SMARTCOOL™

# Smartcool Systems Inc. (TSX-V: SSC)
## Condensed Consolidated Interim Financial Statements

### For the three months ended March 31, 2013 and 2012
Expressed in Canadian Dollars

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**NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS**

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

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

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

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SMARTCOOL™

# Smartcool Systems Inc.
## Condensed consolidated statements of financial position
(Expressed in Canadian dollars, unless otherwise stated)
(unaudited)

| | March 31 **2013** | December 31 **2012** |
|---|---|---|
| | $ | $ |
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | 45,320 | 247,150 |
| Trade and other receivables (note 3) | 221,790 | 749,136 |
| Inventory (note 4) | 282,410 | 314,484 |
| Prepaid expenses and deposits | 182,821 | 65,244 |
| | 732,341 | 1,376,014 |
| **Property and equipment** (note 5) | 136,056 | 157,069 |
| **Intangible assets** (note 6) | 3,589,819 | 3,934,093 |
| **Total assets** | 4,458,216 | 5,467,176 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Trade payables and accruals | 863,107 | 940,868 |
| Current portion of obligations under acquistion contracts (note 7) | 2,459,283 | 2,536,357 |
| Current portion of finance leases | 11,560 | 19,409 |
| Current portion of debentures (note 8) | 91,266 | 348,520 |
| Current portion of deferred tenant inducement | 15,052 | 15,052 |
| | 3,440,268 | 3,860,206 |
| **Debentures** (note 8) | 263,358 | - |
| **Deferred tenant inducement** | 19,538 | 22,911 |
| **Deferred tax liability** (note 10) | 418,583 | 477,277 |
| **Total liabilities** | 4,141,747 | 4,360,394 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (note 9(a)) | 29,835,392 | 29,835,392 |
| Reserve for equity settled share based transactions (note 9(b)(c)) | 5,719,711 | 5,712,544 |
| Foreign currency translation adjustment | (89,860) | (131,138) |
| Deficit | (35,148,774) | (34,310,016) |
| | 316,469 | 1,106,782 |
| **Total liabilities and shareholders' equity** | 4,458,216 | 5,467,176 |

Approved and authorized for issue by the Board of Directors on May 29, 2013

| "George Burnes" | "Jeffrey Lowe" |
|---|---|
| George Burnes | Jeffrey Lowe |

See accompanying notes to the consolidated financial statements

# Smartcool Systems Inc.
## Condensed consolidated statements of operations

(Expressed in Canadian dollars, unless otherwise stated)
(unaudited)

| | Three months ended March 31 | |
|---|---|---|
| | **2013** $ | **2012** $ |
| **Revenue** | 143,603 | 303,450 |
| **Cost of sales** | 45,730 | 105,759 |
| **Gross profit** | 97,873 | 197,691 |
| **Operating Expenses** | | |
| General and administrative expenses | 630,104 | 840,816 |
| Stock-based compensation | 7,167 | 58,261 |
| Research and development | 21,376 | - |
| Amortization and depreciation | 259,455 | 272,999 |
| | 918,102 | 1,172,076 |
| **Operating income (loss)** | (820,229) | (974,385) |
| Rental income | (28,621) | - |
| Finance expense | 68,516 | 77,178 |
| Finance income | - | (91) |
| Foreign exchange (gain) loss | 14,711 | 57,810 |
| | 54,606 | 134,897 |
| | 109,212 | 269,794 |
| Income taxes (note 12) | (36,076) | (37,367) |
| **Net loss for the period** | **(838,759)** | **(1,071,915)** |
| Net loss per share | | |
| Basic | (0.01) | (0.02) |
| Diluted | (0.01) | (0.02) |
| Weighted average number of common shares outstanding (basic and diluted) | **64,287,297** | **63,728,035** |

See accompanying notes to the consolidated financial statements

SMARTCOOL™

# Smartcool Systems Inc.
## Condensed consolidated statements of comprehensive loss

(Expressed in Canadian dollars, unless otherwise stated)
(unaudited)

| | Three months ended March 31 | |
|---|---|---|
| | **2013** | **2012** |
| | **$** | **$** |
| **Net income (loss) for the period** | **(838,759)** | **(1,071,915)** |
| Foreign currency translation adjustment | 41,278 | 21,980 |
| Total comprehensive income (loss) | **(797,481)** | **(1,049,935)** |
| | | |
| Net loss per share | | |
| Basic | **(0.01)** | **(0.02)** |
| Diluted | **(0.01)** | **(0.02)** |

See accompanying notes to the consolidated financial statements

# Smartcool Systems Inc.
## Condensed consolidated statement of cash flows

(Expressed in Canadian dollars, unless otherwise specified)
(unaudited)

| | Three months ended March 31 | |
|---|---|---|
| | **2013** | **2012** |
| | $ | $ |
| **Cash flows from operating activities** | | |
| Loss for the period | (838,759) | (1,071,915) |
| Items not affecting cash: | | |
| Depreciation of property and equipment | 19,561 | 21,331 |
| Amortization of intangible assets | 239,894 | 251,668 |
| Impairment of intangible assets | - | - |
| Stock-based compensation | 7,167 | 58,261 |
| Deferred tax liability | (58,695) | (36,731) |
| Deferred tenant inducement | (3,373) | (3,373) |
| Foreign exchange (gain) loss | (12,448) | 27,538 |
| Accrued interest on debentures | 6,104 | 5,939 |
| Accrued interest of obligation under acquisition contract | 42,300 | 26,106 |
| Accretion of obligation under acquisition contract | - | 23,361 |
| | (598,248) | (697,815) |
| Changes in non-cash working capital items: | | |
| Trade and other receivables | 527,346 | 572,464 |
| Inventory | 32,074 | (68,338) |
| Prepaid expenses and deposits | (117,577) | 33,423 |
| Trade payables and accruals | (77,761) | (417,457) |
| Net cash flows (used in) provided by operating activities | (234,166) | (577,723) |
| **Cash flows from investing activities** | | |
| Disposal of property and equipment | - | - |
| Purchase of property and equipment | (1,903) | (55,227) |
| Business acquisitions, net of cash acquired | - | - |
| Net cash (used in) provided by investing activities | (1,903.37) | (55,227) |
| **Cash flows from financing activities** | | |
| Shares and warrants issued for cash, net of issue costs | - | 369,923 |
| Debenture issued for cash | - | - |
| Decrease in debentures | - | (85,718) |
| Decrease in acquisition contract obligation | - | (39,906) |
| Increase (decrease) in finance leases | (7,039) | (6,717) |
| Net cash (used in) provided by financing activities | (7,039) | 237,582 |
| Net increase (decrease) in cash and cash equivalents | (243,108) | (395,368) |
| Effects of exchange rates changes on cash | 41,278 | 474 |
| Cash and cash equivalents, beginning of period | 247,150 | 498,874 |
| **Cash and cash equivalents, end of period** | 45,320 | 103,980 |

*See accompanying notes to the consolidated financial statements*

SMARTCOOL™

## Smartcool Systems Inc.
## Condensed consolidated statement of shareholders' equity

(Expressed in Canadian dollars, unless otherwise stated)

(unaudited)

| | Share capital | Reserve for equity settled share based transactions | Foreign currency translation adjustment | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ |
| **Balance at January 1, 2011** | 29,465,469 | 5,589,386 | (53,990) | (32,377,744) | 2,623,121 |
| Net loss | | | | (1,071,915) | (1,071,915) |
| Foreign currency translation adjustment | | | 21,980 | | 21,980 |
| Total comprehensive loss for the period | | | (32,010) | (1,071,915) | (1,049,935) |
| Share issued for: | | | | | |
| Private placement | 375,000 | | | | 375,000 |
| Share issue costs | (5,077) | | | | (5,077) |
| Stock based compensation | | 58,261 | | | 58,261 |
| **Balance at March 31, 2012** | **29,835,392** | **5,647,647** | **(32,010)** | **(33,449,659)** | **2,001,370** |
| Net loss | | | | (860,357) | (860,357) |
| Foreign currency translation adjustment | | | (99,128) | | (99,128) |
| Total comprehensive loss for the period | | | (99,128) | (860,357) | (959,485) |
| Share issued for: | | | | | |
| Private placement | | | | | - |
| Share issue costs | | | | | - |
| Stock based compensation | | 64,897 | | | 64,897 |
| **Balance at December 31, 2012** | **29,835,392** | **5,712,544** | **(131,138)** | **(34,310,016)** | **1,106,782** |
| Net loss | | | | (838,759) | (838,759) |
| Foreign currency translation adjustment | | | 41,278 | | 41,278 |
| Total comprehensive loss for the period | | | 41,278 | (838,759) | (797,481) |
| Share issued for: | | | | | |
| Private placement | | | | | - |
| Share issue costs | | | | | - |
| Stock based compensation | | 7,167 | | | 7,167 |
| **Balance at March 31, 2013** | **29,835,392** | **5,719,711** | **(89,860)** | **(35,148,775)** | **316,468** |

See accompanying notes to the consolidated financial statements

# Smartcool Systems Inc.
## Notes to the consolidated financial statements
**For the three months ended March 31, 2013**
(Expressed in Canadian dollars, unless otherwise stated)
(unaudited)

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## 1. Reporting Entity

Smartcool Systems Inc. ("Smartcool" or the "Company"), is a clean technology corporation focusing on acquiring, commercializing, and marketing energy saving technologies for commercial, industrial and residential customers. Currently the Company has two principal revenue streams: the sale and installation of the ESM™ and ECO3™ to end customers and to distributors worldwide

The ESM™ is manufactured by a third party in Australia and is designed specifically to reduce the electricity consumption and maximum demand of refrigeration and air conditioning compressors by improving their performance and maintaining temperature control. The ESM™ uses microprocessor technology and software algorithms.

Introduced in early 2009, the ECO3™ is manufactured in China and is a simple retrofit product that can be installed on any air conditioning, heat pump or refrigeration unit with one or two compressors, achieving the same energy efficiency gains as the ESM™ for these smaller systems.

The Company's shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at 1620 – 401 West Georgia Street, Vancouver, BC, V6B 5A1.

## 2. Significant Accounting Policies

### Basis of Presentation and Statement of Compliance

The condensed consolidated interim financial statements of the Company for the three month ended March 31, 2013 comprise the Company and its subsidiaries. These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 34, Interim Financial Reporting. They do not include all the necessary annual disclosures as prescribed by International Financial Reporting Standards and should be read in conjunction with the annual audited consolidated financial statements as of December 31, 2012.

The Company's condensed consolidated interim financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value, as explained in Note 13, and are presented in Canadian dollars except where otherwise indicated.

### 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 account receivables
- Share-based payments – the inputs used in accounting for share-based payment
- Debentures – discount rate used in fair value calculation of the debenture
- Contingencies – any future contingencies and commitments
- Going concern – the assessment of the Company's ability to continue as a going concern

## Basis of Consolidation

The Company consolidates subsidiaries controlled by the Company. Control exists when the Company has the power over the subsidiaries, the rights to variable returns from investment in the subsidiaries and the ability to use power over the subsidiaries to affect the amount of the Company's returns. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Smartcool USA, Smartcool International, Smartcool EMEA and Smartcool UK from February 28, 2011, the date of acquisition. All inter-company transactions, balances, revenues and expenses, have been eliminated.

## Going Concern

These consolidated financial statements have been prepared assuming the Company will continue as a going concern. The Company is required to assess its ability to continue as a going concern or whether substantial doubt exists as to the Company's ability to continue as a going concern into the foreseeable future.

To ensure that the Company continues to be a going concern with adequate working capital through 2013 steps have been taken to reduce expenses, secure more predictable revenue generation and collect outstanding receivables. Management has arranged with a UK bank to have a short term overdraft protection and continued to seek approval from this major banking relationship to provide accounts receivable factoring for select accounts that will smooth out the Company's cash flow.

The Company also has received confirmation from the holders of TECC and Smartcool UK purchase obligations that they will not require settlement of outstanding amounts through 2013.

In May 2013, the Company announced a private placement and expects to raise additional capital of $250,000. This equity financing would help the Company meet short-term trading obligations.

The Company's ultimate success and the recoverability of its assets will depend on the Company's ability to successfully execute its business plan which includes a growing market for its products, achieving profitable operations, meeting its business acquisition obligations, the continued support of the Company's shareholders and employees, and the continued support from creditors with whom negotiations have been made and waivers obtained.

These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern. These consolidated financial statements do not reflect adjustments to the carrying value of assets and liabilities which may be required should the Company be unable to raise adequate financing or meet current obligations and therefore be unable to continue as a going concern.

## Business Combinations and Goodwill

A business combination is defined as an acquisition of assets and liabilities that constitute a business. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return to the Company and its shareholders in the form of dividends, lower costs, or other economic benefits. A business consists of inputs, including non-current assets, and processes, including operational processes, that when applied to those inputs, have the ability to create outputs that provide a return to the Company and its shareholders. A business also includes those assets and liabilities that do not necessarily have all the inputs and processes required to produce outputs, but can be integrated with the inputs and processes of the Company to create outputs.

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

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 in the period of acquisition. Where the fair value of consideration paid exceeds the fair value of net identifiable tangible and intangible assets, goodwill is recognized.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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.

### Foreign Currency

The functional currency of Smartcool Systems Inc. and Smartcool International has been determined to be the Canadian dollar. The functional currency of Smartcool USA is the United States dollar. The functional currency of Smartcool EMEA and Smartcool UK is the British pound. The consolidated financial statements have been translated to the Canadian dollar in accordance with IAS 21, "The Effects of Changes in Foreign Exchanges Rates".

Financial statements of subsidiaries where the functional currency is other than the Canadian dollar are translated to Canadian dollars using the current rate method. Assets and liabilities are translated at the exchange rate at period end and revenues and expenses are translated using the exchange rates at the date of the transactions. All resulting exchange differences are reported as a separate component of shareholders' equity titled "Foreign Currency Translation Adjustment".
For foreign subsidiaries where the Canadian dollar is the functional currency, non-monetary assets and liabilities are translated to Canadian dollars using the exchange rate in effect at the original transaction date. Monetary balances are translated at rates of exchange at the period end date. The translation difference resulting from translating the foreign currencies to Canadian dollars is recorded as a component of foreign exchange gain and loss.

### 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 collection is probable, 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.

### Warranty

The Company provides for future warranty costs based on management's best estimates of such costs, taking into account past experience and warranty provisions of distribution and sale agreements.

### 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. Volatility rate is

determined based on the trading history of the Company's shares for the relevant period and interest rate is based on Canadian bond rates.

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. To estimate the fair value of options granted to non-employees, management considers primarily the fees management would be willing to pay in cash for the service if no options were granted.

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 based on the fair value of the services provided and charged to share issuance costs.

## Inventory

Inventory is recorded at the lower of cost and net realizable value. Costs of inventories are determined using the weighted average cost method. Cost of inventory includes invoiced cost from the manufacturer and other costs in bring the inventory to their present location and condition and net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

## Intangible Assets

Intangible assets are recorded at cost and include the ESM™ brand, ESM™ intellectual property, distribution rights, 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 over their estimated useful lives as follows:

| | |
|---|---|
| ESM™ Intellectual property | 10 years |
| North American distribution rights | 10 years |
| United Kingdom distribution rights | 9 years |
| Distribution agreements | 5 - 15 years |
| Supplier agreements | 10 years |
| Customer relationship | 5 years |

Total amortization for the three months ended March 31, 2013 of $239,894 (March 31, 2012 - $251,668) was included under net loss for the period on the statement of operations.

## Impairment

**a.** ***Property, equipment and intangible assets with a finite useful life***

Property, 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 respects to CGU's are first allocated to reduce the carrying amount of any goodwill allocated to the CGUs, 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.

**b.** ***Intangible assets with an indefinite useful life***

Intangible assets with an indefinite life are reviewed and tested 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. The ESM™ brand is considered to have an indefinite life as the Company has a global market and there is no direct competition for its instinctive green technology.

## Reversal of Impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized. An impairment loss with respect to goodwill is never reversed.

## Share Purchase Warrants

The Company issued common shares and share purchase warrants as a unit as well as units of debenture and share purchase warrants. The unit price is allocated to common shares and warrants based on their relative fair values. The residual method is used to allocate the value of debentures and warrants. The fair value of common shares is the market price on the date of issue and the fair value of warrants is determined using the Black-Scholes Option Pricing Model. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share price, changes in subjective input assumptions can materially affect the fair value estimate.

The Company also issued warrants to agents as compensation for services. The fair value of these warrants was determined to be the difference between agent's standard all-cash compensation and

compensation with warrants. Warrants were also issued as non-cash consideration for business acquisitions. The fair value of these warrants was determined based on Black Scholes model.

### Changes in Accounting Policies

A number of standards and amendments were issued effective for accounting periods beginning on or after January 1, 2013. Many of these updates are not applicable to the Company. As of January 1, 2013, the Company adopted the following IFRS standards and amendments:

- IFRS 10, "Consolidated Financial Statements" ("IFRS 10"), establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 "Consolidated and Separate Financial Statements" and SIC-12 "Consolidation—Special Purpose Entities". Under IFRS 10, 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

  The adoption of this standard does not have any impact the Company's consolidated financial statements.

- IFRS 13, "Fair Value Measurement" ("IFRS 13"), defines fair value and sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. The IFRS 13 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.
  The adoption of this standard does not have any impact the Company's consolidated financial statements.

- Amendments to IAS 1- Presentation of Financial Statements require items of other comprehensive income be grouped based on their potential reclassifiability to profit and loss.
  The adoption of this standard does not have any impact on the Company's consolidated financial statements.

## 3. Trade Receivables

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| [1]Trade receivables, net of allowances for doubtful accounts | $213,448 | $742,684 |
| Other receivables | 8,342 | 6,452 |
| | **$221,790** | **$749,136** |

[1] Allowance for doubtful accounts as at March 31, 2013 was $544,408 (December 2012 - $584,656). This allowance consists primarily of receivables from Colt Technology Services ("Colt") of $519,934 (£337,247). The Company has been in negotiations with Colt. This expense has been recorded in General and Administrative Expenses.

## 4. Inventory

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| ESM™ ECO3™ | $227,598 | $251,859 |
| Other products | 54,812 | 62,625 |
| | **$282,410** | **$314,484** |

During the three months ended March 31, 2013, total inventories of $41,969 were recognized as costs of sales (March 31, 2012 - $63,357).

## 5. Property and Equipment

The Company leases certain assets under finance lease agreements. As at March 31, 2013, assets under capital lease with total cost of $90,653 (December 31, 2012 - $95,128) and accumulated amortization of $59,051 (December 31, 2012 - $54,352) are included in property and equipment for net book value of $31,602 (December 31, 2012 - $40,876).

Amortization expense for assets under capital lease recorded in the statement of comprehensive loss for the three months ended March 31, 2013 was $7,351 (March 31, 2012 - $7,473).

# 6. Intangible Assets

## Definite Lives

| Cost | North American distribution rights (a) | ESM™ intellectual property (b) | Distribution agreements (b) | Supplier agreement (b) | EMEA & UK distribution rights (c)(d) | Customer relationship (d) | Total |
|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2011** | **$256,928** | **$124,100** | **$1,861,842** | **$113,651** | **$2,083,315** | **$-** | **$4,439,836** |
| Acquisition (note 3) | - | - | - | - | 2,570,862 | 1,058,584 | 3,629,446 |
| Disposal | - | - | (100) | - | - | - | (100) |
| Effect of change in foreign exchange rates | 4,032 | - | - | - | 2,390 | (5,494) | 928 |
| **Balance at December 31, 2011** | **260,960** | **124,100** | **1,861,742** | **113,651** | **4,656,567** | **1,053,090** | **8,070,110** |
| Effect of change in foreign exchange rates | (3,978) | - | - | - | 77,122 | 25,001 | 98,145 |
| **Balance at December 31, 2012** | **$256,982** | **$124,100** | **$1,861,742** | **$113,651** | **$4,733,689** | **$1,078,091** | **$8,168,255** |
| Effect of change in foreign exchange rates | 3,726 | | | | (158,410) | (50,713) | (205,397) |
| **Balance at March 31, 2013** | **$260,708** | **$124,100** | **$1,861,742** | **$113,651** | **$4,575,279** | **$1,027,378** | **$7,962,858** |

| Amortization and impairment losses | North American distribution rights (a) | ESM™ intellectual property (b) | Distribution agreements (b) | Supplier agreements (b) | EMEA & UK distribution rights (c)(d) | Customer relationship (d) | Total |
|---|---|---|---|---|---|---|---|
| **Balance at January 1, 2011** | **$122,040** | **$55,845** | **$671,773** | **$51,145** | **$578,684** | **$-** | **$1,479,487** |
| Amortization | 25,758 | 12,410 | 148,414 | 11,365 | 661,200 | 176,239 | 1,035,386 |
| Impairment | - | - | - | - | 452,659 | 188,484 | 641,143 |
| Effect of change in foreign exchange rate | 2,261 | - | - | - | 4,624 | (766) | 6,119 |
| **Balance at December 31, 2011** | **150,059** | **68,255** | **820,187** | **62,510** | **1,697,167** | **363,957** | **3,162,135** |
| Amortization | 25,780 | 12,410 | 148,332 | 11,363 | 637,182 | 166,276 | 1,001,343 |
| Impairment | 83,787 | - | - | - | - | - | 83,787 |
| Effect of change in foreign exchange rate | (2,644) | - | - | - | 35,563 | 10,078 | 42,997 |
| **Balance at December 31, 2012** | **$256,982** | **$80,665** | **$968,519** | **$73,873** | **$2,369,912** | **$540,311** | **$4,290,262** |
| Amortization | | 3,103 | 37,098 | 2,841 | 156,029 | 40,459 | 239,530 |
| Effect of change in foreign exchange rate | 3,726 | | | | (78,969) | (25,410) | (100,653) |
| **Balance at March 31, 2013** | **$260,708** | **$83,768** | **$1,005,617** | **$76,714** | **$2,446,972** | **$555,360** | **$4,429,139** |

| Carrying amounts | North American distribution rights (a) | ESM™ intellectual property (b | Distribution agreements (b) | Supplier agreement (b) | EMEA & UK distribution rights (c)(d) | Customer relationship (d) | Total |
|---|---|---|---|---|---|---|---|
| **As at January 1, 2011** | $134,888 | $68,255 | $1,190,069 | $62,506 | $1,504,631 | $- | $2,960,349 |
| **Balance at December 31, 2011** | 110,901 | 55,845 | 1,041,555 | 51,141 | 2,959,400 | 689,133 | 4,907,975 |
| **Balance at December 31, 2012** | $- | $43,435 | $893,223 | $39,778 | $2,363,777 | $537,780 | $3,877,993 |
| **Balance at March 31, 2013** | **$-** | **$40,332** | **$856,125** | **$36,937** | **$2,128,307** | **$472,018** | **$3,533,719** |

## Indefinite Lives

As at March 31, 2013, ESM™ brand (b) had a carrying amount of $56,100 and is not subject to amortization due to having an indefinite useful life. Goodwill arising on the acquisition of Smartcool UK amounted to $1,213,283. The balance of goodwill outstanding at March 31, 2013 was $Nil as an impairment was assessed for the full amount during 2011.

### a. *ESM™ Intellectual Property and worldwide distribution rights*

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

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 agreements was reduced by $148,799 to $1,835,702. As at March 31, 2013, cost of distribution agreements consisted of:

| | |
|---|---|
| ESM™ Distribution agreements (b) | $1,835,702 |
| Other distribution rights | $26,040 |
| **Total** | **$1,861,742** |

No impairment was recorded in the three months ended March 31, 2013 and the impairment loss recognized in 2008 was not reversed upon transition to IFRS.

### b. *Distribution Rights from TECC Services*

On July 11, 2008, the Company acquired the exclusive rights to distribute the ESM™ in the United Kingdom, Spain, Portugal, and the Middle East from T.E.C.C. Services Ltd. ("TECC"). 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 share price was based on the average closing price of the Company's shares on the TSX Venture Exchange for 20 consecutive trading days, with the last of such trading days being the second day preceding the date of closing as prescribed by trading regulations.

The remaining balance of $1,204,680 (£600,000) is due in scheduled instalments over four years with the last payment due on July 16, 2012. These instalments are 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 on December 21, 2009 where payments were rescheduled with the first payment due on January 16, 2010 and the last one on July 16, 2012. The parties also agreed that interest would accrue on $118,493 (£75,000) at Royal Bank of Canada prime rate plus 4% from January 16, 2009 and additionally on $118,493 (£75,000) from July 16, 2009 until these amounts are fully paid. The amendment had no material impact on the Company's financial position and no gain or loss was recognized in 2009. During the year ended December 31, 2012, all parties agreed to accrue interest on the remaining outstanding balance of $687,565 (£425,000) at Royal Bank of Canada prime rate plus 4% effective on January 1, 2012. The Company was unable to make scheduled payments under the amended agreement. As at March 31, 2013, the balance of $751,540 (£487,475), including accrued interest of $96,317 (£62,475) remained outstanding. Under the purchase agreement the outstanding balance will become due and payable upon default of payment. However, the Company has received confirmation from the holders of these obligations that they will not require settlement of outstanding amounts through 2013.

**c.** ***Intangible assets from Smartcool UK***

On February 28, 2011, the Company acquired $4,842,731 of intangible assets in relation to the acquisition of Smartcool UK.

These intangible assets include the following definite lived intangible assets: distribution rights of the ESM™ in the United Kingdom, the distribution right related to sales to a major customer and a customer relationship. The remaining balance of the intangible assets acquired related to goodwill which is an indefinite life intangible asset. The expected life of the definite life intangible assets has been determined to be 5 years.

| | |
|---|---|
| Distribution rights - General | $595,884 |
| Distribution rights - Major customer | 1,974,978 |
| Customer relationship | 1,058,584 |
| Goodwill | 1,213,285 |
| **Total** | **$4,842,731** |

During the three months ended March 31, 2013, total amortization of $138,753 (March 31, 2012 - $143,722) was recorded against the asset costs.

In 2011, management performed a review of the carrying value of these assets. As discrepancies between revenue projections and actual operating results in 2011 have resulting in significant uncertainty in future cash generation of these assets, an impairment loss was recorded as at December 31, 2011 based on cash flow projections at this time. The value of goodwill was written off and the other assets were impaired 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 the year ended December 31, 2011** | **$1,854,428** |

No impairments were recorded in the three months ended March 31, 2013 and the impairment loss recognized in 2011 was not reversed.

## 7. Obligations Under Acquisition Contracts

### TECC Services

At March 31, 2013, the Company owed $751,540 ((December 31, 2012 - $776,611) related to its 2008 acquisition of distribution rights from TECC Services.

The obligations under the acquisition contract have been fully accreted to their face value over their term.

### Smartcool UK

On February 28, 2011, the Company acquired the business of Smartcool UK for total cash consideration of $4,410,745 (£2,840,438) and some non-cash consideration. Upon closing, $2,922,622 (£1,840,438) was settled in cash with the remaining balance of $1,582,200 (£1,000,000) due in four equal installments over the next 12 months.

| | |
|---|---|
| **Balance – February 28, 2011** | **$1,488,049** |
| Accretion | $87,458 |
| Accrued interest | 20,514 |
| Foreign exchange | (2,165) |
| **Balance – December 31, 2011** | **1,593,856** |
| Accretion | 6,439 |
| Accrued interest | 118,549 |
| Foreign exchange | 40,902 |
| **Balance – December 31, 2012** | **$1,759,746** |
| Accrued interest | 30,834 |
| Foreign exchange | (82,837) |
| | **$1,707,743** |
| Less: Current portion | **(1,707,743)** |
| **Balance** | **$-** |

The Company was unable to make the first quarterly payment as scheduled. As at March 31, 2013, principal balance of $1,541,700 (£1,000,000) (December 31, 2012 - $1,617,800, £1,000,000) and accrued interest of $166,102 (£107,740) (December 31, 2012 - $139,063, £85,958) remained outstanding.

Principal balance consists of 4 installments of $385,425 (£250,000). Under the purchase agreement the outstanding balance will become due and payable upon default of payment. However, the Company has received confirmation from the holders of these obligations that they will not require settlement of outstanding amounts through 2013.

## 8. Debentures

In May 2010, the Company completed its offer of 122 units of debenture and share purchase warrants for aggregate proceeds of $610,000. The debenture is not redeemable by the holder.

Each unit comprises a debenture in the principal amount of $5,000 plus 8,600 warrants, issued at a price of $5,000 per unit. They are for a term of three years and entitle the holder to receive interest payment of $150 each quarter per $5,000 of principal amount with an additional interest payment of $150 if the debenture is repaid by December 31, 2011 and two additional interest payments (for a total of $300) if the debenture is repaid after December 31, 2011, but before maturity. The debentures receive 5% of gross cash revenue as principal repayment each quarter. The debentures are secured by a general security agreement over the assets of the Company.

The payment of quarterly principal payments owing during the first twelve-month period commencing from the closing date, however, may be delayed and paid on a date that is 13 months from the closing date. When such payments are delayed, the Company is required to deposit into a separate trust account, on a quarterly basis, an amount equal to any first year quarterly principal payment that would otherwise have been payable. As at March 31, 2013, total principal payments of $66,833 have been deferred. The debenture holders have not expressed an intention to demand payment.

As at December 31, 2012, the Company has not made quarterly principal payments totaling $74,272 as scheduled. In January 2013, the Company approached all holders of these units requesting an extension of up to two years under these terms:

1. Two additional interest payments ($300 per unit) as specified by the original terms will be added to December 31, 2012 outstanding balance.
2. Interest of 12% on outstanding principal amount will be paid quarterly
3. The new principal balance will be repaid in equal quarterly payments within one to two years.

The majority of the holders have agreed to provide the Company with the requested extension, effective March 1, 2013.
Interest expenses for the three months ended March 31, 2013 were $24,404 (March 31, 2012 - $24,240), Interest payments totaling $18,300 were paid during the period.
As at March 31, 2013, the outstanding principal balance was $345,090 (December 31, 2012 - $$308,490) and carrying amount was $354,624 ((December 31, 2012 - $$348,520).

## 9. Issued Capital and Equity Reserve

### Authorized

Unlimited common shares without par value
100,000,000 Class A preferred shares
100,000,000 Class B preferred shares

***a) Issued common shares***

| | Shares | Amount |
|---|---|---|
| **Balance, January 1, 2011** | **46,821,396** | **$26,036,145** |
| Issued for cash via private placements | 14,133,330 | 3,440,016 |
| Options exercised | 654,000 | 210,298 |
| Share issuance costs | - | (220,990) |
| **Balance, December 31, 2011** | **61,608,726** | **29,465,469** |
| Issued for cash via private placements | 2,678,571 | 375,000 |
| Share issuance costs | - | (5,077) |
| **Balance, March 31, 2013** | **64,287,297** | **$29,835,392** |

***b) Stock options***

Under the Company's stock option plan, the Company may grant stock options to employees, directors, officers and consultants. The maximum number of shares to be awarded under the plan is 12,161,745.

In October 2010, the stock option plan was amended to extend the option term to a maximum period of ten years. This amendment was approved by shareholders at 2010 annual general meeting and accepted for filing by the TSX Venture Exchange.

As at March 31, 2013, 3,900,000 (December 31, 2012 - 3,900,000) options were outstanding. These options have vesting periods of up to 5 years and weighted average exercise price of $0.28. Share-based payments for the three months ended March 31, 2013 was $7,167 (March 31, 2012 - $58.261).
During the three months ended March 31, 2013, no options (March 31, 2012 – 775,000) were granted.

***c) Share purchase warrants***

As at March 31, 2013, there were 1,623,000 (December 31, 2012 - 9,115,865) outstanding warrants with weighted average share price of $0.36 (December 31, 2012 - $0.43).

Share purchase warrants outstanding as at March 31, 2013 were as follows:

| | Number of warrants | Weighted average share price |
|---|---|---|
| **Balance, January 1, 2011** | **2,424,200** | **$0.41** |
| Expired, exercised or cancelled | (1,375,000) | 0.35 |
| Issued | 8,693,332 | 0.42 |
| **Balance, December 31, 2011** | **9,742,532** | **0.42** |
| Expired, exercised or cancelled | (626,667) | 0.30 |
| **Balance, December 31, 2012** | **9,115,865** | **$0.43** |
| Expired, exercised or cancelled | (7,492.865) | 0.45 |
| **Balance, March 31, 2013** | **1,623,000** | **$0.36** |

| Expiry date | Number of shares | Exercise price | Weighted average contractual life (Years) |
|---|---|---|---|
| April 29, 2013 | 344,000 | 0.50 | 0.08 |
| May 4, 2013 | 129,000 | 0.50 | 0.09 |
| August 28, 2013 | 250,000 | 0.30 | 0.41 |
| December 6, 2013 | 400,000 | 0.30 | 0.68 |
| February 28, 2014 | 250,000 | 0.30 | 0.91 |
| August 28, 2014 | 250,000 | 0.30 | 1.41 |
| **Total issued and outstanding, March 31, 2013** | **1,623,000** | **$0.36** | **0.61** |

## 10. Income Taxes

The Company's operations are conducted in a number of countries with complex tax legislation and regulations pertaining to the Company's activities. Any reassessment of the Company's tax filings by the tax authorities may result in material adjustments to net income or loss, tax assets and operating loss carry-forwards.

At December 31, 2012, the Company had unused non-capital losses of approximately $18,570,423 available to offset taxable income in future years. In assessing the ability to realize deferred tax assets, management considers whether it is probable that taxable profit will be available against which the deductible temporary difference can be utilized. As management believes there is uncertainty regarding

the realization of these deferred tax assets, $5,246,784 has been classified as unrecognized tax assets as at December 31, 2012 (2011 - $5,073,000).

**Deferred Tax Liabilities**

The Company recorded deferred tax liabilities of $1,078,565 as a result of the acquisition of Smartcool UK assets in February 2011.

During the three months ended March 31, 2013, these liabilities were reduced by $36,076 (2012 - $135,833) upon the recognition of amortization of these assets. The same amount was recorded as deferred income tax recovery in the statement of operations.

As at March 31, 2013, deferred tax liability was $418,583.

| | |
|---|---|
| **Deferred income tax liabilities, February 28, 2011** | **$1,078,565** |
| Amortization of intangible assets | (157,136) |
| Impairment of intangible assets | (303,698) |
| Effect of foreign exchange rate | (4,621) |
| **Deferred income tax liabilities, December 31, 2011** | **613,110** |
| Amortization of intangible assets | (147,570) |
| Effect of foreign exchange rate | 11,737 |
| **Deferred income tax liabilities, December 31, 2012** | **$477,277** |
| Amortization of intangible assets | (36,076) |
| Effect of foreign exchange rate | (22,618) |
| **Deferred income tax liabilities, March 31, 2013** | **$418,583** |

## 11. Segmented Information

The Company installs, distributes, markets and sells the ECO3™ and ESM™ products and peripherals. Revenue from the ECO3™ for the three months ended March 31, 2013 was $58,356 (March 31, 2012 - $110,859) and revenue for the ESM™ solution was $85,247 (March 31, 2012 - $192,591).

The Company operates in one segment. Revenue was derived from customers located in the following geographical regions:

| | March 31, 2013 | | March 31, 2012 | |
|---|---|---|---|---|
| | **Amount** | **%** | **Amount** | **%** |
| Europe, Middle East, Africa | $71,516 | 50 | $50,345 | 16 |
| Australia | - | - | 141,511 | 47 |
| South East Asia | - | - | - | - |
| Americas | 72,087 | 50 | 111,594 | 37 |
| **Total revenue** | **$143,603** | **100** | **$303,450** | **100** |

## 12. Related Party Transactions

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 | Legal 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.

| | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Consulting fees | $20,630 | $28,636 |
| Legal fees | 969 | 3,110 |
| Rent expense | - | - |
| Rental income | - | (3,000) |
| Tools and materials | - | 2,240 |
| Vehicle lease payments | 7,039 | 8,839 |
| | **$28,638** | **$39,825** |

As at March 31, 2013, $170,487 (December 31, 2012 - $206,127) was due to related parties.

## 13. Financial Instruments

### Financial Instruments

The Company has classified its financial instruments as follows:

| | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **Financial assets** | | |
| Fair value through profit or loss , measured at fair value: | | |
| Cash and cash equivalents | $45,320 | $247,150 |
| Loans and accounts receivable, recorded at amortized cost: | | |
| Trade and other receivables | 218,548 | 747,684 |
| | **$263,868** | **$994,834** |
| **Other financial liabilities, recorded at amortized cost** | | |
| Trade payables | $646,255 | $696,514 |
| Acquisition obligations, finance leases and debentures | 2,825,467 | 2,904,286 |
| | **$3,471,722** | **$3,600,800** |

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

### 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 $213,548 (December 31, 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 including equity financing through a private placement.

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

| | Total | 1 year | 1-2 years |
|---|---|---|---|
| Trade payables | $646,255 | $646,255 | $- |
| Finance leases | 11,560 | 11,560 | - |
| Abbotly minimum royalties | 40,624 | 40,624 | - |
| Premises leases | 201,980 | 94,020 | 107,960 |
| Debentures | 354,624 | 91,266 | 263,358 |
| Obligations under acquisition contracts | 2,459,283 | 2,459,283 | - |
| **Total** | **$3,714,326** | **$3,343,008** | **$371,318** |

**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, 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 March 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 | $316 | $85 | £- | €92 |
| Trade and other receivables | 98,895 | - | - | - |
| **Total** | **$99,211** | **$84** | **£-** | €92 |
| **Liabilities** | | | | |
| Trade payables | $38,958 | $6,737 | £27,126 | €- |
| Acquisition obligations, current | - | - | 293,773 | - |
| **Total** | **$38,958** | **$6,737** | **£320,899** | €- |

### 5. *Interest rate risk*

The Company is exposed to this risk as late payments under TECC acquisition obligations are subject to interest based on Royal Bank of Canada prime rate plus 4%. As at March 31, 2013, the total of such payments was $655,222 (£425,000).

The Company is exposed to this risk as late payments under Smartcool UK acquisition obligations are subject to interest based on Royal Bank of Canada prime rate plus 5%. As at March 31, 2013, the total of such payments was $1,541,700 (£1,000,000).

### 6. *Sensitivity analysis*

Assuming a 100-basis point increase in RBC prime rate, as at March 31, 2013, the impact on income before income taxes would be a negative adjustment of $21,969 (£14,250).

## Capital Management

The Company's capital structure includes debentures and shareholders' equity consisting of share capital, reserve for equity settled share based transactions and deficit. As at March 31, 2013, the principal amount of debenture component was $345,073 (December 31, 2012 - $308,490) and shareholders' equity was $316,469 (December 31, 2012 - $1,106,782). The increase in debentures was attributable to the extension of the terms where additional interest payments required under original terms were converted to principal under the new terms. The increase in shareholders' equity was attributable to the quarter's net loss.

The Company's objectives when managing capital are:

- to effectively finance its operations and growth by meeting its operating and capital expenditure budgets;
- to maintain financial flexibility in order to meet financial obligations, including obligations under acquisition contracts;
- to ensure its ability to carry out its strategic plans and take advantage of acquisition opportunities;
- to provide an appropriate investment return to its shareholders and maintain investor, creditor and market confidence.

To ensure that the Company continues to be a going concern with adequate working capital through 2013 steps have been taken to reduce expenses, secure more predictable revenue generation, collect outstanding receivables.

The Company also has received confirmation from the holders of TECC and Smartcool UK purchase obligations that they will not require settlement of outstanding amounts through 2013.

Management has announced a private placement in May 2013 to raise additional funds and is in the final steps of receiving accounts receivable factoring for select accounts. Funds provided from these strategies will smooth out the Company's cash flow.

The Company is not subject to any external capital restrictions.

## 14. Supplementary cash flow information

| | March 31, 2013 | March 31, 2012 |
|---|---|---|
| Interest paid in cash | $20,267 | $21,341 |
| Interest income received in cash | $- | $376 |

## 15. Subsequent Events

### Private Placement

On May 14, 2013, the Company announced that it has arranged a non-brokered private placement of up to 10,000,000 common shares at a price of $0.025 per share for gross proceeds of up to $250,000. The Company has received conditional approval from the TSX Exchange and expects to close the private placement by June 10, 2013.