



Universal PropTech Inc.

(formerly SustainCo Inc.)

Consolidated Financial Statements

For the Years ended August 31, 2021 and 2020

(Expressed in Canadian Dollars)

To the Shareholders of Universal PropTech Inc. (formerly SustainCo Inc.):

Opinion

We have audited the consolidated financial statements of Universal PropTech Inc. (formerly SustainCo Inc.) and its subsidiaries (the "Company"), which comprise the consolidated statements of financial position as at August 31, 2021 and August 31, 2020, and the consolidated statements of loss and comprehensive 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, 2021 and August 31, 2020, 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 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended August 31, 2021 and, as of that date, the Company had an accumulated deficit. 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 do 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.

Mississauga, Ontario

December 10, 2021

MNP LLP

Chartered Professional Accountants

Licensed Public Accountants

Universal PropTech Inc. (formerly SustainCo Inc.)

Consolidated Statements of Financial Position

(Expressed in Canadian Dollars)

	As at August 31, 2021	As at August 31, 2020
	\$	\$
Assets		
Current Assets		
Cash	991,626	804,794
Accounts receivable (Note 16)	2,907,323	1,932,292
Unbilled receivables (Note 24)	380,859	281,571
Inventories (Note 4)	177,635	197,993
Prepaid expenses	106,410	99,122
Total Current Assets	4,563,853	3,315,772
Investments (Note 5)	1,000,000	-
Property and equipment, and right-of-use assets (Note 6)	563,284	605,919
Total Assets	6,127,137	3,921,691
Liabilities		
Current Liabilities		
Accounts payable and accrued liabilities	1,540,715	1,142,154
Income tax payable (Note 25)	200,733	-
Deferred revenue (Note 24)	279,878	164,077
Finance lease obligations – current (Note 9)	226,722	219,506
Total Current Liabilities	2,248,048	1,525,737
Finance lease obligations (Note 9)	280,376	336,884
Convertible debentures (Note 10)	-	784,051
Deferred tax liabilities	27,410	-
Total Liabilities	2,555,834	2,646,672
Shareholders' Equity		
Share capital (Note 11)	23,173,026	21,011,132
Shares to be issued (Note 11)	30,000	-
Equity component of convertible debentures (Note 10)	-	16,105
Share-based payments reserve (Note 12)	2,719,399	1,777,174
Warrants reserve (Note 13)	451,263	657,616
Accumulated deficit	(22,802,385)	(22,187,008)
Total Shareholders' Equity	3,571,303	1,275,019
Total Liabilities and Shareholders' Equity	6,127,137	3,921,691

Nature of operations and going concern (Note 1)

Contingent liabilities and commitments (Note 22)

Subsequent events (Note 26)

Approved on behalf of the Board of Directors:

“Christopher Hazelton” (signed)
Director

“Al Quong” (signed)
Director

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

Universal PropTech Inc. (formerly SustainCo Inc.)

Consolidated Statements of Loss and Comprehensive Loss

For the Years ended August 31, 2021 and 2020

(Expressed in Canadian Dollars)

	2021	2020
	\$	\$
Revenues (Note 18)	8,817,673	9,939,576
Cost of sales (Note 4)	(6,007,035)	(7,860,138)
Gross Profit	2,810,638	2,079,438
<u>Expenses</u>		
General and administrative (Note 19)	3,402,040	2,893,940
Stock-based payments (Notes 12 and 17)	804,814	23,018
Depreciation (Note 6)	250,003	266,944
Finance expense (Notes 9 and 10)	123,410	105,536
Inventory provision (Note 4)	49,642	27,076
Impairment loss (Note 7)	-	734,802
Gain on disposal of equipment	(82,580)	(24,140)
Gain on derecognition of right-of-use assets	(1,443)	-
Government assistance (Note 20)	(859,893)	(647,622)
Loss on conversion of debt (Note 10)	3,350	-
Total Expenses	(3,689,343)	(3,379,554)
Loss from Continuing Operations before Taxes	(878,705)	(1,300,116)
Current tax (expense) recovery (Note 25)	(184,262)	49,141
Deferred tax (expense) recovery (Note 25)	(27,410)	35,775
Net Loss from Continuing Operations	(1,090,377)	(1,215,200)
Income from discontinued operations (Note 21)	-	39,230
Net Loss and Comprehensive Loss	(1,090,377)	(1,175,970)
Net Loss (Income) per Share		
Basic and diluted – continuing operations (Note 14)	(0.03)	(0.08)
Basic and diluted - discontinued operations	0.00	0.00
Weighted average shares outstanding – Basic and diluted (Note 14)	34,434,122	15,776,223

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

Universal PropTech Inc. (formerly SustainCo Inc.)

Consolidated Statements of Cash Flows

For the Years ended August 31, 2021 and 2020

(Expressed in Canadian Dollars)

	2021	2020
	\$	\$
<u>Operating Activities</u>		
Net loss from continuing operations for the year	(1,090,377)	(1,215,200)
Adjustments for non-cash items:		
Interest and accretion (Notes 9 and 10)	109,544	88,588
Loss of conversion of debt (Note 10)	3,350	-
Impairment loss (Note 7)	-	734,802
Depreciation (Note 6)	250,003	266,944
Inventory provision (Note 4)	49,642	27,076
Stock-based compensation (Note 12)	804,814	23,018
Options granted as compensation for services performed (Note 12)	186,297	-
Shares issued for services performed (Note 11)	33,900	-
Shares to be issued for services performed (Note 11)	30,000	-
Gain on disposal of equipment	(82,580)	(24,140)
Gain on derecognition of right-of-use assets	(1,443)	-
Current tax expense (Note 25)	184,262	-
Deferred tax expense (recovery) (Note 25)	27,410	(35,775)
	504,822	(134,687)
Changes in non-cash working capital:		
Accounts receivable (Note 16)	(975,031)	1,935,633
Unbilled receivables (Note 24)	(99,288)	183,372
Inventories	(29,282)	20,386
Prepaid expenses	(7,288)	(1,249)
Accounts payable and accrued liabilities	398,561	(699,619)
Deferred revenue (Note 24)	115,802	(962,932)
Income tax payable	16,471	-
Net cash provided by (used in) operating activities – continuous operations	(75,233)	340,904
Net cash (used in) operating activities – discontinued operations	-	(8,797)
Net Cash Provided by (Used In) Operating Activities	(75,233)	332,107
<u>Financing Activities</u>		
Proceeds from private placement of convertible debentures (Note 10)	-	1,059,942
Proceeds from private placement of units (Note 11)	845,834	-
Issuance costs paid on private placement (Notes 10 and 11)	(89,076)	(100,559)
Interest payment on debentures (Note 10)	(69,800)	-
Payment on redemption of debentures (Note 10)	(77,267)	-
Repayment of promissory notes payable (Note 8)	-	(545,000)
Proceeds from exercise of stock options (Note 11)	65,515	-
Proceeds from exercise of warrants (Note 11)	807,456	-
Payment of finance lease obligations (Note 9)	(263,797)	(271,207)
Net Cash Provided by Financing Activities	1,218,865	143,176
<u>Investing Activities</u>		
Acquisition of minority interest in investments (Note 5)	(1,000,000)	-
Additions of property and equipment (Note 6)	(39,495)	(27,654)
Proceeds from sale of property and equipment	82,695	30,674
Net cash provided by investing activities from continuing operations	(956,800)	3,020
Proceeds from sale of CED (Note 21)	-	50,000
Cash disposed on sale of CED (Note 21)	-	(112)
Net Cash Provided by (Used in) Investing Activities	(956,800)	52,908

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

Universal PropTech Inc. (formerly SustainCo Inc.)

Consolidated Statements of Cash Flows

For the Years ended August 31, 2021 and 2020

(Expressed in Canadian Dollars)

	2021	2020
	\$	\$
Increase in cash	186,832	528,191
Cash, beginning of year	804,794	276,603
Cash, end of year	991,626	804,794

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

Universal PropTech Inc. (formerly SustainCo Inc.)
Consolidated Statements of Changes in Shareholder's Equity
For the Years ended August 31, 2021 and 2020
(Expressed in Canadian Dollars)

	Share Capital		Shares to be Issued	Equity Component of Convertible Debentures	Share-Based Payment Reserve	Warrants Reserve	Accumulated Deficit	Total
	#	\$	\$	\$	\$	\$	\$	\$
Balance, August 31, 2019	15,776,223	21,011,132	-	-	1,754,156	475,000	(21,011,038)	2,229,250
Warrants issued on private placement of debentures (Note 13)	-	-	-	-	-	186,374	-	186,374
Equity component of convertible debentures (Note 10)	-	-	-	16,105	-	-	-	16,105
Warrants issuance costs (Note 13)	-	-	-	-	-	(3,758)	-	(3,758)
Share-based payments (Note 12)	-	-	-	-	23,018	-	-	23,018
Net loss for the year	-	-	-	-	-	-	(1,175,970)	(1,175,970)
Balance, August 31, 2020	15,776,223	21,011,132	-	16,105	1,777,174	657,616	(22,187,008)	1,275,019
Balance, August 31, 2020	15,776,223	21,011,132	-	16,105	1,777,174	657,616	(22,187,008)	1,275,019
Issuance of shares for services (Note 11)	91,354	33,900	-	-	-	-	-	33,900
Shares to be issued for services (Note 11)	-	-	30,000	-	-	-	-	30,000
Issuance of shares from private placements (Notes 11 and 13)	4,027,779	590,816	-	-	-	255,018	-	845,834
Issuance of compensation options from private placements (Note 13)	-	-	-	-	-	191,515	-	191,515
Share issue costs (Notes 11 and 14)	-	(195,992)	-	-	-	(84,598)	-	(280,590)
Issuance of shares on debenture conversion (Notes 10 and 11)	19,653,504	718,025	-	(16,105)	-	-	-	701,920
Issuance of shares on exercises of options (Notes 11 and 12)	415,100	114,401	-	-	(48,886)	-	-	65,515
Issuance of shares on exercises of warrants (Notes 11 and 13)	8,074,555	900,744	-	-	-	(93,288)	-	807,456
Share-based payments (Note 12)	-	-	-	-	804,814	-	-	804,814
Grant of options for consulting services (Note 12)	-	-	-	-	186,297	-	-	186,297
Expiry of warrants (Note 13)	-	-	-	-	-	(475,000)	475,000	-
Net loss for the year	-	-	-	-	-	-	(1,090,377)	(1,090,377)
Balance, August 31, 2021	48,038,515	23,173,026	30,000	-	2,719,399	451,263	(22,802,385)	3,571,303

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

Universal PropTech Inc. (formerly SustainCo Inc.)

Notes to the Consolidated Financial Statements

For the Years ended August 31, 2021 and 2020

(Expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

Universal PropTech Inc. (formerly SustainCo Inc.) (“UPI” or the “Company”) 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, L4L 8Z7. UPI’s common shares are listed on the TSX Venture Exchange under the ticker symbol “UPI”. The Company’s common shares are also listed in the United States on the OTCQB Venture Market under the ticker symbol “UPIPF”, and in Germany on the Frankfurt Stock Exchange under the ticker symbol “8LH”.

UPI is a building innovation company, selecting, integrating, deploying, and maintaining proptech technologies aiming to deliver customer-centric building solutions and services. The Company conducts its operations through its wholly-owned subsidiary, VCI Controls Inc. (“VCI”). VCI is a supplier of building technologies and services that improve comfort, safety, energy efficiency, and occupant productivity, including the integration of all building systems utilizing the latest in communications technologies and standards. VCI’s service offering is focused on delivering solutions in digital controls, mechanical services, performance monitoring, and energy efficiency solutions.

On November 27, 2020, the Company changed its name to Universal PropTech Inc.

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. During the year ended August 31, 2021, the Company reported a net loss from continuing operations of \$1,090,377 (2020 – net loss from continuing operations of \$1,215,200). As at August 31, 2021, the Company had a working capital of \$2,315,805 (August 31, 2020 – \$1,790,035) and an accumulated deficit of \$22,802,385 (August 31, 2020 – \$22,187,008). The Company’s ability to continue as a going concern is dependent upon its ability to increase revenues, to decrease costs and to obtain additional financing to support operations for the foreseeable future. It is not possible to predict whether financing efforts will continue to be successful in the future. Failure to obtain new financing could result in delay or indefinite postponement of the Company’s strategic goals, and the continued evolution of the novel coronavirus (“COVID-19”) pandemic represent material uncertainties which may cast significant doubt upon the Company’s ability to continue as a going concern.

These consolidated financial statements have been prepared on the basis that the Company will continue as a going concern, and do not reflect the adjustments to the carrying values of assets and liabilities and the reported revenues and expenses, and classifications of statements of financial position that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations. Such adjustments could be material.

2. Basis of Presentation

(a) 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”). The accounting policies set out below were consistently applied to all periods presented unless otherwise noted.

These consolidated financial statements were reviewed, approved, and authorized for issuance by the Board of Directors (the “Board”) of the Company on December 10, 2021.

(b) Basis of Measurement and Functional Currency

These consolidated financial statements are prepared on the historical cost basis, except as noted for certain financial instruments carried at fair value (as disclosed in Note 3). The consolidated financial statements are presented in Canadian dollars, the functional currency of the Company and its subsidiary, unless otherwise noted. The functional currency is the currency of the primary economic environment in which the Company operates.

Universal PropTech Inc. (formerly SustainCo Inc.)

Notes to the Consolidated Financial Statements

For the Years ended August 31, 2021 and 2020

(Expressed in Canadian Dollars)

2. Basis of Presentation (continued)

(c) Basis 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. Subsidiaries are fully consolidated from the date control is transferred to the Company and are deconsolidated from the date control ceases. The consolidated financial statements include all the assets, liabilities, revenues, expenses and cash flows of the Company and its subsidiary after eliminating inter-entity balances and transactions.

3. Summary of Significant Accounting Policies

(a) Revenue Recognition

IFRS 15 – Revenue from Contracts with Customers (“IFRS 15”) introduced a single model for recognizing revenue from contracts with customers. This standard applies to all contracts with customers, with only some exceptions, including certain contracts accounted for under other IFRSs. The standard requires revenue to be recognized in a manner that depicts the transfer of 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.

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.

The Company derives revenue from construction contracts which require performance over a time span which may extend beyond one or more accounting periods. The Company recognizes revenue on construction contracts using the percentage-of-completion method. Contract revenue is based on the initial amount agreed in the contract plus any variations in contract if they can be estimated reliably. The percentage-of-completion of a contract is determined by reference to actual costs of work performed and estimates of remaining work to be completed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognized only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognized immediately in the consolidated statements of loss and comprehensive loss.

On an ongoing basis, the estimated total costs for construction contracts are revised based on the information available at the end of the reporting period. Changes in estimated total costs are reflected in the percentage-of-completion calculation of applicable projects in the same period as the change in estimate occurs. Unbilled revenue represents revenue earned in excess of amounts billed on uncompleted contracts. Deferred revenue represents the excess of amounts billed to customers over revenue earned on uncompleted contracts.

Change orders and claims, referred to as contract modifications, are accounted for under IFRS 15, 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.

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.

Universal PropTech Inc. (formerly SustainCo Inc.)

Notes to the Consolidated Financial Statements

For the Years ended August 31, 2021 and 2020

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

(b) Financial Instruments

Financial assets and financial liabilities, including derivatives, are recognized on the consolidated statements of financial position when the Company becomes a party to the financial instrument or derivative contract.

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 (“FVTOCI”)

The classification under IFRS 9 – Financial Instruments (“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: (i) held within a business model whose objective is to hold assets to collect contractual cash flows; and (ii) contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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 classification of financial assets and financial liabilities under IFRS 9 are summarized below:

Cash	Amortized cost
Investments	FVTPL
Accounts receivables, excluding HST	Amortized cost
Accounts payable and accrued liabilities	Amortized cost
Finance lease obligations	Amortized cost
Convertible debentures	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. Transaction costs related to FVTPL assets and liabilities are expensed as incurred.

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 (“ECL”). 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.

Universal PropTech Inc. (formerly SustainCo Inc.)

Notes to the Consolidated Financial Statements

For the Years ended August 31, 2021 and 2020

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

(b) Financial Instruments (continued)

Measurement (continued)

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

FVTOCI – 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 consolidated statements of loss and comprehensive 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 ECL model. The ECL model requires the Company to account for ECL and changes in those ECL at each reporting date to reflect changes in credit risk since initial recognition.

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

The Company assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due. The Company considers a financial asset to be in default when the borrower is unlikely to pay its credit obligations to the Company in full or when the financial asset is more than 90 days past due.

The carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Company determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts.

Derecognition

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.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and/or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value.

Gains or losses on derecognition are generally recognized in the consolidated statements of loss and comprehensive loss.

(c) 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.

Universal PropTech Inc. (formerly SustainCo Inc.)

Notes to the Consolidated Financial Statements

For the Years ended August 31, 2021 and 2020

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

(d) 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 consolidated statements of loss and comprehensive 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 statements of loss and comprehensive loss in the period the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed on an annual basis, and adjusted prospectively if appropriate.

(e) Leased Assets

The Company primarily leases office facilities, equipment and vehicles. The Company assesses service arrangements to determine if an asset is explicitly or implicitly specified in the agreement and if the Company has the right to control the use of the identified asset.

At inception of a contract, the Company assesses whether a contract is, or contains, a lease based on whether the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company then recognizes a right-of-use ("ROU") asset and a lease liability at the lease commencement date. The ROU asset is initially measured based on the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The assets are depreciated to the earlier of the end of the useful life of the ROU asset or the lease term using the straight-line method. The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. The Company elected to recognize expenses for leases with a term of 12 months or less on a straight-line basis over the lease term and lease of assets of low value, and not to recognize these short-term leases on the consolidated statements of financial position.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Company's incremental borrowing rate. The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if there is a change in future lease payments arising from a change in an index or rate, or if the Company changes its assessment whether it will exercise a purchase, extension or termination option.

Universal PropTech Inc. (formerly SustainCo Inc.)

Notes to the Consolidated Financial Statements

For the Years ended August 31, 2021 and 2020

(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

(e) Leased Assets (continued)

When the lease liability is remeasured, the amount of the remeasurement is recognized as a corresponding adjustment to the carrying amount of the ROU asset, or is recorded in profit or loss if the carrying amount of the ROU asset has been reduced to zero.

(f) 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 statements of loss and comprehensive 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 statements of loss and comprehensive loss when the asset is derecognized.

(g) 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. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. 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 (“VIU”). 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 VIU, 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 consolidated statements of loss and comprehensive loss in those expense categories consistent with the function of the impaired asset.

For non-financial 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 statements of loss and comprehensive loss.

Indefinite life intangibles are tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for indefinite life intangibles by assessing the recoverable amount of each CGU to which goodwill relates. Where the recoverable amount of the CGU, including indefinite life intangibles, is less than its carrying value, an impairment loss is recognized.

Universal PropTech Inc. (formerly SustainCo Inc.)

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(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

(h) Provisions

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 expense in the consolidated statements of loss and comprehensive loss.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

As at August 31, 2021 and 2020, the Company had no material provisions.

(i) Compound Financial Instruments

Compound financial instruments issued by the Company comprised of convertible debentures that can be converted to ordinary shares at the option of the holder, when the number of shares to be issued is fixed and does not vary with changes in fair value.

The liability component of compound financial instruments is initially recognized at a fair value of a similar liability that does not have an equity conversion option. The equity component is initially recognized using the residual value method, at the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component and is included within equity.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method.

The equity component of a compound financial instrument is not remeasured. Interest related to the financial liability is recognized in profit or loss. On conversion, the financial liability is reclassified to equity and no gain or loss is recognized.

(j) Income Taxes

Income tax comprises of current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity or in other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to tax payable in respect of previous years. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences arising between the tax basis of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities when the deferred tax balances relate to the same taxation authority.

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

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Notes to the Consolidated Financial Statements

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(Expressed in Canadian Dollars)

3. Summary of Significant Accounting Policies (continued)

(j) Income Taxes (continued)

Estimates

Provisions for taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

(k) Share Capital

In situations where the Company issues units, the value of units is bifurcated and the value of warrants is included as a separate reserve for warrants of the Company's equity. The proceeds from the issuance of units are allocated between common shares and warrants on a pro-rated basis using the relative fair value method. The fair value of the common shares is determined using the share price at the date of issuance of the units. The fair value of the warrants is determined the application of the Black-Scholes valuation model ("Black-Scholes").

(l) Share Issuance Costs

Costs incurred in connection with the issuance of share capital are netted against the proceeds received. Costs related to the issuance of share capital and incurred prior to issuance are recorded as deferred share issuance costs and subsequently netted against proceeds when they are received.

(m) Share-Based Payments Transactions

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received, or at the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured and are recorded at the date the goods or services are received. The fair value of options is determined using Black-Scholes. The fair value of equity-settled share-based transactions are recognized as an expense with a corresponding increase in share-based payments reserve.

The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount ultimately recognized for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Amounts recorded for forfeited or expired unexercised options are transferred to accumulated deficit in the period of forfeiture or expiry. Expired warrants are also transferred to accumulated deficit.

(n) Loss Per Share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period. Diluted loss per share excludes all dilutive potential common shares if their effect is anti-dilutive.

(o) Government Assistance

The benefits of tax incentives for government subsidy assistance are recognized in the year the qualifying claim is made providing there is reasonable assurance of recoverability. Grants and assistance are recorded based on management's estimates of amounts expected to be recovered and are subject to audit by taxation authorities.

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Notes to the Consolidated Financial Statements

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3. Summary of Significant Accounting Policies (continued)

(o) Government Assistance (continued)

Government grants and assistance are recognized where there is a reasonable assurance that the grants and assistance will be received, and conditions will be complied with. Government grants and assistance are recognized in other income over the periods in which the Company recognizes expenses which the grants and assistance are intended to compensate.

(p) Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

(q) 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.

Management considers the corporate office and the Controls and Mechanical Contracting Division to be its operating segments, as both segments continue to engage in business activities. Their operating results are reviewed regularly by the Company's chief operating decision maker to make decisions about resources to be allocated and assess their performance, for which discrete financial information available to facilitate the review.

(r) Discontinued Operations

A discontinued operation is a component of the Company that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the consolidated statements of loss and comprehensive loss.

(s) Significant Accounting Judgments and Estimates

The preparation of these consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue, and expenses. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue, and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. These estimates are reviewed periodically, and adjustments are made as appropriate in the period they become known. Items for which actual results may differ materially from these estimates are described as follows:

Going concern

At each reporting period, management exercises judgment in assessing the Company's ability to continue as a going concern by reviewing its performance, resources and future obligations. The conclusion that the Company will be able to continue as a going concern is subject to critical judgments of management with respect to assumptions surrounding the short and long-term operating budgets, expected profitability, investment and financing activities and management's strategic planning. The assumptions used in management's going concern assessment are derived from actual operating results along with industry and market trends. Management believes there is sufficient capital to meet the Company's business obligations for at least the next 12 months, after taking into account expected cash flows and the Company's cash position at year-end.

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Notes to the Consolidated Financial Statements

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3. Summary of Significant Accounting Policies (continued)

(s) Significant Accounting Judgments and Estimates (continued)

Fair value of financial assets and financial liabilities

Fair value of financial assets and financial liabilities on the consolidated statements of financial position that cannot be derived from active markets, are determined using a variety of techniques including the use of valuation models. The inputs to these models are derived from observable market data where possible, but where observable market data are not available, judgment is required to establish fair values. Judgments include, but are not limited to, consideration of model inputs such as volatility, estimated life, and discount rates.

Allowances for expected credit losses

An ECL impairment model applies which requires a loss allowance to be recognized based on ECL. 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 consolidated statements of loss and comprehensive 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 profit or loss to the extent that the carrying amount of the financial instrument at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Warrants and options

Warrants and options are initially recognized at fair value, based on the application of Black-Scholes. This pricing model requires management to make various assumptions and estimates which are susceptible to uncertainty, including the expected volatility of the share price, expected forfeitures, expected dividend yield, expected term of the warrants or options, and expected risk-free interest 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.

Income taxes

Management uses estimates when determining deferred income assets. These estimates are used to determine the recoverability of non-capital tax loss carry-forwards 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.

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.

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Notes to the Consolidated Financial Statements

For the Years ended August 31, 2021 and 2020

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3. Summary of Significant Accounting Policies (continued)

(s) Significant Accounting Judgments and Estimates (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 22. 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.

(t) Adoption of New Accounting Policies

The Company adopted the following amendments, effective September 1, 2020. These changes were made in accordance with the applicable transitional provisions.

IAS 1 – Presentation of Financial Statements (“IAS 1”) and IAS 8 – Accounting Policies, Changes in Accounting Estimates and Errors (“IAS 8”)

IAS 1 and IAS 8 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 Company had assessed that the adoption of these amendments did not have any material impact on the consolidated financial statements.

Conceptual Framework

On March 29, 2018, the IASB issued its revised Conceptual Framework for financial reporting. The revised Conceptual Framework does not constitute a substantial revision from the previously effective guidance, but does provide additional guidance on topics not previously covered such as presentation and disclosure. This revision was effective on September 1, 2020. The Company had assessed that the adoption of the revised Conceptual Framework did not have any material impact on the consolidated financial statements.

(u) Recent Accounting Pronouncements

At the date of authorization of these consolidated financial statements, the IASB and the IFRS Interpretations Committee have issued the following amendments which are effective for annual periods beginning on or after September 1, 2021. Many are not applicable or do not have a significant impact to the Company and have been excluded. The Company is currently assessing the impact upon the adoption of the following amendments on its consolidated financial statements:

Amendments to IAS 1

In January 2020, the IASB issued amendments to IAS 1 which clarify the requirements for classifying liabilities as either current or non-current by: (i) specifying that the conditions which exist at the end of the reporting period determine if a right to defer settlement of a liability exists; (ii) clarifying that settlement of a liability refers to the transfer to the counterparty of cash, equity instruments, other assets or services; (iii) clarifying that classification is unaffected by management’s expectation about events after the balance sheet date; and (iv) clarifying the classification requirements for debt an entity may settle by converting it into equity.

Universal PropTech Inc. (formerly SustainCo Inc.)

Notes to the Consolidated Financial Statements

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3. Summary of Significant Accounting Policies (continued)

(u) Recent Accounting Pronouncements (continued)

Amendments to IAS 1 (continued)

The amendments clarify existing requirements, rather than make changes to the requirements, and so are not expected to have a significant impact on an entity's financial statements. However, the clarifications may result in reclassification of some liabilities from current to non-current or vice-versa, which could impact an entity's loan covenants. Because of this impact, the IASB has provided a longer effective date to allow entities to prepare for these amendments. In July 2020, the IASB issued an amendment to defer the effective date of the amendments by one year from its originally planned effective date to annual periods beginning on or after January 1, 2023 due to the impact of COVID-19. Early application is permitted.

Amendments to IAS 37 – Provisions, Contingent Liabilities and Contingent Assets (“IAS 37”)

In May 2020, the IASB issued amendments to update IAS 37. The amendments specify that in assessing whether a contract is onerous under IAS 37, the cost of fulfilling a contract includes both the incremental costs and an allocation of costs that relate directly to contract activities. The amendments also include examples of costs that do, and do not, relate directly to a contract. These amendments are effective for annual periods beginning on or after January 1, 2022. Earlier application is permitted.

4. Inventories

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

During the year ended August 31, 2021, the total raw materials, equipment, and spare parts charged to cost of sales was \$1,575,609 (2020 – \$1,774,683).

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, 2021, the Company recorded a write-down of \$49,642 (2020 – \$27,076) on its inventories. No allowance for obsolescence was included in inventories as at August 31, 2021 (August 31, 2020 – \$53,134).

5. Investments

On February 18, 2021, the Company acquired an approximate 2% interest in ISBRG Corp. (“ISBRG”) by subscribing for Class A Common Shares of ISBRG for \$1,000,000. The investment was recorded at fair value at initial recognition.

As at August 31, 2021, the Company assessed the investment for indicators of impairment, and had determined that there was no change in fair value from the date of acquisition up to the end of the reporting period by observation of a comparable transaction.

Universal PropTech Inc. (formerly SustainCo Inc.)

Notes to the Consolidated Financial Statements

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6. Property and Equipment and Right-of-Use Assets

	Computer equipment	Equipment	Vehicles	Furniture & fixtures	Building & Leasehold improvements	Right-of-use assets	Total
	\$	\$	\$	\$	\$	\$	\$
Cost							
Balance, August 31, 2019	171,985	125,875	20,259	234,809	11,260	-	564,188
Change in accounting policy IFRS 16	-	-	-	-	-	687,879	687,879
Adjusted balance, September 1, 2019	171,985	125,875	20,259	234,809	11,260	687,879	1,252,067
Additions for the year	11,489	13,295	1,107	1,763	-	-	27,654
Additions for ROU assets	-	-	-	-	-	74,519	74,519
Disposals	-	(6,030)	(9,967)	-	-	-	(15,997)
Balance, August 31, 2020	183,474	133,140	11,399	236,572	11,260	762,398	1,338,243
Additions for the year	5,931	29,769	3,795	-	-	-	39,495
Additions for ROU assets	-	-	-	-	-	211,824	211,824
Disposals	-	-	(15,194)	-	-	-	(15,194)
Termination of lease	-	-	-	-	-	(107,581)	(107,581)
Balance, August 31, 2021	189,405	162,909	-	236,572	11,260	866,641	1,466,787
Accumulated depreciation							
Balance, August 31, 2019	144,592	97,300	12,896	210,585	9,429	-	474,802
Depreciation for the year	10,145	15,044	1,879	2,242	523	-	29,833
Depreciation of ROU assets	-	-	-	-	-	237,110	237,110
Disposals for the year	-	(3,584)	(5,837)	-	-	-	(9,421)
Balance, August 31, 2020	154,737	108,760	8,938	212,827	9,952	237,110	732,324
Depreciation for the year	10,145	12,945	6,180	688	1,309	-	31,267
Depreciation of ROU assets	-	-	-	-	-	218,736	218,736
Disposals	-	-	(15,118)	-	-	-	(15,118)
Termination of lease	-	-	-	-	-	(63,705)	(63,705)
Balance, August 31, 2021	164,882	121,705	-	213,515	11,261	392,141	903,504
Net book value							
Balance, August 31, 2020	28,737	24,380	2,461	23,745	1,308	525,288	605,919
Balance, August 31, 2021	24,523	41,204	-	23,057	-	474,500	563,284

7. Intangible Assets and Goodwill

Intangible assets

The Company's intangible assets consist of customer relationships, exclusivity contracts, and brand names. On August 31, 2020, the Company performed its annual impairment tests for goodwill and intangible assets, and management determined that the carrying value of the VCI CGU exceeded its recoverable amount. As a result, an impairment charge of \$135,000 on the intangible assets was recognized in the consolidated statements of loss and comprehensive loss during the year ended August 31, 2020.

Goodwill

The Company completed the acquisition of VCI in fiscal 2014, resulting in goodwill of \$599,802. On August 31, 2020, the Company performed its annual impairment tests, which compared the carrying amount of VCI to the recoverable amount. VCI is regarded as its own CGU, being the smallest identifiable group of assets that generates cash inflows, and includes VCI's brand name, customer relationships, and goodwill. Using a five-year discounted cash flow model, the Company determined the recoverable amount by calculating its VIU. As of August 31, 2020, management determined that the carrying value of VCI exceeded its recoverable amount and recognized an impairment loss of \$734,802 (including the impairment loss of \$135,000 on the intangible assets) in the consolidated statements of loss and comprehensive loss during the year ended August 31, 2020.

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8. Promissory Notes Payable

In August 2016, the Company issued \$834,500 of promissory notes payable (the “Notes”) to certain arm’s length parties. The Notes have a three-year term and are non-interest bearing. The Company determined the fair value of the Notes on initial recognition to be \$593,981 based on a discount rate of 12%. In 2018, the Notes were purchased from their respective noteholders by a related party to the Company.

During the year ended August 31, 2020, the Company made an aggregate payment of \$545,000 to settle the Notes.

9. Finance Lease Obligations

The carrying amounts of the Company’s lease obligations and movements during the years ended August 31, 2021 and 2020 were as follows:

	\$
Balance, August 31, 2019	-
Balance recognized on adoption of IFRS 16	687,879
Balance, September 1, 2019	687,879
Additions of leases	74,519
Interest on lease obligations	65,199
Lease payments	(271,207)
Balance, August 31, 2020	556,390
Additions of leases	211,824
Termination of leases	(45,277)
Interest on lease obligations	47,958
Lease payments	(263,797)
Balance, August 31, 2021	507,098
	\$
Current portion	226,722
Long-term portion	280,376
	507,098

10. Convertible Debentures

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

The principal amount of the Convertible Debentures will be repaid, in cash, by the Company on the third anniversary of issuance (the “Maturity Date”) and will carry an interest rate of 12% per year compounded monthly and payable at the Maturity Date. The Convertible Debentures are convertible into common shares of the Company at \$0.05 per share for the first year the Convertible Debentures are outstanding, and at \$0.10 per share thereafter. In addition, each \$1,000 of principal amount of the Convertible 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 Convertible 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 Convertible 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 Convertible Debentures at any time prior to the Maturity Date by paying the principal amount of the Convertible Debentures.

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Notes to the Consolidated Financial Statements

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10. Convertible Debentures (continued)

In connection with the Private Placement, the Company paid total cash-based transaction costs of \$100,559, including a cash finders' fee of \$84,795, and issued 1,695,907 finders' warrants valued at \$171,746 for total transaction costs of \$272,305.

The liability portion of the Convertible Debentures was assigned a value based on the present value of the contractually determined stream of future cash flows discounted at 14%. The rate is estimated to be equivalent market interest rate that would apply to a similar liability which does not contain an equity conversion option.

The difference between the principal amount of the Convertible Debentures and the discounted cash flows is allocated to the conversion feature and warrants, both of which are classified within equity, using the residual value method. The issuance costs directly attributable to the offering were allocated to the liability, the equity portion of the Convertible Debentures, and warrants reserves. On initial recognition, the conversion feature of the Convertible Debentures was allocated a value of \$16,105, net of issuance costs of \$5,568, under the residual value method on a pro-rata basis relative to the fair value of the conversion feature and the Warrants. Accretion of the liability portion and interest payable on the Convertible Debentures are included in finance expense in the consolidated statements of loss and comprehensive loss.

During the year ended August 31, 2021, a principal amount of \$982,675 of the Convertible Debenture were converted into 19,653,504 common shares of the Company at a conversion price of \$0.05 per share.

On April 20, 2021, the Company also redeemed the last remaining principal amount of \$77,267 for cash.

The following table reflects the continuity of the Convertible Debentures as at August 31, 2021:

	\$
Balance, August 31, 2019	-
Face value of the debentures issued	1,059,942
Discount at 14% (attributed to warrant and conversion feature)	(36,301)
Issuance costs allocated to debt component	(262,979)
Accrued interest	16,787
Accretion	6,602
Balance, August 31, 2020	784,051
Accretion	66,110
Conversion into common shares (Note 11)	(703,094)
Redemption of debentures for cash	(77,267)
Interest payments	(69,800)
Balance, August 31, 2021	-

11. Share Capital

Authorized and issued share capital

The Company is authorized to issue an unlimited number of common shares.

Issued shares

As of August 31, 2021, there were 48,038,515 common shares issued and outstanding (August 31, 2020 – 15,776,223), for total share capital of \$23,173,026 (August 31, 2020 – \$21,011,132).

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11. Share Capital (continued)

Share capital transactions for the year ended August 31, 2021

On December 10, 2020, the Company issued 60,536 common shares to an online advertising and marketing agency (the “Advertising Agency”) pursuant to the terms of a service agreement. The common shares were valued at \$16,950 based on the fair value of the services received.

On January 8, 2021, the Company completed a non-brokered private placement offering (the “Offering”) of 4,027,779 units (“Units”) at a price of \$0.21 per Unit, for gross proceeds of \$845,834. Each Unit is comprised of one common share of the Company and one-half (1/2) of a Warrant exercisable at \$0.30 for a period of two years from closing. In connection with the Offering, the Company paid cash commissions of \$67,667, representing fees of 8% of the gross proceeds of the Offering introduced by the finders. In addition, the Company issued 322,222 compensation options (“Compensation Options”) (see Note 13 for details).

On February 26, 2021, the Company issued another 30,818 common shares to the Advertising Agency, which were also valued at \$16,950 based on the fair value of the services received.

During the year ended August 31, 2021, a principal amount of \$982,675 of the Convertible Debenture were converted into 19,653,504 common shares of the Company at a conversion price of \$0.05 per share (see Note 10).

During the year ended August 31, 2021, the Company issued 415,100 common shares as a result of the exercise of stock options for cash proceeds of \$65,515.

During the year ended August 31, 2021, the Company also issued 8,074,555 common shares as a result of the exercise of warrants for cash proceeds of \$807,456.

Share capital transactions for the year ended August 31, 2020

There were no share capital transactions during the year ended August 31, 2020.

Shares to be issued

As at August 31, 2021, the Company had recognized an amount of \$30,000 for shares to be issued to the Advertising Agency, for common shares which should have been issued in May and August 2021 pursuant to the agreement in place with the Advertising Agency. Subsequent to August 31, 2021, the Company issued 129,120 common shares to the Advertising Agency to complete the issuance (see Note 26).

12. Share-Based Payments Reserve

The Company adopted a stock option plan (the “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 five years and vest as determined at the discretion of the Board of the Company.

Under the Option Plan, 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.

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12. Share-Based Payments Reserve (continued)

The following summarizes the stock option activity for the years ended August 31, 2021 and 2020:

	August 31, 2021		August 31, 2020	
	Number of options #	Weighted average exercise price \$	Number of options #	Weighted average exercise price \$
Outstanding, beginning of year	1,300,000	0.17	772,500	0.32
Granted	2,285,000	0.30	600,000	0.20
Granted	1,450,000	0.45	-	-
Exercised	(350,100)	0.15	-	-
Exercised	(65,000)	0.20	-	-
Expired	-	-	(72,500)	0.15
Outstanding, end of year	4,619,900	0.32	1,300,000	0.17
Exercisable, end of year	4,191,400	0.32	880,000	0.16

Option grants for the year ended August 31, 2021

On October 27, 2020, the Company granted 270,000 options to an officer and an advisory board member at an exercise price of \$0.30, expiring on October 27, 2023. The options vest in the following schedule: 30% immediately, 35% on the 6-month anniversary of grant, and 35% on the 1-year anniversary of grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 181%, expected dividend yield of 0%, risk-free interest rate of 0.25% and an expected life of three years. The grant date fair value attributable to these options was \$67,823, of which \$64,116 was recorded as stock-based compensation in connection with the vesting of these options during the year ended August 31, 2021.

On December 15, 2020, the Company granted 535,000 options to an officer and a consultant at an exercise price of \$0.30, expiring on December 15, 2023. The options vested immediately on grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 168%, expected dividend yield of 0%, risk-free interest rate of 0.30% and an expected life of three years. The grant date fair value attributable to these options of \$132,309 was recorded as stock-based compensation in connection with the vesting of these options during the year ended August 31, 2021.

On February 2, 2021, the Company granted 880,000 options to various officers, directors and consultants at an exercise price of \$0.30, expiring on February 2, 2024. The options vest in the following schedule: 40% immediately, 30% on the 6-month anniversary of grant, and 30% on the 1-year anniversary of grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 167%, expected dividend yield of 0%, risk-free interest rate of 0.20% and an expected life of three years. The grant date fair value attributable to these options was \$204,844, of which \$178,747 was recorded as stock-based compensation in connection with the vesting of these options during the year ended August 31, 2021.

On March 8, 2021, the Company granted 500,000 options to a consultant at an exercise price of \$0.45, expiring on March 8, 2024. The options were granted as compensation pursuant to a service agreement for marketing services rendered to the Company. The options vested immediately on grant and were valued using Black-Scholes with the following assumptions: expected volatility of 165%, expected dividend yield of 0%, risk-free interest rate of 0.51% and an expected life of three years. The grant date fair value attributable to these options was \$186,297 was recorded into general and administrative expenses – within marketing and sales – on the consolidated statements of loss and comprehensive loss during the year ended August 31, 2021.

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12. Share-Based Payments Reserve (continued)

Option grants for the year ended August 31, 2021 (continued)

On March 16, 2021, the Company granted 400,000 options to an advisory board member at an exercise price of \$0.45, expiring on March 16, 2024. The options vested immediately on grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 165%, expected dividend yield of 0%, risk-free interest rate of 0.55% and an expected life of three years. The grant date fair value attributable to these options of \$127,045 was recorded as stock-based compensation in connection with the vesting of these options during the year ended August 31, 2021.

On April 16, 2021, the Company granted 100,000 options to an employee at an exercise price of \$0.45, expiring on April 16, 2024. The options vest in the following schedule: 30% immediately, 30% on the 6-month anniversary of grant, and 40% on the 1-year anniversary of grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 160%, expected dividend yield of 0%, risk-free interest rate of 0.49% and an expected life of three years. The grant date fair value attributable to these options was \$30,716, of which \$20,725 was recorded as stock-based compensation in connection with the vesting of these options during the year ended August 31, 2021.

On June 10, 2021, the Company granted 450,000 options to certain employees and consultants at an exercise price of \$0.45, expiring on June 10, 2024. The options vested immediately on grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 161%, expected dividend yield of 0%, risk-free interest rate of 0.48% and an expected life of three years. The grant date fair value attributable to these options of \$122,717 was recorded as stock-based compensation in connection with the vesting of these options during the year ended August 31, 2021.

On July 30, 2021, the Company granted 600,000 options to various officers and directors at an exercise price of \$0.30, expiring on July 30, 2024. The options vested immediately on grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 162%, expected dividend yield of 0%, risk-free interest rate of 0.54% and an expected life of three years. The grant date fair value attributable to these options of \$110,302 was recorded as stock-based compensation in connection with the vesting of these options during the year ended August 31, 2021.

Option grants for the year ended August 31, 2020

On August 26, 2020, the Company granted 600,000 options to certain of its directors, officers and consultants at an exercise price of \$0.20, expiring on August 26, 2023. The options vest in the following schedule: 30% immediately, 25% on the 6-month anniversary of grant, and 35% on the 1-year anniversary of grant. The options were valued using Black-Scholes with the following assumptions: expected volatility of 161%, expected dividend yield of 0%, risk-free interest rate of 0.30% and an expected life of three years. 65,000 of these options were exercised during the year ended August 31, 2021. The grant date fair value attributable to the remaining options was \$53,094, of which \$48,853 was recorded as share-based payments in connection with the vesting of these options during the year ended August 31, 2021 (2020 – \$23,018).

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12. Share-Based Payments Reserve (continued)

The following table summarizes information of stock options outstanding and exercisable as at August 31, 2021:

Date of expiry	Number of options outstanding	Number of options exercisable	Exercise price	Weighted average remaining contractual life
	#	#	\$	Years
August 15, 2022	349,900	349,900	0.15	0.96
August 23, 2023	535,000	535,000	0.20	1.99
October 27, 2023	270,000	175,500	0.30	2.16
December 15, 2023	535,000	535,000	0.30	2.29
February 2, 2024	880,000	616,000	0.30	2.42
March 8, 2024	500,000	500,000	0.45	2.52
March 16, 2024	400,000	400,000	0.45	2.54
April 16, 2024	100,000	30,000	0.45	2.63
June 10, 2024	450,000	450,000	0.45	2.78
July 30, 2024	600,000	600,000	0.30	2.92
	4,619,900	4,191,400	0.32	2.46

13. Warrants Reserve

The following summarizes the warrant activity for the years ended August 31, 2021 and 2020:

	August 31, 2021		August 31, 2020	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
	#	\$	#	\$
Outstanding, beginning of year	13,547,079	0.15	1,251,750	0.65
Issued	2,013,892	0.30	10,599,422	0.10
Issued	322,222	0.21	1,695,907	0.10
Exercised	(8,074,555)	0.10	-	-
Expired	(1,251,750)	0.65	-	-
Outstanding, end of year	6,556,888	0.17	13,547,079	0.15

Warrant issuances for the year ended August 31, 2021

On January 8, 2021, the Company issued 2,013,892 Warrants in conjunction with the Offering, as disclosed in Note 11. Each Warrant is exercisable at \$0.30 to purchase one common share of the Company for a period of two years after closing of the Offering. The grant date fair value of the Warrants was estimated to be \$255,018 using Black-Scholes with the following assumptions: expected volatility of 190%, expected dividend yield of 0%, risk-free interest rate of 0.19% and an expected life of two years.

In connection with the Offering, 322,222 Compensation Options were issued to the finders, representing 8% of the number of Units sold to subscribers introduced by finders. Each Compensation Option entitles the holder thereof to purchase a Unit, each comprised of one common share and one-half of a Warrant, at a price of \$0.21 for a period of two years from closing of the Offering. Each underlying warrant is exercisable for \$0.30 to purchase one common share of the Company for a period of two years from closing of the Offering. The grant date fair value of the Compensation Options was estimated to be \$191,515 using Black-Scholes with the following assumptions: expected volatility of 190%, expected dividend yield of 0%, risk-free interest rate of 0.19% and an expected life of two years.

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13. Warrants Reserve (continued)

Warrant issuances for the year ended August 31, 2020

On July 14, 2020, the Company issued 10,599,422 Warrants in conjunction with the Private Placement, as disclosed in Note 11. Each Warrant is exercisable at \$0.10 to purchase one common share of the Company for a period of three years from closing of the Private Placement. Using the residual value method, the Warrants were allocated a value of \$10,870 on a pro-rated basis relative to the fair value of the conversion feature and the Warrants.

In connection with the Private Placement, 1,695,907 Finder's Warrants were also issued as compensation. The Finder's Warrants are exercisable at \$0.10 to purchase one common share of the Company. The Finder's Warrants are exercisable for a period of three years from closing of the Private Placement. The grant date fair value of the Finder's Warrants issued was estimated to be \$171,746 using Black-Scholes with the following assumptions: expected volatility of 158%, expected dividend yield of 0%, risk-free interest rate of 0.30% and an expected life of three years, and was allocated to the liability, the equity portion of the Convertible Debentures, and warrants reserves on a pro-rated basis relative to their allocated values.

The following summarizes the information of warrants outstanding as at August 31, 2021:

Date of expiry	Number of warrants outstanding	Exercise price	Weighted average remaining contractual life
	#	\$	Years
January 8, 2023	2,013,892	0.30	1.36
January 8, 2023 ⁽ⁱ⁾	322,222	0.21	1.36
July 14, 2023	4,220,774	0.10	1.87
	6,556,888	0.17	1.69

⁽ⁱ⁾ Exercisable into one common share and one-half of one common share purchase warrant exercisable at \$0.30 until January 8, 2023.

14. Basic and Diluted Loss per Share

The calculations of basic and diluted loss per share from continuing operations for the year ended August 31, 2021 were based on the net loss from continuing operations of \$1,090,377 (2020 – net loss of \$1,215,200 from continuing operations) and the weighted average number of basic common shares outstanding of 34,434,122 (2020 – 15,776,223) and diluted common shares of 34,434,122 (2020 – 15,776,223).

The details of the computation of basic and diluted loss per share from continuing operations for the years ended August 31, 2021 and 2020 are as follows:

	2021	2020
	\$	\$
Net Loss from Continuing Operations	(1,090,377)	(1,215,200)
	#	#
Weighted-average number of shares outstanding – Basic and Diluted	34,434,122	15,776,223
	\$	\$
Loss per share – Basic and Diluted	(0.03)	(0.08)

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15. Capital Management

The Company's objectives when managing capital is to safeguard its ability to continue as a going concern and to maintain optimal returns to shareholders and benefits for its stakeholders. The Company's capital consists of debt and equity. Its principal sources of cash are from operations, and the issuance of common shares and debt. Management 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.

The Board does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the management team to sustain the future development of the business.

The Company's capital management objectives, policies and processes have remained unchanged during the years ended August 31, 2021 and 2020.

16. Financial Instruments and Risk 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 monitors and manages its cash flows to assess the liquidity necessary to fund operations.

As at August 31, 2021, the contractual maturities of the Company's financial liabilities are as follows:

	Less than 1 year	1 to 3 years	3 to 5 years	Total
	\$	\$	\$	\$
Accounts payable and accrued liabilities	1,540,715	-	-	1,540,715
Lease commitments	334,627	272,691	61,794	669,112
Total	1,875,342	272,691	61,794	2,209,827

Credit risk

The Company's cash is held with reputable chartered Canadian financial institutions, and in trust with the Company's legal counsel. Management reviews the strength of these institutions on a regular basis.

Accounts receivable are subject the Company to credit risk. The Company believes the recorded amounts will be collected. Holdbacks are received upon substantial completion of the projects.

The Company's aging of accounts receivable as at August 31, 2021 and 2020 is as follows:

Accounts Receivable Aging	August 31, 2021	August 31, 2020
	\$	\$
Within 30 days	1,593,659	817,919
31 to 60 days	706,644	435,137
61 to 90 days	390,512	321,820
Over 90 days	118,239	283,367
Holdbacks	104,466	90,564
Expected credit loss	(6,197)	(16,515)
Total Accounts Receivable	2,907,323	1,932,292

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16. Financial Instruments and Risk Management (continued)

Credit risk (continued)

The maximum exposure is limited to the carrying amount of financial assets on the consolidated statements of financial position that includes cash and accounts receivable. As at August 31, 2021, an allowance for ECL of \$6,197 (August 31, 2020 – \$16,515) has been netted against accounts receivable.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's convertible debentures have fixed interest rates. As at August 31, 2021, the Company had no hedging agreements in place with respect to floating interest rates.

Concentration risk

The concentration of revenue generated from major customers is not significant, with the three largest customers combined accounting for approximately 24% of gross revenue for the year ended August 31, 2021 (2020 – 28.4% of gross revenue).

As at August 31, 2021, one particular customer account comprises of approximately 14% of total outstanding 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. 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.

Categories and fair value of financial instruments

Fair value estimates of financial instruments are made at a specific point in time based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values. The Company's financial instruments consist of cash, accounts receivable (excluding HST), investments, accounts payables and accrued liabilities, convertible debentures and leases payable.

The fair value of cash, accounts receivables (excluding HST) and accounts payables and accrued liabilities are approximately equal to their carrying value due to their short-term nature. The fair value of the convertible debenture was determined on its initial recognition using a discount rate of 14%. The Company does not believe this rate would have changed since initial recognition. The carrying value of the convertible debenture differs from its fair value because of the allocation of issuance costs.

The Company classifies fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- 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
- Level 3 – Inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As at August 31, 2021, the Company's financial instruments carried at fair value consisted of its investments, which have been classified as Level 2 (for investments in a private-owned entity based on observable price).

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17. Related Party Transactions

Key management personnel compensation

Key management includes the Company's directors and officers with authority and responsibility for planning, directing and controlling the activities of an entity, directly or indirectly.

The remuneration for members of key management personnel and directors during the years ended August 31, 2021 and 2020 were as follows:

	2021	2020
	\$	\$
Management remuneration	257,428	365,410
Professional fees	62,000	17,180
Stock-based compensation (Note 12)	316,206	7,673
	735,634	390,263

Management remuneration

Remuneration of key management personnel of the Company for the year ended August 31, 2021, included short-term compensation of \$222,500 and \$134,928 for the Company's Chief Executive Officer ("CEO") and Chief Growth Officer ("CGO"), respectively (2020 – \$234,151 and \$nil). As at August 31, 2021, no balance was owed to any key management personnel (August 31, 2020 – \$nil).

Management service agreement

On June 8, 2020, the Company and Branson Corporate Services Ltd. ("Branson"), where the Chief Financial Officer ("CFO") of the Company is employed, entered into a management services agreement, providing for CFO services to the Company, as well as other accounting and administrative services, which are included in professional fees. In consideration for the services provided, the Company agreed to pay an annual fee of \$55,000. Effective February 1, 2021, the annual fee was amended to \$67,000. During the year ended August 31, 2021, the Company was charged \$62,000 (2020 – \$17,180) for services provided by Branson. As at August 31, 2021, \$6,462 (August 31, 2020 – \$6,388) owing to Branson was included in accounts payable and accrued liabilities. The amount outstanding is unsecured, non-interest bearing and due on demand.

Stock-based compensation

On August 26, 2020, the Company granted 600,000 options, of which 200,000 options were granted to a director and an officer. During the year ended August 31, 2021, stock-based compensation of \$14,702 (2020 – \$7,673) attributable to these options was recorded in connection with the vesting of options.

On October 27, 2020, the Company granted 270,000 options, of which 135,000 options were granted to the CEO of the Company. During the year ended August 31, 2021, stock-based compensation of \$32,058 attributable to these options was recorded in connection with the vesting of options.

On December 15, 2020, the Company granted 535,000 options, of which 85,000 options were granted to the CGO of the Company. During the year ended August 31, 2021, stock-based compensation of \$21,021 attributable to these options was recorded in connection with the vesting of options.

On February 2, 2021, the Company granted 880,000 options, of which 680,000 options were granted to certain officers and directors. During the year ended August 31, 2021, stock-based compensation of \$138,123 attributable to these options was recorded in connection with the vesting of options.

On July 30, 2021, the Company granted 600,000 options to various officers and directors. During the year ended August 31, 2021, stock-based compensation of \$110,302 attributable to these options was recorded in connection with the vesting of options.

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18. Revenues

The Company's revenues from continuing operations for the years ended August 31, 2021 and 2020 were comprised of the following:

	2021	2020
	\$	\$
Construction and other product revenue	5,281,298	6,581,101
Commissions	114,068	-
Repairs revenue	1,661,222	889,918
Service revenue	1,761,085	2,468,557
	8,817,673	9,939,576

19. General and Administrative Expenses

General and administrative expenses for the years ended August 31, 2021 and 2020 were comprised of the following:

	2021	2020
	\$	\$
Salaries and wages	1,511,501	1,976,370
Marketing and sales	670,487	-
Professional and consulting fees	640,746	309,494
Office expenses	632,122	545,678
Travel	(9,947)	7,427
Bad debt expense (recovery)	(42,869)	54,971
	3,402,040	2,893,940

20. Government Assistance

On April 11, 2020, the Government of Canada enacted the Canada Emergency Wage Subsidy ("CEWS"), which provides a wage subsidy to eligible Canadian employers to enable them to continue to pay their Canadian employees through their payroll. To qualify for the CEWS, companies must satisfy certain eligibility criteria, including among others, a significant decline in revenue as compared to earlier periods. Eligible employers will have to sustain losses of "qualifying revenues" that meet pre-determined thresholds during the eligible periods. Each applicant's eligibility for these programs is subject to validation and detailed verification by the federal government. Due to nature of the eligibility requirements and related calculations, it is possible that the eligibility requirements may not be considered to be met upon validation, and as such the benefits received may be repayable.

During the year ended August 31, 2021, the Company had also applied for the Canada Emergency Rent Subsidy ("CERS"), which provides eligible Canadian businesses, non-profit organizations, or charities who have seen a drop in revenue due to the COVID-19 pandemic for a subsidy to cover part of their commercial rent or property expenses, starting on September 27, 2020 until June of 2021. The CERS provides payments directly to qualifying renters and property owners, without requiring the participation of landlords.

During the year ended August 31, 2021, the Company received CEWS funding of \$781,249 (2020 – \$647,622) and CERS funding of \$78,644 (2020 – \$nil), respectively, which has been recorded as government assistance on the consolidated statements of loss and comprehensive loss.

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21. Discontinued Operations

In April 2020, the Company entered into a definitive 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 Development Corp. (“CleanEnergy”), in consideration for which the Purchaser paid the Company an aggregate purchase price of \$50,000 in cash. The Transaction closed on April 27, 2020. As a result, the financial results of CleanEnergy have been presented as discontinued operations on the consolidated statements of loss and comprehensive loss and cash flows, for the year ended August 31, 2020. The Company’s existing business continues to be operated through VCI.

22. 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 on the consolidated financial statements.

From time to time, the Company is subject to legal proceedings and claims arising in the ordinary course of business. Management is of the opinion, based on information currently available, that it is unlikely that any such liability, to the extent not provided for by insurance or otherwise, would have a material adverse effect to the Company’s consolidated financial position, liquidity or results of operations.

23. Segmented Information

The Company’s segments have been organized based on its principal business operations (Corporate, and Controls and Mechanical Contracting), all within Canada. In 2020, the Georexchange Services operations had been discontinued with the sale of CleanEnergy.

<i>Year ended August 31, 2021</i>	Corporate	Controls and Mechanical Contracting	Total
	\$	\$	\$
Capital expenditures	-	39,495	39,495
Total assets	1,219,277	4,907,860	6,127,137
Statement of Operations			
Revenue	-	8,817,673	8,817,673
Cost of sales	-	(6,007,035)	(6,007,035)
General and administrative	(1,819,088)	(1,582,952)	(3,402,040)
Depreciation	-	(250,003)	(250,003)
Finance expense	(66,818)	(56,592)	(123,410)
Inventory provision	-	(49,642)	(49,642)
Stock-based compensation	(804,814)	-	(804,814)
Government assistance	-	859,893	859,893
Gain on disposal of equipment	-	82,580	82,580
Gain on derecognition of ROU asset	-	1,443	1,443
Loss on conversion of debt	(3,350)	-	(3,350)
Current tax expense	-	(184,262)	(184,262)
Deferred tax expense	-	(27,410)	(27,410)
Segmented (Loss) Income	(2,694,070)	1,603,693	(1,090,377)

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23. Segmented Information (continued)

<i>Year ended August 31, 2020</i>	Corporate	Geoexchange Services	Controls and Mechanical Contracting	Total
	\$	\$	\$	\$
Capital expenditures	-	-	27,654	27,654
Total assets	486,876	-	3,434,815	3,921,691
Statement of operations				
Revenue	-	-	9,939,576	9,939,576
Cost of sales	-	-	(7,860,138)	(7,860,138)
General and administrative	(521,854)	-	(2,372,086)	(2,893,940)
Impairment loss	-	-	(734,802)	(734,802)
Depreciation	-	-	(266,944)	(266,944)
Finance expense	(23,733)	-	(81,803)	(105,536)
Inventory provision	-	-	(27,076)	(27,076)
Share-based payments	(23,018)	-	-	(23,018)
Gain on disposal of equipment	-	-	24,140	24,140
Government assistance	-	-	647,622	647,622
Discontinued operations (Note 21)	42,639	(3,409)	-	39,230
Current tax recovery	-	-	49,141	49,141
Deferred tax recovery	-	-	35,775	35,775
Segmented Loss	(525,966)	(3,409)	(646,595)	(1,175,970)

24. Unbilled Receivables and Deferred Revenue*Unbilled receivables*

	\$
Balance, August 31, 2019	464,943
Excess of billings over revenue earned	(183,372)
Balance, August 31, 2020	281,571
Excess of revenue earned over billings	99,288
Balance, August 31, 2021	380,859

Deferred revenue

	\$
Balance, August 31, 2019	863,696
Excess of revenue earned over billings	(699,619)
Balance, August 31, 2020	164,077
Excess of billings over revenue earned	115,801
Balance, August 31, 2021	279,878

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25. Income Taxes

The reconciliation of the combined Canadian federal and provincial statutory income tax rate of 26.5% (2020 – 26.5%) to the effective tax rate is as follows:

Provision for income tax

	2021	2020
	\$	\$
Net loss before recovery of income taxes provision	(878,705)	(1,260,886)
Expected income tax (recovery) expense	(232,860)	(334,135)
Share issuance cost booked directly to equity	(74,360)	-
Tax credits	(105,620)	-
Share-based compensation and non-deductible expenses	205,450	11,695
Sale of subsidiary	-	143,337
Conversion into common shares	(74,090)	-
Impairment of goodwill	-	158,948
Change in tax benefits not recognized	493,152	(64,761)
Income tax expense (recovery)	211,672	(84,916)

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

	2021	2020
	\$	\$
Current tax expense (recovery)	184,262	(49,141)
Deferred tax expense (recovery)	27,410	(35,775)
Income tax expense (recovery)	211,672	(84,916)

Deferred tax

The following table summarizes the components of deferred tax:

	2021	2020
	\$	\$
<u>Deferred Tax Assets</u>		
Capital lease obligation	134,290	147,364
Share issuance costs	-	57,752
Non-capital losses carried forward	-	19,808
	134,290	224,924
<u>Deferred Tax Liabilities</u>		
Property and equipment	(138,930)	(147,364)
Input tax credits utilized	(22,770)	-
Convertible debentures	-	(77,560)
	(161,700)	(224,924)
Net deferred tax liability	(27,410)	-

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.

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25. Income Taxes (continued)

Movements in net deferred tax liabilities

	2021	2020
	\$	\$
Balance, beginning of year	-	(35,775)
Recognized in profit or loss	(27,410)	35,775
Balance, end of year	(27,410)	-

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:

	2021	2020
	\$	\$
Property and equipment	-	550
Capital lease obligations	-	300
Share issuance costs	284,790	-
Non-capital losses carried forward	7,887,540	6,394,900
Net capital loss carried forward	11,841,770	11,842,270
Other temporary differences	-	19,120
	20,014,100	18,257,140

The Canadian non-capital loss carry-forwards expire as noted in the table below. The 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:

	\$
2033	484,170
2034	1,926,620
2035	1,571,600
2036	1,089,840
2037	252,120
2038	209,480
2039	344,870
2040	590,940
2041	1,417,900
	7,887,540

26. Subsequent Events

Subsequent to August 31, 2021, the Company issued a total of 907,431 common shares as a result of the exercise of warrants for total cash proceeds of \$90,743.

Subsequent to August 31, 2021, the Company issued 129,120 common shares to the Advertising Agency to complete the issuance as described in Note 11.

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Notes to the Consolidated Financial Statements

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26. Subsequent Events (continued)

Subsequent to August 31, 2021, a lawsuit was filed against the Company by a former employee for a claim of approximately \$145,000. 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 by the Company on the consolidated financial statements.