SMARTCOOL™

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

For the years ended December 31, 2014 and 2013
Expressed in Canadian Dollars

www.smartcool.net

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Smartcool Systems Inc.,

We have audited the accompanying consolidated financial statements of Smartcool Systems Inc. and its subsidiaries, which comprise the consolidated statement of financial position as at December 31, 2014 and the consolidated statements of operations, comprehensive income (loss), cash flows, and shareholders' equity for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the consolidated financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Smartcool Systems Inc. and its subsidiaries as at December 31, 2014 and their financial performance and their cash flows for the year ended December 31, 2014 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describe matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Other Matter

The consolidated financial statements of Smartcool Systems Inc. and its subsidiaries as at and for the year ended December 31, 2013, were audited by another auditor who expressed an unmodified opinion on those statements in their report to the shareholders dated April 25, 2014.

CHARTERED ACCOUNTANTS

De Visser Gray LLP

Vancouver, Canada
April 30, 2015

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Smartcool Systems Inc.

Consolidated statements of financial position

(Expressed in Canadian dollars, unless otherwise stated)

	December 31 2014	December 31 2013
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	15,490	28,036
Trade and other receivables (note 3)	146,918	247,496
Inventory (note 4)	15,286	223,642
Prepaid expenses and deposits	74,887	91,120
	252,581	590,294
Property and equipment (note 5)	45,448	83,834
Intangible assets (note 6)	2,227,666	3,503,047
Total assets	**2,525,695**	**4,177,175**
LIABILITIES		
Current liabilities		
Trade payables and accruals (notes 8 and 17)	899,735	801,077
Short-term loan (note 9)	67,238	131,111
Current portion of obligations under acquistion contracts (note 10)	192,623	166,295
Current portion of debentures (note 12)	259,470	149,712
Current portion of deferred tenant inducement	6,744	16,166
	1,425,810	1,264,361
Obligations under acquisition contracts (note 10)	193,596	235,712
Debentures (note 12)	-	99,371
Deferred tenant inducement	-	6,744
Deferred tax liability (note 14)	249,919	445,754
Total liabilities	1,869,325	2,051,942
SHAREHOLDERS' EQUITY		
Share capital (note 13(a))	30,733,413	30,309,075
Reserve for equity settled share based transactions (note 13(b)(c))	5,994,511	5,847,515
Foreign currency translation adjustment	(385,806)	(129,636)
	36,342,118	36,026,954
Deficit	(35,685,748)	(33,901,721)
	656,370	2,125,233
Total liabilities and shareholders' equity	**2,525,695**	**4,177,175**

Approved and authorized for issue by the Board of Directors on April 30, 2015

"George Burnes" "Theodore Konyi"

SMARTCOOL™

Smartcool Systems Inc.

Consolidated statements of operations

(Expressed in Canadian dollars, unless otherwise stated)

	2014 $	2013 $
Continuing Operations		
Revenue	738,121	858,636
Cost of sales	171,155	214,947
Gross profit	566,966	643,689
Operating Expenses		
General and administrative expenses (note 19)	1,367,476	1,058,940
Share-based payments (note 13(b))	91,910	82,278
Amortization and depreciation (notes 5 and 6)	378,348	290,380
	1,837,734	1,431,598
Operating loss	(1,270,768)	(787,909)
Rental income (note 15)	116,008	116,028
Impairment of intangible assets (note 6)	(175,313)	-
Finance expense	(78,069)	(106,321)
Foreign exchange gain (loss)	517,594	(42,256)
Inventory received from third party (notes 4 and 21)	25,378	-
Gain on debt settlement (note 6)	-	453,394
Gain on sale of property and equipment (note 5)	-	732
	405,598	421,577
Loss before income tax	(865,170)	(366,332)
Income tax (expense) recovery (note 14)	15,770	(48,644)
Loss from continuing operations	**(849,400)**	**(414,976)**
Discontinued Operations		
Income (loss) from discontinued operations, net of ta›	**(934,627)**	**823,271**
Net income (loss) for the year	**(1,784,027)**	**408,295**
Net income (loss) per share		
Basic	(0.02)	0.01
Diluted	(0.02)	0.01
Continuing operations	(0.01)	(0.01)
Weighted average number of common shares outstanding (basic and diluted)	**85,978,338**	**71,259,900**

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.
Consolidated statements of comprehensive income (loss)
(Expressed in Canadian dollars, unless otherwise stated)

	2014	2013
	$	$
Net income (loss) for the year	**(1,784,026)**	**408,295**
Foreign currency translation adjustment	(256,170)	1,502
Total comprehensive income (loss)	**(2,040,196)**	**409,797**

Smartcool Systems Inc.
Consolidated statements of cash flows
(Expressed in Canadian dollars, unless otherwise specified)

	2014	2013
	$	$
Cash flows from operating activities		
Loss for the year	(1,784,027)	408,295
Items not affecting cash:		
Depreciation of property and equipment	29,040	67,153
Amortization of intangible assets	637,108	598,668
Impairment of intangible assets	704,029	-
Loss (gain) on sale of property and equipment	-	(732)
Gain on debt extinguishment	-	(2,514,205)
Inventory acquired at no charge	(25,378)	-
Stock-based compensation	91,910	82,278
Deferred tax liability	(195,835)	(31,523)
Deferred tenant inducement	(16,168)	(15,053)
Foreign exchange (gain) loss	(54,987)	47,397
Accrued interest on short-term loans	6,127	6,111
Accrued interest on debentures	42,582	70,550
Accrued interest on obligations under acquisition contract	-	168,040
Accretion of obligation under acquisition contract	46,757	3,134
	(518,842)	(1,109,887)
Changes in non-cash working capital items:		
Trade and other receivables	100,578	501,640
Inventory	233,734	90,842
Prepaid expenses and deposits	16,233	(25,876)
Trade payables and accruals	98,658	(139,791)
Net cash flows used in operating activities	(69,639)	(683,072)
Cash flows from investing activities		
Disposal of property and equipment	24,930	10,581
Purchase of property and equipment	(15,677)	(2,499)
Net cash provided by investing activities	9,253	8,082
Cash flows from financing activities		
Shares and warrants issued for cash net of issue costs	479,424	473,683
Short-term loan	(70,000)	125,000
Decrease in debentures	(32,195)	-
Decrease in obligations under acquisition contracts	(73,219)	(124,900)
Increase (decrease) in finance leases	-	(19,409)
Net cash provided by financing activities	304,010	454,374
Net increase (decrease) in cash and cash equivalents	243,624	(220,616)
Effects of exchange rates changes on cash	(256,170)	1,502
Cash and cash equivalents, beginning of period	28,036	247,150
Cash and cash equivalents, end of period	15,490	28,036

Supplemental cash flow information (note 21)

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.
Consolidated statements of shareholders' equity
(Expressed in Canadian dollars, unless otherwise stated)

	Share capital	Reserve for equity settled share based transactions	Foreign currency translation adjustment	Deficit	Total Shareholders' Equity
	$	$	$	$	$
Balance at January 1, 2013	**29,835,392**	**5,712,544**	**(131,138)**	**(34,310,016)**	**1,106,782**
Net income	-	-	-	408,295	408,295
Foreign currency translation adjustment	-	-	1,502	-	1,502
Total comprehensive income for the year	-	-	1,502	408,295	409,797
Share issued for:					
Private placement	500,000	-	-	-	500,000
Warrants	-	52,693	-	-	52,693
Share issue costs	(26,317)	-	-	-	(26,317)
Share-based compensation	-	82,278	-	-	82,278
Balance at December 31, 2013	**30,309,075**	**5,847,515**	**(129,636)**	**(33,901,721)**	**2,125,233**
Net loss	-	-	-	(1,784,027)	(1,784,027)
Foreign currency translation adjustment	-	-	(256,170)	-	(256,170)
Total comprehensive loss for the year	-	-	(256,170)	(1,784,027)	(2,040,197)
Share issued for:					
Private placement	430,600	-	-	-	430,600
Warrants	-	55,900	-	-	55,900
Share issue costs	(6,262)	(814)	-	-	(7,076)
Share-based compensation	-	91,910	-	-	91,910
Balance at December 31, 2014	**30,733,413**	**5,994,511**	**(385,806)**	**(35,685,748)**	**656,370**

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2014
(expressed in Canadian dollars, except where otherwise indicated)

1. Nature of Operations and Going Concern

Smartcool Systems Inc. ("Smartcool" or the "Company"), which was incorporated on August 31, 2000 under the Canada Business Corporations Act as 378211 Canada Inc., changed its name to Citotech Systems Inc. on October 16, 2000, and changed its name again to Smartcool Systems Inc. on July 20, 2004.
In 2004, the Company incorporated a wholly owned subsidiary, Smartcool Systems (USA) Inc. ("Smartcool USA"), under the laws of Nevada. Smartcool International Inc. ("Smartcool International"), another wholly owned subsidiary, was incorporated in Barbados in June 2006. In April 2008, the Company completed the incorporation of its subsidiary, Smartcool Systems (EMEA) Ltd. ("Smartcool EMEA"), headquartered in Alton, England. In February 2011, Smartcool EMEA acquired all the outstanding shares of Smartcool Systems UK ("Smartcool UK"), also headquartered in Alton, England.

In response to an unexpected shift, which management believes is short-term in nature, in energy saving strategies of European customers, the Company has decided to redirect the region's focus from direct sales to distribution sales for the medium term. Smartcool EMEA and Smartcool UK were discontinued through voluntary liquidation in September 2014 and a new wholly owned subsidiary, Lenten Street Limited, was incorporated in Alton in October 2014 to assume the distribution rights previously granted to Smartcool UK and Smartcool EMEA.

The Company's shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at 2551 Eddington Drive, Vancouver B.C. V6L 2G2

Smartcool and its subsidiaries are focused on acquiring, commercializing, and marketing energy saving technologies for commercial and retail businesses. 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.

During the year ended December 31, 2014, the Company had a net loss of $(1,784,027) (2013 – net income of $408,295), with $849,400 (2013 – loss of $414,976) from continued operations and $934,627 (2013 – income of $823,271) from discontinued operations.

The company had a deficit of $35,685,748 as at December 31, 2014 (2013 - $33,901,721). As at December 31, 2014, the Company had negative working capital of $1,173,229 (2013 - $674,067).

The Company has successfully negotiated a reduction of its acquisition obligations and further improved its working capital by obtaining capital financing in 2014 and early 2015. To ensure that the Company continues to be a going concern through 2015, the Company has reduced its manufacturing costs significantly and secured more predictable revenue generation by way of software licensing.

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.

Management is aware, in making its assessment, that these material uncertainties are related to events or conditions that 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.

2. Significant Accounting Policies

Basis of Presentation and Statement of Compliance

The consolidated financial statements of the Company and its subsidiaries, including comparative amounts, have been prepared in accordance with and using accounting policies in full compliance with International Financial Reporting Standards ("IFRS") and International Accounting Standards ("IAS") issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), effective for the Company's reporting for the year ended December 31, 2014.

The Company's consolidated 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 18, 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 amortization
- Impairment – the assessment of impairment of intangible assets
- Inventory valuation – the provision for obsolescence of inventory and net realizable value
- Receivable valuation – the recoverability of trade receivables
- Debentures – discount rate used in fair value calculation of the debentures
- Contingencies – any future contingencies and commitments
- Going concern – the assessment of the Company's ability to continue as a going concern

Basis of Consolidation

The Company consolidates subsidiaries controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. 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, Lenten Street, Smartcool EMEA and Smartcool UK from February 28, 2011, the date of acquisition. All inter-company transactions, balances, revenues and expenses, have been eliminated. The financial statements of the subsidiaries are prepared for the same reporting period as the parent Company, using consistent accounting policies, in all material aspects.

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. Goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Company's cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Foreign Currency

The functional currency of Smartcool 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 and Lenten Street 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".

The assets and liabilities of foreign operations are translated into Canadian dollars at the exchange rate at period end and statement of operations items are translated using the exchange rates at the date of the transactions. All resulting exchange differences are taken directly to a separate component of equity, foreign currency translation adjustment reserve. On disposal of a foreign operation, the deferred cumulative amount recognized in the foreign currency translation adjustment reserve relating to that particular foreign operation is recognized in foreign exchange gain or loss in the statement of operations.

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 or loss.

Revenue Recognition

Revenue from the sale and installation of the ESM™ and ECO3™ is recognized when the ESM™ and 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™ and 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 the 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, the reserve for equity settled share-based transactions, 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 the reserve is reversed. 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.

When the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement or is otherwise beneficial to the employee as measured at the date of modification.

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 bringing 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.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. Amortization is computed using the straight line method over the assets' estimated useful lives, less their estimated residual value, at the following rates:

Computer hardware	2-3 years
Computer software	1-5 years
Testing and demonstration equipment	2-3 years
Office equipment and furniture	4-5 years
Motor vehicles	4 years
Leasehold improvements	Shorter of term of the lease and useful life

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on the disposal of the asset is calculated as the difference between the net disposal proceeds and the carrying value of the asset, and recognized in profit or loss.

Residual value and estimated useful lives are reviewed annually.

Intangible Assets

a. *Research and development*

Research costs are expensed as incurred. Development costs are expensed as incurred unless they can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use the asset.

b. *Goodwill*

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. 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.

c. *Other 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. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The ESM™ brand has been determined to have an indefinite life and is not amortized. The remaining intangible assets with finite lives are amortized on a straight-line basis. During the year ended December 31, 2013, management re-assessed the useful lives of the intangible assets as follows:

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

Residual value and estimated useful lives are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates.

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 recognized in respect 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 or loss for the period they are 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 had been recognized. An impairment loss with respect to goodwill is never reversed.

c. ***Financial assets***

Financial assets, other than those at fair value through profit and loss ("FVTPL"), are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Impairment of financial assets carried at amortized cost, is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade and other receivables, is directly reduced by the impairment loss. Uncollectible amounts in trade and other receivables are written off against the allowance account.

Available-for-sale financial assets are impaired if the cost (net of any principal payment and amortizations) is greater than the current fair value, less any impairment previously recognized in profit or loss. The impairment amount is transferred from equity to the statement of operations. Reversals of available-for-sale financial assets are not recognized in profit.

For all other financial assets carried at amortized cost in which impairment was previously recognized, if subsequent measurement indicates that the recorded impairment has decreased, and the decrease can be related objectively to an event occurring after the impairment was recognized, then the reversal of the impairment is recognized in the statement of operations. On the date of the impairment reversal, the carrying value of the financial asset cannot exceed its amortized cost had impairment not been recognized.

Financial Instruments

a. ***Financial assets***

The Company classifies its financial assets in the following categories: FVTPL, held to maturity investments, available-for-sale financial assets, and loans and receivables. The classification depends on the nature and purpose for which the financial assets were acquired. Management determines the classification of financial assets at initial recognition.

i. Financial assets at FVTPL

Financial assets are classified as FVTPL when the financial asset is held for trading or is designated as FVTPL on initial recognition.

A financial asset is classified as held for trading when it is purchased and incurred with the intention of generating profits in the near term, part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit-taking, or is a derivative that is not designated and effective as a hedging instrument.

Financial assets classified as FVTPL are stated at fair value with any resulting gain or loss recognized in profit or loss. Transaction costs are expensed in the period in which the costs are incurred.

The Company's only financial asset classified as FVTPL is cash and cash equivalents.

Cash and cash equivalents consist of cash on deposit and highly liquid investments that are readily convertible into cash with maturities of three months or less when purchased. The Company did not hold any cash equivalents as at December 31, 2014 and December 31, 2013.

ii. Held to maturity investments

Held to maturity investments are measured at amortized cost using the effective interest rate method. Transaction costs are added and amortized to the statement of operations over the life of the financial instrument on an effective yield basis.

The Company classifies short-term investments of interest bearing term deposits with maturity dates of more than three months as held to maturity investment. Interest on these term deposits is recognized in the consolidated statement of operations using the effective interest method.

The Company did not hold any held-to-maturity investments as at December 31, 2014 and December 31, 2013.

iii. Available-for-sale financial assets

Financial assets classified as available-for-sale are carried at fair value (where determinable based on market prices of actively traded securities) with changes in fair value recorded in other comprehensive income. Available-for-sale securities are written down to fair value through earnings whenever it is necessary to reflect other-than temporary impairment.

The Company did not hold any available-for-sale financial assets as of December 31, 2014 and December 31, 2013.

iv. Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are measured at amortized cost using the effective interest method, less any impairment.

The Company classifies trade and other receivables as loans and receivables.

v. Derecognition of financial assets

A financial asset is derecognized when the contractual right to the asset's cash flows expires or if the Company transfers the financial asset and substantially all risks and rewards of ownership to another entity.

b. *Financial Liabilities*

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

i. Other financial liabilities

Other financial liabilities are initially measured at fair value, net of transaction costs, and subsequently measured at amortized cost, with any resulting premium or discount from the face value being amortized to income or expense using the effective interest method.

The Company classifies trade payables and accruals, short-term loan, obligations under acquisition contracts and debentures as other financial liabilities.

ii. Derecognition of financial liabilities

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled, or expired. A substantial modification of the terms of a financial liability or a part of it is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. The difference between the carrying amount of the financial liability extinguished and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognized in profit or loss.

Share Purchase Warrants

The Company issues 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 issues warrants to agents as compensation for services. The fair value of these warrants is determined to be the difference between agent's standard all-cash compensation and compensation with warrants. Warrants are also issued as non-cash consideration for business acquisitions. The fair value of these warrants is determined based on Black-Scholes Option Pricing Model.

Leases

Leases are classified as finance leases if the Company bears substantially all risks and rewards of ownership of the leased asset. At the inception of the lease, the asset is recognized at the lower of fair value and the present value of the minimum lease payments, and a corresponding amount is recognized as a finance lease obligation. The cost of the assets acquired under finance leases are depreciated on a basis consistent with that for depreciable assets that are owned. The cost of the asset is depreciated over the estimated useful life or the lease term, whichever is shorter, when it is not reasonably certain that the Company will obtain ownership by the end of the lease term. Obligations recorded under finance leases are reduced by lease payments, net of finance charges. Finance charges are charged to profit or loss over the lease term. All other leases are classified as operating leases. Operating lease payments are recognized as an expense on a straight-line basis over the lease term.

(Income) Loss per Share

Basic (income) loss per share is computed using the weighted average number of common shares outstanding during the year. Diluted loss per share amounts are calculated giving effect to the potential dilution that would occur if warrants and stock options were exercised or converted to common shares using the treasury stock method. The treasury stock method assumes that proceeds received from the exercise of stock options and warrants are used to repurchase common shares at the prevailing market rate. The outstanding warrants and options to purchase common shares were excluded from the calculation of diluted loss per share, because their impact would have been anti-dilutive.

Income Taxes

Income tax expense (recovery) in the statement of operations for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is calculated using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; the initial recognition of goodwill or a transaction, other than a business combination, that affects neither accounting profit nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, the tax assets will be classified as unrecognized tax assets.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Comparative Figures

Certain comparative figures have been adjusted to conform to the current year’s presentation.

Changes in Accounting Policies

A number of standards and amendments were issued effective for accounting periods beginning on or after January 1, 2014. Many of these updates are not applicable to the Company. As of January 1, 2014, the Company adopted the following IFRS standards and amendments:

- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities clarifies that an entity currently has a legally enforceable right to set-off if that right is:
  a) not contingent on a future event; and
  b) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

- IFRS 10 (Amendment), "Consolidated Financial Statements" includes an exception to specific consolidation requirements for investment entities.

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

Accounting Standards Issued but not yet Effective

At the date of authorization of these consolidated financial statements, the IASB and IFRIC have issued the following new and revised standards and amendments which are not yet effective:

- IFRS 9, "Financial Instruments". This standard is effective for annual periods beginning on or after January 1, 2018 and replaces IAS 39 and IFRIC 9 for classification and measurement of financial assets and financial liabilities.

- IFRS 15 – Revenue from Contracts with Customers. This standard is effective for annual periods ending on or before December 31, 2017 and is available for early adoption and replaces IAS 11 Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31Revenue – Barter Transactions Involving Advertising Services.

3. Trade Receivables

	December 31, 2014	December 31, 2013
[1]Trade receivables, net of allowances for doubtful accounts	$138,258	$240,719
Other receivables	8,660	6,777
	$146,918	**$247,496**

Allowance for doubtful accounts as at December 31, 2014 was $235,955 (2013 - $619,342).

At December 31, 2014, the analysis of trade receivables that were past due but not impaired is as follows:

	December 31, 2014	**December 31, 2013**
Neither past due nor impaired	$ 86,459	$88,133
< 30 days	-	34,314
30-60 days	-	67,159
60-90 days	5,843	19,657
90-120 days	-	-
> 120 days	45,956	31,456
	$138,258	**$240,719**

All trade and other receivables are classified as current assets. In determining the recoverability of a trade or other receivable, the Company performs a risk analysis considering the type and age of the outstanding receivable, as well as the Company's exposure to credit and currency risks as disclosed in note 18.

4. Inventory

	December 31, 2014	**December 31, 2013**
ESM™ ECO3™	$11,744	$184,170
Other products	3,542	39,472
	$15,286	**$223,642**

For the year ended December 31, 2014, total inventories of $172,747 were recognized as costs of sales (2013 - $334,272) and $70,979 were written down upon the liquidation of Smartcool UK (2013 - $0).

During the year, the Company received $25,378 in inventory from a third party for no consideration. This amount has been recorded as other income the statement of operations.

SMARTCOOL™

5. Property and Equipment

Cost

	Computers	Testing and demonstration equipment	Office equipment and furniture	Motor vehicles	Leasehold improvements	Total
Balance at January 1, 2013	**$262,438**	**$231,212**	**$44,782**	**$95,128**	**$116,318**	**$749,878**
Additions	2,102	-	397	-	-	2,499
Disposals	(2,075)	-	-	(25,165)	-	(27,240)
Effect of change in foreign exchange rates	4,369	12,931	2,002	5,447	-	24,749
Balance at December 31, 2013	**266,834**	**244,143**	**47,181**	**75,410**	**116,318**	**749,886**
Additions	2,047	3,374	-	4,859	-	10,280
Disposals	(39,349)	(17,584)	(22,838)	(75,410)	-	(155,181)
Effect of change in foreign exchange rates	1,600	16,157	512	33	-	18,302
Balance at December 31, 2014	**$ 231,132**	**$ 246,090**	**$ 24,855**	**$4,892**	**$116,318**	**$ 623,287**

Accumulated Depreciation and Impairment

	Computers	Testing and demonstration equipment	Office equipment and furniture	Motor vehicles	Leasehold improvements	Total
Balance at January 1, 2013	**$187,840**	**$226,011**	**$36,496**	**$54,252**	**$88,210**	**$592,809**
Depreciation	24,602	5,673	3,849	21,397	11,632	67,153
Disposals	(1,184)	-	-	(18,290)	-	(19,474)
Effect of change in foreign exchange rates	4,058	11,959	2,679	6,868	-	25,564
Balance at December 31, 2013	**215,316**	**243,643**	**43,024**	**64,227**	**99,842**	**666,052**
Depreciation	17,003	-	-	405	11,632	29,040
Disposals	(34,645)	(17,085)	(19,353)	(64,228)	-	(135,311)
Effect of change in foreign exchange rates	1,549	16,134	374	1	-	18,058
Balance at December 31, 2014	**$ 199,223**	**$ 242,692**	**$ 24,045**	**$405**	**$ 111,474**	**$577,839**

Carrying Value

	Computers	Testing and demonstration equipment	Office equipment and furniture	Motor vehicles	Leasehold improvements	Total
Balance at January 1, 2013	$74,598	$5,201	$8,286	$40,876	$28,108	$157,069
Balance at December 31, 2013	$51,518	$500	$4,157	$11,183	$16,476	$83,834
Balance at December 31, 2014	**$31,909**	**$3,398**	**$810**	**$4,487**	**$4,844**	**$45,448**

Depreciation expense for assets under capital lease recorded for 2014 was $6,746 (2013 - $21,397).

As at December 31, 2014, the Company had no assets under capital lease (2013 – net assets of $11,183).

During the year ended December 31, 2014, the Company sold property and equipment for proceeds of $18,298 (2013 - $10,581) resulting in a gain of $13,479 (2013 - $732).

6. Intangible Assets

Indefinite Lives

As at December 31, 2014, ESM™ brand (b) had a carrying value of $56,100 and is not subject to amortization due to having an indefinite useful life.

Definite Lives

	Cost						
	North American distribution rights	ESM™ intellectual property	Distribution agreements	Supplier agreements	EMEA & UK distribution rights	Customer relationship	Total
Balance at January 1, 2013	**$256,982**	**$124,100**	**$1,861,742**	**$113,651**	**$4,733,689**	**$1,078,091**	**$8,168,255**
Effect of change in foreign exchange rates	12,366	-	-	-	303,091	96,560	412,017
Balance at December 31, 2013	**269,348**	**124,100**	**1,861,742**	**113,651**	**5,036,780**	**1,174,651**	**8,580,272**
Effect of change in foreign exchange rates	17,370	-	-	-	115,438	36,718	169,526
Balance at December 31, 2014	**$ 286,718**	**$124,100**	**$1,861,742**	**$113,651**	**$ 5,152,218**	**$ 1,211,369**	**$ 8,749,798**

	Accumulated Amortization and Impairment						
	North American distribution rights	ESM™ intellectual property	Distribution agreements	Supplier agreements	EMEA & UK distribution rights	Customer relationship	Total
Balance at January 1, 2013	**$256,982**	**$80,665**	**$968,519**	**$73,873**	**$2,369,912**	**$540,311**	**$4,290,262**
Amortization	-	6,205	113,288	5,685	396,996	76,494	598,668
Effect of change in foreign exchange rate	12,366	-	-	-	176,445	55,584	244,395
Balance at December 31, 2013	**269,348**	**86,870**	**1,081,807**	**79,558**	**2,943,353**	**672,389**	**5,133,325**
Amortization	-	6,204	141,907	5,685	405,477	77,835	637,108
Impairment	-	-	175,313	-	344,251	184,465	704,029
Effect of change in foreign exchange rate	17,370	-	-	-	65,654	20,746	103,770
Balance at December 31, 2014	**$ 286,718**	**$ 93,074**	**$ 1,399,027**	**$ 85,243**	**$ 3,758,735**	**$ 955,435**	**$ 6,578,232**

Carrying Value							
	North American distribution rights	ESM™ intellectual property	Distribution agreements	Supplier agreements	EMEA & UK distribution rights	Customer relationship	Total
Balance at January 1, 2013	$ -	$43,435	$893,223	$39,778	$2,363,777	$537,780	$3,877,993
Balance at December 31, 2013	$ -	$37,230	$779,935	$34,093	$2,093,427	$502,262	$3,446,947
Balance at December 31, 2014	**$ -**	**$ 31,026**	**$ 462,715**	**$ 28,408**	**$ 1,393,483**	**$ 255,934**	**$2,171,566**

- ***ESM™ Intellectual Property and worldwide distribution rights***

The Company acquired intangible assets in relation to the acquisition of Abbotly Technologies Inc. in March 2006.

As at December 31, 2014 and 2013, the cost of distribution agreements consisted of:

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

During the year ended December 31, 2014, management performed a review of the carrying value of these assets. As discrepancies between revenue projections and actual operating results in 2014 have resulted in significant uncertainty in future cash generation of these assets, an impairment loss of $175,313 was recorded based on cash flow projections as at December 31, 2014.

- ***Distribution Rights from TECC Services***

In July 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") (see note 10).

- ***Intangible assets from Smartcool UK***

In February 2011, the Company acquired intangible assets in relation to the acquisition of Smartcool UK.

These intangible assets include the distribution rights of the ESM™ in the United Kingdom, the distribution right related to sales to a major customer and a customer relationship.

During the year ended December 31, 2014, management performed a review of the carrying value of these assets. As discrepancies between revenue projections and actual operating results in 2014 have resulted in significant uncertainty in future cash generation of these assets, an impairment loss of $528,716 was recorded based on cash flow projections as at December 31, 2014 as follows.

	Impairment
Distribution rights - major customer	$344,251
Customer relationship	184,465
Total impairment	**$528,716**

7. Capitalized Development Costs

During the year ended December 31, 2014, the Company incurred $7,227 of research and development costs that were fully expensed (2013 - $29,430).

8. Warranty Provision

	December 31, 2014	December 31, 2013
Balance, beginning of year	$17,822	$27,015
Change in provision made during the year	(14,107)	(5,460)
Provisions used during the year	(307)	(1,158)
Effect of change in foreign exchange	208	(2,575)
Balance, end of year	**$3,616**	**$17,822**

The Company provides a one to five year warranty to repair or replace defective components with respect to its product sales. The warranty provision includes management's best estimate from historical data of the total costs of all raw materials and labour required to repair all known issues related to all products that were sold and shipped prior to year end. This provision is included in trade payables and accruals.

9. Short-term Loan

On May 20, 2013, the Company obtained a short term loan of $125,000 from an investor. The loan had annual interest rate of 6% and matured in three months, on August 20, 2013. The loan's maturity date has been extended to May 25, 2015 and the interest rate reset to 8%. As at December 31, 2014, the outstanding balance was $67,238 (2013 - $131,111), including accrued interest.

Interest expense for the year ended December 31, 2014 was $6,127 (2013 - $6,111).

10. Obligations Under Acquisition Contracts

TECC Services

In July 2008, the Company acquired the exclusive rights to distribute the ESMTM in the United Kingdom, Spain, Portugal, and the Middle East from T.E.C.C. Consideration of $1,738,750 (£1,035,000) was payable in cash and $532,067 (£265,000) was payable in 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 instalments over four years with the last payment due on July 16, 2012. The obligation amount of $1,204,680 (£600,000) was originally non-interest bearing and was recorded at its present value using a discount rate of 16%. The purchase agreement was then amended in 2009 and again in 2012 to accrue interest at Royal Bank of Canada prime rate plus 4% and to adjust timing and amount of repayments.

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

The fair values of the new obligations were determined to be $155,182 (£88,950) and $73,317 (£42,025) based on discounting the future payments at 16%. The obligations under the acquisition contracts are being accreted to their face value over their term. The accretion charge for the period is recorded within interest expense.

This debt settlement resulted in a gain of $658,215 for the year ended December 31, 2013.

As at December 31, 2014, the outstanding balance was $276,893 (£153,225). The Company was unable to make payments totaling $70,296 (£38,900) as scheduled. However, the Company successfully re-negotiated the terms.

Balance, January 1, 2013	**$776,611**
Accrued interest	45,968
Foreign exchange	64,135
Debt reduction	(658,215)
Balance, December 10, 2013	**228,499**
Accretion	2,154
Foreign exchange	2,372
Balance, December 31, 2013	**233,025**
Accretion	38,303
Foreign exchange	5,565
Balance, December 31, 2014	**276,893**
Current portion	(110,801)
Long-term portion	**$166,092**

Smartcool UK

In February 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 (note 6). 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. The Company was unable to make the first quarterly payment as scheduled.

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

Their fair values were determined to be $126,048 (£72,250) and $40,230 (£23,060), respectively, based on discounting the future payments at 10%. The obligations under the acquisition contracts are being accreted to their face value over their term. The accretion charge for the period is recorded within interest expense.

This debt settlement resulted in a gain of $1,863,596 for the year ended December 31, 2013.

As at December 31, 2014, the outstanding balance was $109,326 (£60,498). The Company was unable to make payments totaling $74,272 (£41,100) as scheduled. However, the Company successfully re-negotiated the terms.

Balance, January 1, 2013	**$1,759,746**
Accrued interest	122,072
Foreign exchange	148,056
Debt reduction	(1,863,596)
Balance, December 10, 2013	**166,278**
Accretion	980
Foreign exchange	1,724
Balance, December 31, 2013	**168,982**
Accretion	8,454
Payments	(73,219)
Foreign exchange	5,109
Balance, December 31, 2014	**109,326**
Current portion	(81,822)
Long-term portion	**$27,504**

At December 31, 2014, the carrying amount of these obligations was as follows:

TECC and Smartcool UK Modified Acquisition Obligations	**TECC 1**	**TECC 2**	**UK 1**	**UK 2**	**Total**
Balance December 10, 2013	**$155,182**	**$73,317**	**$126,048**	**$40,230**	**$394,777**
Accretion	1,463	691	743	237	3,134
Foreign exchange	1,611	761	1,307	417	4,096
Balance, December 31, 2013	**158,256**	**74,769**	**128,098**	**40,884**	**402,007**
Accretion	26,033	12,270	4,256	4,198	46,757
Payments	-	-	(73,219)	-	(73,219)
Foreign exchange	3,764	1,801	4,114	995	10,674
Balance, December 31, 2014	**188,053**	**88,840**	**63,249**	**46,077**	**386,219**
Current portion	(74,574)	(36,227)	(63,249)	(18,573)	(192,623)
Long-term portion	**$113,479**	**$52,613**	**$-**	**$27,504**	**$193,596**

Pursuant to the negotiated extensions, these obligations are to be repaid as follows:

- £130,000 in five instalments of £26,000 on December 15, 2014 and June 15, 2015, 2016, 2017 and 2018;
- £95,000 in five instalments of £19,000 on December 15, 2014, 2015, 2016, 2017 and 2018; and
- £35,000 in a lump sum payment of £10,000 in January 2015 and monthly instalments of £4,000 until the debt has been repaid in full.

£225,000 of this debt is secured by non-interest bearing promissory notes and £35,000 is unsecured. These balances may be repaid at any time or from time-to-time without notice, bonus or penalty.

On February 3, 2015, the Company issued 722,000 common shares to settle £19,000 of this debt (note 13).

11. Finance Leases

Under the agreement of Smartcool UK acquisition, the Company assumed Smartcool UK's liabilities including five vehicle leases (notes 5). They have implied annual interest rate ranging from 5% to 10%. These leases expired in April 2012 and August 2013.

The carrying value of the leased assets as at December 31, 2014 was $0 (2012 - $11,183) (note 5).

12. Debentures

In 2010, the Company issued 122 debenture units at $5,000 per unit for aggregate proceeds of $610,000. Each unit comprised a debenture with a principal balance of $5,000 and 8,600 share purchase warrants. Finder's fees of $57,249 were paid to the brokers. The net proceeds of $552,751 were allocated between the fair values of the liability component ($544,650) and the equity component relating to the share purchase warrants ($8,101) using the residual method. The liability component was measured at amortized cost. The $8,101 was credited to the reserve for equity settled share-based transactions.

One whole warrant entitled 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 shares 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.

The Company did not make quarterly principal payments under the terms of the debentures and in January 2013 approached all holders requesting an extension of up to two years. The debenture holders agreed to extend the debentures effective March 1, 2013 under the following terms:

Two additional interest payments ($300 per unit) as specified by the original terms were added to outstanding principal balance; and

Interest of 12% on the outstanding principal balance will be paid quarterly commencing June 1, 2013.

The Company also agreed to issue 3,000 share purchase warrants for each unit and 351,000 new warrants were issued (note 13 c).

The terms of the debenture extension were significantly different from the original terms, resulting in a loss on debt extinguishment of $7,606. This loss was netted against the gain on debt settlement. The new principal balance of $345,090 was allocated between the fair values of the liability component ($292,397) and the equity component relating to the share purchase warrants ($52,693) using the residual method. The liability component is measured at amortized cost. The $52,693 was credited to the reserve for equity settled share-based transactions.

At December 31, 2014, the Company had 71 (2013 – 117) units outstanding. The principal balance and carrying amount of the debentures were as follows:

Debentures Principal Amount	
Outstanding principal balance, January 1, 2013	$ 308,490
Add: Additional interest payments	36,600
New outstanding principal balance, March 1, 2013	**$ 345,090**

Balance at January 1, 2013	**$348,520**
Accrued interest, January 1 to February 28, 2013	13,364
Interest payments, January 1 to February 28, 2013	(24,400)
Balance at March 1, 2013 before extension	**337,484**
Loss on debt extinguishment	7,606
Balance at March 1, 2013 before measurement of warrants	**$345,090**

Maturity date	**March 1, 2014**	**March 1, 2015**	**Total**
Balance at March 1, 2013	$77,768	$214,629	$292,397
Accrued interest	12,014	45,172	57,186
Interest payments	(5,668)	(22,722)	(28,390)
Principal payments	(52,129)	(19,981)	(72,110)
Balance at December 31, 2013	**$31,985**	**$ 217,098**	**$ 249,083**
Accrued interest	1343	49,595	50,938
Interest payments	(1,133)	(7,223)	(8,356)
Principal payments	(32,195)		(32,195)
Balance at December 31, 2014	**$ -**	**$259,470**	**$259,470**
Less: current portion		(259,470)	(259,470)
Balance		$-	$-

These debentures are not redeemable by the holder, are secured by a general security agreement over all assets of the Company, bear interest at 12% effective March 1, 2013, 50% of the new principal balance was to be repaid in equal quarterly instalments and the remaining 50% was to be repaid in one lump sum on March 1, 2015.

The Company was unable to make four principal payments totaling $120,384 scheduled for March 1, June 1, September 1 and December 1, 2014 and three interest payments totaling $21,669, scheduled for June 1, September 1 and December 1, 2014. On March 27, 2015, the Company reached a tentative agreement to refinance these debentures (note 23).

During 2014, accrued interest of $50,938 was calculated by applying the weighted average effective interest rate of 26% to the liability component of the extended debenture. During 2013, accrued interest of $70,550 was calculated by applying the weighted average effective interest rate of 26% to the liability component of the original debenture for the period from January 1 to February 28 ($13,364) and to the liability component of the extended debenture for the period from March 1 to December 31 ($57,186).

13. 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, 2013	**64,287,297**	**$29,835,392**
Issued for cash via private placements (i)(ii)	15,000,000	500,000
Share issuance costs	-	(26,317)
Balance, December 31, 2013	**79,287,297**	**30,309,075**
Issued for cash via private placements (iii)	9,730,000	430,600
Share issuance costs	-	(6,262)
Balance, December 31, 2014	**89,017,297**	**$30,733,413**

i. On June 7, 2013, the Company completed a non-brokered private placement consisting of 10,000,000 common shares at a price of $0.025 per share for aggregate gross proceeds of $250,000. Cash issuance costs of $15,911 were allocated to common shares.

ii. On September 30, 2013, the Company completed a non-brokered private placement consisting of 5,000,000 common shares at a price of $0.05 per share for aggregate gross proceeds of $250,000. Cash issuance costs of $10,406 were allocated to common shares.

iii. On April 25, 2014, the Company issued 9,730,000 Units at $0.05 per unit pursuant to a non-brokered private placement for gross proceeds of $486,500. Of this amount, $430,600 was allocated to share capital and $55,900 to share purchase warrants (note 13.c.ii). Each Unit consists of one common share and one-half warrant. Cash issuance costs of $6,242 were allocated to common shares.

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 2010, the stock option plan was amended to extend the option term to a maximum period of ten years.

As at December 31, 2014, all outstanding options have vesting periods of up to 5 years. A summary of the Company's stock option activity for employees, directors, officers and consultants is as follows:

	Number of share options	Weighted average exercise price
Balance, January 1, 2013	3,900,000	$0.28*
Granted	2,880,000	0.05
Forfeited and cancelled	(120,000)	0.53
Expired or exercised	(225,000)	0.08
Balance, December 31, 2013	6,435,000	$0.08
Granted	1,200,000	0.05
Forfeited and cancelled	(815,000)	0.11
Expired or exercised	(605,000)	0.10
Balance, December 31, 2014	**6,215,000**	**$0.07**

* 0.13 after repricing

In June 2013, the Company reduced the exercise price of 3,525,000 previously granted stock options held by employees, consultants and insiders of the Company (ranging from $0.20 to $0.33 per share) to an exercise price of $0.10 per share. This resulted in an incremental fair value of $38,283, calculated as the difference between the total fair value of the repriced stock options immediately before and after the modification. All of the options have a five-year term. There was no change in the option expiry date.

The fair value of the repriced options was estimated using the Black-Scholes Option Pricing Model assuming a risk free rate of 1.01% to 1.20%, and expected life of 2.54 years, an expected volatility between 104.69% and 139.51%, and no expected dividends.

During the year ended December 31, 2014, no options (2013 – 2,730,000, weighted average fair value $0.035) were granted to officers and employees and 1,200,000 (2013 – 150,000) options with weighted average fair value of $0.035 (2013 – $0.035) to consultants. The options granted in the year (2013 – Nil) had an exercise price ($0.05) lower than the stock price ($0.06) at the date of the grant.

Share-based payments for the year ended December 31, 2014 was $91,910 (2013 - $82,278) of which $52,279 (2013 – $75,978) was related to employees and $39,631 (2013 - $6,300) was related to consultants.

Additional information regarding share options outstanding at December 31, 2014, is as follows:

	Options Outstanding			Options Exercisable	
Range of exercise prices	**Number of options**	**Weighted average remaining contractual life (years)**	**Weighted average exercise price**	**Number of options**	**Weighted average exercise price**
$0.05 - $0.09	3,825,000	4.05	$0.05	2,568,750	$0.05
$0.10 - $0.19	2,390,000	1.10	$0.10	2,390,000	$0.10
	6,215,000	**2.92**	**$0.07**	**4,958,750**	**$0.07**

The Company used the Black-Scholes Option Pricing Model to determine the fair value of the options granted to employees and officers at the date of grant with the following assumptions:

	2014	2013
Risk-free interest rate	n/a	1.35% - 1.51%
Dividend yield	0%	0%
Volatility	n/a	107.72% - 111.49
Expected life	5 years	4.44 years

The fair value of options granted to consultants in 2014 was estimated based on the fees management would be willing to pay in cash for the service if no options were granted.

c. *Share purchase warrants*

i. Pursuant to the terms of the March 1, 2013 debenture extension, the Company issued 351,000 share purchase warrants to debenture holders. Each warrant entitles the holder to purchase one common share at a price of $0.15 until March 1, 2015. The fair value of these warrants was determined to be $52,693, using the residual method (note 12).

ii. On April 25, 2014, the Company issued 9,730,000 Units at $0.05 per unit pursuant to a non-brokered private placement for gross proceeds of $486,500. Of this amount, $430,600 was allocated to share capital and $55,900 to share purchase warrants.

As at December 31, 2014, the outstanding warrants had a weighted average share price of $0.10 (2013 - $0.24).

Share purchase warrants outstanding as at December 31, 2014 were as follows:

	Number of warrants	Weighted average share price
Balance, January 1, 2013	**9,115,865**	**$0.43**
Granted (note 12)	351,000	0.15
Expired, exercised or cancelled	(8,615,865)	0.44
Balance, December 31, 2013	**851,000**	**$0.24**
Granted	4,865,000	0.10
Expired, exercised or cancelled	(500,000)	0.30
Balance, December 31, 2014	**5,216,000**	**$0.10**

Expiry date	Number of shares	Exercise price	Weighted average contractual life (years)
March 1, 2015	351,000	0.15	0.17
April 25, 2015	4,865,000	0.10	0.32
Balance, December 31, 2014	**5,216,000**	**$0.10**	**0.31**

14. Income Taxes

Income tax recognized in the consolidated statement of operations:

	December 31, 2014	December 31, 2013
Deferred income tax recovery	$ 15,770	($35,132)
Current income tax expense	-	(13,512)
	$15,770	**($48,644)**

A reconciliation of expected tax recovery based on accounting loss at statutory tax rates to actual income tax recovery recorded:

	December 31, 2014	December 31, 2013
Expected tax expense (recovery) (2014 – 26%; 2013 – 26%)	($406,647)	($119,728)
Permanent and other differences	(780,274)	(120,784)
Effect of foreign tax rates	504,804	(133,989)
Change in unrecognized tax assets	666,347	423,145
Income tax expense (recovery)	**($15,770)**	**$48,644**

Unrecognized income tax assets comprise the following:

	December 31, 2014	December 31, 2013
Deferred income tax assets		
Non-capital losses	$5,974,233	$5,310,773
Share issuance costs	17,599	31,285
Other timing differences	134,235	117,662
Unrecognized tax assets	**$6,126,067**	**$5,459,720**

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 non-capital loss carry-forwards.

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, they have been classified as unrecognized tax assets as at December 31, 2014.

At December 31, 2014, the Company has unused non-capital losses of approximately $21,222,703 available to offset taxable income of future years. The non-capital losses will expire as follows:

	Canada	International	USA	UK	Total
Tax rate	**26%**	**2.5%**	**40%**	**20%**	
2015	$979,602	$-	$-	$-	$979,602
2016	1,023,014	-	148,390	-	1,171,404
2027	1,732,657	-	1,102,237	-	2,834,894
2028	1,127,657	-	1,890,466	-	3,018,123
2029	2,501,267	-	965,240	-	3,466,507
2030	910,879	-	952,963	-	1,863,842
2031	786,254	-	526,254	-	1,312,508
2032	400,145	-	204,233	-	604,378
2033	189,678	-	140,729	-	330,407
2034	3,583,516	2,091,346	(81,098)	47,274	5,641,038
	$13,234,669	**$ 2,091,346**	**$ 5,849,414**	**$47,274**	**$ 21,222,703**

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. In 2014, these liabilities were reduced by $211,375 (2013 - $31,523) upon the recognition of amortization and impairment costs of these assets.

As at December 31, 2014, the deferred tax liability was $249,919 (2013 - $445,754).

Balance, January 1, 2013	**$477,277**
Amortization of intangible assets	(67,890)
Effect of foreign exchange rate	36,367
Balance, December 31, 2013	445,754
Amortization of intangible assets	(73,909)
Impairment of intangible assets	(137,466)
Effect of foreign exchange rate	15,540
Balance, December 31, 2014	**$ 249,919**

15. Commitments

Premise Lease

The Company has entered into a lease agreement to lease office facilities in Vancouver. This lease will expire in May 2015. For the year ended December 31, 2014, the Company's rent expense including certain operating expenses and property taxes was $145,127 (continuing - $97,180; discontinued - $47,947) (2013 - $216,968 - continuing - $97,012; discontinued - $119,956) and its sublease revenue was $116,008 (2013 - $116,028). The future minimum lease payments commitment for this office's office premises are $22,500.

Consulting Agreements

In December 2014, the Company entered into a consulting agreement with Maxwell Mercantile Inc. and Theodore Konyi, an independent contractor, effective January 1, 2015. The contractor will provide management services to Smartcool in the role of Chief Executive Officer for a monthly fee of $15,000. He is entitled to receive an annual bonus equal to 5% of all sales revenue in excess of $1,500,000 per fiscal year or 10% of EBITDA (earnings before interest, taxes, depreciation and amortization) in excess of $300,000 per fiscal year, whichever is greater. The agreement has a twelve month-term with automatic renewals of additional twelve month terms unless either party gives 60 days written notice to the other of its intention not to renew. This agreement may be terminated by the Company upon payment of a termination fee of 12 times the monthly fee.

In March 2014, the Company entered into an agreement with FronTier Consulting Inc., an independent contractor. FronTier provides investor relations advisory and consulting services to the Company for a monthly fee of $4,000. The agreement has twelve-month term and expires on March 26, 2015.

Debenture

The Company has a commitment to make principal repayments and interest payments related to debentures issued (note 12).

16. Segmented Information

The Company installs, distributes, markets and sells the ECO3 and ESM™ products and peripherals. Continued operations' revenue from the ECO3 for the year was $341,717 (2013 - $ 612,852) and revenue for the ESM™ solution was $ 396,404 (2013 - $ 245,784).

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

Continuing Operations	2014		2013	
	Amount	%	Amount	%
Europe, Middle East, Africa	$ 82,683	11	$660	-
Australia	267,322	36	503,798	59
Americas	388,116	53	354,178	41
Total revenue	**$738,121**	**100**	**$858,636**	**100**

Revenue per region was determined based on the location of the customer or their billing address.

During the year ended December 31, 2014, revenue from two customers exceeded 10% of the Company's continuing operations' total revenue. These customers contributed 36% (2013 – 59% of total revenue) and 23% (2013 – 0% of total revenue), respectively.

Property and equipment are located in:

	2014		2013	
	Amount	**%**	**Amount**	**%**
Canada	$ 35,590	78	$63,058	75
UK	9,513	21	19,871	24
USA	345	1	484	1
Other	-	-	421	-
Total	**$45,448**	**100**	**$83,834**	**100**

17. Related Party Transactions

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 services
Windstone Financial Corp.	Consulting services
Richards Buell Sutton LLP	Legal services
Accupro Trademark Services LLP	Trademark services

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	**2014**	**2013**
Consulting fees	(i)	$31,500	$44,025
Legal fees	(ii)	13,385	7,600
		$44,885	**$51,625**

I. During the year ended December 31, 2014, consulting fees of $31,500 were charged by two companies with common directors (2013 - $44,025).

II. The Company uses the services of a law firm of which a director is a partner. During the year ended December 31, 2014, fees in the amount of $13,385 (2013 - $7,600) were charged to the Company for legal services provided.

Due to/from Related Parties

Included in trade and other receivables is $5,000 due from the Chief Executive Officer as at December 31, 2014 (2013 - $5,000) related to an advance for travel expenses. The amount is unsecured, non-interest bearing and has no fixed terms of repayment.

Included in trade payables and accruals is $ 434,324 due to related parties as at December 31, 2014 (2013 - $219,381) as follows:

	2014	**2013**
Chief Executive Officer	$112,879	$29,470
Chief Financial Officer	75,632	22,014
Director of the Company	2,072	2,072
Executive VP	37,046	19,390
VP of Operations	90,297	21,152
Other related parties	116,398	125,283
Total	**$434,324**	**$219,381**

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

Compensation of Key Management Personnel

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

	2014	**2013**
Salaries	$ 494,940	$502,150
Share-based payments	51,095	75,273
	$546,035	**$577,423**

18. Financial Instruments

Financial Instruments
The Company has classified its financial instruments as follows:

	December 31, 2014	December 31, 2013
Financial assets		
FVTPL , measured at fair value:		
Cash and cash equivalents	$15,490	$28,036
Loans and accounts receivable, recorded at amortized cost:		
Trade and other receivables	143,258	245,719
	$ 158,748	**$273,755**
Other financial liabilities, recorded at amortized cost		
Trade payables	$ 826,630	$594,685
Short-term loan	67,238	131,111
Acquisition obligations and debentures	645,689	651,090
	$ 1,539,557	**$1,376,886**

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

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

- Level 1: fair value is determined by reference to quoted prices in active markets for identical assets and liabilities.

- Level 2: fair value is determined based on inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly.

- Level 3: fair value is determined based on inputs that are unobservable and significant to the overall fair value measurement.

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

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

a. *Credit risk*
Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents and

trade and other receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents and short-term investments with high credit quality financial institutions. To mitigate credit risk with respect to trade receivables the Company subjects all major customer accounts to its credit evaluation process.

The Company has $138,258 (2013 - $240,719) 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 (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	$826,630	$826,630	$-
Premises lease	22,500	22,500	-
Short-term loan	67,238	67,238	-
Debentures	259,470	259,470	-
Obligations under acquisition contracts	248,105	192,623	55,482
Total	**$ 1,423,943**	**$ 1,368,461**	**$ 55,482**

c. *Market risk*

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

d. *Foreign currency risk*

The Company is exposed to fluctuations in foreign currency as most of its international distribution transactions are settled in U.S. dollars, Australian dollars, Canadian dollars and British pounds. The Company's net income or loss 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, 2014, the Company's monetary assets and liabilities denominated in foreign currencies are as follows:

	USD	AUD	GBP
Assets			
Cash and cash equivalents	$1,682	$-	£-
Trade and other receivables	102,497	-	-
Total	**$104,179**	**$-**	**£-**
Liabilities			
Trade payables and accruals	$116,809	$4,700	£54,021
Acquisition obligations, current	-	-	106,592
Total	**$116,809**	**$4,700**	**£160,613**

The following table demonstrates the effect of exchange rate movement on net income or loss 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**
Monetary assets	($10,418)	$-	£-
Monetary liabilities	11,681	470	16,061
Net gain (loss)	**$1,263**	**$470**	**£16,061**

Gain (loss) on $0.10 decrease in CAD	**USD**	**AUD**	**GBP**
Monetary assets	$10,418	$-	£-
Monetary liabilities	(11,681)	470	(16,061)
Net gain (loss)	**($1,263)**	**470**	**(£16,061)**

e. ***Interest rate risk***

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

19. General and Administrative Expenses

	2014	2013
Advertising and promotion	$7,551	$4,924
Bad debts	220,000	7,464
Commissions	16,073	779
Consulting and management fees	298,596	275,022
Filing and transfer fees	13,568	16,391
Insurance	12,531	17,673
Interest	2,980	1,204
Investor relations	49,173	8,113
Product certification	7,687	7,238
Professional fees	52,604	73,513
Office and supplies	32,330	35,867
Rent	97,180	97,012
Salaries and benefits	500,171	465,239
Telephone	14,851	19,330
Travelling	42,181	29,171
Total	**$ 1,367,476**	**$ 1,058,940**

20. 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 December 31, 2014, the principal amount of the debenture component was $240,769 (2013 - $272,980) and shareholders' equity was $876,372(2013 - $2,125,233). The decrease in debentures was attributable to principal payments made during the year and the increase in shareholders' equity was attributable to the gain from the settlement of obligations under acquisition contracts and additional capital raised through two private placements, partially offset by operating 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; and
- 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 2015 steps have been taken to monitor expenses and secure more predictable revenue generation.

The Company is not subject to any external capital restrictions.

21. Supplementary Cash Flow Information

	2014	2013
Interest paid in cash (note 12)	$ 11,336	$ 89,390
Interest income received in cash	$-	$77
Issuance of warrants for debenture extension (note 13(c))	$55,900	$52,693
Inventory received from third party	$25,378	$-

22. Discontinued Operations

In September 2014, as revenue from the Europe, Middle East region had significantly declined and there were no immediate sales anticipated, to reduce operating losses the Company decided to discontinue Smartcool EMEA and Smartcool UK's existing operations and shift the region's business focus from direct sales to distribution sales. These regional operations have been classified and accounted for as discontinued operations. The distribution rights in Europe, Middle East and Africa and customer relationship intangible assets reverted back to the Company as specified in the distribution agreement. The Company also assumed the obligations and acquisition contracts as it was a guarantor under the acquisition agreements.

An impairment loss of $607,260 was recognized based on a fair value less costs-to-sell assessment, which compared the carrying values of the liquidated assets and liabilities as of September 27, 2014 to their estimated realizable values.

Assets of $6,817 were acquired for $10,123 and liabilities of $32,834 were assumed by the Company in October 2014.

Income (loss) from discontinued operations consists of the following:

	2014	2013
Revenue	$289,799	$809,322
Cost of sales	(35,814)	(315,682)
Gross profit	253,985	493,640
Operating expenses	(802,189)	(1,654,274)
Finance income	-	77
Finance expense	(27,442)	(146,217)
Foreign exchange gain	38,718	2,579
Gain on sale of equipment	13,479	-
Gain on debt settlement	-	2,060,811
Impairment loss	(607,260)	-
Income tax recovery	196,082	66,655
Income (loss) from discontinued operations	**$(934,627)**	**$823,271**

23. Subsequent Events

On January 1, 2015, the Company granted 3,200,000 stock options to two directors of the Company with an exercise price of $0.05 expiring on January 1, 2020. On January 16, 2015, the Company granted 200,000 stock options to another director of the Company with an exercise price of $0.05 expiring on January 16, 2020.

On January 28, 2015, the Company issued 14,000,000 units ("Units"), consisting of one common share and one share purchase warrant for gross proceeds of $350,000. Each share purchase warrant allows the holder to purchase one common share of the Company at an exercise price of $0.05 by January 28, 2016 and at exercise price of $0.075 during the twelve month period from January 29, 2016 to January 28, 2017.

On February 3, 2015 the Company approved debt-settlement and subscription agreements with four employees, two consultants and two ex-directors pursuant to which the Company will settle debt in the aggregate amount of $231,522 in exchange for the issuance of 4,630,440 common shares of the Company at $0.05 per share. This debt settlement was approved by the TSX Venture Exchange.

On February 28, 2015, the Company executed a Termination Agreement ("TA") to terminate the licence agreement with a licencee ("SmartACR") and to provide for the transition of a portion of SmartACR's business to the Company. On March 1, 2015, the Company executed an Independent Contractor Agreement ("ICA") with the principal owner of SmartACR. Pursuant to the terms of the TA, the Company will issue an aggregate of 500,000 common shares of the Company at a deemed price of $0.05 per share and issue warrants to purchase 2,000,000 common shares of the Company at an exercise price of $0.05 per share for a period expiring on the earlier of (i) the third anniversary of the date of the termination agreement or (ii) the expiration or earlier termination of the ICA. Pursuant to the terms of the ICA, the contractor will provide consulting services by acting as the VP Sales and Marketing, North America for a fee of $USD10,000 per month for the initial term from March 1, 2015 to February 29, 2016, and any renewal terms. The Company will grant the contractor options to purchase 500,000 common shares of the Company at an exercise price of $0.05 which shall vest in four equal instalments. After the end of the initial term and, if applicable, up to two consecutive renewal terms, the contractor shall be eligible to receive an annual performance bonus in an amount equal to 33% of the profit (as defined) during the immediately preceding 12 month period. The aggregate amount of all performance bonuses shall not exceed $400,000.

On March 27, 2015, the Company reached a tentative agreement with 13 debenture holders to refinance the majority of Smartcool's 2010 secured debentures. These secured debentures, which expired March 1, 2015 and which, in the aggregate, represent total debt of approximately $250,000, will be replaced by new, unsecured debentures. These new debentures will bear interest at 12% payable monthly, with 50% of the principal amount to be repaid on September 30, 2015 and the balance to be paid at maturity on March 31, 2016. In addition, the Company has agreed to provide warrants to each debenture holder (one warrant for each dollar of principal outstanding at time of re-financing). These non-transferable warrants will entitle the holder to purchase one common share of the Company for an exercise price of $0.06 until they expire on March 31, 2016. This refinancing was approved by the TSX Venture Exchange.

On April 22, 2015, the Company granted stock options to three independent contractors and three officers, including one director, of the Company to acquire an aggregate total of 4,470,000 common shares of the Company at a price of $0.05 per share for a term of five years from the date of grant. These options will vest in four equal instalments.