SMARTCOOL™

Smartcool Systems Inc. (TSX-V: SSC)
Management Discussion and Analysis

2013 Annual Report

www.smartcool.net

Smartcool Systems Inc.
7155 Kingsway
PO Box 54523 Highgate PO
Burnaby, BC
V5E 4J6 Canada

TEL +1 604 669 1388
TOLL-FREE +1 888 669 1388
FAX +1 604 602 0674
EMAIL officeCanada@smartcool.net

SMARTCOOL™

Management's Discussion and Analysis

The following is management's discussion and analysis ("MD&A") of the operating and financial results of Smartcool Systems Inc. for the year ended December 31, 2013. This information is provided as of April 26, 2014.

This MD&A should be read in conjunction with the Company's audited consolidated financial statements for the year ended December 31, 2013, its audited consolidated financial statements for the years ended December 31, 2013 and 2012 together with accompanying notes. These documents and additional information about Smartcool can be located on the SEDAR website at www.sedar.com or the Company's website at www.smartcool.net .

Table of Contents

Executive Summary **1**
Major Product Development Initiaitives 1
Debt reduction 2
Royalties 2
Business Overview **3**
Energy Issues 3
Smartcool's Energy Efficiency Solutions 3
The Market Strategy 4
Corporate Structure 5
Financial Overview **7**
Selected Annual Information 8
Summary of Operating Results 8
Liquidity and Capital Resources 12
Outstanding Share Data 13
Warrants and Stock Options 14
Intangible Assets 14
Impairment 16
Transactions with related parties 18
Financial Instruments 20
Critical Accounting Policies & Estimates 23
Off-balance sheet arrangements 26
Forward-looking statements 26
Additional Information 26

SMARTCOOL™

Executive Summary

In 2013 Smartcool has embarked on the new strategy to leverage the main asset of the Company. The saving algorithm found in our products, ESM and ECO3, has proven savings in thousands of applications and has been adopted as an effieciency solution not only by Fortune 500 companies through direct sales but through the growing number of distribution channels around the world and the products have been exposed to many new appications.

As the market interest grows for effieciency solutions, Smartcool believes a major focus on product development to address this needs with expansion of its portfolio or licensing our algorithm to other OEM partners to embed into their devices will allow for new sources of revenue and scalabitity of the assests.

Also Smartcool has addressed its balance sheet by reducing its liabilities and contimues to reduce G&A expenses as its seeks new revenue sources.

Major Product Development Initiaitives

A) We have entered into a software licensing agreement with smartACR, an independent distributor of smartcool's ECO3 & ESM, operating out of offices in Boston and Houston. The terms of the agreement allow smartACR to embed our proprietary algorithm into new form factors such as digital thermostats for a fee paid to Smartcool for any new products sold with the algorithm embedded into them.

This allows Smartcool to actively move into the 'internet of things', as our proprietary algorithms provide a unique tool to revolutionize the automation of energy efficiency and energy management in small commercial buildings.

Since signing a Software Licensing Agreement in December 2013, smartACR has made substantial progress developing an automated energy management system by integrating Smartcool's software with its wireless control sensors and cloud based thermostat for air conditioning, heat pump and refrigeration systems.

The cost savings generated from Smartcool algorithm integrated in the automated energy management system far exceed a nominal monthly fee, so operators of small facilities can get all of the benefits of building automation, generating immediate cash flow with no out-of-pocket costs.

Smartcool will not only earn the new revenue strean from this agreement, but has preferred access to these new devices to sell directly or make available to our world wide distribution network when applicable.

The success of this new stragety opens up opportunites to approach other OEM partners specifically in the Home Energy Mangement market.

B) We have shown initial results of 18% energy savings from an evaluation of Smartcool's energy efficiency technology on two sea-going refrigerated containers.

The refrigerated transportation market includes over-the-road trailers, box trucks, sea-going containers and rail containers. Globally, there are over 5.5 million refrigerated trucks and trailers, and an additional 2 million refrigerated sea-going containers.

Currently, the ECO3 hardware platform is being used to deliver Smartcool's proprietary software algorithms to this new application. Further testing on over-the-road refrigerated trailers is underway, and this may lead to the development of a new hardware platform powered by Smartcool's software, designed specifically for the refrigerated transportation sector.

C) In addiotn to the above; we have re-negotiated with the manufacturers of existing products a 40% reduction in costs and have engaged in discussions for re-dsign of current hardware platforms to include wireless capabitlites.

Debt reduction

In December of 2013 Smartcool successfully re-negotiated with the holders of debt for the acquisition on TECC Services and Smartcool UK a new arrangement.

This new agreement eliminates all obligations under the previous terms and replaces them with a new instrument that reduces the obligation:

a) TECC Services - From $886,714 (£508,217) to $339,325 (£194,500)
The new amount bears no interest, is unsecured and will be retired with a payment schedule over five years starting December 15, 2014.

b) Smartcool UK – From $2,029,874 (£1,163,517) to $184,055 (£105,500)
The new amounts bear no interest and are unsecured. The new amount is made of two new obligations, of which the first has a principal amount of $130,845 (£75,000) to be repaid in installments over 6 months, and the second obligation has a principal amount of $53,210 (£30,500) to be retired with a payment schedule over five years.

Royalties

Royaly payments under the Abbotly USA agreement have also been eliminated with the termination of the agreement.

Business Overview

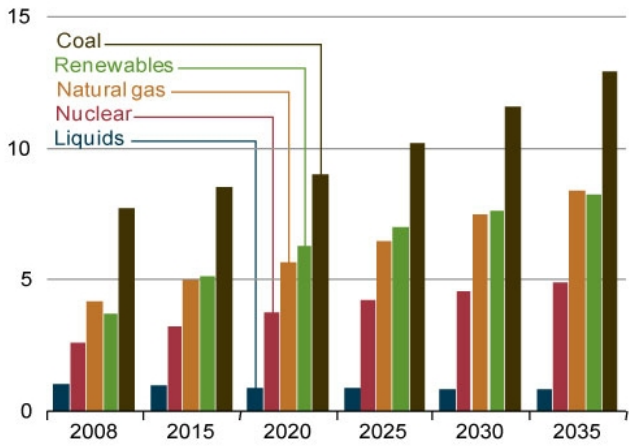
Smartcool Systems Inc. is a clean technology company specializing in the development and distribution of energy efficiency solutions for air conditioning, refrigeration and heat pump systems (HVAC).

Smartcool was established in 2004, beginning as the North American distributor for the Energy Saving Module (ESM)™, a unique energy efficiency retrofit developed by Abbotly Technologies Pty Ltd of Australia. In 2006, Smartcool purchased the assets of Abbotly, including the intellectual property of the ESM™, and became the sole manufacturer and master distributor. In 2009, Smartcool's research and development cumulated in the delivery of the ECO^3™ to market, a new product specifically designed to bring unprecedented energy efficiency to small scale HVAC systems.

Energy Issues

Smartcool has focused on developing energy efficiency solutions to address the critical energy issues facing the world today and in the future. Electricity is a crucial part of the global economy and our communities. The worldwide demand for electricity has increased by 5.4% since 2010, with developing countries averaging a 9.5% growth in demand. Coal continues to be the most widely used fuel for electricity generation, followed by natural gas. Electricity generated by these fossil fuels releases vast amounts of greenhouse gases into the atmosphere, contributing to climate change and general air pollution.

EIA World Net Electricity Generation by Fuel 2008-2035
(in trillion kWh)



An instinctive solution is to switch to renewable energy sources, not only for environmental reasons but also due to issues of energy security. Electricity generation by renewable resources such as hydro, wind, waves and solar is increasing by an average of 3% each year thanks to government incentives. However, as the Energy Information Administration explains, "Although renewable energy sources have positive environmental and energy security attributes, most renewable technologies other than hydroelectricity are not able to compete economically with fossil fuels during the projection period except in a few regions or in niche markets."[1]

On average, residential electricity rates around the globe have increased by 150% from 2005 to 2008.[2] Combined with environmental concerns surrounding fossil fuel generated electricity, it is clear that a solution to high energy consumption is urgently needed. Energy efficiency is the only option which is both cost effective and can be implemented rapidly.

Smartcool's Energy Efficiency Solutions

Smartcool focuses on reducing the electricity used by refrigeration, air conditioning and heat pumps (HVAC). For target customer industries, such as supermarkets, these systems consume well over 50% of

[1] Energy Information Administration, *International Energy Outlook 2011*, Published Sept. 19, 2011
http://www.eia.gov/forecasts/ieo/electricity.cfm
[2] Energy Information Administration, *Electricity Prices for Households*, Updated June 10, 2010
http://www.eia.gov/emeu/international/elecprih.html

their total energy usage. Even for customers less dependent on HVAC, the systems still account for roughly 20% of their energy bill. The ability to save energy with Smartcool's energy efficiency technology represents a major opportunity to cut operating expenses for any customer, typically giving them a return on their investment averaging 18 to 36 months. Electricity generated for buildings produces more greenhouse gases than any other source, so cutting HVAC energy consumption can also have a significant impact on the environment.

Smartcool's ECO^{3}™ and ESM™ are retrofit products, meaning that they are installed by wiring in between the existing thermostat and the compressor in the HVAC system, rather than replacing any expensive equipment. Once installed, the products immediately begin monitoring the cooling cycle of the compressor to identify inefficiencies and opportunities for saving energy. Even the most modern systems have pre-existing inefficiencies that can only be resolved by the intellectual property provided in Smartcool's products. The ECO^{3}™ and ESM™ dynamically adjust the cooling cycle to save customers energy without any impact to the temperature performance of the HVAC system.

The ECO^{3}™



The ESM™



With the ECO^{3}™ and ESM™, customers see all the benefits of energy efficiency, without any risks. The technology has undergone extensive independent third party testing by highly reputable organizations such as Oak Ridge National Laboratories, the University of Miami for Florida Power & Light, and the Los Angeles Department of Power & Water. These tests have proven unequivocally that the technology provides energy savings with no risks, as do over 30,000 installations worldwide.

For more information on Smartcool's technology, visit www.smartcool.net or for information specific to the ECO^{3}™, visit www.smartcooleco3.com

The Market Strategy

Smartcool's ECO^{3}™ and ESM™ are cost effective energy efficiency solutions for any air conditioning, refrigeration or heat pump system. The few other energy efficiency products geared towards the HVAC market, do not offer the full package of benefits that the ECO^{3}™ and ESM™ provide. Other products on the market do not provide the same degree of safety, and can cause temperature and humidity performance to be affected. They all lack the wide range of compatibility held by the ECO^{3}™ and ESM™, which can be installed on any HVAC system. Perhaps most significantly, other products cannot easily prove consistent energy savings. Smartcool's energy savings can be instantly verified on the product display screens, letting customers monitor energy savings as they happen. This is a critical feature for utility rebate qualification, which Smartcool has already received from major utilities like Florida Power & Light, Southern California Edison and Con Edison. These factors give Smartcool exclusive access to an immense market.

Direct Sales

The company distributes its products directly to major clients, providing them with superior project management and service as they roll out Smartcool products to their facilities. For direct sales, Smartcool targets specific industries such as food retailers, telecommunications, commercial real estate and

hospitality, where HVAC energy usage tends to represent a very high percentage of a client's operating budget. In Europe, Smartcool has built a strong portfolio of direct sales to Fortune 500 clients such as Sainsbury's and Tesco.

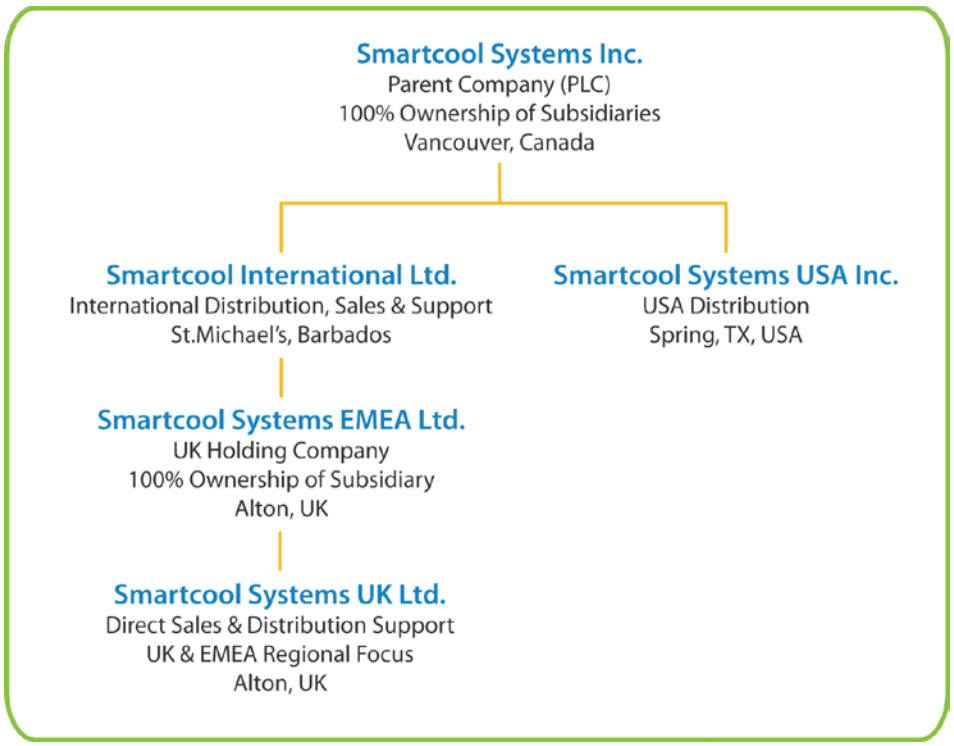


Distribution Sales

Smartcool has developed an intricate network of distributors to target regional markets. Distributors are provided both technical and sales training by Smartcool and receive ongoing support. Distributors have the advantage of detailed regional knowledge, allowing them to build strong client portfolios across the residential sector as well as in industries like food retail, climate controlled storage, hospitality and commercial real estate. Smartcool's distributors have continued to expand their businesses in Australia, India, UAE, Saudi Arabia, Eastern Europe, France, South Africa, and the US (particularly Florida, California and the Mid-West). Distributors have also proven instrumental in launching key accounts for Smartcool, like Telefonica, GE Healthcare, Dell, Saudi Aramco, 7-Eleven, JW Marriott and more.

Corporate Structure

Smartcool has gone through several phases of growth to reach its current structure. Smartcool Systems Inc. is the publicly traded parent company, with four wholly owned subsidiaries: International, USA, EMEA and UK. Smartcool International Ltd. holds the intellectual property and is the master distributor of Smartcool's product line. Smartcool Systems USA Inc. distributes the technology within the United States, using a network of local distributors to deliver the products to market.



Smartcool Systems EMEA was formed in 2008 and is the master distributor for Europe, the Middle East, Africa and the Indian Sub-Continent. In February 2011, Smartcool EMEA acquired all the outstanding shares of Smartcool Systems UK Ltd., a previously independent distributor with extensive technical expertise in Smartcool products.

Smartcool EMEA now conducts business as Smartcool Systems UK Ltd., directly managing a large portfolio of well established customer accounts. This improves gross revenue and profitability for Smartcool. Another significant factor in the acquisition is leveraging the considerable technical abilities of the UK team to assist in continuing the research and development of the Smartcool product line, and providing the best possible service and support to Fortune 500 clients and distribution channels. Smartcool EMEA / UK is headquartered in Alton, UK, providing Smartcool a strong base from which to serve Europe, its fastest growing market.

Financial Overview

Year 2013 saw an unusual but very positive development in Smartcool's financial performance. Though some of the Company's major customers were still faced with budget constrains and the reallocation of their capital expenditure funding had affected Smartcool's revenue adversely, Smartcool has successfully negotiated a reduction of its acquisition obligations and recognized a sizeable gain on debt modification. The gain, coupling with continued cost monitoring, resulted in a net profit for the year.

Net income for the year was $408,295 ($0.01 per share) compared to net loss $1,932,272 ($0.03 per share) for the previous year, an increase of $2,340,567. Total revenue decreased to $1,667,957 from $4,212,750 for the previous year, a decrease of $2,544,793 or 60%. Operating expenses decreased to $2,308,343 from $3,209,334 for the previous year, a decrease of $900,991 or 28%.

Total assets decreased to $4,177,175 from $ 5,467,176 at the end of 2012. The Company had $28,036 in cash and cash equivalents as at the end of the year, compared to $247,150 at the end of 2012.

Current liabilities at the end of the year were $1,264,361 (December 31, 2012 - $3,860,206) which includes current portion of acquisition obligations, finance leases, debentures, and tenant inducement totaling $332,173 (December 31, 2012 - $2,919,338). Long-term liabilities were $787,581 (December 31, 2012 - $500,188), consisting of acquisition obligations $235,712, debentures $99,371, tenant inducement $6,744 and deferred tax liability of $445,754.

All the fiscal quarters below have been prepared using IFRS.

	Mar 2013 ($)	**Jun 2013 ($)**	**Sep 2013 ($)**	**Dec 2013 ($)**
Total revenues	143,603	491,253	676,122	356,979
Net income (loss)	(838,758)	(429,905)	(292,688)	1,969,646
Income (loss) per share – basic & diluted	(0.01)	(0.01)	(0.00)	0.02
	Mar 2012 ($)	**Jun 2012 ($)**	**Sep 2012 ($)**	**Dec 2012 ($)**
Total revenues	303,450	1,066,107	1,645,225	1,197,968
Net income (loss)	(1,071,915)	(346,472)	(46,203)	(467,682)
Income (loss) per share – basic & diluted	(0.02)	(0.01)	(0.00)	(0.01)

Selected Annual Information

The following is selected information on Smartcool's financial performance for the past three years. This financial information is derived from the audited financial statements of the Company and have been prepared using IFRS.

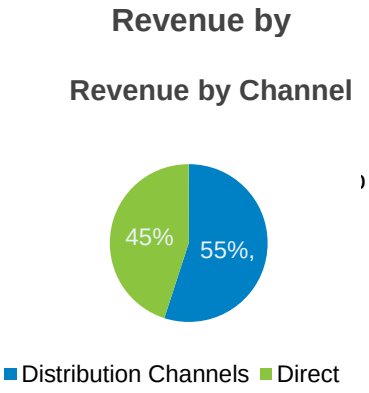
	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2013
Revenue	$3,943,794	$4,212,750	$1,667,957
Selling, General & Administrative	$4,355,436	$3,209,334	$2,308,343
Net Income (Loss)	$(5,217,928)	$(1,932,272)	$408,295
Net income (loss) – per share (basic and diluted)	$(0.09)	$(0.03)	$0.01
Total assets	$7,365,680	$5,467,176	$4,177,175
Total long term liabilities	$860,932	$500,188	$787,581
Cash dividends	$0	$0	$0

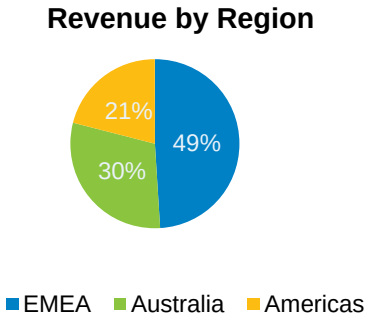
Summary of Operating Results

Revenue

Smartcool sells its products both directly to major customers, and through a network of independent distributors. Though economic recovery was strong in the UK, the Company's major customers still had difficulties allocating funding for their capital expenditures. Direct sales within the UK market for the year was $756,577 compared to $3,098,164 for the previous year, a decrease of $2,341,587or 76%.

Distribution sales experienced a less significant decrease, thanks to a large volume of distribution channels in North America and steady growth in Australia. Total distribution revenue for the year was $911,380 compared to $1,114,586 for the previous year, a decrease of $203,206 or 18%.





Revenue from the EMEA (Europe, Middle East, Africa, & India) region for the year was $809,840 compared to $3,196,120 for the previous year. The Company was awarded a smaller number of installation projects from Sainsbury's in 2013 and the roll-out of their petro filling stations was rescheduled to April 2014. Revenue from the Australia region was $503,798, almost unchanged from $502,944 for the previous year. This region, however, is promising great growth potential with many large pending projects. Revenue from the Americas region was $354,319 compared to $513,686 for the previous year. The decrease was attributable to slow activities of

a couple of major distribution channels. Though several new channels have been established in the year, they are still in the early stage of introduction Smartcool products to the market.

The ESM™ is Smartcool's original product, and due to its complexity is generally reserved for direct sales and only the most experienced and well-resourced distributors. Revenue for the ESM™ in the year was $1,038,545 or 62% of total revenue compared to $3,726,469 or 88% of total revenue for the previous year. This does include a large purchase order to Smartcool's most advanced distributor in Australia. Smartcool is delivering the ECO^3™ to a large market base including the residential sector, through small independent distributors, especially in North America. This strategy will provide stable, recurring long-term revenue for Smartcool, but requires more time to develop. Revenue for the ECO^3™ for the year was $629,412 or 38% of total revenue compared to $486,281 or 12% of total revenue.

Revenue for the fourth quarter of 2013 was $356,979 compared to $1,197,968 for the same quarter of 2012, a decrease of $840,989 or 70%. There were fewer intallations and distribution sales in the quarter while the last quarter of 2012 was filled with a strong flow of both the distribution and installation businesses.

Gross profit

Gross profit for the year was $1,137,328 compared to $2,419,747 for the previous year, a decrease of $1,282,419 or 53%. Profit margin, however, increase to 68% from 57% of the previous year. The year's margin was more in line with the expected margin range. Gross profit for the fourth quarter was $129,171 compared to $633,059 for the same quarter of 2012, a decrease of $503,888 or 80%.

General and administrative expenses

General and administrative ("G & A") expenses for the year were reduced to $2,308,343 from $3,209,334 for the previous year, a decrease of $900,991 or 28%. Salaries for the year were reduced to $1,263,215 from $1,767,388 for the previous year, consulting fees to $280,860 from $360,342, travel expenses to $159,292 from $253,146, rent expense to $220,512 from $277,396. The reduction in G& A expenses was a result of of both a slower year and effective cost monitoring.

	2013	2012	Change	%
Management and consulting fees	$280,860	$360,342	($79,482)	(22%)
Salaries and benefits	1,263,215	1,767,388	(504,173)	(29%)
Professional fees	107,147	147,838	(40,691)	(28%)
Investor relations and media	24,183	42,569	(18,386)	(43%)
Travel	159,292	253,146	(93,854)	(37%)
Rent, office and other expenses	473,646	638,051	(164,405)	(26%)
Total selling, general & admin expenses	**2,308,343**	**3,209,334**	**(900,991)**	**(28%)**
Share-based compensation	82,278	123,158	(40,880)	(33%)
Research & Development	29,430	29,667	(237)	0%
Amortization & depreciation	665,821	1,096,438	(430,617)	(39%)
Total operating expenses	**$3,085,872**	**$4,458,597**	**($1,372,725)**	**(31%)**

G & A expenses for the fourth quarter were $648,292 compared to $830,590 for the same quarter of 2012, a decrease of $182,298 or 22%. The decrease was primarily a result of salaries reduction.

	Three months ended December 31 2013	Three months ended December 31 2012	Change	%
Management and consulting fees	$94,577	$65,651	$28,926	-(44%)
Salaries and benefits	285,578	406,760	(121,182)	(30%)
Professional fees	79,370	86,775	(7,405)	(9%)
Investor relations and media	4,252	12,922	(8,670)	(67%)
Travel	42,135	61,897	(19,762)	(32%)
Rent, office and other expenses	142,380	196,583	(54,203)	(28%)
Total selling, general & admin expenses	**648,292**	**830,588**	**(182,296)**	**(22%)**
Share-based compensation	37,208	16,015	21,193	132%
Research & Development	8,054	20,906	(12,852)	(61%)
Amortization & depreciation	(122,969)	270,752	(393,721)	(145%)
Total operating expenses	**$570,585**	**$1,138,261**	**($567,676)**	(50%)

Net income

The Company realized net income of $408,295 while incurring net loss of $1,932,272 in the previous year. This significant change was attributable to gains on the modification of acquisition debts though the decrease of operating expenses was also a factor.

The income per share (basic and diluted) for the year was $0.01, compared to the loss per share of $0.03 for the previous year.

Net income for the fourth quarter was $1,969,646 compared to net loss of $467,682 for the same quarter of 2012, an increase of $2,437,328. Besides the unusal gains on debt modification, attributable to this increase was the decrease in salaries to $285,578 from $406,760.

The income per share (basic and diluted) for the quarter was $0.02, compared to the loss per share of $0.01 for the fourth quarter of 2012. Loss per share is calculated based on the weighted average number of common shares outstanding throughout the period.

Comprehensive income

Comprehensive income of $409,797 for the year consists of net operating income $408,295 and foreign currency translation adjustment $1,502. As the functional currencies of Smartcool EMEA, Smartcool UK and Smartcool USA are different from the reporting currency (Canadian dollar), their monetary assets and liabilities as well as non-monetary assets and liabilities in the consolidated financial statements must be translated into the reporting currency based on December 31, 2013 exchange rate under IFRS. This method of foreign currency translation resulted in the above adjustment which is classified as a

component of equity. Comprehensive loss for 2012 was $2,009,420, consisting of net operating loss $1,932,272 and foreign currency translation adjustment $77,148.

Comprehensive income for the fourth quarter was $1,978,268 compared to $498,671 for the same quarter of 2012.

Amortization and depreciation

Amortization expenses for the year were $665,821 compared to $1,096,438 for the previous year. Amortization on property and equipment was $67,153 (2012 - $95,095) and amortization of intangible assets was $598,668 (2012 - $1,001,342).

Amortization expense for the fourth quarter was a recovery of $122,969 compared to $270,752 for the same quarter of 2012. Amortization on property and equipment was $15,570 (2012 - $23,545) and amortization of intangible assets was a recovery of $138,539 (2012 - $247,207).

The Company did not acquire any significant assets during the year and the reduction in depreciation on property and equipment was due to the normal course of depreciation.

Share-based compensation

Share-based compensation costs for the year were $82,278, compared to $123,158 for the previous year, a decrease of $40,880. Though a greater number, 2,880,000 of options were granted in 2013 (2012 - 805,000 options) and their weighted average fair value ($0.035) was much lower than the weighted average fair value ($0.11) of options granted in the previous year. Stock-based compensation costs for the fourth quarter were $37,208, compared to $16,015 for the same quarter of 2012, an increase of $21,193. The increase was attributable to a large grant in the fourth quarter (2,850,000 options) compare to no grant in the same quarter of the previous year.

Capital expenditures

Capital expenditures for the year were $2,499 compared to $89,807 for the previous year, an decrease of $87,308. The Company upgraded its ERP (Enterprise Resource Planning) system in the previous year while no major purchases of fixed assets were made in the current year.

There were no capital expenditures for the fourth quarter compared to $2,286 for the same quarter of 2012.

Liquidity and Capital Resources

Since incorporation, the Company has financed its operations through the issuance of equity. During the year the Company issued 15,000,000 (2012 - 2,678,571) common shares for proceeds of $500,000 (2012 - $375,000). The proceeds were for working capital.

As at December 31, 2012, the Company had $28,036 in cash and cash equivalents (December 31, 2012 - $247,150).

Working capital deficit at the end of the year was $674,067 compared to $2,484,192 at the end of the previous year. The reduction was primarily attributable to the modification of acquisition obligations.

The Company's net cash flow used in operating activities during the year was $683,072, increased by $469,463 or 156% from $266,399 in the previous year. The average monthly burn for the year was $57,000 compared to $22,000 in the previous year. Cash resources consumed in the year were for the financing of operations.

The Company consumed net cash flow of $61,266 during the fourth quarter and generated $390,237 in the same quarter of 2012. Cash consumed in the quarter was for the financing of operations. The Company did not make the scheduled principal payment of $50,439 on March 1, 2014 related to its outstanding debentures and is the process of renegotiating the terms.

To ensure that the Company continues to be a going concern with adequate working capital through 2014, the Company is planning on obtaining additional capital. A non-brokered private placement has been announced in March 2014 and gross proceeds of $486,500 has been raised.

Management has arranged with a UK bank to have a short term overdraft protection. This would help the Company meet immediate working capital needs.

The timing of future payments related to financial liabilities is outlined in the table below:

	Total	**1 year**	**1-2 years**
Trade payables	$594,685	$ 594,685	$-
Premises leases	199,124	115,155	83,969
Short-term loan	131,111	131,111	-
Debentures	249,083	149,712	99,371
Obligations under acquisition contracts	402,007	166,295	235,712
Total	**$ 1,576,010**	**$ 1,156,958**	**$ 419,052**

Outstanding Share Data

The authorized share capital of the Company is an unlimited number of common shares without par value. As at December 31, 2013 the Company had 79,287,297 (December 31, 2012 – 64,287,297) common shares outstanding. The weighted average number of common shares outstanding for the year was 71,259,900 (2012 – 64,148,246).

The weighted average number of common shares outstanding for the fourth quarter was 79,287,297 compared to 64,287,297 for the same quarter of 2012.

The increase in average number of common shares outstanding was a result of the issuance of 15,000,000 common shares pursuant to June and September 2013 private placement. As at April 26, 2014 the outstanding shares were 89,017,297 and diluted were 101,818,297.

Warrants and Stock Options

As at December 31, 2013, there were 851,000 share purchase warrants and 6,435,000 stock options outstanding which collectively could result in the issuance of 7,286,000 common shares if these warrants and stock options are exercised. The outstanding options have a weighted average exercise price of $0.08. The outstanding warrants have weighted average exercise price of $0.24.

As at December 31, 2013 there were 4,282,500 (December 31, 2012 - 3,402,500) exercisable options with a weighted average exercise price of $0.09 (December 31, 2012 - $0.29). During the year, the Company granted to officers and employees 2,730,000 options with weighted average fair value of $0.035 (2012 - 805,000 options with weighted average fair value of $0.11) and to consultants 150,000 options with weighted average fair value of $0.035 (2012 - Nil). As at April 26, 2014, there are 5,466,000 outstanding warrants and 7,335,000 outstanding options. The outstanding options have weighted average exercise price of $0.07.

Intangible Assets

Smartcool UK

On February 28, 2011, the Company acquired all the outstanding shares of the third party distributor Smartcool Systems UK Ltd., which held the exclusive rights for sale of ESM™ products to customers in the UK and Ireland.

In consideration, the Company agreed to pay cash consideration of $4,410,745 (£2,840,438) and non-cash consideration of $227,675 (£143,891) in the form of 1,000,000 share purchase warrants. $2,922,622 (£1,840,438) was paid in cash upon closing. The remaining balance of $1,582,200 (£1,000,000) will be paid in four equal payments quarterly with the last one on March 1, 2012.
Total discounted consideration was $4,638,420 (£2,924,822).

The Company was unable to make payments as scheduled. As at December 10, 2013, principal balance of $1,744,600 (£1,000,000) and accrued interest of $285,274 (£163,517) were outstanding. The Company was able to negotiate a debt reduction; the existing obligation was extinguished and replaced with two new obligations. These new obligations have principal amounts of $130,845 (£75,000), which is non-interest bearing, secured, and will be paid in installments over 6 months, and $53,210 (£30,500), which is non-interest bearing, unsecured, and will be paid in installments over 5 years. Fees of $2,291,510 (£1,300,000) will be payable by the Company if it defaults on any of the prepayment terms with respect to the obligation with a principal amount of £75,000.

The allocation of the purchase price is based on management's estimates and certain assumptions with respect to the fair value increment associated with the assets acquired and the liabilities assumed. The finalized, discounted purchase price allocation is summarized as follows:

	CAD
Purchase of all outstanding shares of Smartcool UK	4,410,745
Fair value of warrants issued	227,675
	4,638,420
Allocation of the purchase price	
Net working capital	850,484
Property and equipment	103,230
Distribution rights	2,570,862
Customer relationship	1,058,584
Goodwill	1,213,285
Finance leases	(79,460)
Deferred tax liability	(1,078,565)
	4,638,420

During the year ended December 31, 2013, the useful life of the intangible assets from Smartcool UK was reassessed to be 12 years (2012 – 5 years).

T.E.C.C. Services

On July 11, 2008, the Company formed Smartcool EMEA, which acquired distribution rights for the ESM™ from T.E.C.C. Services Ltd. ("TECC"). TECC held exclusive rights to sell the ESM™ to existing distributors in the United Kingdom, Spain, Portugal, and the Middle East, as well as to develop new distributors in these regions. A consideration of $1,738,750 (£1,035,000) was payable in cash and $532,067 (£265,000) was payable in the form of common shares of the Company. Upon closing, payment of $873,393 (£435,000) was made and 743,709 shares were issued. The remaining balance of $1,204,680 (£600,000) was due in scheduled installments over four years with the last payment due on July 16, 2012. These installments were non-interest bearing at the acquisition date. The fair value of consideration was determined to be $2,270,800 based on discounting the future payments at a rate of 16%. Transaction costs of $28,300 were also incurred.

The purchase agreement was amended in 2009 and again in 2012 to accrue interest at Royal Bank of Canada prime rate plus 4% and to adjust timing and amount of repayments.

As at December 10, 2013, the balance of $886,714 (£508,217), including accrued interest of $145,181 (£83,217), was outstanding. The Company was able to negotiate a debt reduction; the existing obligation was extinguished and replaced with two new obligations. These new obligations have principal amounts of $226,798 (£130,000) and $112,527 (£64,500), are non-interest bearing, unsecured, and will be paid in annual installments over 5 years starting December 15, 2014.

During the year ended December 31, 2013, the useful life of the distribution rights from TECC was reassessed to be 9.5 years (2012 – 9 years).

Abbotly Technologies Pty
The Company acquired $2,278,350 of intangible assets in relation to the acquisition of Abbotly Technologies Pty Ltd.

Management has performed a review of the carrying value of its distribution agreements. As a result of its assessment, in 2008 the Company recognized an impairment of $116,914 related to distribution agreements. As a result of this impairment recognition, the total cost of distribution rights was reduced by $148,799 to $1,835,702. As at December 31, 2012, distribution rights consist of:

ESM™ Distribution agreements	$1,835,702
Other distribution rights	$26,040
Total	**$1,861,742**

During the year ended December 31, 2013, the useful life of the ESM intellectual property was reassessed to be 13.5 years (2012 – 10 years), and the useful life of the worldwide distribution rights to be 13.5 to 15 years (2012 – 10 to 15 years).

No impairments were recorded in 2013 and 2012 and the impairment loss recognized in 2008 was not reversed upon transition to IFRS.

Impairment

Impairment of Long-Lived Assets
Smartcool amortizes long-lived assets over the estimated useful life of the asset. Evaluation of all long-lived assets occurred periodically for impairment in accordance with IAS 36.

Under IFRS, long-lived assets including property and equipment and intangible assets with a finite life are assessed for indications of impairment at the end of each reporting period. If such indications exist, then the recoverable amount of the asset or cash-generating unit ("CGU") is estimated.

An impairment loss is recognized when the carrying amount of the asset or CGU exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset or CGU.

Impairment losses are recognized in respect of CGU's are first allocated to reduce the carrying amount of any goodwill allocated to cash generating units, and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. Impairment losses are recognized in profit and loss for the period it is identified.

Intangible assets with an indefinite life are reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The asset is written down when the carrying amount exceeds its recoverable amount. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized in the statement of operations.

The Company's definite life intangible assets are ESM™ intellectual property, ESM™ distribution contracts and ESM™ supplier contracts that we acquired from Abbotly USA and Abbotly Technologies Pty, and assets acquired from TECC Services and Smartcool UK. As our revenue is primarily derived from the sales of ESM™ products, revenue associated with the above intangible assets is readily identifiable. Revenue from existing distribution channels is projected based on minimum purchase requirements in conjunction with forecasts provided by the distributors themselves. Revenue expected from potential distribution channels is based on business development progress. Cost of goods sold projections are based on our expected margin and operating costs projections based on 2013 cost structures. The undiscounted cash flows supported the recoverability of our definite life intangible assets.

Impairment of Intangible Assets

On February 28, 2011, the Company acquired $4,842,731 of intangible assets in relation to the acquisition of Smartcool UK as described in note 3 of December 31, 2011 consolidated financial statements.

Management has performed a review of the carrying value of these assets. As discrepancies between revenue projections and actual operating results in 2011 resulting in significant uncertainty in future cash generation of these assets, an impairment loss was recorded for the year based on cash flow projections as at December 31, 2011. The value of goodwill was written off and the other assets were reduced as follows:

	Impairment
Distribution rights-General	$104,919
Distribution rights-Major customer	347,740
Customer relationship	188,484
Goodwill	1,213,285
Total impairment for year ended December 31, 2011	**$1,854,428**

There were no impairment losses recorded for the year ended December 31, 2013 and 2012 and the impairment loss recognized in 2011 was not reversed.

North American distribution rights

On March 27, 2006, the Company acquired the exclusive rights to distribute the ESM™ throughout North America from Abbotly Technologies Inc. ("Abbotly USA"). Pursuant to the acquisition, Abbotly USA agreed to assign all of its rights and obligations, and the Company agreed to assume all of Abbotly USA's obligations, under a license agreement between Abbotly USA and Abbotly, and the Company became the master distributor of the ESM™ in North America.

Consideration paid for the acquisition was $201,953 (US$180,000), 500,000 share purchase warrants with an exercise price of $0.27 and a 20% royalty on certain products purchased from Abbotly as long as Smartcool Systems USA still holds the distribution rights.

On December 31, 2012, the Company decided that the distribution agreement, expiring on March 6, 2013, will not be renewed under the terms set out in the existing agreement.

During the year ended December 31, 2013, management performed a review of the carrying value of these assets and an impairment loss of $Nil (2012 - $83,787) was recognized.

Transactions with related parties

The Company's related parties consist of companies owned by executive officers and directors and key management as follows:

	Nature of Transaction
384518 BC Ltd.	Consulting services
Windstone Financial Corp.	Consulting services
Richards Buell Sutton LLP	Legal services
Accupro Trademark Services LLP	Trade mark services
Albion Management	Rent expense
Magnum Energy Inc.	Rental income
T.E.C.C. Services Ltd.	Vehicle lease payments

The Company incurred the following expenses in connection with the companies owned by key management and directors. These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

	Note	2013	2012
Consulting fees	(i)	$44,025	$54,000
Legal fees	(ii)	7,600	6,336
Rent expense	(iii)	-	19,093
Rental income	(iv)	-	(3,000)
Vehicle lease payments	(v)	22,320	35,361
Loss on sale of property and equipment	(vi)	-	1,777
		$73,945	**$113,567**

i. During the year ended December 31, 2013, consulting fees of $44,025 were charged by two companies with common directors during the above period (2012 - $54,000). As at December 31, 2013, $57,015 was owed to the related parties (2012 - $56,000).

ii. The Company uses the services of a law firm of which a director is a partner. During the year ended December 31, 2013, fees in the amount of $7,600 (2012 - $6,336) were charged to the Company for legal services provided. As at December 31, 2013, $22,531 was owed to this related party (2012 - $14,504).

iii. The Company rented its Vancouver office from a management firm of which a director is a partner. During the year ended December 31, 2013, rent expense was $Nil (2012 - $19,093). These transactions have been charged to general and administrative in the statement of operations. At December 31, 2013, no amounts were owed to this related party (2012 - $Nil). During the year ended December 31, 2013, the Company rented its office in the United Kingdom from a company with a director in common in the amount of $Nil (2012 - $Nil). At December 31, 2013, no amounts were owed to this related party (2012 - $Nil).

iv. The Company subleased its Vancouver office and other facilities to a company with a common officer. During the year ended December 31, 2013, sublease income was $Nil (2012 - $3,000). At December 31, 2013, $Nil was owed to this related party (2012 - $7,646).

v. During the year ended December 31, 2013, vehicle lease payments of $22,320 were paid to a company with two common directors during the above period (2012 - $35,361). As at December 31, 2013, $Nil was owed to this related party (2012 - $22,320).

vi. During the year ended 31 December 2013, the Company sold property and equipment for proceeds of $Nil (2012 - $2,223) resulting in a loss of $Nil (2012 - $1,777) related to property and equipment sold to a law firm in which a director is a partner.

Due to/from Related Parties

Included in trade and other receivables is $5,000 due from the Chief Executive Officer as at December 31, 2013 (2012 - $5,000) related to an advance for travel expenses. The amount is unsecured, non-interest bearing and have no fixed terms of repayment.

Included in trade payables is $219,381 due to related parties as at December 31, 2013 (2012 - $211,127) as follows:

	2013	2012
Chief Executive Officer	29,470	12,880
Chief Financial Officer	22,014	12,723
Director of the Company	2,072	4,238
Executive VP	19,390	9,630
VP of Operations	21,152	28,946
Other related parties	125,283	142,710
Total	**219,381**	**211,127**

The amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

Compensation of Key Management Personnel

The Company incurred the following expenses in connection with compensation of key management personnel. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, and consist of the Directors, Chief Executive Officer, Chief Financial Officer, Executive Vice-President and Vice-President Operations.

	2013	2012
Salaries	$502,150	$601,137
Short-term benefits	-	33,228
Share-based payments	75,273	63,630
Bonus settlement	-	17,794
	$577,423	**$715,789**

Financial Instruments

The Company has classified its financial instruments as follows:

	December 31, 2013	December 31, 2012
Financial assets		
FVTPL , measured at fair value:		
Cash and cash equivalents	$28,036	$247,150
Loans and accounts receivable, recorded at amortized cost:		
Trade and other receivables	245,719	747,684
	$273,755	**$994,834**
Other financial liabilities, recorded at amortized cost		
Trade payables	$594,685	$696,514
Short-term loan	131,111	-
Acquisition obligations, finance leases and debentures	651,090	2,904,286
	$1,376,886	**$3,600,800**

Interest income from FVTPL and interest expense from short-term loan, acquisition obligations, debentures and other financial liabilities are recognized in finance income and expense.

Financial instruments recorded at fair value are measured using a three-level fair value hierarchy:

- Level 1: fair value is determined by reference to quoted prices in active markets for identical assets and liabilities.
- Level 2: fair value is determined based on inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly.
- Level 3: fair value is determined based on inputs that are unobservable and significant to the overall fair value measurement.

The carrying value of cash and cash equivalents, trade and other receivables, obligations under acquisition contract, finance leases, debentures and trade payables approximates the fair value because of the short-term nature of these instruments.

Financial Risk Management

The Company is exposed to certain financial risks, including credit risk, liquidity risk, and market risk.

a. *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents and trade and other receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents and short-term investments with high credit quality financial institutions. To mitigate credit risk with respect to trade receivables the Company subjects all major customer accounts to its credit evaluation process.

The Company has $240,719 (2012 - $742,684) in trade receivables which are subject to credit risk.

b. *Liquidity risk*

The Company's consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and the settlement of liabilities in the normal course of business. Liquidity risk results from the Company's inability to meet its financial obligations when they become due. As part of the risk management process, the Board approves the Company's annual operating and capital budgets as well as any material transactions outside the ordinary course of business. To ensure that the Company has sufficient liquidity to meet its current obligations in the next 12 months, measures have been taken to increase cash resources.

c. *Market risk*

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates, will affect the Company's income or valuation of its financial instruments.

d. *Foreign currency risk*

The Company is exposed to fluctuations in foreign currency as most of its international distribution transactions are settled in U.S. dollars, Australian dollars, Canadian dollars and British pounds. The Company's net income and cash flow will therefore be affected by fluctuations in foreign exchange rates. None of these risks has been mitigated through the use of foreign currency forward contracts.

As at December 31, 2013, the Company's monetary assets and liabilities denominated in foreign currencies are as follows:

	USD	AUD	GBP	Euro
Assets				
Cash and cash equivalents	$4,027	$86	£-	€5
Trade and other receivables	109,567	-	-	3,339
Total	**$113,594**	**$86**	**£-**	**€3,344**
Liabilities				
Trade payables	$33,146	$5,828	£28,500	€13,818
Acquisition obligations, current	-	-	6,156	-
Total	**$33,146**	**$5,828**	**£34,656**	**€13,818**

The following table demonstrates the effect of exchange rate movement on net income due to gains and losses on the revaluation of monetary assets and liabilities denominated in foreign currencies:

Gain (loss) on $0.10 increase in CAD	**USD**	**AUD**	**GBP**	**Euro**
Monetary assets	($11,359)	($9)	£-	(€334)
Monetary liabilities	3,315	583	2,850	1,382
Net gain (loss)	**($8,044)**	**$574**	**£2,850**	**€1,048**

Gain (loss) on $0.10 decrease in CAD	**USD**	**AUD**	**GBP**	**Euro**
Monetary assets	$11,359	$9	£-	€334
Monetary liabilities	(3,315)	(583)	(2,850)	(1,382)
Net gain (loss)	**$8,044**	**($574)**	**(£2,850)**	**(€1,048)**

e. ***Interest rate risk***

The Company is not exposed to this risk. TECC and Smartcool acquisition obligations have been modified and are no longer bearing interest based on Royal Bank of Canada prime rate.

Critical Accounting Policies & Estimates

Business combinations

The identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture entity or an associate, which can be measured reliably, are recorded at their provisional fair values at the date of acquisition. Goodwill is the fair value of the consideration transferred (including contingent and previously held non-controlling interests) less the fair value of the Company's share of identifiable net assets on acquisition. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalized within twelve months of the acquisition date.

Where the fair value of the identifiable net assets acquired exceeds the cost of the acquisition, the surplus, which represents the discount on the acquisition, is recognized directly in the statement of operations and total comprehensive loss in the period of acquisition.

Revenue Recognition

Revenue from the sale and installation of the ESM™ and ECO3™ is recognized when the ESM™ & ECO3™ have been installed, significant risks and rewards of ownership of the equipment have been transferred to the customer, the Company does not retain continuing managerial involvement or effective control over the equipment, the sales price can be determined and probably collectible, and the cost of the transaction can be measured reliably.

Revenue from the international distribution of the ESM™ & ECO3™ is recognized when the equipment has been shipped, title has been transferred, the sales price has been determined and the cost of the equipment can be measured reliably. Revenue is also recognized when equipment has been ordered and laid away as instructed by the customer, the sales price has been determined and a significant portion of it has been paid. Provisions are established for estimated warranty costs at the time revenue is recognized. The Company records deferred revenue when cash is received in advance of the above revenue recognition criteria being met.

Share-based Payments

The fair value of all stock options granted to employees is determined using the Black-Scholes option pricing model, and the resulting value is charged to operations over the vesting period.

The fair value of options granted to non-employees is determined using fair value of the goods or services received. The resulting value is charged to operations when a performance commitment is made or the options are fully vested and non-forfeitable, whichever is earliest, and the expense is recognized over the period in which the goods or services from the non-employees are received. A corresponding increase in equity reserve is recorded when stock options are expensed. When stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion previously recorded in equity reserve. At the time of grant, the expense is determined based on estimated forfeiture rate. The expense will be adjusted to recognize the effect of actual forfeitures as they occur.

The fair value of warrants issued to agents for their finder's fee is determined using the Black-Scholes option pricing model and the resulting value is charged to share issuance costs.

Intangible assets

Intangible assets are recorded at cost and include the ESM™ brand, ESM™ intellectual property, distribution agreements, supplier agreements and customer relationship. The ESM™ brand has been determined to have an indefinite life and is not amortized. The remaining intangible assets with finite lives are amortized on a straight-line basis. During the year ended 31 December 2013, management re-assessed the useful lives of the remaining intangible assets as follows:

	2013	2012
ESM™ Intellectual property	13.5 years	10 years
North American distribution rights	10 years	10 years
TECC and United Kingdom distribution rights	9.5 - 12 years	5 - 9 years
Distribution agreements	13.5 - 15 years	10 - 15 years
Supplier agreements	13.5 years	10 years
Customer relationship	12 years	5 years

Total amortization for the year ended December 31, 2013 of $598,668 (2012 - $1,001,343) was included under net income (loss) for the year on the statement of operations.

Use of estimates and judgments

The preparation of these consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined below. Actual results may differ from those estimates.

Significant estimates are used for, but not limited to, assessment of impairment of intangible assets and recoverability of long-lived assets, determination of present value of obligations under acquisition contract, determination of fair value of debentures, valuation of stock options and warrants, recoverability of trade and other receivables, inventory valuation, determination of valuation allowance for income tax assets, amortization rates and methods and ability to continue as a going concern.

Judgments made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed below:

- Useful lives – the useful lives of intangible assets and the related depreciation
- Impairment – the assessment of impairment of intangible assets and goodwill
- Inventory valuation – the provision for obsolescence of inventory and net realizable value
- Receivable valuation – the recoverability of trade receivables
- Share-based payments – the inputs used in accounting for share-based payments

- Debentures – discount rate used in fair value calculation of the debentures
- Contingencies – any future contingencies and commitments
- Going concern – the assessment of the Company's ability to continue as a going concern

Changes in accounting policies

As of January 1, 2013, the Company adopted the following IFRS standards and amendments:

- IFRS 10, "Consolidated Financial Statements", establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This policy supersedes IAS 27, "Consolidated and Separate Financial Statements", and SIC-12, "Consolidation—Special Purpose Entities". Under this policay, control is based on whether an investor has:

  a. power over the investee
  b. exposure or rights to variable returns from investments with the investee
  c. the ability to use power over the investee to affect the amount of the investor's returns

- IFRS 13, "Fair Value Measurement", defines fair value and sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. This policy applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements. This standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also requires the disclosure of certain information on fair value measurements.

- IAS 1 (Amendment), "Presentation of Financial Statements", requires items of other comprehensive income be grouped based on their potential reclassifiability to profit and loss.

- IFRS 7, "Financial Instruments: Disclosures", provides additional disclosures related to offsetting financial assets and financial liabilities.

- IAS 19 (Amendment), "Employee Benefits", revises recognition and measurement of post-employment benefits.

The adoption of the above standards did not have a significant impact on the Company's consolidated financial statements.

Accounting standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below:

- IFRS 9, "Financial Instruments", is a new financial instruments standard effective for annual periods beginning on or after January 1, 2015 that replaces IAS 39 and IFRIC 9 for classification and measurement of financial assets and financial liabilities.

- IAS 32 (Amendment), "Financial Instruments: Presentation", is effective for annual periods beginning on or after January 1, 2014 and revises certain aspects of the requirements on offsetting.

- IFRS 10 (Amendment), "Consolidated Financial Statements", is effective for annual periods beginning on or after January 1, 2014 and includes an exception to specific consolidation requirements for investment entities.

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements that would require disclosure.

Forward-looking statements

This MD&A contains forward-looking information and statements regarding the future results of operations and marketing activities. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "anticipate", "plan", "foresee", "believe" or similar terminology. Although these forward-looking statements are based on what management believes to be current and reasonable assumptions, they involve known and unknown risks, uncertainties and other factors that may cause the actual results and performance to differ materially from those stated, anticipated, or implied in these forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking information as no assurances can be given to future results, performances, or achievements.

The forward-looking statements included in this MD&A speak only as of the date of this document. The Company does not undertake any obligation to publicly update or revise any of these forward-looking statements to reflect events or circumstances after this date except when required by applicable legislation.

Additional Information

Additional information relating to the Company, including the Company's latest Annual Financial Statements and news releases can be located on the Company's website at www.smartcool.net or on the SEDAR website at www.sedar.com.