SMARTCOOL™

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

2011 Annual Report

www.smartcool.net

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SMARTCOOL™

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Executive Summary

Smartcool made progress in the pursuit of its business strategy during the year. The acquisition of the UK distributor in the first quarter of 2011 is demonstrating value, as Smartcool is continuing to build strong customer relationships with key accounts in Europe. Several rollouts of Smartcool's products continued to major customers in Europe, and Smartcool continued to support distribution efforts across North America, the Middle East, India, Southeast Asia and Australia.

Smartcool has experienced a delay in recording revenue on installation rollouts for some major accounts. Smartcool expects to see this delayed revenue produce stronger performance in the coming year when more rollouts will be effected.

Summary of Major Developments

UK Company Acquisition
In the first quarter, Smartcool acquired Smartcool Systems UK Ltd. Smartcool UK built an exceptional base of technical expertise with Smartcool products while servicing both major and small business customer accounts as an independent distributor. The acquisition has given Smartcool greater profit margins from direct access to these accounts. Equally significant, the UK team has improved Smartcool's ability to provide high caliber service and technical support to customers and distributors around the world.

Growth of European Distribution Network
Smartcool sharpened its focus on the European market with two major new distribution agreements in 2011. In addition to managing their own sales of Smartcool products, these distributors have also provided key technical resources for Smartcool's own direct sales to major customers in Poland and France.

Bricks & Bits began exclusive distribution for Smartcool's ESM™ and non-exclusive ECO^3™ distribution in Poland, Hungary, Czech Republic and Slovakia during the second quarter. By the end of the year, Bricks & Bits grew to become Smartcool's second highest revenue generating distribution channel by winning several major accounts in its region.

In the fourth quarter, Terre d'Energies Services signed a distribution agreement with exclusive ESM™ and non-exclusive ECO^3™ distribution in France and Morocco. Terre d'Energies is a well-established French energy service company, and anticipates work to begin on a number of major accounts in 2012.

Profitability Achieved
During the fourth quarter, Smartcool earned the most revenue of any quarter in the company's history. This highly successful quarter was due largely to Smartcool's renewed focus in Europe for both direct and distribution sales.

Smartcool's ongoing relationship with Sainsbury's as its Primary Contractor has been the leading driver of revenue from direct sales. In 2011, Smartcool delivered a full range of energy efficiency solutions to Sainsbury's refrigeration systems in multiple stores across the UK. While this included the usual sales and installation of the ESM™ and ECO^3™, Smartcool also provided project management services for the implementation of third-party technologies. This additional service gave

Sainsbury's the maximum energy savings possible while increasing Smartcool's revenue stream per store.

A well-established distribution network has always been a cornerstone of Smartcool's business strategy, and it continued to prove its worth throughout 2011. The USA experienced growth of 118% as a hub of ECO^3™ distribution, particularly in Florida and the Mid-West. As noted above, two major new distributors began operating in Europe, contributing significant revenue and value to Smartcool's operations. Other distributors around the world, particularly in Australia, India and the Middle-East, continue to strengthen Smartcool's presence in lucrative markets.

Smartcool News

Below is a comprehensive list of press releases from 2011.

- Smartcool to Acquire UK Distributor
- Smartcool Cuts Electricity Costs for Florida Self Storage Facilities
- Smartcool Announces Private Placement to Finance Acquisition of UK Distributor
- Smartcool Increases Private Placement
- Smartcool Closes Private Placement
- Smartcool Completes UK Acquisition
- Smartcool Brings Energy Efficiency to Commercial Real Estate in India
- Smartcool Expands into Central & Eastern Europe with New Distributor
- Smartcool Announces Appointment of US Based Capital Markets Advisory Firm
- Smartcool Reports Year-End and Fourth Quarter Results for Fiscal 2010
- Smartcool Retains Innovative Research Associates Inc. for Investor Relations Advisory Services
- Smartcool First Quarter Revenues Increase 49% Over 2010
- Saudi Aramco Deploys Smartcool Energy Efficiency Technology
- Steady Growth for Smartcool in American Midwest
- Con Edison Grants Smartcool Market Partner Status
- Smartcool Launches ECO3 Distribution Blitz with New Dealer Program for US Market
- Smartcool Offers Private Placement
- Smartcool Announces Close of First Tranche Private Placement Offering
- Bermuda Engineering Brings Smartcool ECO3 to New Market
- Alternative Energy Company in France Becomes New Smartcool Distributor
- Smartcool CEO to Discuss Third Quarter Results & Fourth Quarter Projections
- Smartcool Achieves Profitability & Major Growth in the Fourth Quarter of 2011

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).

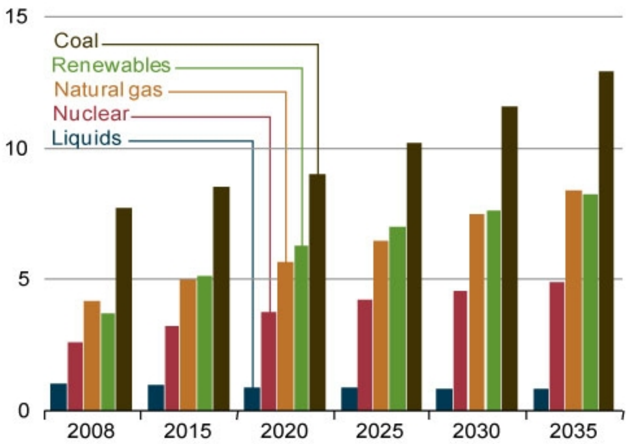
Smartcool was established in 2004, beginning as the North American distributor for the Energy Saving Module (ESM)™, a unique energy efficiency retrofit developed by Abbotly Technologies Pty Ltd of Australia. In 2006, Smartcool purchased the assets of Abbotly, including the intellectual property of the 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 the 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.

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]

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



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

[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

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 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 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.

The ECO^3™

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 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

The Market Strategy

Smartcool's ECO³™ 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 ECO³™ 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 ECO³™ 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

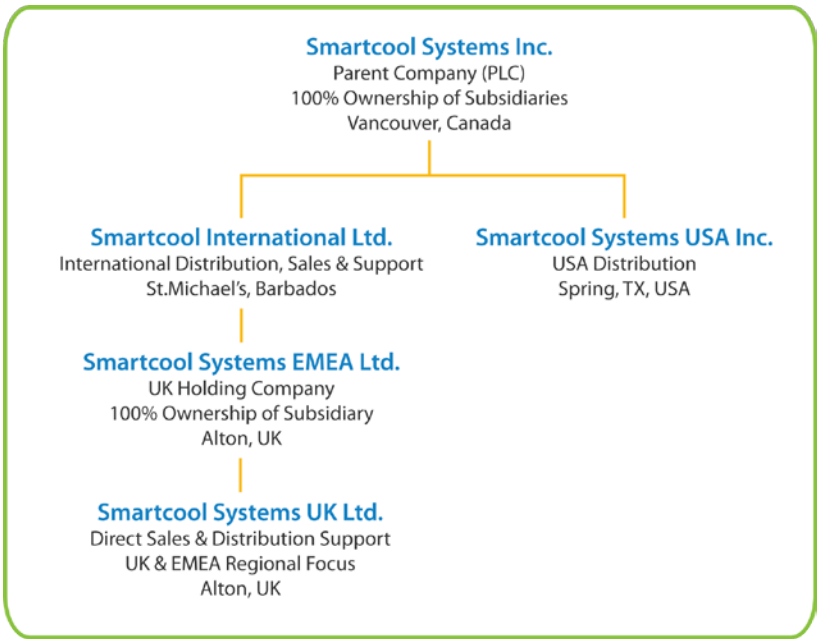
The company distributes its products directly to major clients, providing them with superior project management and service as they roll out Smartcool products to their facilities. For direct sales, Smartcool targets specific industries such as food retailers, telecommunications, commercial real estate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

Smartcool continues to develop its distribution network and win key accounts in target markets though has experienced some delays in major installation projects.

These delays resulted in certain setbacks. Revenue for the year decreased to $3,943,794 from $4,209,645 for the previous year, a decrease of $265,851 or 6%. Net loss for the year was $5,217,928 ($0.09 per share), compared to $1,619,771 ($0.04 per share) for the previous year.

Total assets increased to $7,365,680 from $5,343,272 for the previous year, reflecting the UK acquisition, thanks to successful financing arrangements during the year. The Company had $498,874 in cash and cash equivalents as at the end of the year, compared to $610,261 at the end of the previous year.

Current liabilities at the end of the year were $3,881,627 (2010 - $1,428,575) which includes the balance of acquisition obligations and current portions of debentures, finance leases and tenant inducement totaling $2,671,457. Long-term liabilities were $860,932 (2010 - $531,167), consisting of debentures $178,292, tenant inducement $48,782 and finance leases $20,748 and deferred tax liability of $613,110.

	Mar 2011 ($)	**Jun 2011 ($)**	**Sep 2011 ($)**	**Dec 2011 ($)**
Total Revenues	943,958	276,398	785,689	1,937,749
Loss	(578,824)	(1,253,291)	(1,103,805)	(2,282,012)
Loss Per Share – basic & diluted	(0.01)	(0.02)	(0.02)	(0.04)
	Mar 2010 ($)	**Jun 2010 ($)**	**Sep 2010 ($)**	**Dec 2011 ($)**
Total Revenues	634,927	1,137,863	1,098,949	1337,906
Loss	(751,757)*	(246,073)*	(240,671)*	(381,270)*
Loss Per Share – basic & diluted	(0.01)	(0.01)	(0.01)	(0.01)

* IFRS adjusted

Selected Annual Information

The following is selected information on Smartcool's financial performance for the past three years:

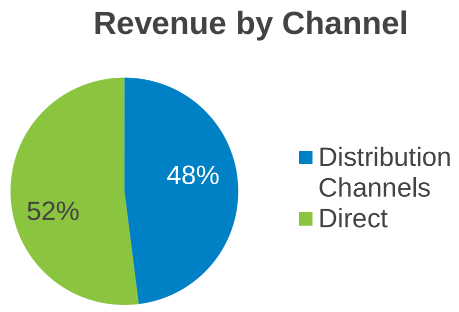
	Dec. 31, 2009 *	**Dec. 31, 2010**	**Dec. 31, 2011**
Revenue	$2,402,081	$4,209,645	**$3,943,794**
Selling, General & Administrative	$4,033,161	$3,272,909	**$4,355,436**
Net loss	$(3,390,930)	$(1,619,771)	**$(3,428,415)**
Net loss – Per Share (Basic and Diluted)	$(0.08)	$(0.04)	**$(0.06)**
Total Assets	$5,754,220	$5,343,272	**$8,542,083**
Total Long Term Liabilities	$646,436	$531,167	**$247,822**
Cash Dividends	**$0**	**$0**	**$0**

Note* Under Canadian GAPP

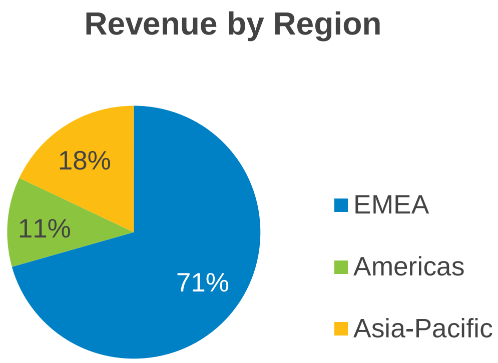
Summary of Operating Results

Revenue

Smartcool sells its products both directly to major customers, and through a network of independent distributors. With the acquisition of Smartcool UK and focus on the new targeted market, direct sales for the year contributed 52% of total revenue, increasing to $2,034,772 from $1,620,335 for the previous year. Distribution sales for the year contributed 48% of total revenue, decreasing to $1,909,022 from $2,589,310 for the previous year. Distribution sales in 2010 were higher compared to direct sales, as Smartcool EMEA sold product to the independent UK distributor for re-sale to their major direct accounts. The 2011 acquisition shifted Smartcool's revenue breakdown in favour of direct sales as Smartcool took direct ownership of these major accounts in the UK.

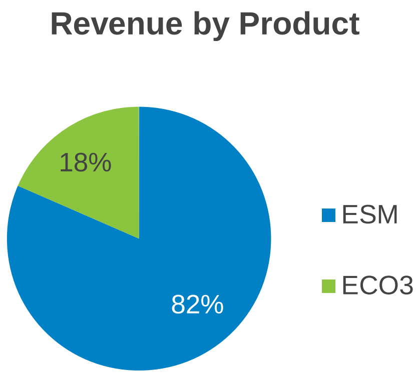


Delays in a major project's rollouts experienced through the first seven months resulted in the year's decreased revenue. Fourth quarter results were more in line with the Company's expectations for the year. Revenue for the fourth quarter of 2011 was $1,937,749 compared to $1,337,906 for the same quarter of 2010, an increase of $599,843 or 45%.



Revenue from the EMEA (Europe, Middle East, Africa, & India) region contributed $2,783,935 of the year's total revenue compared to $2,582,723 in 2010. Revenue from the Asia-Pacific region was $708,043, as compared to $985,095 in 2010. The Americas region contributed $451,816, compared to $641,827 in 2010. This decrease was due to a shift from direct sales to strictly distribution sales in North America.

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 2011 was $3,216,118 compared to $3,337,106 for the previous year. 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 $727,676 compared to $872,539 for the previous year, although North America experienced growth in ECO^3™ distribution revenue.



Gross profit

Gross profit for the year was $2,335,989 compared to $2,945,425 for the previous year, a decrease of $609,435 or 21%. Profit margin of 59% for the year was below the previous year's margin of 70% due to two factors. First, the equipment used for the first number of stores in the rollout with Sainsbury's was acquired when the acquisition of Smartcool UK was completed. The adjusted cost base of this equipment was recorded at a higher cost than Smartcool's normal cost of manufacturing. Second, some of the major installations in the year were pilot projects where installation expenses tend to be higher than average.

Gross profit for the fourth quarter was $1,253,262 compared to $977,796 for the same quarter of 2010, an increase of $275,466 or 28%.

General and administrative expenses

General and administrative ("G & A") expenses for the year were $4,355,435 compared to $3,272,909 for the previous year. Salaries for the year were $2,057,794, compared to $1,483,967 for the previous year. The increase in salaries was attributable to Smartcool UK acquisition. Professional fees, for the year were $237,044 compared to $123,243 for the previous year. The increase in fees was attributable to the establishment of tax advisory services for the company and an adjustment of legal costs pertaining to the Smartcool UK acquisition. Allowance for receivables with Colt Technology also caused what management believes to be a non-recurring increase in expenses for the year, resulting in bad debts of $582,204, compared to $48,151 for the previous year.

G & A expenses for the fourth quarter were $1,465,028 compared to $1,009,107 for the same quarter of 2010, an increase of $455,921 or 45%. Increase in allowance for doubtful accounts ($580,233 from $45,790) and increase in salaries ($544,555 from $369,035) contributed to increase in the quarter's G & A.

	3 months ended Dec. 31, 2011	3 months ended Dec. 31, 2010	Year 2011	Year 2010
Management and consulting fees	$124,883	$102,764	$416,960	$416,085
Salaries and benefits	544,555	369,035	2,057,794	1,483,967
Professional fees	64,377	73,902	237,044	123,243
Investor relations and media	68,612	29,701	172,350	128,258
Travel	83,853	78,112	399,455	377,670
Rent, office and other expenses	578,747	355,593	1,071,841	743,686
Total selling, general & admin expenses	1,465,028	1,009,107	4,355,435	3,272,909
Stock-based compensation	49,921	101,713	274,969	368,960
Research & Development	2,872	9,159	32,173	51,509
Amortization	584,979	134,966	1,118,206	560,102
Total operating expenses	**$2,102,800**	**$1,254,945**	**$5,780,784**	**$4,253,480**

Net loss
Net loss for the year was $5,217,928 compared to $1,619,771 for the previous year. Decrease in gross margin ($609,435), increase in salaries ($573,827), increase in allowance for doubtful accounts ($582,204) and the impairment of the UK asset ($1,854,428) altogether contributed to the increase in net loss.

The loss per share (basic and diluted) for the year was $0.09, compared to $0.04 for the previous year. The loss per share (basic and diluted) for the fourth quarter was $0.04, unchanged from the loss per share for the same quarter of 2010.

Loss per share is calculated based on the weighted average number of common shares outstanding throughout the year.

Comprehensive loss
Comprehensive loss of $5,301,572 for the year consists of net operating loss $5,217,928 and foreign currency translation adjustment $83,644. 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, 2011 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 2010 was $1,590,117.

Comprehensive loss for the fourth quarter was $145,937 compared to $16,869 for the same quarter of 2010.

Amortization
Amortization expenses for the year were $1,118,206 compared to $560,102 for the previous year. Amortization on property and equipment was $82,820 (2010 - $104,568) and amortization of intangible assets was $1,035,386 (2010 - $455,534). Amortization of intangible assets was higher as new assets were acquired as part of the February 28, 2011 business acquisition.

Amortization expenses for the fourth quarter were $584,979 compared to $134,966 for the same quarter of 2010. Amortization on property and equipment was $18,726 (2010 - $19,975) and amortization of intangible assets was $566,253 (2010 - $114,991). The significant increase was partially due to an adjustment to the expected life of intangible assets acquired from Smartcool UK.

Stock-based compensation
Stock-based compensation costs for the year were $274,969, compared to $368,960 for the previous year a decrease of $93,991. A smaller number of options were granted in the year and their weighted average fair value was lower than the fair value of options granted in the previous year.

Stock-based compensation costs for the fourth quarter were $49,921, compared to $101,713 for the same quarter of 2010.

Capital expenditures

Capital expenditures for the year were $50,724 compared to $12,338 for the previous year, an increase of $38,386. The increase was primarily due to the acquisition of Smartcool UK's assets, which included office equipment.

Capital expenditures for the fourth quarter were $3,724 compared to $7,290 for the same quarter of 2010.

Liquidity and Capital Resources

Since incorporation, the Company has financed its operations through the issuance of equity. During 2011, the Company issued 13,333,330 units (consisting of one common share and one-half warrant) for gross proceeds of $4,000,000 and 800,000 units (consisting of one common share and one-half warrant)) for gross proceeds of $160,000. A large portion of the capital raised has been used to pay for the acquisition of Smartcool UK.

As at December 31, 2011, the Company had $498,874 in cash and cash equivalents.

Working capital deficit at the end of the year was $1,652,526 compared to working capital of $786,619 at the end the previous year. Part of the obligations under Smartcool UK acquisition contract, scheduled for payments within a year and classified as current liabilities, can be deferred at the Company's discretion. These installments total $1,184,925 (£750,000).

The Company's net cash flows used in operating activities was $1,777,173 during the year, compared to $377,082 in the previous year. The average monthly burn for the year was $148,000. Cash resources consumed in the year were for the financing of operating losses and acquisitions. To ensure that the Company continues to be a going concern with adequate working capital through 2012, steps have been taken to reduce expenses, secure more predictable revenue generation, collect outstanding receivables and receive an income tax recovery. This will be achieved by filing Smartcool UK 2011 tax return, which provides for tax loss carry back to recover all taxes paid in 2010.

The Company also has received confirmation from holders of major debt obligations that they will not require settlement of outstanding amounts through 2012.

In addition management will consider securing capital from its investor base if required, which management has demonstrated in the past to be a successful strategy. An equity financing of $375,000 was completed in first quarter of 2012.

Management is in final steps of approval with its major banking relationship to provide accounts receivable factoring for select accounts. Using this banking facility will improve the timing of cash receipt from customers.

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. The debentures have no stated interest rate. They are for a term of three years and entitle the holder to receive distribution of $150 each quarter per $5,000 of principal amount with an additional distribution of $150 if the debenture is repaid by December 31, 2011 and two additional distributions (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 commences 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 December 31, 2011, total principal payments of $66,833 have been deferred. The debenture holders have not expressed an intention to demand payment.

One whole warrant entitles the holder to purchase one common share at the price of $0.50 per share for a period of three years from the date of issuance. If the Company's share trade at an average price of $0.80 per share for a period of 60 days, the Company, at its election, may force exercise or cancellation of the warrants. If the Company repays any portion of the principal amount of the debentures prior to January 1, 2011, the number of common shares purchasable pursuant to the warrants shall be decreased proportionately to the amount of principal so repaid.

Finder's fees equal to 10% of the aggregate proceeds from the offerings of the units were payable to the brokers.

In 2010, Smartcool received $610,000 through debenture offerings. The net proceeds received from the issue of debentures have been split between the financial liability component and an equity component using the residual method. The fair values of debentures and share purchase warrants are as follows:

Net proceeds of issue	$ 552,751
Equity component	$ 8,101
Liability component at date of issue	$ 544,650

The equity component of $8,101 has been credited to equity, Share Purchase Warrants (note 13(d) to the consolidated financial statements).

The liability component is measured at amortized cost. Interest expenses for the year ended December 31, 2011 were $127,741 (2010 - $115,306), calculated by applying weighted average effective interest rate of 26% to the liability component. Interest payments totaling $73,200 and principal payments totaling $172,755 were paid during the year ended December 31, 2011. As at December 31, 2011, the carrying amount of these debentures was $497,008.

Maturity date	Feb. 9, 2013	March 19, 2013	April 29, 2013	May 4, 2013	Total
Debenture principal	$250,000	$85,000	$200,000	$75,000	$610,000
Balance on issuance date	223,165	75,550	178,830	67,105	544,650
Accrued interest	54,555	16,193	32,588	11,970	115,306
Interest payment	(21,750)	(6,290)	(12,198)	(4,450)	(44,688)
Balance Dec. 31, 2010	**255,970**	**85,453**	**199,220**	**74,625**	**615,268**
Accrued interest	48,884	18,068	44,123	16,620	127,695
Principal payment	(108,039)	(31,671)	(24,033)	(9,012)	(172,755)
Interest payment	(30,000)	(10,200)	(24,000)	(9,000)	(73,200)
Balance Dec. 31, 2011	**$166,815**	**$61,650**	**$195,310**	**$73,233**	**$497,008**
Less: current portion	(103,230)	(35,099)	(131,191)	(49,196)	(318,716)
Balance	**$63,585**	**$26,551**	**$64,119**	**$24,037**	**$178,292**

Outstanding Share Data

The authorized share capital of the Company is an unlimited number of common shares without par value. As at December 31, 2011 the Company had 61,608,726 common shares outstanding. The weighted average number of common shares outstanding for the year was 58,682,257 (2010 – 45,787,149)

The increase in average number of common shares outstanding was a result of the issuance of 13,333,330 common shares pursuant to February 22, 2011 private placement and 800,000 common shares pursuant to December 6, 2011 private placement. As at April 29, 2011, the outstanding shares are 61,608,726 and diluted are 76,961,258.

Warrants and Stock Options

As at December 31, 2011, there were 9,742,532 share purchase warrants and 5,610,000 stock options outstanding which collectively could result in the issuance of 15,352,532 common shares if these warrants and stock options are exercised. The outstanding options have a weighted average exercise price of $0.31. The outstanding warrants have weighted average exercise price of $0.42.

As at December 31, 2011 there were 4,626,250 exercisable options with a weighted average exercise price of $0.31. During the year, the Company granted 607,500 options with weighted average fair value of $0.20 (2010 –1,560,000, weighted average fair value $0.19) to officers and employees and 855,000 options with weighted average fair value of $0.10 (2010 – 80,000, weighted average fair value $0.19) to consultants.

As at April 29, 2011, there are 5,880,000 outstanding options and 9,115,865 outstanding warrants. The outstanding options have weighted average exercise price of $0.29.

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 the first quarterly payment as scheduled and deferred two quarterly payments at its discretion as outlined in the acquisition agreement and at December 31, 2011, $1,579,900 (£1,000,000) was still 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 2012.

With the exception of the first quarterly payment, Smartcool had at its discretion the option to defer the three remaining quarterly payments. The deferral will incur an interest charge equal to Royal Bank of Canada prime rate for the first three months and prime rate plus 5% after that period. At the acquisition date, the fair value of these scheduled payments was determined to be $1,488,049(£940,494) based on discounting the future payments at a rate of 10%.

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

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 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. The Company was unable to make scheduled payments under the amended agreement. The Company also has received confirmation from the holders of TECC that they will not require settlement of outstanding amounts through 2012. As at December 31, 2011, the balance of $750,861 (£475,259), including accrued interest of $39,906 (£25,259) remained outstanding.

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 $1,835,701. As at December 31, 2011, distribution rights consist of:

ESM™ Distribution agreements	$1,835,701
Other distribution rights	$26,140
Total	**$1,861,841**

No impairments were recorded in 2011 and 2010 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 IFRS IAS16.

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 respects to 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, Abbotly Technologies Pty, 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 2011 cost structures. The undiscounted cash flows supported the recoverability of our definite lived intangible assets.

Impairment of Intangible Assets

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

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**

Commitments

a. *Premise lease*

The Company has entered into three lease agreements to lease office facilities in Vancouver and Alton, Hampshire. These leases will expire in five years. The future minimum lease payments commitments for the Company's office premises are:

	$
2012	106,597
2013	108,172
2014	109,296
2015	77,796
2016	9,216
	411,077

For the year ended December 31, 2011, the Company's rent expense including certain operating expenses and property taxes was $194,615 (2010 - $167,273) and its sublease revenue was $12,000 (December 2010 - $16,467).

a. *Abbotly USA*

Under the terms of the North American distribution rights acquisition, the Company is required to pay a 20% royalty on products identified in the Assignment and Assumption agreement dated March 27, 2006 and purchased from Abbotly Pty for North American sales. The initial term of the agreement was to expire on March 3, 2008. Smartcool, under its rights in the Assignment and Assumption agreement, has renewed the licensing agreement for another five year term. The Company has purchased the entire remaining inventory from Abbotly USA, as required under this agreement, and is now required to pay a minimum of US$40,000 in royalty annually. The Company recorded royalty expense of US$40,000 for the year ended December 31, 2011. As at December 31, 2011, royalties of $20,340 (US$20,000) were payable to Abbotly USA (December 30, 2010 – $11,934, US$12,000).

Transactions with Related Parties

a. *Trading 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
Windstone Financial Corp.	Consulting
Key Management	Consulting/General administrative
Richards Buell Sutton LLP	Legal Services
TECC	Rent
Rossair	Installation tools and materials
Magnum Energy Inc.	Rental income

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	2011	2010
		$	$
Consulting fees	(i)	216,802	251,649
Legal fees	(ii)	20,584	36,644
Rent expense	(iii)	13,701	35,418
Lease Income	(iv)	(12,000)	(16,467)
Tools and Materials	(v)	8,021	16,955

i. During the year ended December 31, 2011, consulting fees of $114,802 were charged by directors of the Company (2010 - $120,149). Consulting fees of $102,000 were charged by two companies with common directors during the above period (2010 - $131,500). As at December 31, 2011, $34,309 was owed to these related parties (December 31, 2010 - $11,635).

ii. The Company uses the services of a law firm of which a director is a partner. During the year ended December 31, 2011, fees in the amount of $20,584 were charged to the Company for legal services provided. As at December 31, 2011, $7,571 was owed to this related party (December 31, 2010 - $55,006).

iii. The Company rented its office in the United Kingdom from a company with a common director. During the year ended December 31, 2011, rent expense was $13,701 (2010 – $35,418). These transactions have been charged to general and administrative in the statement of operations, comprehensive loss and deficit. At December 31, 2011, no amounts were owed to this related party (December 31, 2010 - $0).

iv. The Company subleases its Vancouver office and other facilities to a company with a common officer. During the year ended December 3, 2011, sublease income was $12,000 (2010 - $16,467). At December 31, 2011, $1,000 was owed from this related parties (December 31, 2010 - $1,000).

v. The Company purchased installation materials from a company with a common director. During the year ended December 31, 2011, materials purchases from this related party were $8,021 (2010 - $16,955). These transactions have been charged to cost of sales in the statement of operations. At December 31, 2011, $300 was owed to this related party (December 31, 2010 - $0).

b. ***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, Vice-President Operations and Vice-President Sales.

	2011	**2010**
Salaries	656,360	595,300
Short-term benefits	94,737	74,104
Share-based payments	142,011	205,728
Total	893,108	875,132

Risk Management

Financial Risks

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

i. 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, short-term investments 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 and other receivables the Company subjects all major customer accounts to its credit evaluation process.

The Company has $1,042,580 (2010 - $971,316) in trade receivables which are subject to credit risk. Allowance for receivables with Colt Technology caused what management believes to be a non-recurring increase in expenses for the year, resulting in bad debts of $582,204, compared to $48,151 for the previous year.

ii. 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 (note 1).

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

	Total	1 year	1-2 years
	$	$	$
Trade payables and accruals	1,210,170	1,156,677	53,493
Finance leases	64,869	38,717	26,152
Abbotly minimum royalties	80,000	40,000	40,000
Premises leases	214,769	106,597	108,172
Debentures	573,595	391,916	181,679
Obligations under acquisition	2,311,351	-	2,311,351
Total	**4,494,544**	**1,733,907**	**2,760,637**

iii. **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.

iv. **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 December 31, 2011, the Company's monetary assets and liabilities denominated in foreign currencies are as follows:

	USD	AUD	GBP	Euro
Assets				
Cash and cash equivalents	153,240	784	-	64,986
Trade and other receivables	251,416	-	-	302,026
Total	**404,656**	**784**	**-**	**367,012**
Liabilities				
Total payables and accruals	55,310	6,842	12,500	24,206
Finance lease obligations	-	-	-	-
Acquisition obligations, current	-	-	296,333	-
Acquisition obligations, balance	-	-	-	-
Total	**55,310**	**6,842**	**308,833**	**24,206**

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	(40,466)	(78)	-	(36,701)
Monetary Liabilities	5,531	684	30,883	2,421
Net gain (loss)	**(34,935)**	**606**	**30,883**	**(34,280)**

Gain (loss) on $0.10 decrease in CAD	**USD**	**AUD**	**GBP**	**Euro**
Monetary Assets	40,466)	78)	-	36,701
Monetary Liabilities	(5,531)	(684)	(30,883)	(2,421)
Net gain (loss)	**34,935**	**(606)**	**(30,883)**	**34,280**

v. 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 December 31, 2011, the total of such payments was $236,985 (£150,000).

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. As at December 31, 2011, the total of such payments was $1,184,925 (£750,000).

vi. Sensitivity analysis

Assuming a 100-basis point increase in RBC prime rate, as at December 31, 2011, the impact on income before income taxes would be a negative adjustment of $14,219 (£9,000).

Operating Risks

The business of the Company is subject to a number of risks and uncertainties associated with its business for the marketing and distribution of its products and services.

i. Distribution Network Development

The Company has continued to develop new sales and distribution networks around the world. A primary objective of the Company's business plan includes the identification and development of new networks, however there can be no assurances of the amount of revenue that will be generated from these efforts.

To help mitigate the risk, the Company requires new distributors to agree to purchase a minimum amount of inventory in each year of the agreement to retain territorial exclusivity.

ii. **Competition Risk**

Although the ESM™ and ECO³™ are unique products and the Company is not aware of any direct competitors, there is a possibility that new technologies will be developed that allow direct competition as energy saving activities gain more and more public support. This direct competition may adversely affect the Company's operating results and even its ability to sustain the business.

To mitigate the risk of competition, Smartcool engages in ongoing competitive research, carefully monitoring any other potentially competitive products in the market. Smartcool also dedicates resources towards product development in order to stay ahead of any potential competitors and satisfy market demands.

iii. **Reliance on Key Personnel**

The Company is dependent on certain key members of its management team, the CEO, the Executive VP, CFO and VP of Operations. If any of these individuals are unavailable for any reason, the ability of the Company in the short term to implement its business plan and continue successful development of product sales and distribution would be materially and adversely affected.

To help mitigate the risk, Smartcool is working towards full process documentation to assist in the scalability of the business and facilitate training of new personnel. Smartcool is also investing in software to assist with sharing knowledge, documents and best practices across the business.

iv. **Concentration on a single supplier**

The Company relies on Tiller Manufacturing for the manufacturing and development of its products, ESM™ and ECO³™. This puts the company at risk should any disruption to Tiller's business occur.

To mitigate this risk, Smartcool is bringing more product research and development in house, and is exploring the options for alternative manufacturers of its products.

Subsequent Events

On January 23, 2012 the Company announced that further to its news release dated January 17, 2012, it had completed a non-brokered private placement consisting of 2,678,571 common shares at a price of $0.14 per share for gross proceeds of $375,000.

The common shares issued pursuant to this private placement are subject to four-month resale restriction that expires on May 21, 2012.

The proceeds raised will be used for general working capital and purchase of inventory.

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 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 relationships	5 years

Total amortization for the three months ended December 31, 2011 of $566,253 is included under net loss for the period on the statement of operations.

Accounting standards issued but not yet effective

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

Financial Instruments – Disclosures: The International Accounting Standard Board (the "IASB") has issued an amendment to IFRS 7, "Financial Instruments: Disclosures" (the "IFRS 7 amendment") requiring incremental disclosures regarding transfers of financial assets. The IFRS 7 amendment is effective for annual periods beginning on or after July 1, 2011. The Company will apply the amendment at the beginning of the 2012 financial year and does not expect the implementation to have a significant impact on disclosures.

Deferred Taxes – Recovery of Underlying Assets: The IASB has issued an amendment to IAS 12, "Income Taxes" (the "IAS 12 amendment") that introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value. This amendment is effective for annual periods beginning on or after January 1, 2012. The Company will apply the amendment at the beginning of the 2012 financial year and does not expect the implementation to have a material impact on the Company's financial statements.

Financial Instruments: The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9") which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement ("IAS 39") . The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting of financial instruments and the issuance of IFRS 9 is part of the first phase of this project. This standard becomes effective on January 1, 2013. The Company has not assessed the impact of this new standard.

Consolidated Financial Statements: The IASB has issued a new standard, IFRS 10, which 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" and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The company is currently evaluating the impact of this standard on its consolidated financial statements.

Fair value measurements: The IASB has issued IFRS 13, which 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 (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The company is currently evaluating the impact of this standard on its consolidated financial statements.

The IASB has issued an amendment to IAS 1 "Presentation of financial statements" ("IAS 1 amendment"), which requires the presentation of items of other comprehensive income ("OCI"), classified by nature, to be grouped into items that will not be reclassified subsequently to profit or loss; and items that will be reclassified subsequently to profit or loss when specific conditions are met. The IAS 1 amendment is effective for annual periods beginning on or after July 1, 2012. IAS 1 amendment is not applicable to the Company.

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.