of equipment *(note 5)*	**-**	(3,925)	**(6,582)**	(3,925)
Gain on settlement of debt (*note 12*)	**-**	(50,000)	**-**	(50,000)
Income (loss) from operations before income taxes and discontinued operations	**137,606**	(293,712)	**(458,773)**	(794,497)
Current tax recovery	**62,400**	15,709	**62,400**	(14,128)
Net income (loss) from continuing operations	**200,006**	(278,003)	**(396,373)**	(808,625)
Net income from discontinued operations	**38,291**	529,905	**39,230**	775,730
Net income (loss) and comprehensive income (loss)	**238,297**	251,902	**(357,143)**	(32,895)
Net income (loss) per share				
Basic and diluted from continuing operations	**$ 0.01**	$ (0.02)	**$ (0.03)**	$ (0.05)
Basic and diluted from discontinued operations	**$ 0.00**	$ 0.03	**$ 0.00**	$ 0.05
Weighted average shares outstanding - basic	**15,776,223**	15,776,223	**15,776,223**	15,776,223
Weighted average shares outstanding - diluted	**15,776,223**	15,938,838	**15,776,223**	15,857,408

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

Condensed Interim Consolidated Statements of Changes in Shareholders' Equity
For the nine months ended May 31, 2020 and 2019
(Unaudited, Expressed in Canadian Dollars)

	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 loss for the period	-	-	(32,895)	(32,895)
Balance, May 31, 2019	$ 21,011,132	$ 2,229,156	$ (21,048,847)	$ 2,191,441
Balance, August 31, 2019	$ 21,011,132	$ 2,229,156	$ (21,011,038)	$ 2,229,250
Net loss for the period	-	-	(357,143)	(357,143)
Balance, May 31, 2020	**$ 21,011,132**	**$ 2,229,156**	**$(21,368,181)**	**$ 1,872,107**

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

Condensed Interim Consolidated Statements of Cash Flows
(Unaudited, Expressed in Canadian Dollars)

	For the nine months ended May 31, 2020	2019
Cash flow used in operating activities		
Net loss for the period	**$ (357,143)**	$ (32,895)
Add (deduct) items not involving cash		
Accretion	**50,335**	48,752
Amortization and depreciation *(notes 5 & 7)*	**200,289**	42,966
Deferred income taxes	**(1,390)**	-
Gain on disposal of equipment (*note 5*)	**(6,582)**	(3,925)
Inventory provision (*note 4*)	**-**	53,284
Gain on settlement of debt (*note 12*)	**-**	(50,000)
Change in non-cash working capital		
Accounts receivable	**1,733,769**	281,043
Unbilled receivables	**(15,171)**	348,449
Inventories	**10,372**	(1,016)
Prepaid expenses	**(46,584)**	(51,208)
Deferred revenue	**(592,755)**	5,040
Accounts payable and accrued liabilities	**(761,429)**	(83,146)
Deferred income taxes	**-**	(14,673)
	213,711	542,671
Cash flow used in financing activities		
Bank indebtedness (repayment) (*note 11*)	**-**	(352,909)
Payment of finance lease obligations	**(200,405)**	-
	(200,405)	(352,909)
Cash flow used in investing activities		
Investment in property and equipment *(note 5)*	**(16,923)**	(15,769)
Proceeds from sale of property and equipment	**8,576**	5,710
	(8,347)	(10,059)
Increase in cash	**4,959**	179,703
Cash, beginning of period	**276,603**	93,548
Cash, end of period	**$ 281,562**	$ 273,251

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

1. Nature of Operations and Going Concern

SustainCo Inc. (the "Company" or "SustainCo"), was incorporated under the *Canada Business Corporation Act* on August 22, 2008. The address of the Company's corporate office is 1 Royal Gate Blvd., Suite D, Vaughan, Ontario, Canada. The Company is listed on the TSX Venture Exchange Inc. (the "TSX-V" or the "Exchange") under the trading symbol "SMS".

SustainCo conducts its operations through its wholly-owned subsidiary VCI CONTROLS Inc. ("VCI" or "VCI CONTROLS").

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 $357,143 for the nine months ended May 31, 2020, compared to a net loss of $32,895 in the comparative period. The Company has working capital of $894,719 as at May 31, 2020 (August 31, 2019 – $1,440,837) and an accumulated deficit of $21,368,181 (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 assessing whether the going concern assumption was appropriate, management took into account all relevant information available about the future, which was at least, but not limited to, the 12-month period following May 31, 2020. Subsequent to the period-end, the Company completed a private placement of debentures offering which raised gross proceeds of $1,059,942 (note 20).

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.

2. Basis of Presentation

Statement of compliance

The Company's condensed interim consolidated financial statements have been prepared in accordance with IAS 34, Interim Financial Reporting. These condensed interim consolidated financial statements do not include all information and disclosures required for annual financial statements and should be read in conjunction with the audited consolidated 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 ("IASB").

These financial statements were authorized for issue by the Company's Board of Directors (the "Board") on July 23, 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. The functional currency is the currency of the primary economic environment in which is the Company operates.

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. The condensed interim consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its wholly-owned subsidiary after eliminating inter-entity balances and transactions.

3. Summary of Significant Accounting Policies

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

3. Summary of Significant Accounting Policies – continued

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 condensed 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 ("ROU") assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any re-measurement of lease liabilities. The cost of ROU 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 ROU assets are depreciated on a straight-line basis over the shorter of their estimated useful life and the lease term. ROU assets are subject to impairment.

(Unaudited – Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies – continued

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:

	As at August 31, 2019 (as presented)		As at September 1, 2019	
Assets				
Property and equipment, net	$	89,386	$	777,265
Liabilities				
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 ROU assets for $687,879 (Notes 5 & 13).

Recent accounting pronouncements

At the date of authorization of these condensed interim consolidated financial statements, the IASB and the IFRS Interpretations Committee have issued the following new and revised Standards and Interpretations which are effective for annual periods beginning on or after September 1, 2020:

IAS 1, Presentation of Financial Statements and IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors were amended in October 2018 to refine the definition of materiality and clarify its characteristics. The revised definition focuses on the idea that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general-purpose financial statements make on the basis of those financial statements. The amendments are effective for annual reporting periods beginning on or after September 1, 2020.

(Unaudited – Expressed in Canadian Dollars)

4. Inventories

The Company maintains inventories, 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 and nine months ended May 31, 2020 was $253,092 and $1,336,124, respectively (2019 - $845,731 and $2,150,715, respectively).

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 nine months ended May 31, 2020, the Company did not record any such write-downs (2019 - $53,284).

5. Property and Equipment

	Computer equipment	Equipment	Vehicles	Furniture & fixtures	Building & Leasehold improvements	Total
Cost						
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	1,177	12,893	1,107	1,746	-	16,923
Additions of right of use assets	-	-	74,519	-	-	74,519
Disposals for the period	-	-	(6,629)	-	-	(6,629)
At May 31, 2020	**$ 173,162**	**$ 138,768**	**$ 280,124**	**$ 236,555**	**$ 508,271**	**$ 1,336,880**
Accumulated depreciation						
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	6,869	13,842	1,568	499	393	23,171
Depreciation of right of use assets	-	-	69,528	-	107,590	177,118
Disposals for the period	-	-	(4,634)	-	-	(4,634)
At May 31, 2020	**$ 151,461**	**$ 111,142**	**$ 79,358**	**$ 211,084**	**$ 117,412**	**$ 670,457**
Net book value						
At September 1, 2019	$ 27,393	$ 28,575	$ 198,231	$ 24,224	$ 498,842	$ 777,265
At May 31, 2020	**$ 21,701**	**$ 27,626**	**$ 200,766**	**$ 25,471**	**$ 390,859**	**$ 666,423**

(Unaudited – Expressed in Canadian Dollars)

6. Goodwill

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

7. Intangible Assets

	Customer relationships	Brand or trade name	Total
Cost			
At August 31, 2019 and May 31, 2020	**$ 395,000**	**$ 203,000**	**$ 598,000**
Accumulated depreciation			
At August 31, 2018	$ 373,333	$ 68,000	$ 441,333
Expense for the year	21,667	-	21,667
At August 31, 2019 and May 31, 2020	**$ 395,000**	**$ 68,000**	**$ 463,000**
Net book value			
At August 31, 2019 and May 31, 2020	**$ -**	**$ 135,000**	**$ 135,000**

Indefinite life intangible assets are tested for impairment annually.

(Unaudited – Expressed in Canadian Dollars)

8. Share Capital

(a) Authorized

An unlimited number of common shares.

(b) Issued

As of May 31, 2020, 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 the Company. 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
$0.15	700,000	2.21	700,000
Balance at May 31, 2020	**700,000**	**2.21**	**700,000**

For the nine months ended May 31, 2020, the Company recognized share-based payment expense of $Nil (2019 - $Nil). The Company did not issue any stock options during the nine months ended May 31, 2020 and 2019. 72,500 options expired unexercised in March 2020.

(d) Warrants

Weighted average exercise price	Number of warrants	Weighted average remaining life (years)
$0.65	1,251,750	1.19
Balance at May 31, 2020	**1,251,750**	**1.19**

All warrants are fully vested. The Company did not issue any warrants during the periods ended May 31, 2020 and 2019.

(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, and through 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
Accounts payable and accrued liabilities	$ 1,350,111	$ 1,350,111	$ 1,350,111	$ -
Promissory notes payable	545,000	545,000	545,000	-
Finance lease obligations (net of discount)	612,327	672,891	274,261	398,630
	$ 2,507,438	$ 2,568,002	$ 2,169,372	$ 398,630

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**	**May 31, 2020**	August 31, 2019
Within 30	0.50%	**$ 664,625**	$ 1,499,380
31 to 60	0.50%	**565,716**	1,240,054
61 to 90	1.10%	**360,460**	298,498
Over 90	2.70%	**451,088**	421,544
Holdbacks	0.50%	**123,454**	444,407
Expected credit loss		**(22,913)**	(27,684)
Total accounts receivable		**$ 2,142,430**	$ 3,876,199

The maximum exposure is limited to the carrying amount of financial assets on the condensed interim consolidated statements of financial position that includes cash and accounts receivable. For the period ended May 31, 2020, there was an allowance for expected credit losses of $22,913 (August 31, 2019 - $27,684).

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.

Concentration risk

During the period ended May 31, 2020, there was one customer accounting for approximately 28.4% of gross revenue, of which it comprises 17.8% of accounts receivable, all of which is within 90 days aging.

Foreign exchange risk

The Company purchases a portion of its inventories in United States dollars ("USD") and does not currently engage in hedging activities. However, the foreign exchange exposure to the Company at this time is not significant.

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).

As at May 31, 2020		**$**		
		Carrying Value		**Fair Value**
	FVTPL	**FVTOCI**	**Amortized Costs**	**Total**
Financial Assets and Liabilities				
Cash	-	-	**281,562**	**281,562**
Accounts receivables	-	-	**2,142,430**	**2,142,430**
Accounts payable and accrued liabilities	-	-	**(1,350,111)**	**(1,350,111)**
Promissory notes payable	-	-	**(545,000)**	**(545,000)**
Finance lease obligations	-	-	**(612,327)**	**(612,327)**

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
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 accounts receivables (excluding sales tax), accounts payable and promissory notes payable approximate their fair values due to the relatively short-term maturities of these financial instruments.

(Unaudited – Expressed in Canadian Dollars)

10. General and Administrative Expense

	For the three months ended 2020	2019	For the nine months ended May 31, 2020	2019
Salaries and wages	**$ 387,704**	$ 488,955	**$ 1,424,592**	$ 1,455,124
Office expense	**126,141**	202,495	**392,123**	560,265
Professional and consulting fees	**67,938**	41,096	**248,122**	212,955
Travel	**2,025**	26,980	**15,147**	88,667
	$ 583,808	$ 759,526	**$ 2,079,984**	$ 2,317,011

11. Bank Indebtedness

As at May 31, 2020, bank indebtedness was $Nil (August 31, 2019 - $Nil).

The demand operating loan bears interest at the Royal Bank of Canada's 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 nine months ended May 31, 2020, interest of approximately $3,025 (2019 - $7,744) 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. As at May 31, 2020, VCI is in compliance with this financial covenant.

12. Promissory Notes Payable

	As at May 31, 2020	As at August 31, 2019
Opening balance	$ 545,000	$ 618,330
Repayment	-	(131,600)
Accretion	-	58,270
Closing balance	**$ 545,000**	**$ 545,000**

The promissory notes are non-interest bearing. In 2018, the notes were purchased from their respective noteholders by a related party to the Company. As at May 31, 2020, the promissory notes are repayable on demand.

(Unaudited – Expressed in Canadian Dollars)

13. Finance Lease Obligations

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 May 31, 2020 were as follows:

Balance, August 31, 2019	$	-
IFRS 16 adjustment		687,879
Balance, September 1, 2019	**$**	**687,879**
Additions		74,519
Interest expense		50,335
Payment		(200,405)
Balance, May 31, 2020	**$**	**612,327**
Less: Current portion	$	222,875
Long-term portion	$	389,452

14. Revenues

	For the three months ended May 31,				For the nine months ended			
		2020		2019		**2020**		2019
Construction and other project revenue	**$**	**927,038**	$	1,336,391	**$**	**5,801,109**	$	5,967,748
Repairs revenue		**186,475**		317,992		**675,261**		884,471
Service revenue		**650,166**		689,021		**1,813,602**		2,106,615
Product revenue		**-**		6,463		**2,206**		10,954
	$	**1,763,679**	$	2,349,867	**$**	**8,292,178**	$	8,969,788

(Unaudited – Expressed in Canadian Dollars)

15. Segmented Information

Three months ended May 31, 2020	**Corporate**	**Controls and Mechanical contracting**	**Total**
Capital expenditures	$ -	$ 1,177	**$ 1,177**
Total assets	156,675	4,528,196	**4,684,871**
Statement of operations			
Revenue	-	1,763,679	**1,763,679**
Cost of sales	-	(1,176,002)	**(1,176,002)**
General and administrative	(171,536)	(412,272)	**(583,808)**
Finance expense	(66)	(17,445)	**(17,511)**
Bad debt recovery (expense)	-	(9,240)	**(9,240)**
Government assistance	-	226,514	**226,514**
Amortization and depreciation	-	(66,026)	**(66,026)**
Tax recovery	-	62,400	**62,400**
Segmented income (loss)	$ (171,602)	$ 371,608	**$ 200,006**

Three months ended May 31, 2019	**Corporate**	**Controls and Mechanical contracting**	**Total**
Capital expenditures	$ -	$ 7,616	**$ 7,616**
Total assets	37,475	4,599,574	**4,637,049**
Statement of operations			
Revenue	-	2,349,867	**2,349,867**
Cost of sales	-	(1,901,624)	**(1,901,624)**
General and administrative	(142,158)	(617,368)	**(759,526)**
Finance expense	(16,296)	(2,339)	**(18,635)**
Bad debt recovery (expense)	-	(10,932)	**(10,932)**
Gain on disposal of equipment	-	3,925	**3,925**
Gain on settlement of debt	50,000	-	**50,000**
Amortization and depreciation	-	(6,787)	**(6,787)**
Tax expense (recovery)	-	15,709	**15,709**
Segmented income (loss)	$ (108,454)	$ (169,549)	**$ (278,003)**

(Unaudited – Expressed in Canadian Dollars)

15. Segmented Information - continued

Nine months ended May 31, 2020	Corporate	Controls and Mechanical contracting	Total
Capital expenditures	$ -	$ 16,923	**$ 16,923**
Total assets	156,675	4,528,196	**4,684,871**
Statement of operations			
Revenue	-	8,292,178	**8,292,178**
Cost of sales	-	(6,623,625)	**(6,623,625)**
General and administrative	(597,959)	(1,482,025)	**(2,079,984)**
Finance expense	(231)	(56,000)	**(56,231)**
Bad debt expense	-	(23,918)	**(23,918)**
Gain on disposal of equipment	-	6,582	**6,582**
Government assistance	-	226,514	**226,514**
Amortization and depreciation	-	(200,289)	**(200,289)**
Income tax recovery	-	62,400	**62,400**
Segmented income (loss)	**$ (598,190)**	**$ 201,817**	**$ (396,373)**

Nine months ended May 31, 2019	Corporate	Controls and Mechanical contracting	Total
Capital expenditures	$ -	$ 15,769	**$ 15,769**
Total assets	37,475	4,599,574	**4,637,049**
Statement of operations			
Revenue	-	8,969,788	**8,969,788**
Cost of sales	-	(7,379,966)	**(7,379,966)**
General and administrative	(467,026)	(1,849,985)	**(2,317,011)**
Finance expense	(48,912)	(7,730)	**(56,642)**
Inventory provision	-	(53,284)	**(53,284)**
Bad debt recovery (expense)	-	30,916	**30,916**
Gain on disposal of equipment	-	3,925	**3,925**
Gain on settlement of debt	50,000	-	**50,000**
Amortization and depreciation	-	(42,223)	**(42,223)**
Tax expense (recovery)	-	(14,128)	**(14,128)**
Segmented income (loss)	**$ (465,938)**	**$ (342,687)**	**$ (808,625)**

(Unaudited – Expressed in Canadian Dollars)

16. Unbilled Receivables and Deferred Revenue

		Unbilled receivables
Balance, August 31, 2018	$	702,039
Net excess of billings over revenue earned		(237,096)
Balance, August 31, 2019	$	464,943
Net excess of revenue earned over billings		344,299
Balance, November 30, 2019	$	809,242
Net excess of billings over revenue earned		(329,128)
Balance, May 31, 2020	$	480,114

		Deferred revenue
Balance, August 31, 2018	$	885,238
Net excess of revenue earned over billings		(21,542)
Balance, August 31, 2019	$	863,696
Net excess of revenue earned over billings		(356,188)
Balance, November 30, 2019	$	507,508
Net excess of revenue earned over billings		(236,567)
Balance, May 31, 2020	$	270,941

17. Contingent Liabilities

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 consolidated 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.

(Unaudited – Expressed in Canadian Dollars)

18. Government Grants

Canada Emergency Wage Subsidy

On April 11, 2020, the Government of Canada enacted the Canada Emergency Wage Subsidy ("CEWS") that is available to any employer, subject to eligibility criteria, whose business has been adversely affected by the COVID-19 pandemic.

The Company received wage subsidy funding of $226,514 for the three and nine-month periods ended May 31, 2020, which has been recorded as a reduction in related salary and wages in the condensed interim consolidated statements of income (loss) and comprehensive income (loss).

As at May 31, 2020, $226,514 (August 31, 2019 - $Nil) of wage subsidy is included in accounts receivable on the condensed interim consolidated statements of financial position.

19. Discontinued Operations

Sale of Clean Energy Developments

In April 2020, the Company entered into a definitive agreement (the "Agreement") with Groundheat Solar Wind Corp. (the "Purchaser") that provides for the sale (the "Transaction") of all of the issued and outstanding shares of its wholly-owned subsidiary, Clean Energy Developments Corp. ("CleanEnergy"), in consideration for which the Purchaser will pay the Company an aggregate purchase price of $50,000 in cash.

The sale closed on April 27, 2020. As a result, the financial results of CleanEnergy have been re-presented as discontinued operations on the condensed interim consolidated statements of income (loss) and comprehensive income (loss). The Company's existing business will continue to be operated through VCI.

Discontinued operations	**Three months ended May 31,**		**Nine months ended May 31,**	
	2020	2019	**2020**	2019
Proceeds from sale	$ 50,000	$ -	$ 50,000	$ -
Net assets sold	7,361	-	7,361	-
Gain on sale	$ 42,639	$ -	$ 42,639	$ -
Revenue	-	1,218,639	-	3,140,880
Cost of sales	-	(608,785)	-	(2,182,654)
Expenses	(4,348)	(79,949)	(3,409)	(182,496)
Income from discontinued operations	**$ 38,291**	$ 529,905	**$ 39,230**	$ 775,730

20. Subsequent Events

Debentures Financing

On July 14, 2020, the Company closed a non-brokered private placement of 2020 Series A secured convertible debentures (each, a "Debenture"), for proceeds in the principal amount of $1,059,942 of the Debentures.

The principal amount of the Debentures will be repaid, in cash, by the Company on the third anniversary of issuance ("Maturity") and will carry an interest rate of 12% per year compounded monthly and payable at Maturity. The Debentures are convertible into common shares of the Company at $0.05 per share for the first year the Debentures are outstanding, and at $0.10 per share thereafter.

In addition, each $1,000 principal amount of Debentures was issued 10,000 common share purchase warrants (each, a "Warrant"), for an aggregate of 10,599,422 Warrants issued. Each Warrant is exercisable into one common share at an exercise price of $0.10 per common share for a period of three years from the date of issuance.

The Debentures are secured by way of a general security agreement made in favour of a collateral agent acting as agent for all of the holders of the Debentures, granting a security interest in substantially all of the Company's assets. The Company will have the right to prepay any or part of the Debentures at any time prior to the Maturity Date by paying the principal amount of the Debentures.

In connection with the private placement, the Company paid finders' fee of $84,795, and issued finders' warrants equal to 8% of the number of shares into which the Debentures are convertible, based on the aggregate amount of principal such finder introduces to the Company, being an aggregate of 1,695,907 finders warrants issued on closing