

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

For the years ended December 31, 2016 and 2015
Expressed in Canadian Dollars

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Smartcool Systems Inc.,

We have audited the accompanying consolidated financial statements of Smartcool Systems Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of operations, comprehensive loss, cash flows, and shareholders' equity (deficiency) for the years 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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. as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended 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 describes 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.

CHARTERED PROFESSIONAL ACCOUNTANTS

De Visser Gray LLP

Vancouver, Canada
May 1, 2017

Smartcool Systems Inc.

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Smartcool Systems Inc.

Consolidated statements of financial position

(Expressed in Canadian dollars, unless otherwise stated)

	December 31, 2016	December 31, 2015
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	3,317	18,478
Available-for-sale securities (note 9)	8,210	12,158
Trade and other receivables (note 3)	211,499	507,718
Inventory (note 4)	140,979	61,211
Prepaid expenses and deposits	50,772	125,651
	<u>414,777</u>	<u>725,216</u>
Property and equipment (note 5)	3,728	18,840
Intangible assets (note 6)	<u>1,142,519</u>	<u>1,692,967</u>
Total assets	<u>1,561,024</u>	<u>2,437,023</u>
LIABILITIES		
Current liabilities		
Trade payables and accruals	908,881	759,989
Loans and advances (note 7)	485,191	276,450
Current portion of obligations under acquisition contracts (note 8)	292,292	258,562
Current portion of debentures (note 10)	280,574	254,707
	<u>1,966,938</u>	<u>1,549,708</u>
Obligations under acquisition contracts (note 8)	67,857	155,967
Deferred tax liability (note 13)	<u>151,425</u>	<u>202,209</u>
Total liabilities	<u>2,186,220</u>	<u>1,907,884</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (note 11(a))	32,081,862	31,672,684
Shares pending issue	-	52,250
Reserve for equity settled share-based transactions (note 11(b))	6,643,640	6,547,080
Accumulated other comprehensive income	(321,719)	(380,654)
	<u>38,403,783</u>	<u>37,891,360</u>
Deficit	<u>(39,028,979)</u>	<u>(37,362,221)</u>
	<u>(625,196)</u>	<u>529,139</u>
Total liabilities and shareholders' equity (deficiency)	<u>1,561,024</u>	<u>2,437,023</u>

Approved and authorized for issue by the Board of Directors on May 1, 2017

"Theodore Konyi"
Theodore Konyi

"Dalton Larson"
Dalton Larson

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.

Consolidated statements of operations

(Expressed in Canadian dollars, unless otherwise stated)

	Year ended December 31,	
	2016	2015
	\$	\$
Revenue	325,976	785,498
Cost of sales	86,240	151,322
Gross profit	239,736	634,176
Operating Expenses		
General and administrative expenses (note 18)	1,277,676	1,449,091
Amortization and depreciation (notes 5 and 6)	568,429	586,173
Share-based payments (note 11(b))	39,051	206,253
Research and development	1,976	977
	1,887,132	2,242,494
Operating loss	(1,647,396)	(1,608,318)
Finance expense (notes 7, 8 and 10)	(110,445)	(105,360)
Foreign exchange gain (loss)	42,857	(64,715)
Gain on sale of available-for-sale securities (note 9)	10,095	-
Transfer from accumulated other comprehensive income on sale of available-for-sale securities	(14,000)	-
Loss on receivables settlement (note 9)	-	(4,456)
Rental income (note 15)	-	47,546
Inventory received for no consideration	-	11,568
Loss on sale of equipment (note 5)	-	(397)
	(71,493)	(115,814)
Loss before income tax	(1,718,889)	(1,724,132)
Income tax recovery (note 13)	52,131	47,659
Net loss for the year	(1,666,758)	(1,676,473)
Net loss per share		
Basic	(0.01)	(0.01)
Diluted	(0.01)	(0.01)
Weighted average number of common shares outstanding (basic and diluted)	131,864,244	113,644,118

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.

Consolidated statements of comprehensive loss

(Expressed in Canadian dollars, unless otherwise stated)

	<u>2016</u>	<u>2015</u>
	\$	\$
Net loss for the year	(1,666,758)	(1,676,473)
Other comprehensive loss	58,935	5,152
Total comprehensive loss for the year	<u>(1,607,823)</u>	<u>(1,671,321)</u>

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.

Consolidated statements of cash flows

(Expressed in Canadian dollars, unless otherwise specified)

	2016	2015
	\$	\$
Cash flows from operating activities		
Net loss for the year	(1,666,758)	(1,676,473)
Items not affecting cash:		
Depreciation of property and equipment	17,981	26,474
Amortization of intangible assets	550,448	559,699
Loss on sale of available-for-sale securities	3,905	-
Share-based payments	39,051	206,253
Deferred tax liability	(50,784)	(47,710)
Foreign exchange (gain) loss	(78,627)	45,097
Accrued interest and discount on loans and advances	47,543	14,450
Accrued interest on debentures	35,522	33,552
Accretion of obligation under acquisition contracts	24,951	36,334
Deferred tenant inducement	-	(6,744)
Loss on sale of equipment	-	397
Loss on receivables settlement	-	4,456
Inventory received for no consideration	-	(11,568)
	<u>(1,076,768)</u>	<u>(815,783)</u>
Changes in non-cash working capital items:		
Trade and other receivables	271,219	(330,782)
Inventory	(79,768)	(34,357)
Prepaid expenses and deposits	74,879	(50,764)
Trade payables and accruals	148,892	55,676
Net cash flows used in operating activities	<u>(661,546)</u>	<u>(1,176,010)</u>
Cash flows from investing activities		
Disposal of security investment	16,095	-
Purchase of property and equipment	(2,943)	(700)
Disposal of property and equipment	-	2,507
Net cash provided by investing activities	<u>13,152</u>	<u>1,807</u>
Cash flows from financing activities		
Shares and warrants issued for cash, net of issue costs	439,438	984,000
Increase (decrease) in loans and advances	160,570	194,762
Decrease in debentures	(9,655)	(16,000)
Decrease in obligations under acquisition contracts	-	(19,091)
Net cash provided by financing activities	<u>590,353</u>	<u>1,143,671</u>
Net decrease in cash and cash equivalents	<u>(58,041)</u>	<u>(30,532)</u>
Effects of exchange rates changes on cash	42,880	33,520
Cash and cash equivalents, beginning of year	18,478	15,490
Cash and cash equivalents, end of year	<u>3,317</u>	<u>18,478</u>

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.

Consolidated statements of shareholders' equity (deficiency)

(Expressed in Canadian dollars, unless otherwise stated)

	Share capital	Reserve for equity settled share-based transactions	Shares pending issue	Accumulated other comprehensive income	Deficit	Total shareholders' equity (deficiency)
	\$	\$	\$	\$	\$	\$
Balance at January 1, 2015	30,733,413	5,994,511	-	(385,806)	(35,685,748)	656,370
Net loss	-	-	-	-	(1,676,473)	(1,676,473)
Available-for-sale securities unrealized loss	-	-	-	(28,368)	-	(28,368)
Foreign currency translation adjustment	-	-	-	33,520	-	33,520
Total comprehensive loss for the year	-	-	-	5,152	(1,676,473)	(1,671,321)
Shares issued for:						
Private placements	736,196	-	-	-	-	736,196
Debt settlement	231,522	-	-	-	-	231,522
Shares subscribed	-	-	52,250	-	-	52,250
Warrants	-	358,619	-	-	-	358,619
Share issue costs	(28,447)	(12,303)	-	-	-	(40,750)
Share-based payments	-	206,253	-	-	-	206,253
Balance at December 31, 2015	31,672,684	6,547,080	52,250	(380,654)	(37,362,221)	529,139
Net loss	-	-	-	-	(1,666,758)	(1,666,758)
Available-for-sale securities unrealized gain	-	-	-	2,055	-	2,055
Transfer to statement of operations on sale of available-for-sale securities	-	-	-	14,000	-	14,000
Foreign currency translation adjustment	-	-	-	42,880	-	42,880
Total comprehensive loss for the year	-	-	-	58,935	(1,666,758)	(1,607,823)
Shares issued for:						
Private placements	383,017	-	-	-	-	383,017
Warrants exercised	4,387	(4,387)	-	-	-	-
Shares cancelled	(16,642)	(8,358)	-	-	-	(25,000)
Warrants	-	71,983	-	-	-	71,983
Shares subscribed	52,250	-	(52,250)	-	-	-
Share issue costs	(13,834)	(1,729)	-	-	-	(15,563)
Share-based payments	-	39,051	-	-	-	39,051
Balance at December 31, 2016	32,081,862	6,643,640	-	(321,719)	(39,028,979)	(625,196)

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2016

(expressed in Canadian dollars, except where otherwise indicated)

1. Nature of Operations and Going Concern

Smartcool Systems Inc. (“Smartcool” or the “Company”), was incorporated on August 31, 2000 under the Canada Business Corporations Act and changed its name to Smartcool Systems Inc. on July 20, 2004.

In 2004, the Company incorporated a wholly-owned subsidiary, Smartcool Systems (USA) Inc. (“Smartcool USA”), in Nevada. In 2006, a wholly-owned subsidiary Smartcool International Inc. (“Smartcool International”) was incorporated in Barbados. In 2008, a wholly-owned subsidiary, Smartcool Systems (EMEA) Ltd. (“Smartcool EMEA”), was incorporated in England. In 2011, Smartcool EMEA acquired all of the outstanding shares of Smartcool Systems UK (“Smartcool UK”), also headquartered in England.

Smartcool EMEA and Smartcool UK were discontinued through voluntary liquidation in September 2014 and a new wholly-owned subsidiary, Lenten Street Limited (“Lenten Street”), was incorporated in England in October 2014.

The Company’s shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at 2848 W. 22nd Avenue, Vancouver, B.C.

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, 2016, the Company had a net loss of \$1,666,758 compared to \$1,676,473 for the previous year.

The company had a deficit of \$39,028,979 as at December 31, 2016 (December 31, 2015 - \$37,362,221). As at December 31, 2016, the Company had negative working capital of \$1,552,161 (December 31, 2015 - \$824,492). This decrease in working capital was attributable to operating loss. To ensure that the Company continues to be a going concern over the next twelve months a new commission-based sales network in North America has been established to generate recurring revenue. The Company also raised additional capital of \$400,000 through a non-brokered private placement in February 2017 (note 21).

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, 2016.

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 17, and are presented in Canadian dollars except where otherwise indicated.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of these consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Actual outcomes could differ from these estimates. It also requires management to exercise judgement in applying the Company's accounting policies. These consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout these consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, if the revision affects only that period, or in the period of the revision and further periods if the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the consolidated statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- The determination of sales and related costs used in the cash flow projections for the purpose of assessing the carrying amount of the intangible assets.

Critical judgments in applying the Company's accounting policies relate to, but are not limited to, the following:

- Useful lives of intangible assets with finite lives – the determination that there are no indicators suggesting that the useful lives and/or that the method of calculating amortization require revision;
- Unlimited life of the ESM brand – the determination that useful life of the ESM brand remains unlimited;
- Impairment of intangible assets – the determination that there are no indicators of impairment indicating that the carrying amount exceeds the recoverable amount;
- Analysis of the functional currency for each entity of the Company; and
- Ability to continue as a going concern – the determination that the Company will continue as a going concern for the next year.

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 and Lenten Street. They also include the accounts of Smartcool EMEA from April 2008 and Smartcool UK from February, 2011, until they were discontinued through voluntary liquidation in September 2014. 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 consolidated 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 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 where the Canadian dollar is not the functional currency 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 recorded as a foreign currency translation adjustment, which is a component of accumulated other comprehensive income. On disposal of a foreign operation, the deferred cumulative amount included in accumulated other comprehensive income 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 recognized in foreign exchange gain or loss in the statement of operations.

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. Cost is determined using the weighted average cost method. Cost includes invoiced cost from the manufacturer and other costs in bringing the inventory to its present location and condition. Net realizable value represents the estimated selling price 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. Depreciation 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 relationships. 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. The useful lives of the intangible assets have been assessed as follows:

Intellectual property - ESM™	13.5 years
Intellectual property - SmartACR	10 years
Distribution rights - North American	10 years
Distribution rights - TECC and United Kingdom	9.5 - 12 years
Distribution agreements	13.5 - 15 years
Supplier agreements	13.5 years
Customer relationship	12 years

Residual value and estimated useful lives are reviewed on a periodic basis. 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.

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 amortization) is greater than the current fair value, less any impairment previously recognized.

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.

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, 2016 and December 31, 2015.

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 investments. Interest on these term deposits is recognized in the statement of operations using the effective interest method.

The Company did not hold any held-to-maturity investments as at December 31, 2016 and December 31, 2015.

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 (being unrealized gains or losses) recorded as a component of accumulated other comprehensive income. On disposal of, or if there is an other-than-temporary impairment of, an available for sale financial asset, the deferred cumulative amount included in accumulated other comprehensive income relating to that particular financial asset is recognized in gain or loss in the statement of operations.

As at December 31, 2016, the Company held common shares of ATI Airtest Technologies Inc., a venture company traded on the TSX Venture exchange with market value of \$8,210 (December 31, 2015 – \$12,158) (note 9(a)).

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, loans and advances, 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. 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.

Changes in Accounting Policies

As of January 1, 2016, the Company adopted the following IFRS standards and amendments:

Standard	Title
IAS 16 and IAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortization

Accounting Standards Issued but not yet Effective

At the date of authorization of these consolidated financial statements, the IASB and IFRIC have issued new and revised standards and amendments which are not yet effective. Below is a list of new standards that are likely to be relevant to the Company. However, management has yet to assess the impact of these standards on the Company's operations:

Standard	Title	Applicable for financial years beginning on/after
IAS 1	Presentation of financial statements (amendments)	January 1, 2017
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Leases	January 1, 2019

3. Trade and Other Receivables

	December 31, 2016	December 31, 2015
Trade receivables, net of allowances for doubtful accounts	\$ 196,219	\$378,100
Other receivables	15,280	129,618
	\$ 211,499	\$507,718

As at December 31, 2016, the allowance for doubtful accounts was \$157,772 (2015 - Nil).

Other receivables includes \$5,000 (2015 - \$5,000) from the former President of the Company relating to an advance for travel expenses (note 16).

At December 31, 2016, the analysis of trade receivables that were past due but not impaired is as follows:

	December 31, 2016	December 31, 2015
Neither past due nor impaired	\$ -	\$ 186,991
< 30 days	-	-
30-60 days	50,743	4,529
60-90 days	5,728	346
90-120 days	174	-
> 120 days	139,574 ¹	186,234
	\$ 196,219	\$ 378,100

¹Of this amount, \$100,703 (US\$75,000) is secured by the inventory that was sold to the customer and that is being held on the customer's behalf. The net realizable value of this inventory exceeds its cost.

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 17.

4. Inventory

	December 31, 2016	December 31, 2015
ESM™ ECO ³ ™	\$ 137,820	\$57,573
Other products	3,159	3,638
	\$140,979	\$61,211

During the year ended December 31, 2016, total inventories of \$13,327 were recognized as costs of sales (December 31, 2015 - \$78,264).

5. Property and Equipment

Cost						
	Computers	Testing and demonstration equipment	Office equipment and furniture	Motor vehicles	Leasehold improvements	Total
Balance at January 1, 2015	\$ 231,132	\$246,090	\$24,855	\$4,892	\$116,318	\$623,287
Additions	700	-	-	-	-	700
Disposals	-	-	-	(5,525)	-	(5,525)
Effect of change in foreign exchange rates	3,898	37,873	862	633	-	43,266
Balance at December 31, 2015	235,730	283,963	25,717	-	116,318	661,728
Additions	2,943	-	-	-	-	2,943
Disposals	-	-	-	-	-	-
Effect of change in foreign exchange rates	(493)	(7,627)	(159)	-	-	(8,279)
Balance at December 31, 2016	\$238,180	\$276,336	\$25,558	\$-	\$116,318	\$656,392

Accumulated Depreciation and Impairment						
	Computers	Testing and demonstration equipment	Office equipment and furniture	Motor vehicles	Leasehold improvements	Total
Balance at January 1, 2015	\$199,223	\$ 242,692	\$24,045	\$405	\$111,474	\$577,839
Depreciation	16,707	1,837	-	3,086	4,844	26,474
Disposals	-	-	-	(5,290)	-	(5,290)
Effect of change in foreign exchange rates	3,702	37,502	862	1,799	-	43,865
Balance at December 31, 2015	219,632	282,031	24,907	-	116,318	642,888
Depreciation	16,097	1,689	195	-	-	17,981
Disposals	-	-	-	-	-	-
Effect of change in foreign exchange rates	(660)	(7,384)	(161)	-	-	(8,205)
Balance at December 31, 2016	\$235,069	\$276,336	\$24,941	\$-	\$ 116,318	\$ 652,664

Carrying Value

	Computers	Testing and demonstration equipment	Office equipment and furniture	Motor vehicles	Leasehold improvements	Total
Balance at January 1, 2015	\$31,909	\$3,398	\$810	\$4,487	\$4,844	\$45,448
Balance at December 31, 2015	\$16,098	\$1,932	\$810	\$-	\$-	\$18,840
Balance at December 31, 2016	\$3,111	\$-	\$617	\$-	\$-	\$3,728

6. Intangible Assets

Indefinite Lives

As at December 31, 2016, ESM™ brand (b) had a carrying value of \$56,100 (2015 - \$56,100) and is not subject to amortization due to having an indefinite useful life.

Definite Lives

Cost

	North American distribution rights	Intellectual property	Distribution agreements	Supplier agreements	EMEA & UK distribution rights	Customer relationship	Total
Balance at January 1, 2015	\$ 286,718	\$124,100	\$1,861,742	\$113,651	\$5,152,218	\$1,211,369	\$8,749,798
Acquisition	-	25,000	-	-	-	-	25,000
Effect of change in foreign exchange rates	40,302	-	-	-	-	-	40,302
Balance at December 31, 2015	327,020	149,100	1,861,742	113,651	5,152,218	1,211,369	8,815,100
Effect of change in foreign exchange rates	(7,434)	-	-	-	-	-	(7,434)
Balance at December 31, 2016	\$ 319,586	\$149,100	\$ 1,861,742	\$113,651	\$5,152,218	\$1,211,369	\$ 8,807,666

Accumulated Amortization and Impairment

	North American distribution rights	Intellectual property	Distribution agreements	Supplier agreements	EMEA & UK distribution rights	Customer relationship	Total
Balance at January 1, 2015	\$286,718	\$93,074	\$1,399,027	\$85,243	\$3,758,735	\$955,435	\$6,578,232
Amortization	-	8,291	119,706	5,680	374,834	51,188	559,699
Effect of change in foreign exchange rate	40,302	-	-	-	-	-	40,302
Balance at December 31, 2015	327,020	101,365	1,518,733	90,923	4,133,569	1,006,623	7,178,233
Amortization	-	8,708	119,812	5,684	365,056	51,188	550,448
Effect of change in foreign exchange rate	(7,434)	-	-	-	-	-	(7,434)
Balance at December 31, 2016	\$319,586	\$110,073	\$ 1,638,545	\$ 96,607	\$4,498,625	\$ 1,057,811	\$7,721,247

Carrying Value

	North American distribution rights	Intellectual property	Distribution agreements	Supplier agreements	EMEA & UK distribution rights	Customer relationship	Total
Balance at January 1, 2015	\$ -	\$31,026	\$462,715	\$28,408	\$1,393,483	\$255,934	\$2,171,566
Balance at December 31, 2015	\$ -	\$47,735	\$343,009	\$22,728	\$1,018,649	\$204,746	\$1,636,867
Balance at December 31, 2016	\$ -	\$39,027	\$223,197	\$17,044	\$653,593	\$153,558	\$1,086,419

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

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

b. *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”) (note 8).

c. *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.

d. *SmartACR Intellectual Property and Customer Relationship*

In February 2015, the Company acquired \$25,000 of intangible assets in relation to the termination of a license agreement (note 12). These intangible assets included intellectual property (\$25,000) and a customer relationship (\$Nil).

7. Loans and Advances

Advances

To finance its operations, the Company has received advances from investors:

1. During 2015, the Company received advances totaling \$262,000 from an investor. These advances bear interest at 1% per month and are secured by promissory notes that were due on October 31, 2015. The principal balance outstanding at December 31, 2016 can be converted into shares of the Company, by the investor, at the conversion price of \$0.06 per share.
2. In February 2016, the Company received another advance of \$48,000 from the investor in 1. This advance is secured by a promissory note and bears interest of \$2,000 from February 1, 2016 to the repayment date on March 5, 2016. Any unpaid balance after maturity bears interest at 2% per month.
3. In September 2016, the Company received an advance of \$46,368 (US \$35,000) from an investor. This advance is secured by a promissory note and bears interest at 1% from September 27, 2016 to the repayment date on November 27, 2016. Any unpaid balance after maturity bears interest at 2% per month.

4. In November 2016, the Company received an advance of \$20,000 from an investor. This advance is secured by a promissory note and bears interest of \$4,000 from November 22, 2016 to the repayment date on March 22, 2017. Any unpaid balance after maturity bears interest at 2% per month.
5. In December 2016, the Company received another advance of \$20,000 from the investor in 4. This advance is secured by a promissory note and bears no interest from December 28, 2016 to the repayment date on March 28, 2017. Any unpaid balance after maturity bears interest at 2% per month.

These advances are summarized as follows:

	Repayment Date	Funds Advanced	Prepaid Interest	Accrued Interest	Foreign Exchange	Balance
Loan 1	October 31, 2015	\$ 262,000	\$ 8,000	\$ 38,850	\$ -	\$ 308,850
Loan 2	March 5, 2016	48,000	2,000	9,839	-	59,839
Loan 3	November 27, 2016	46,368	-	2,004	628	49,000
Loan 4	March 22, 2017	20,000	-	1,300	-	21,300
Loan 5	March 28, 2017	20,000	-	-	-	20,000
		\$ 396,368	\$ 10,000	\$ 51,993	\$ 628	\$ 458,989

At December 31, 2016, the carrying amount of these advances was as follows:

Funds advanced in 2015	\$262,000
Discount, beginning prepaid interest withheld	8,000
Accrued interest	6,450
Foreign exchange	-
Balance, December 31, 2015	276,450
Funds advanced	134,368
Discount, beginning prepaid interest withheld	2,000
Accrued interest	45,543
Foreign exchange	628
Balance, December 31, 2016	\$458,989

Secured Short-Term Loan

In December 2016, the Company entered into a lending arrangement with a factoring firm whereby the Company pledged a specific trade receivable as security and received an advance of \$26,202 (GBP 14,200), with full recourse against the Company. The factoring fee was set at GBP 9,600 per annum, as a minimum.

The interest charged during the year was \$47,543 (2015 - \$15,917) and is recorded within finance expense in the statement of operations.

8. Obligations Under Acquisition Contracts

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 TECC. 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. As at December 10, 2013, the balance of \$886,714 (£508,217), including accrued interest of \$145,181 (£83,217), was outstanding. The Company negotiated a debt reduction and the outstanding obligation was extinguished and replaced with two new obligations (TECC 1 and TECC 2). The fair values of TECC 1 and TECC 2 were determined by discounting the future payments at 16%.

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). As at December 10, 2013, the principal balance of \$1,744,600 (£1,000,000), including accrued interest of \$285,274 (£163,517), was outstanding. The Company negotiated a debt reduction and the outstanding obligation was extinguished and replaced with two new obligations (UK 1 and UK 2). The fair values of UK 1 and UK 2 were determined by discounting the future payments at 10%.

These obligations are being accreted to their face value over their term. The accretion charge for the period is recorded within finance expense in the statement of operations.

These obligations are to be repaid as follows:

- £130,000 (\$215,332) in five instalments of £26,000 on December 15, 2014 and June 15, 2015, 2016, 2017 and 2018;
- £76,000 (\$125,886) in five instalments of £19,000 on December 15, 2015, 2016, 2017 and 2018; and
- £25,000 (\$41,411) in 2016.

£206,000 (\$341,218) of this debt is secured by non-interest bearing promissory notes and £25,000 (\$41,411) is unsecured. These balances may be repaid at any time or from time-to-time without notice, bonus or penalty. Because the Company failed to make payments for UK 1 as required, the Company is obligated to pay the creditor, at the discretion of the creditor, an amount equal to £1,300,000 minus any payments made. To date, the creditor has not requested payment of this amount.

At December 31, 2016, the carrying amount of these obligations under acquisition contracts was as follows:

	TECC 1	TECC 2	UK 1	UK 2	Total
Balance, January 1, 2015	\$188,053	\$88,840	\$63,249	\$46,077	\$386,219
Payments	-	-	(19,091)	-	(19,091)
Debt settlement (note 9 b))	-	(24,510)	-	(11,590)	(36,100)
Accretion	21,161	11,373	-	3,800	36,334
Foreign exchange	25,051	10,036	6,860	5,220	47,167
Balance, December 31, 2015	234,265	85,739	51,018	43,507	414,529
Accretion	14,336	8,002	-	2,613	24,951
Foreign exchange	(44,881)	(16,525)	(9,608)	(8,317)	(79,331)
Balance, December 31, 2016	\$203,720	\$77,216	\$41,410	\$37,803	\$360,149
Current portion	163,601	58,693	41,410	28,588	292,292
Long-term portion	\$40,119	\$18,523	\$-	\$9,215	\$67,857
Principal	\$215,332	\$85,470	\$41,410	\$40,416	\$382,628
Future accretion	(11,612)	(8,254)	(-)	(2,613)	(22,479)
Carrying amount	\$203,720	\$77,216	\$41,410	\$37,803	\$360,149

9. Receivables/Debt Settlement

a. In February 2015, the Company received 810,520 common shares of ATI Airstest Technologies Inc. at a deemed price of \$0.05 to settle outstanding trade receivables of US\$15,975 and CDN\$25,000. This settlement resulted in a loss of \$4,456 which was recognized in the statement of operations.

These shares were classified as available-for-sale financial assets and 400,000 shares were disposed of in 2016 for proceeds of \$16,095, resulting in a realized loss of \$3,905. As at December 31, 2016, the market value of the remaining 410,520 shares was \$8,210 (2015 – 810,520 shares: \$12,158). This reduction in fair value was included in other comprehensive income.

b. In March 2015, the Company issued 4,630,440 common shares at a deemed price of \$0.05 per share to settle outstanding debts of \$231,522 with two consultants, four employees and two former directors of the Company (note 16).

	Amount	Number of shares
Consulting fees	\$93,350	1,867,000
Salaries	100,000	2,000,000
Expenses	2,072	41,440
Acquisition obligations	36,100	722,000
Total	\$231,522	4,630,440

10. Debentures

There were 71 debenture units outstanding at maturity on March 1, 2015. The Company was unable to redeem them or make interest payments as scheduled. The Company approached the debenture holders with an offer to extend the maturity date of the debentures to March 31, 2016, with the outstanding principal plus accrued interest becoming the new principal balance. Two debenture holders (representing 9 units) with an outstanding balance totaling \$31,116 did not agree to extend the terms of their debentures. 12 debenture holders (representing 62 units) with an outstanding balance totaling \$238,546 agreed to extend the terms of their debentures. Pursuant to the terms and conditions of the debenture extension agreement, the debentures are unsecured and interest on the principal balance outstanding shall accrue at the rate of 12% per annum and is payable monthly, commencing April 1, 2015. A principal pre-payment amount (not-defined) was due on September 30, 2015. This amount was not paid and the Company was in default at December 31, 2016 and 2015. No amounts have been paid subsequent to year end and the Company remains in default. The Company also issued 238,546 share purchase warrants to the debenture holders (note 11(c)(ii)).

The terms and conditions of the refinanced debentures were not significantly different from the original terms and conditions and no gain or loss on debt extension was recognized. The refinanced principal balance of \$238,546 was allocated between the fair values of the liability component (\$216,231) and the equity component relating to the share purchase warrants (\$22,315) using the residual method. The liability component is measured at amortized cost. The \$22,315 was credited to the reserve for equity settled share-based transactions.

In November 2016, the Company and 5 debenture holders (representing 35 units) with an outstanding balance totaling \$159,785 entered into an amending agreement whereby the maturity date was extended to March 31, 2017 and a General Security Agreement over the assets of the Company was granted to these debtors.

Accrued interest of \$1,814, \$14,910 and \$18,798 was calculated by applying the weighted average effective interest rate of 26% to the liability component of the debentures. The interest charge is recorded within finance expense in the statement of operations.

See Note 21.

At December 31, 2016, the carrying amount of the debentures was as follows:

Maturity date	March 1, 2015	March 31, 2016	March 31, 2017	Total
Balance, January 1, 2015	\$259,470	\$-	\$-	\$259,470
Amended debentures	(238,546)	238,546	-	-
Fair value of share purchase warrants	-	(22,315)	-	(22,315)
Accrued interest	12,332	40,779	-	53,111
Interest payments	(699)	(18,860)	-	(19,559)
Principal payments	(16,000)	-	-	(16,000)
Balance, December 31, 2015	\$16,557	\$238,150	\$-	\$254,707
Amended debentures	-	(159,785)	159,785	-
Accrued interest	1,814	14,910	18,798	35,522
Interest payments	-	(917)	-	(917)
Principal payments	-	(8,738)	-	(8,738)
Balance, December 31, 2016	\$18,371	\$83,620	\$178,583	\$280,574
Current portion	18,371	83,620	178,583	280,574
Long-term portion	\$-	\$-	\$-	\$-
Principal	\$15,117	\$73,155	\$156,652	\$244,924
Accrued interest	3,254	10,465	21,931	35,650
Balance owing and carrying amount	\$18,371	\$83,620	\$178,583	\$280,574

11. 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, 2015	89,017,297	30,733,413
Issued via private placements (i)(ii)(iii)	28,450,000	736,196
Issued for debt settlement (iv)	4,630,440	231,522
Share issuance costs (i)(ii)(iii)	-	(28,447)
Balance, December 31, 2015	122,097,737	31,672,684
Warrants exercised – pending in 2015 (v)	545,000	27,250
Issued – pending in 2015 (vi)	500,000	25,000
Reclassification of fair value of exercised warrants	-	4,387
Issued via private placements (vii)(viii)(ix)(x)	18,200,000	383,017
Cancelled (xi)	(500,000)	(16,642)
Share issuance costs (vii)(viii)(ix)(x)	-	(13,834)
Balance, December 31, 2016	140,842,737	\$ 32,081,862

- i. On January 28, 2015, the Company issued 14,000,000 Units at \$0.025 per unit pursuant to a non-brokered private placement for gross proceeds of \$350,000. Of this amount, \$237,300 was allocated to share capital and \$112,700 to share purchase warrants (note 11(c)(i)). Each Unit consists of one common share and one warrant. Cash issuance costs of \$7,742 were allocated to common shares.
- ii. On May 4, 2015, the Company issued 11,780,000 Units at \$0.05 per unit pursuant to a non-brokered private placement for gross proceeds of \$589,000. Of this amount, \$392,096 was allocated to share capital and \$196,904 to share purchase warrants (note 11(c)(iii)). Each Unit consists of one common share and one warrant. Cash issuance costs of \$18,972 were allocated to common shares.
- iii. On December 18, 2015, the Company issued 2,670,000 Units at \$0.05 per unit pursuant to a non-brokered private placement for gross proceeds of \$133,500. Of this amount, \$106,800 was allocated to share capital and \$26,700 to share purchase warrants (note 11(c)(iv)). Each Unit consists of one common share and one warrant. Cash issuance costs of \$1,733 were allocated to common shares.

- iv. On March 12, 2015, the Company issued 4,630,440 common shares at \$0.05 per share to settle debt in the aggregate amount of \$231,522 (note 9 b)).
- v. In December 2015, 545,000 warrants were exercised at the price of \$0.05 per warrant for total consideration of \$27,250. The same number of shares was issued on January 11, 2016.
- vi. On February 15, 2016, the Company issued 500,000 common shares at a deemed price of \$0.05 per share to SmartACR pursuant to a license termination agreement (note 12).
- vii. On May 5, 2016, the Company issued 6,600,000 Units at \$0.025 per unit pursuant to the first tranche of a non-brokered private placement for gross proceeds of \$165,000. Of this amount, \$136,793 was allocated to share capital and \$28,207 to share purchase warrants (note 11(c)(v)). Each Unit consists of one common share and one warrant. Cash issuance costs of \$4,026 and agent warrant issuance costs of \$800 for 128,000 agent warrants issued were allocated to common shares.
- viii. On June 21, 2016, the Company issued 5,400,000 Units at \$0.025 per unit pursuant to the second tranche of a non-brokered private placement for gross proceeds of \$135,000. Of this amount, \$111,922 was allocated to share capital and \$23,078 to share purchase warrants (note 11(c)(vi)). Each Unit consists of one common share and one warrant. Cash issuance costs of \$6,150 were allocated to common shares.
- ix. On September 19, 2016, the Company issued 5,400,000 Units at \$0.025 per unit pursuant to the first tranche of a non-brokered private placement for gross proceeds of \$135,000. Of this amount, \$116,973 was allocated to share capital and \$18,027 to share purchase warrants (note 11(c)(vii)). Each Unit consists of one common share and one warrant. Cash issuance costs of \$2,489 were allocated to common shares.
- x. On September 29, 2016, the Company issued 800,000 Units at \$0.025 per unit pursuant to the second tranche of a non-brokered private placement for gross proceeds of \$20,000. Of this amount, \$17,329 was allocated to share capital and \$2,671 to share purchase warrants (note 11(c)(viii)). Each Unit consists of one common share and one warrant. Cash issuance costs of \$369 were allocated to common shares.
- xi. On September 28, 2016, 500,000 shares were cancelled and returned to treasury because the outstanding proceeds of \$25,000 had not been received. Of this amount, \$16,642 was allocated to share capital and \$8,358 to share purchase warrants.

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 23,885,547, as approved by the shareholders at the Company's 2015 Annual General Meeting. In 2010, the stock option plan was amended to extend the option term to a maximum period of ten years.

As at December 31, 2016, 11,945,000 options were outstanding. These options have vesting periods of up to 5 years and a weighted average exercise price of \$0.05. 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, 2015	6,215,000	\$0.07
Granted	8,070,000	0.05
Forfeited and cancelled (note 12)	(500,000)	0.05
Expired or exercised	(1,370,000)	0.10
Balance, December 31, 2015	12,415,000	\$0.05
Granted	75,000	0.05
Expired or exercised	(545,000)	0.10
Balance, December 31, 2016	11,945,000	\$0.05

During the year ended December 31, 2016, 75,000 (2015 – 8,070,000) options with a weighted average fair value \$0.05 were granted to employees. None (2015 - 5,370,000) of these options had an exercise price lower than the stock price at the date of the grant. During the same period, no (2015 - 2,700,000) options were granted to consultants.

Share-based payments for the year ended December 31, 2016 was \$39,051 (2015 - \$206,253), of which \$26,736 (2015 - \$150,633) was related to directors, officers and employees and \$12,315 (2015 - \$55,620) was related to consultants.

Additional information regarding share options outstanding at December 31, 2016, is as follows:

Range of exercise prices	Options Outstanding			Options Exercisable	
	Number of options	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of options	Weighted average exercise price
\$0.05 - \$0.09	11,420,000	2.81	\$0.05	11,376,250	\$0.05
\$0.10 - \$0.19	525,000	0.07	\$0.10	525,000	\$0.10
	11,945,000	2.70	\$0.05	11,901,250	\$0.05

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:

	2016	2015
Risk-free interest rate	0.60%	0.94 - 1.34%
Dividend yield	0%	0%
Volatility	102.93% - 103.37%	102.55 - 103.34%
Expected life	5 years	5 years

The fair value of options granted to consultants was determined based on the cash consideration that would have been paid to acquire the consulting services.

c. Share purchase warrants

- i.** On January 28, 2015, the Company issued 14,000,000 Units at \$0.025 per unit pursuant to a non-brokered private placement for gross proceeds of \$350,000. Of this amount, \$237,300 was allocated to share capital and \$112,700 to share purchase warrants. Cash issuance costs of \$2,157 were allocated to share purchase warrants.
- ii.** On March 31, 2015, the Company issued 238,546 share purchase warrants at \$0.06 per warrant pursuant to debenture extension agreements. These non-transferable warrants 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. The fair value of these warrants was determined to be \$22,315.
- iii.** On May 4, 2015, the Company issued 11,780,000 Units at \$0.05 per unit pursuant to a non-brokered private placement for gross proceeds of \$589,000. Of this amount, \$392,096 was allocated to share capital and \$196,904 to share purchase warrants. Cash issuance costs of \$9,712 were allocated to share purchase warrants.
- iv.** On December 17, 2015, the Company issued 2,670,000 Units at \$0.05 per unit pursuant to a non-brokered private placement for gross proceeds of \$133,500. Of this amount, \$106,800 was allocated to share capital and \$26,700 to share purchase warrants. Each Unit consists of one common share and one warrant. Cash issuance costs of \$434 were allocated to share purchase warrants.
- v.** On May 5, 2016, the Company issued 6,600,000 Units at \$0.025 per unit pursuant to the first tranche of a non-brokered private placement for gross proceeds of \$165,000. Of this amount, \$136,793 was allocated to share capital and \$28,207 to share purchase warrants. Each Unit consists of one common share and one warrant. Cash issuance costs of \$1,146 were allocated to share purchase warrants. The Company also issued 128,000 agent warrants valued at \$800 pursuant to this private placement tranche.
- vi.** On June 21, 2016, the Company issued 5,400,000 Units at \$0.025 per unit pursuant to the second tranche of a non-brokered private placement for gross proceeds of \$135,000. Of this amount, \$111,922 was allocated to share capital and \$23,078 to share purchase warrants. Each Unit consists of one common share and one warrant. Cash issuance costs of \$938 were allocated to share purchase warrants.

- vii. On September 19, 2016, the Company issued 5,400,000 units at \$0.025 per unit pursuant to the first tranche of a non-brokered private placement for gross proceeds of \$135,000. Of this amount, \$116,973 was allocated to share capital and \$18,027 to share purchase warrants. Each Unit consists of one common share and one warrant. Cash issuance costs of \$444 were allocated to share purchase warrants.
- viii. On September 29, 2016, the Company issued 800,000 units at \$0.025 per unit pursuant to the second tranche of a non-brokered private placement for gross proceeds of \$20,000. Of this amount, \$17,329 was allocated to share capital and \$2,671 to share purchase warrants. Each Unit consists of one common share and one warrant.

As at December 31, 2016, there were 43,175,000 (2015 – 28,800,546) outstanding warrants with a weighted average share price of \$0.05 (December 31, 2015 - \$0.08). See Note 21.

A summary of the Company's reserve for equity settled share-based transactions is as follows:

	Number of warrants	Weighted average share price
Balance, January 1, 2015	5,216,000	\$0.10
Issued – private placements	28,450,000	0.09
Issued – agent warrants	112,000	0.10
Issued – debentures	238,546	0.06
Expired, exercised or cancelled	(5,216,000)	0.10
Balance, December 31, 2015	28,800,546	\$0.08
Issued – private placements	18,200,000	0.05
Issued – agent warrants	128,000	0.05
Expired, exercised or cancelled	(3,953,546)	0.09
Balance, December 31, 2016	43,175,000	\$0.05

Expiry date	Number of shares	Exercise price	Weighted average contractual life (years)
January 28, 2017	4,000,000	\$0.075	0.08
May 4, 2017*	112,000	\$0.10	0.34
May 5, 2017*	128,000	\$0.05	0.34
January 28, 2020	9,455,000	\$0.05	3.08
May 4, 2020	11,280,000	\$0.05	3.34
May 5, 2021	6,600,000	\$0.05	4.35
June 21, 2021	5,400,000	\$0.05	4.47
September 19, 2021	5,400,000	\$0.05	4.72
September 29, 2021	800,000	\$0.05	4.75
Balance, December 31, 2016	43,175,000	\$0.05	3.46

*Agent warrants.

d. Shares pending issue

Pursuant to a license termination agreement effective February 28, 2015 (note 12), 500,000 common shares at a deemed price of \$0.05 per share were to be issued to SmartACR. The shares were issued in February 2016 (note 11(a)(vi)).

On December 29, 2015, 545,000 share purchase warrants were exercised at the price of \$0.05 per warrant for total consideration of \$27,250. The shares were issued in January 2016 (note 11(a)(v)).

12. License Agreement Termination

On February 28, 2015, the Company executed a Termination Agreement (“TA”) with a licensee (“SmartACR”). The purpose of the TA was to terminate a licence agreement dated November 29, 2013 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 issued an aggregate of 500,000 common shares of the Company at a deemed price of \$0.05 per share (note 11(a)(vi)) and was to issue 2,000,000 share purchase warrants. Pursuant to the terms of the ICA, the contractor was to provide consulting services by acting as the VP Sales and Marketing, North America for a fee of USD\$10,000 per month for the initial term from March 1, 2015 to February 29, 2016, and any renewal terms. On April 22, 2015, the Company granted 500,000 options to the contractor. On November 15, 2015, the Company terminated the ICA. Pursuant to the terms of the TA, the share purchase warrants expired on the date of termination of the ICA. Pursuant to the Company’s stock option plan and the stock option agreement between the Company and the contractor, the 500,000 stock options were forfeited on November 15, 2015.

The value attributed to the shares was allocated as follows:

Intellectual property	\$25,000
Customer relationships	-
	\$25,000

13. Income Taxes

Income tax recognized in the consolidated statement of operations:

	December 31, 2016	December 31, 2015
Deferred income tax recovery	\$ 52,131	\$ 47,659
Current income tax expense	-	-
Income tax recovery	\$ 52,131	\$ 47,659

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

	December 31, 2016	December 31, 2015
Expected tax expense (recovery) (2015 – 26%; 2014 – 26%)	(\$484,141)	(\$483,542)
Permanent and other differences	113,209	77,178
Effect of foreign tax rates	58,361	(268,027)
Change in unrecognized tax assets	260,440	626,732
Income tax recovery	(\$52,131)	(\$47,659)

Unrecognized income tax assets comprise the following:

	December 31, 2016	December 31, 2015
Deferred income tax assets		
Non-capital losses	\$6,329,329	\$6,061,975
Share issuance costs	11,826	12,542
Other timing differences	201,903	206,753
Unrecognized tax assets	\$6,543,058	\$6,281,270

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, 2016.

At December 31, 2016, the Company has unused non-capital losses of approximately \$22,297,000 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%	
2016	\$1,023,014	\$-	\$-	\$-	1,023,014
2027	1,732,657	-	1,267,037	-	2,999,694
2028	1,127,657	-	2,188,026	-	3,315,683
2029	2,501,267	-	1,117,169	-	3,618,436
2030	910,879	-	1,102,960	-	2,013,839
2031	786,254	-	609,086	-	1,395,340
2032	400,145	-	236,380	-	636,525
2033	189,678	-	93,801	-	283,479
2034	3,775,936	1,518,362	-	-	5,294,298
2035	371,521	-	-	140,563	512,084
2036	877,113	101,452	43,612	182,506	1,204,683
	\$13,696,121	\$1,619,814	\$6,658,071	\$323,069	\$22,297,075

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. As at December 31, 2016, the deferred tax liability was \$151,425 (December 31, 2015 - \$202,209).

Balance, January 1, 2015	\$ 249,919
Amortization of intangible assets	(47,710)
Balance, December 31, 2015	202,209
Amortization of intangible assets	(50,784)
Balance, December 31, 2016	\$151,425

14. Segmented Information

The Company installs, distributes, markets and sells the ECO3™ and ESM™ products and peripherals. Revenue from the ECO3™ for the year ended December 31, 2016 was \$94,013 (2015 - \$466,908) and revenue for the ESM™ solution was \$231,963 (2015 - \$318,590).

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

	2016		2015	
	Amount	%	Amount	%
Americas	\$76,735	24	\$557,196	71
Europe, Middle East, Africa	249,241	76	228,302	29
Total revenue	\$325,976	100	\$785,498	100

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

During the year ended December 31, 2016, revenue from three customers exceeded 10% of the Company's total revenue. These customers contributed 23% (2015 – 0%), 12% (2015 – 0%) and 12% (2015 – 0%) of total revenue, respectively.

Property and equipment are located in:

	2016		2015	
	Amount	%	Amount	%
Canada	\$3,461	93	\$15,991	85
UK	267	7	2,849	15
Total	\$3,728	100	\$18,840	100

15. Commitments

Premise Lease

The Company's lease agreement to lease office facilities in Vancouver expired in May 2015. The Company entered into a rental agreement to rent an office in Palm Spring for USD 2,900 per month. The agreement commenced on November 1, 2015 and expired on April 30, 2016.

Consulting Agreements

In December 2014, the Company entered into a consulting agreement with Maxwell Mercantile Inc., 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.

On April 1, 2015, the Company, through Smartcool USA, entered into a consulting agreement with Sand Dollar Management Inc., an independent contractor. The contractor is providing general

management of the direct sale and installation of products to customer sites located in California, USA. The contractor will receive a monthly consulting fee equal to the lesser of 20% of gross revenues (as defined) and 40% of gross profits of the business unit (as defined). Pursuant to the agreement, the contractor was granted 2,000,000 stock options. These options vest in four equal instalments of 500,000 commencing on the date of grant and then six, 12 and 18 months thereafter. The agreement has a three-year term with automatic renewals of additional three-year terms unless either party gives 30 days written notice to the other of its intention not to renew. In the event that a change of control occurs and the Company terminates the agreement for any reason other than for cause, the Company must pay a lump sum termination fee equal to the amount of the consulting fee earned by the contractor during the 12 month period immediately preceding the date of termination.

16. 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
Maxwell Mercantile	Management services
Brad Nightingale Consulting	Consulting services
Global Telematic Solutions	Administration 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	2016	2015
Consulting fees	(i)	\$222,710	\$304,489
Administration services	(ii)	6,606	-
Legal	(iii)	-	4,964
		\$229,316	\$309,453

- i. During the year ended December 31, 2016, consulting fees of \$222,710 were charged by two companies with common directors (2015 - \$304,489).
- ii. During the year ended December 31, 2016, administration fees of \$6,606 were charged by a company with common directors (2015 - \$Nil).
- iii. The Company uses the services of a law firm of which a director is a partner. During the year ended December 31, 2016, fees in the amount of \$nil (2015 - \$4,964) 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 former President as at December 31, 2016 (December 31, 2015 - \$5,000) related to an advance for travel expenses. The amount is unsecured, non-interest bearing and has no fixed terms of repayment (note 3).

Included in trade payables and accruals is \$428,333 due to related parties as at December 31, 2016 (December 31, 2015 - \$313,103) as follows:

	December 31, 2016	December 31, 2015
Chief Executive Officer	\$80,585	\$28,553
President (former)	97,880	98,753
Chief Financial Officer	63,167	49,191
Executive VP	77,352	17,346
VP of Operations	83,838	64,372
Other related parties	25,511	54,888
Total	\$428,333	\$313,103

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

In March 2015, the Company issued 4,065,440 common shares at a deemed price of \$0.05 per share to settle outstanding debts of \$203,272 (note 9 b)).

Compensation of Key Management Personnel

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

	2016	2015
Salaries	\$ 310,667	\$348,315
Share-based payments	26,383	150,495
	\$ 337,050	\$498,810

17. Financial Instruments

Financial Instruments

The Company has classified its financial instruments as follows:

	December 31, 2016	December 31, 2015
Financial assets		
FVTPL , measured at fair value:		
Cash and cash equivalents	\$3,317	\$18,478
Available-for-sale, measured at fair value:		
Securities	8,210	12,158
Loans and receivables, measured at amortized cost:		
Trade and other receivables	201,232	496,626
	\$212,759	\$527,262
Other financial liabilities, measured at amortized cost		
Trade payables and accruals	\$ 837,349	\$738,762
Loans and advances	485,191	276,450
Acquisition obligations and debentures	640,723	669,236
	\$ 1,963,263	\$1,684,448

Interest and accretion charged on loans, obligations under acquisition contracts and debentures are recognized in finance expense in the statement of operations.

Unrealized gain or loss on investment in securities is recognized in other comprehensive income.

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 values of cash and cash equivalents, trade and other receivables, trade payables and accruals, loans and advances, obligations under acquisition contracts and debentures approximate 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, market risk and foreign currency 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 receivables. 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.

As at December 31, 2016, the Company had \$201,232 (December 31, 2015 - \$496,626) in trade and other receivables which were subject to credit risk (note 3). As at December 31, 2016, 48% (2015 – 82%) of trade receivables was receivable from one customer.

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 and accruals	\$ 837,349	\$ 837,349	\$-
Loans and advances	485,191	485,191	-
Obligations under acquisition contracts	360,149	292,292	67,857
Debentures	280,574	280,574	-
Total	1,963,263	\$1,895,406	\$ 67,857

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, 2016, the Company's monetary assets and liabilities denominated in foreign currencies are as follows:

	USD	AUD	GBP
Assets			
Cash and cash equivalents	\$661	\$-	£-
Trade and other receivables	104,073	-	-
Total	\$104,734	\$-	£-
Liabilities			
Trade payables and accruals	\$135,294	\$11,155	£61,693
Acquisition obligations	-	-	176,462
Total	\$135,294	\$11,155	£238,155

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	(\$10,473)	\$-	£-
Monetary liabilities	13,529	1,115	23,816
Net gain (loss)	\$3,056	\$1,115	£23,816
Gain (loss) on \$0.10 decrease in CAD	USD	AUD	GBP
Monetary assets	\$10,473	\$-	£-
Monetary liabilities	(13,529)	(1,115)	(23,816)
Net gain (loss)	(\$3,056)	(\$1,115)	(£23,816)

18. General and Administrative Expenses

	2016	2015
Advertising and promotion	\$2,185	\$11,927
Bad debts (recovery)	162,350	(113,663) ¹
Commissions	6,467	10,524
Consulting and management fees	336,777	618,811
Filing and transfer fees	28,515	42,511
Insurance	14,216	21,030
Interest	4,333	725
Investor relations	12,113	29,783
Product certification	4,869	6,832
Professional fees	68,070	98,902
Office and supplies	28,009	45,053
Rent	25,373	52,388
Salaries and benefits	493,055	490,946
Telephone	18,217	20,608
Travelling	73,127	112,714
Total general and administrative expenses	\$1,277,676	\$1,449,091

¹During 2015, the Company recovered \$113,026 (£56,465) that had been written off as a bad debt in a prior year.

19. 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, 2016, the principal amount of the debenture component plus interest payable was \$280,574 (December 31, 2015 - \$260,097) and shareholders' deficiency was \$625,196 (December 31, 2015 – shareholders' equity \$529,139). The change from shareholders' equity to shareholders' deficiency was attributable to the 2016 operating loss, offset by additional capital raised in 2016.

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 in the next 12 months steps have been taken to monitor expenses, grow revenue and arrange for additional capital financing.

The Company is not subject to any external capital restrictions.

20. Supplementary Cash Flow Information

	2016	2015
Interest paid in cash	\$7,250	\$41,988
Shares issued (cancelled) for subscriptions receivable	(\$25,000)	\$75,000
Securities received to settle trade receivables	\$-	\$40,526
Inventory received for no consideration	\$-	\$11,568
Shares issued for intangible assets	\$-	\$25,000
Shares issued for debt settlement	\$-	\$231,522
Issuance of warrants for debenture extension	\$-	\$22,315
Issuance of warrants for broker finder's fee	\$800	\$-

21. Subsequent Events

On February 3, 2017, the Company amended the expiry dates and exercise prices of certain warrants, as follows:

Warrants	Grant date	Original expiry date	Amended expiry date	Original exercise price	Amended exercise price
9,455,000	January 28, 2015	January 28, 2017	January 28, 2020	\$0.05	No change
11,280,000	May 4, 2015	May 4, 2017	May 4, 2020	\$0.10	\$0.05
6,600,000	May 5, 2016	May 5, 2017	May 5, 2021	\$0.05	No change
5,400,000	June 21, 2016	June 21, 2017	June 21, 2021	\$0.05	No change
5,400,000	September 19, 2016	September 19, 2017	September 19, 2021	\$0.05	No change
800,000	September 29, 2016	September 29, 2017	September 29, 2021	\$0.05	No change

On March 15, 2017, the Company issued 20,000,000 Units at \$0.02 per unit for gross proceeds of \$400,000 in a non-brokered private placement. Each Unit consists of one common share and one warrant exercisable at \$0.05 per warrant share for three years after closing.

On March 31, 2017, the Company and holders of 40 debenture units, including holders of 35 debenture units where the maturity date was previously extended to March 31, 2017 in November 2016, entered into an agreement to extend the repayment deadline of these units to August 1, 2017 in

exchange for the immediate payment of interest accrued to March 31, 2017 and the reimbursement of legal fees. Remaining principal and interest accrued after March 31, 2017 are to be repaid in four equal monthly instalments beginning on May 1, 2017.