SMARTCOOL™

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

For the years ended December 31, 2017 and 2016
Expressed in Canadian Dollars

DeVISSER GRAY LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

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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, 2017 and 2016, 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, 2017 and 2016 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
April 30, 2018

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Smartcool Systems Inc.

Consolidated statements of financial position

(Expressed in Canadian dollars, unless otherwise stated)

	December 31, 2017	December 31, 2016
	$	$
ASSETS		
Current assets		
Cash and cash equivalents	477,000	3,317
Available-for-sale securities (note 9)	-	8,210
Trade and other receivables (notes 2 and 3)	311,517	211,499
Inventory (note 4)	224,361	140,979
Prepaid expenses and deposits	135,745	50,772
	1,148,623	417,777
Trade receivables (notes 2 and 3)	134,223	-
Property and equipment (note 5)	3,263	3,728
Intangible assets (note 6)	592,071	1,142,519
Total assets	1,878,180	1,561,024
LIABILITIES		
Current liabilities		
Trade payables and accruals	891,813	908,881
Loans and advances (note 7)	82,569	485,191
Current portion of obligations under acquisition contracts (note 8)	384,958	292,292
Current portion of debentures (note 10)	123,778	280,574
	1,483,118	1,966,938
Obligations under acquisition contracts (note 8)	-	67,857
Debentures (note 10)	484,000	-
Deferred tax liability (note 12)	100,641	151,425
Total liabilities	2,067,759	2,186,220
SHAREHOLDERS' DEFICIENCY		
Share capital (note 11(a))	32,863,660	32,081,862
Reserve for equity settled share-based transactions (note 11(b))	7,913,561	6,643,640
Shares pending issue (note 11(d))	382,430	-
Accumulated other comprehensive income	(337,784)	(321,719)
	40,821,867	38,403,783
Deficit	(41,011,446)	(39,028,979)
	(189,579)	(625,196)
Total liabilities and shareholders' deficiency	1,878,180	1,561,024

Approved and authorized for issue by the Board of Directors on April 30, 2018

"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, 2017	2016
	$	$
Revenue	774,279	325,976
Cost of sales	122,272	86,240
Gross profit	652,007	239,736
Operating Expenses		
General and administrative expenses (note 17)	1,747,057	1,277,676
Amortization and depreciation (notes 5 and 6)	552,576	568,429
Share-based payments (note 11(b))	295,108	39,051
Research and development	-	1,976
	2,594,741	1,887,132
Operating loss	(1,942,734)	(1,647,396)
Finance expense (notes 7, 8 and 10)	(100,574)	(110,445)
Foreign exchange gain	21,923	42,857
Gain on sale of available-for-sale securities (note 9)	2,783	10,095
Transfer from accumulated other comprehensive income on sale of available-for-sale securities	(12,316)	(14,000)
	(88,184)	(71,493)
Loss before income tax	(2,030,918)	(1,718,889)
Income tax recovery (note 12)	48,451	52,131
Net loss for the year	**(1,982,467)**	**(1,666,758)**
Net loss per share		
Basic	(0.01)	(0.01)
Diluted	(0.01)	(0.01)
Weighted average number of common shares outstanding (basic and diluted)	**169,847,586**	**131,864,244**

See accompanying notes to the consolidated financial statements

SMARTCOOL™

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

	2017	2016
	$	$
Net loss for the year	**(1,982,467)**	**(1,666,758)**
Other comprehensive loss	(16,065)	**58,935**
Total comprehensive loss for the year	**(1,998,532)**	**(1,607,823)**

See accompanying notes to the consolidated financial statements

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

	2017 $	2016 $
Cash flows from operating activities		
Net loss for the year	(1,982,467)	(1,666,758)
Items not affecting cash:		
Depreciation of property and equipment	2,128	17,981
Amortization of intangible assets	550,448	550,448
Loss on sale of available-for-sale securities	9,533	3,905
Share-based payments	295,108	39,051
Deferred tax liability	(50,784)	(50,784)
Foreign exchange (gain) loss	5,082	(78,627)
Accrued interest and discount on loans and advances	37,928	47,543
Accrued interest on debentures	17,936	35,522
Accretion of obligation under acquisition contracts	16,025	24,951
	(1,099,063)	(1,076,768)
Changes in non-cash working capital items:		
Trade and other receivables	(234,241)	271,219
Inventory	(83,382)	(79,768)
Prepaid expenses and deposits	(84,973)	74,879
Trade payables and accruals	(17,066)	148,892
Net cash flows used in operating activities	(1,518,725)	(661,546)
Cash flows from investing activities		
Disposal of security investment	10,993	16,095
Purchase of property and equipment	(1,420)	(2,943)
Net cash provided by investing activities	9,573	13,152
Cash flows from financing activities		
Shares and warrants issued for cash, net of issue costs	1,362,021	439,438
Share subscriptions received	382,430	-
Increase (decrease) in loans and advances	(42,502)	160,570
Increase (decrease) in debentures, net of issue costs	309,268	(9,655)
Net cash provided by financing activities	2,011,217	590,353
Net increase (decrease) in cash and cash equivalents	502,065	(58,041)
Effects of exchange rates changes on cash	(28,382)	42,880
Cash and cash equivalents, beginning of year	3,317	18,478
Cash and cash equivalents, end of year	477,000	3,317

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, 2016	**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 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)**
Net loss	-	-	-	-	(1,982,467)	(1,982,467)
Transfer to statement of operations on sale of available-for-sale	-	-	-	12,316	-	12,316
Foreign currency translation adjustment	-	-	-	(28,381)	-	(28,381)
Total comprehensive loss for the year	-	-	-	(16,065)	(1,982,467)	(1,998,532)
Shares issued for:						
Private placements	764,509	-	-	-	-	764,509
Private placement (debenture offering)	16,136	-	-	-	-	16,136
Debt settlement	394,589	-	-	-	-	394,589
Warrants exercised	87,116	-	-	-	-	87,116
Warrants	-	554,725	-	-	-	554,725
Warrants' term extension	(439,403)	439,403	-	-	-	-
Share issue costs	(41,149)	(19,315)	-	-	-	(60,464)
Share-based payments	-	295,108	-	-	-	295,108
Share subscriptions received	-	-	382,430	-	-	382,430
Balance at December 31, 2017	**32,863,660**	**7,913,561**	**382,430**	**(337,784)**	**(41,011,446)**	**(189,579)**

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.
Notes to the Consolidated Financial Statements
For the year ended December 31, 2017
(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 7155 Kingsway, PO Box 54523 Highgate PO, Burnaby, B.C., V5E 4J6.

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, 2017, the Company had a net loss of $1,982,467 compared to $1,666,758 for the previous year.

The company had a deficit of $41,011,446 as at December 31, 2017 (December 31, 2016 - $39,028,979). As at December 31, 2017, the Company had negative working capital of $334,495 (December 31, 2016 - $1,552,161). This increase in working capital was primarily attributable to capital and debt financing obtained during the year.

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 (note 20).

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, 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, 2017.

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 16, 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 future 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 (note 6); and
- The assessment of the ultimate collectability of accounts receivable and the determination of the allowance for doubtful accounts.

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.

In August 2017, the Company introduced a funded sales program designed to provided funding for customers wanting to install the Company’s products but lacking the capital to do so (note 11(a)(xiii). Pursuant to the program, the customer pays the invoiced amount in quarterly instalments over a period of up to three years. These sales are accounted for as financing transactions, with the imputed interest portion (being the excess of the nominal amount over the fair value of the consideration) being deferred and recognized as interest income over the payment term using the effective interest method.

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
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 with finite lives are recorded at cost, are amortized over their useful economic life and are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Intangible assets with finite lives include the ESM™ brand, ESM™ intellectual property, distribution rights, distribution agreements, supplier agreements and customer relationships. Following initial recognition, intangible assets with finite lives 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 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, 2017 and December 31, 2016.

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, 2017 and December 31, 2016.

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.

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 (see **Accounting Standards Issued but not yet Effective** below).

(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, 2017, the Company adopted the following IFRS standards and amendments:

Standard	Title
IAS 1 (Amendments)	Presentation of financial statements (amendments)

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
IFRS 9	Financial instruments	January 1, 2018
IFRS 15	Revenue from contracts with customers	January 1, 2018
IFRS 16	Leases	January 1, 2019

Under IFRS 15, the Company is required to apply a five-step model to determine when and what amount of revenue to recognize. Revenue will either be recognized over time or at a point in time, when control transfers to the customer. IFRS 15 will result in more detailed and extensive disclosure about the revenue recognition process. The five steps are as follows:

- Identify the contract with a customer;
- Identify the performance obligations;
- Determine the transaction price;
- Allocate the transaction price; and
- Recognize revenue

IFRS 15 is effective commencing with the interim financial statements for the quarter ended March 31, 2018.

Under IFRS 16, virtually all leases are required to be accounted for as finance leases rather than operating leases, where the required lease payments are disclosed as a commitment in the notes to the financial statements. As a result, the Company will be required to recognize any leased assets including premises leases ("right-of-use" assets) and the related lease liability on the statement of financial position.

3. Trade and Other Receivables

	December 31, 2017	December 31, 2016
Trade receivables, net of allowances for doubtful accounts	$425,681	$196,219
Other receivables	20,059	15,280
	445,740	**211,499**
Current portion	(311,517)	-
Long-term portion	$134,223	$211,499

At December 31, 2017, the allowance for doubtful accounts was $102,256 (2016 - $157,772).

Other receivables includes $5,000 (2016 - $5,000) from the former President of the Company relating to an advance for travel expenses (note 15).

At December 31, 2017, the analysis of trade receivables that were past due but not impaired is as follows:

	December 31, 2017	December 31, 2016
Neither past due nor impaired (*)	$234,476	$ -
< 30 days	63,111	-
30-60 days	33,497	50,743
60-90 days	3,052	5,728
90-120 days	5,536	174
> 120 days	86,009	139,574
	$425,681	**$196,219**

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 16.

(*) This balance represents the funded sales instalment payments that are due in 2018, 2019 and 2020.

4. Inventory

	December 31, 2017	December 31, 2016
ESM™ ECO3™	$119,361	$137,820
Other products	105,000	3,159
	$224,361	**$140,979**

5. Property and Equipment

	Computers	Testing and demonstration equipment	Office equipment and furniture	Leasehold improvements	Total
Balance at January 1, 2016	**$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**
Additions	1,420	-	-	-	1,420
Disposals	-	-	-	-	-
Effect of change in foreign exchange rates	(1,383)	(14,671)	(340)	-	(16,394)
Balance at December 31, 2017	**$238,217**	**$261,665**	**$25,218**	**$116,318**	**$641,418**

	Computers	Testing and demonstration equipment	Office equipment and furniture	Leasehold improvements	Total
Balance at January 1, 2016	**$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**
Depreciation	2,128	-	-	-	2,128
Disposals	-	-	-	-	-
Effect of change in foreign exchange rates	(1,628)	(14,671)	(338)	-	(16,637)
Balance at December 31, 2017	**$235,569**	**$261,665**	**$24,603**	**$116,318**	**$638,155**

Carrying Value

	Computers	Testing and demonstration equipment	Office equipment and furniture	Motor vehicles	Leasehold improvements	Total
Balance at January 1, 2016	$16,098	$1,932	$810	$-	$-	$18,840
Balance at December 31, 2016	**$3,111**	**$-**	**$617**	**$-**	**$-**	**$3,728**
Balance at December 31, 2017	**$2,648**	**$-**	**$615**	**$-**	**$-**	**$3,263**

SMARTCOOL™

6. Intangible Assets

Indefinite Lives

As at December 31, 2017, ESM™ brand (b) had a carrying value of $56,100 (2016 - $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, 2016	**$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**
Effect of change in foreign exchange rates	(15,875)	-	-	-	-	-	(15,875)
Balance at December 31, 2017	**$303,711**	**$149,100**	**$1,861,742**	**$113,651**	**$5,152,218**	**$1,211,369**	**$8,791,791**

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, 2016	**$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**
Amortization	-	8,708	119,812	5,684	365,056	51,188	550,448
Effect of change in foreign exchange rate	(15,875)	-	-	-	-	-	(15,875)
Balance at December 31, 2017	**$303,711**	**$118,781**	**$1,758,357**	**$102,291**	**$4,863,681**	**$1,108,999**	**$8,255,820**

Carrying Value

	North American distribution rights	Intellectual property	Distribution agreements	Supplier agreements	EMEA & UK distribution rights	Customer relationship	Total
Balance at January 1, 2016	$ -	$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**
Balance at December 31, 2017	$ -	**$30,319**	**$103,385**	**$11,360**	**$288,537**	**$102,370**	**$535,971**

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 11ai). These intangible assets included intellectual property ($25,000) and a customer relationship ($Nil).

Recoverable amount has been determined based on value in use. Management's cash flow projections are based on a discount rate of 16% (3% risk free rate plus an adjustment for risk factors), a growth rate of 0% applied to the financial budget for 2018 approved by management and based on historical gross margins, for a period of five years. Management has also considered the anticipated impact of the license agreement with Restovate Ltd. and the agency agreement with CoolSave Limited (note 20).

7. Loans and Advances

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

1. During 2015 and 2016, the Company received advances totaling $320,000 from an investor. These advances bore interest at 1% per month. On September 22, 2017 the Company entered into a shares-for-debt agreement with this investor and on October 17, 2017, the Company issued 7,891,774 common shares at a deemed price of $0.05 per share to settle debt of $394,589. The statutory hold period expired on February 18, 2018 (note (11axiv).

2. 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 2% per month (1% from September 27, 2016 to November 27, 2016).

3. In November 2016, the Company received an advance of $20,000 from an investor. This advance bore interest of $4,000 from November 22, 2016 to March 22, 2017. This advance plus $4,800 in interest was repaid on May 23, 2017.

4. In December 2016, the Company received another advance of $20,000 from the investor in 3. This advance was non-interest bearing and was repaid on February 23, 2017.

5. On July 31, 2017, the Company received an advance of $25,000 from a director of the Company. This advance is secured by a promissory note, bears interest at 1% per month and is due on demand.

These advances are summarized as follows:

	Maturity Date	Funds Advanced	Accrued Interest	Foreign Exchange	Balance
Loan 2	November 27, 2016	$46,368	$12,782	($2,831)	$56,319
Loan 5	On demand	25,000	1,250	-	26,250
		$71,368	$14,032	($2,831)	$82,569

At December 31, 2017, the carrying amount of these advances was as follows:

Balance, January 1, 2016	**$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**
Principal payment	(40,000)
Interest payment	(4,800)
Accrued interest	41,428
Funds advanced	25,000
Shares-for-debt settlement	(394,589)
Foreign exchange	(3,459)
Balance, December 31, 2017	**$82,569**

The interest accrued for the year was $41,428 (2016 - $47,543) 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 year was $16,025 (2016 - $24,951) and is recorded within finance expense in the statement of operations.

These obligations are to be repaid as follows:

- £130,000 ($220,493) in five instalments of £26,000 on December 15, 2014 and June 15, 2015, 2016, 2017 and 2018;

- £76,000 ($128,904) in four instalments of £19,000 on December 15, 2015, 2016, 2017 and 2018; and

- £25,000 ($42,403) in 2017.

£206,000 ($349,397) of this debt is secured by non-interest bearing promissory notes and £25,000 ($42,403) 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, 2017, the carrying amount of these obligations under acquisition contracts was as follows:

	TECC 1	TECC 2	UK 1	UK 2	Total
Balance, January 1, 2016	**$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**
Accretion	8,787	5,488	-	1,750	16,025
Foreign exchange	4,968	1,901	993	922	8,784
Balance, December 31, 2017	**$217,475**	**$84,605**	**$42,403**	**$40,475**	**$384,958**
Current portion	217,475	84,605	42,403	40,475	384,958
Long-term portion	$-	$-	$-	$-	$-

Principal	$220,493	$87,519	$42,403	$41,385	$391,800
Future accretion	(3,018)	(2,914)	(-)	(910)	(6,842)
Carrying amount	$217,475	$84,605	$42,403	$40,475	$384,958

9. Receivables/Debt Settlement

a. In February 2015, the Company received 810,520 common shares of ATI Airtest 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. The shares were classified as available-for-sale financial assets.

During 2016, 400,000 shares were disposed of for proceeds of $16,095, resulting in a realized loss of $3,905. On December 31, 2016, the market value of the remaining 410,520 shares was $8,210.

During 2017, the remaining shares were disposed of for proceeds of $10,993, resulting in a realized loss of $9,533.

b. On October 17, 2017, the Company issued 7,891,774 common shares at a deemed price of $0.05 per share to settle an outstanding advance plus accrued interest totaling $394,589 (note 7(1).

10. Debentures

Refinanced 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. The Company also issued 238,546 share purchase warrants to the debenture holders.

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. These debentures were redeemed in 2017.

The Company was unable to redeem the remaining debentures. As at December 31, 2017, the outstanding balance of these refinanced debentures was $103,409 comprised of principal of $81,893 and accrued interest of $21,516.

The interest accrued for the year totaled $18,795 and is recorded within finance expense in the statement of operations.

Debentures issued in 2017

In November 2017, the Company issued 572 Units for gross proceeds of $572,000 to fund the funded sales program introduced by the Company in August 2017 (notes 2 (**Revenue Recognition**) and 11(a)(xiii). Each Unit is comprised of one 8% unsecured, non-convertible, non-transferrable debenture and 1,000 common shares of the Company. These debentures have a maturity date of December 31, 2020. The annual interest of 8% is payable monthly.

The net proceeds of $514,800 was allocated between the fair values of the liability component ($498,664) and the equity component relating to the common shares ($16,136) using the residual method. The liability component is measured at amortized cost. $16,136 was credited to share capital.

The interest accrued for the year was $8,110 and is recorded within finance expense in the statement of operations.

At December 31, 2017, the carrying amount of the debentures was as follows:

Maturity date	March 1, 2015	March 31, 2016	March 31, 2017	December31, 2020	Total
Balance, January 1, 2016	**$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**
Debentures issued	-	-	-	498,664	498,664
Accrued interest	1,400	8,779	8,616	8,110	26,905
Interest payments	(2,382)	-	(30,547)	(2,405)	(35,334)
Principal payments	(6,379)	-	(156,652)	-	(163,031)
Balance, December 31, 2017	**$11,010**	**$92,399**	**$-**	**$504,369**	**$607,778**
Current portion	11,010	92,399	-	20,369	123,778
Long-term portion	$-	$-	$-	$484,000	$484,000
Principal	$8,738	$73,155	$-	$498,664	$580,557
Accrued interest	2,272	19,244	-	5,705	27,221
Balance owing and carrying amount	$11,010	$92,399	$-	$504,369	$607,778

11. Issued Capital and Equity Reserve

Authorized

Unlimited common shares without par value
Unlimited number of preferred shares without par value

On November 17, 2017, the authorized share capital of the Company was altered by creating an unlimited number of non-voting, non-transferable Series A preferred shares (the "SA shares"). The issue price for the SA shares is determined by the directors of the Company when the shares are authorized for issuance. The SA shares have the following additional rights attached to them:

- Dividends – SA shareholders are entitled to receive a fixed, preferential, cumulative dividend at the rate of 8% per annum of the initial issue amount. Dividends will accrue until conversion or exchange or in the event of a liquidation distribution (as defined). Dividends on SA shares are on an equal basis with any other series of preferred shares (other than those ranked junior to the SA shares) and are in priority to other classes of shares;
- Liquidation, Dissolution or Winding-Up – in the event of any distribution of the assets of the Company on the liquidation, dissolution or winding-up of the Company or upon the distribution of the assets of the Company among its shareholders for the purpose of winding up its affairs, the SA shareholders are entitled to a preferred return of the initial issue price plus any accrued, cumulative dividends before the common shareholders are entitled to receive any return; and
- Conversion – at any time between the second and third anniversaries of the date of issuance of the SA shares, outstanding SA shares may be converted at the option of the holder and on the third anniversary they will automatically be converted into common shares based on the specified formula at a minimum conversion price of $0.10 per common share. If the Company anticipates the occurrence of a liquidity event (as defined), between the issue date and the second anniversary, it shall give written notice to the SA shareholders specifying the exchange period during which they may elect to exchange their Series A shares for common shares of Smartcool USA at the specified conversion ratio.

a. *Issued common shares*

	Shares	Amount
Balance, January 1, 2016	**122,097,737**	**$31,672,684**
Warrants exercised – pending in 2015	545,000	27,250
Issued – pending in 2015 (i)	500,000	25,000
Reclassification of fair value of exercised warrants	-	4,387
Issued via private placements (ii)(iii)(iv)(v)	18,200,000	383,017
Cancelled (vi)	(500,000)	(16,642)
Share issuance costs (ii)(iii)(iv)(v)	-	(13,834)
Balance, December 31, 2016	**140,842,737**	**$32,081,862**
Issued via private placements (vii)(ix)(x)	44,666,666	764,509
Issued via private placement (debenture offering)(xiii)	572,000	16,136
Issued with debentures and not cancelled (xv)	13,000	-
Issued for debt settlement (xiv)	7,891,774	394,589
Warrants exercised (xii)	1,450,000	72,500
Agents warrants exercised (xi)	487,200	14,616
Share issuance costs (vii)(ix)	-	(41,149)
Warrant amendment (viii)	-	(439,403)
Balance, December 31, 2017	**195,923,377**	**$32,863,660**

i. 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.

ii. 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)(i)). 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.

iii. 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)(ii)). Each Unit consists of one common share and one warrant. Cash issuance costs of $6,150 were allocated to common shares.

iv. 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)(iii)). Each Unit consists of one common share and one warrant. Cash issuance costs of $2,489 were allocated to common shares.

v. 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)(iv)). Each Unit consists of one common share and one warrant. Cash issuance costs of $369 were allocated to common shares.

vi. 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.

vii. On March 15, 2017, the Company issued 20,000,000 Units at $0.02 per unit pursuant to a non-brokered private placement for gross proceeds of $400,000. Of this amount, $250,000 was allocated to share capital and $150,000 to share purchase warrants (note 11(c)(v)). Each Unit consists of one common share and one warrant. Cash issuance costs of $6,565 and agent warrant issuance costs of $794 for 248,000 agent warrants issued were allocated to common shares.

viii. On February 3, 2017, the Company amended the expiry dates and exercise prices of certain warrants. The fair value of these warrants increased by $439,403 as a result. The reserve for equity-settled share-based transactions increased and share capital decreased by the same amount (note 11(c)(vi). The Company used the Black-Scholes Option Pricing Model to determine the fair value of the amended warrants with the following assumptions: risk-free interest rate of 0.75% - 1.05%, dividend yield of 0%, volatility of 118.93% - 178.30% and an expected life of 3 – 4 years.

ix. On June 30, 2017, the Company issued 13,374,066 Units at $0.03 per unit pursuant to the first tranche of a non-brokered private placement for gross proceeds of $401,222. On July 7, 2017, the Company issued 3,292,600 Units at $0.03 per unit pursuant to the second tranche of the non-brokered private placement for gross proceeds of $98,778. Of these amounts, $274,390 was allocated to share capital and $225,610 to share purchase warrants. Each unit consists of one common share and one share purchase warrant exercisable at $0.05 per warrant share for five years after closing. Cash issuance costs of $11,024 and agent warrant issuance costs of $2,667 for 487,200 agent warrants issued were allocated to common shares.

x. On September 1, 2017, the Company issued 5,800,000 Units at $0.05 per unit pursuant to the first tranche of a non-brokered private placement for gross proceeds of $290,000. On September 8, 2017, the Company issued 2,200,000 Units at $0.05 per unit pursuant to the second tranche of the non-brokered private placement for gross proceeds of $110,000. Of these amounts, $240,119 was allocated to share capital and $159,881 to share purchase warrants. Each unit consists of one common share and one share purchase warrant exercisable at $0.07 per warrant share for two years after closing. Cash issuance costs of $15,857 and agent warrant issuance costs of $1,769 for 232,000 agent warrants issued were allocated to common shares.

xi. In August 2017, 487,200 agent warrants were exercised at the price of $0.03 for gross proceeds of $14,616 and an equivalent number of common shares were issued.

xii. From September to November 2017, 1,450,000 warrants were exercised at the price of $0.05 for gross proceeds of $72,500 and an equivalent number of common shares were issued.

xiii. In November 2017, the Company issued 572 Units for gross proceeds of $572,000. Each Unit is comprised of one 8% unsecured, non-convertible, non-transferrable debenture and 1,000 common shares of the Company. The net proceeds $514,800 was allocated between the fair values of the liability component ($498,664) and the equity component relating to the common shares ($16,136) using the residual method (notes 2 (**Revenue Recognition**) and 10).

xiv. On October 17, 2017, the Company issued 7,891,774 common shares at a deemed price of $0.05 per share to settle advances of $394,589 from an investor (note 7(1). Cash issuance costs of $2,473 were incurred and allocated to common shares.

xv. 13,000 shares issued in relation to the securities offering in November 2017 were returned and not cancelled.

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.

At December 31, 2017, there were 22,370,000 options outstanding (12,932,500 exercisable) with an exercise price of $0.05 and 100,000 options outstanding (100,000 exercisable) with an exercise price of $0.06. The units have expiry dates ranging from December 20, 2018 to July 7, 2022 and have a weighted-average remaining life of 3.63 years.

A summary of the Company's stock option activity for employees, directors, officers and consultants is as follows:

	Number of share options	Weighted average exercise price
Balance, January 1, 2016	**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**
Granted	12,575,000	0.05
Expired or exercised	(2,050,000)	0.06
Balance, December 31, 2017	**22,470,000**	**$0.05**

During the year ended December 31, 2017, 5,075,000 (2016 – 75,000) options with a weighted average fair value $0.034 were granted to directors, officers and employees and 7,500,000 (2016 – none) options with the same fair value were granted to consultants. None of these options had an exercise price lower than the stock price at the date of the grant.

Share-based payments for the year was $295,108 (2016 - $39,051) of which $119,353 (2016 - $26,736) was related to directors, officers and employees and $175,755 (2016 - $12,315) was related to consultants.

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:

	2017	2016
Risk-free interest rate	1.47%	0.60%
Dividend yield	0%	0%
Volatility	103.81%	102.93% - 103.37%
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 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.

ii. 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.

iii. 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.

iv. 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.

v. On March 15, 2017, the Company issued 20,000,000 Units at $0.02 per unit pursuant to a non-brokered private placement for gross proceeds of $400,000. Of this amount, $250,000 was allocated to share capital and $150,000 to share purchase warrants. Each Unit consists of one common share and one warrant. Cash issuance costs of $4,114 and agent warrant issuance costs of $446 for 248,000 agent warrants issued were allocated to warrants.

vi. 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

As a result, the fair value of the amended warrants increased by $439,403. The reserve for equity-settled share-based transactions increased and share capital decreased by the same amount (note 11(a)(viii).

vii. On June 30, 2017, the Company issued 13,374,066 Units at $0.03 per unit pursuant to the first tranche of a non-brokered private placement for gross proceeds of $401,222. On July 7, 2017, the Company issued 3,292,600 Units at $0.03 per unit pursuant to the second tranche of the non-brokered private placement for gross proceeds of $98,778. Of these amounts, $274,390 was allocated to share capital and $225,610 to share purchase warrants. Each unit consists of one common share and one share purchase warrant exercisable at $0.05 per warrant share for five years after closing. Cash issuance costs of $4,078 and agent warrant issuance costs of $987 for 487,200 agent warrants issued were allocated to warrants. Each agent warrant entitles the holder to purchase a Broker Unit for a price of $0.03 for two years after closing. Each Broker Unit consists of one common share and one share purchase warrant exercisable at $0.05 per warrant for five years after closing. On August 11, 2017, the Company issued 487,200 Broker Units after these agent warrants were exercised.

viii. On September 1, 2017, the Company issued 5,800,000 Units at $0.05 per unit pursuant to the first tranche of a non-brokered private placement for gross proceeds of $290,000. On September 8, 2017, the Company issued 2,200,000 Units at $0.05 per unit pursuant to the second tranche of the non-brokered private placement for gross proceeds of $110,000. Of these amounts, $240,119 was allocated to share capital and $159,881 to share purchase warrants. Each unit consists of one common share and one share purchase warrant exercisable at $0.07 per warrant share for two years after closing. Cash issuance costs of $8,559 and agent warrant issuance costs of $1,131 for 232,000 agent warrants issued were allocated to warrants. Each agent warrant entitles the holder to purchase a broker Unit for a price of $0.05 for two years after closing. A broker Unit consists of one common share and one share purchase warrant exercisable at $0.05 per warrant for five years after closing.

ix. On November 7, 2017, the Company issued 656,000 agent warrants. Each agent warrant entitles the holder to purchase one common share for a price of $0.055 for two years after closing.

x. On November 30, 2017, the Company issued 194,909 agent warrants. Each agent warrant entitles the holder to purchase one common share for a price of $0.055 for two year after closing.

As at December 31, 2017, there were 83,969,776 (December 31, 2016 – 43,175,000) outstanding warrants with a weighted average share price of $0.05 (December 31, 2016 - $0.05).

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, 2016	**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**
Issued – private placements	44,666,666	0.05
Issued – agent warrants	1,818,110	0.05
Issued – agent unit warrants	487,200	0.05
Expired, exercised or cancelled	(6,177,200)	0.07
Balance, December 31, 2017	**83,969,776**	**$0.05**

Expiry date	Number of shares	Exercise price	Weighted average contractual life (years)
September 1, 2019	5,800,000	$0.07	1.67
September 1, 2019*	200,000	$0.05	1.67
September 8, 2019	2,200,000	$0.07	1.69
September 8, 2019*	32,000	$0.05	1.69
November 7, 2019*	656,000	$0.055	1.85
November 30, 2017*	194,909	$0.055	1.92
January 28, 2020	9,355,000	$0.05	2.08
March 15, 2020	19,850,000	$0.05	2.21
March 15, 2020*	248,000	$0.05	2.21
May 4, 2020	10,280,000	$0.05	2.34
May 5, 2021	6,400,000	$0.05	3.35
June 21, 2021	5,400,000	$0.05	3.48
September 19, 2021	5,400,000	$0.05	3.72
September 29, 2021	800,000	$0.05	3.75
June 30, 2022	13,861,267	$0.05	4.50
July 7, 2022	3,292,600	$0.05	4.52
Balance, December 31, 2017	**83,969,776**	**$0.05**	**2.90**

*Agent warrants

d. *Shares pending issue*

In November and December 2017, $382,430 (USD 300,000) in stock subscriptions was received pursuant to three individual private placements. These subscriptions are for a total of 300,000 SA shares of the Company at a price of USD 1.00 per share.

12. Income Taxes

Income tax recognized in the consolidated statement of operations:

	December 31, 2017	December 31, 2016
Deferred income tax recovery	$ 48,451	$ 52,131
Current income tax expense	-	-
Income tax recovery	**$ 48,451**	**$ 52,131**

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, 2017	December 31, 2016
Expected tax expense (recovery) (2017 – 26%; 2016 – 26%)	($515,442)	($484,141)
Permanent and other differences	170,108	113,209
Effect of foreign tax rates	116,700	58,361
Change in unrecognized tax assets	180,183	260,440
Income tax recovery	**($48,451)**	**($52,131)**

Unrecognized income tax assets comprise the following:

	December 31, 2017	December 31, 2016
Deferred income tax assets		
Non-capital losses	$6,565,849	$6,329,329
Share issuance costs	39,521	11,826
Other timing differences	117,871	201,903
Unrecognized tax assets	**$6,723,241**	**$6,543,058**

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, 2017.

At December 31, 2017, the Company has unused non-capital losses of approximately $23,769,000 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%**	**27%**	**20%**	
2016	$1,023,014	$-	$-	$-	1,023,014
2027	1,732,657	-	1,183,808	-	2,916,465
2028	1,127,657	-	2,044,298	-	3,171,955
2029	2,501,267	-	1,043,784	-	3,545,051
2030	910,879	-	1,030,508	-	1,941,387
2031	786,254	-	569,076	-	1,355,330
2032	400,145	-	220,852	-	620,997
2033	189,678	-	87,639	-	277,317
2034	3,775,936	1,518,362	-	-	5,294,298
2035	371,521	-	-	147,886	519,407
2036	1,034,838	240,459	46,393	184,307	1,505,997
2037	1,216,329	240,459	81,693	59,393	1,597,874
	$15,070,175	**$1,999,280**	**$6,308,051**	**$391,586**	**$23,769,092**

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, 2017, the deferred tax liability was $100,641 (December 31, 2016 - $151,425).

Balance, January 1, 2016	**$202,209**
Amortization of intangible assets	(50,784)
Balance, December 31, 2016	**151,425**
Amortization of intangible assets	(50,784)
Balance, December 31, 2017	**$100,641**

13. Segmented Information

The Company installs, distributes, markets and sells the ECO3™ and ESM™ products and peripherals.

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

	2017		2016	
	Amount	**%**	**Amount**	**%**
Americas	$113,863	15	$76,735	24
Europe, Middle East, Africa	660,416	85	249,241	76
Total revenue	**$774,279**	**100**	**$325,976**	**100**

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

During the year ended December 31, 2017, revenue from five customers accounted for 46% of the Company's total revenue. These were new customers in 2017.

Property and equipment are located in:

	2017		2016	
	Amount	**%**	**Amount**	**%**
Canada	$2,014	62	$3,461	93
UK	1,249	38	267	7
Total	**$3,263**	**100**	**$3,728**	**100**

14. Commitments

Consulting Agreements

In December 2014, the Company entered into a consulting agreement with Maxwell Mercantile Inc., an independent contractor. The contractor provides management services to the Company in the role of Chief Executive Officer ("CEO") 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 automatically renews for additional 12 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 provided general management of direct sales and product installation to customer sites located in California, USA. The agreement was terminated on April 15, 2018 and 2,000,000 stock options were canceled.

On March 1, 2017, the Company entered into a consulting agreement with an independent contractor. The contractor provides sales and management consulting services to the Company in the role of Vice President of Business Development, Refrigerated Transport Division for fixed compensation of 20% of gross revenue. The contractor received a $7,000 non-refundable monthly advance for seven months which is deductible from fixed compensation earned. He is entitled to receive discretionary performance bonuses as determined by the CEO and will receive periodic bonuses in the form of stock option grants to purchase 500,000 shares of the Company at an exercise price of $0.05 per common share upon the achievement/completion of each of four specified milestones based on product development, executing a license agreement and gross sales. He may also be awarded stock and be granted stock options at the sole discretion of the CEO and will receive 5% of non-brokered capital funding raised. In the event of a change of control (as defined), the contractor will receive a cash payment equal to compensation received during the previous 12 months to a maximum of $1,000,000. Pursuant to the agreement, the contractor was granted an option to purchase 2,000,000 shares of the Company at an exercise price of $0.05 per common share. Either party can terminate the agreement by providing written notice (three months by the contractor and six months by the Company) to the other.

On May 1, 2017, the Company entered into a consulting agreement with FronTier Consulting Ltd., an independent contractor. The contractor provides financial market advisory services to raise awareness of the Company's stock and to generate private placement opportunities for a fee of $87,000. Pursuant to the agreement, the contractor was granted an option to purchase 400,000 shares of the Company at an exercise price of $0.05 per common share. The agreement has a 12-month term. Either party can terminate the agreement by providing 30 days written notice to the other.

On June 15, 2017, the Company entered into a finance services agreement with Ascenta Finance Corp. ("Ascenta"). Ascenta provides corporate finance services for an agent's fee payable on the closing date of a financing or corporate opportunity (as defined). The agent's fee on a financing is 8% of the value attributable to introduced parties and a stock option grant equal to 8% of the securities issued to the introduced parties. The agent's fee on a corporate opportunity is 10% of the first $300,000 in value, 7.5% from $300,000 to $1,000,000 in value and 5% of the balance and any other fee agreed to by the parties, payable in cash, securities of the Company or any combination thereof. If an introduced party, within two years of the closing of a financing or corporate opportunity, participates in a subsequent financing or corporate opportunity, the same agent's fees apply. Agent's fees are paid to Ascenta prior to the proceeds being released to the Company. Either party can terminate the agreement by providing written notice to the other before the closing date.

On August 10, 2017, the Company entered into a consulting agreement with Caribbean Consulting Partners, LLC, an independent contractor. The contractor provides market research and analysis services as requested by the CEO for a fee of $135,000. The agreement has a 12-month term. Either party can terminate the agreement by providing 30 days written notice to the other.

On October 19, 2017, the Company entered into a consulting agreement with a consultant for a period of 90 days. The contractor is assisting with strategic planning, business plan development, CRM selection and rollout and development of initial KPIs for steering and managing the Company's business for a fee of $25,000 payable in three monthly instalments commencing on November 1, 2017 and $5,000 for the assistance of his company's CFO.

15. 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	2017	2016
Consulting fees	(i)	$223,092	$222,710
Administration services	(ii)	15,639	6,606
		$238,731	**$229,316**

i. During the year ended December 31, 2017, consulting fees of $223,092 were charged by two companies with common directors and a director of the Company (2016 - $222,710).

ii. During the year ended December 31, 2017, administration fees of $15,639 were charged by a company with common directors (2016 - $6,606).

Due to/from Related Parties

Included in trade and other receivables is $5,000 due from the former President as at December 31, 2017 (December 31, 2016 - $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).

Also see note 7(5).

Included in trade payables and accruals is $277,829 due to related parties as at December 31, 2017 (December 31, 2016 - $428,333) as follows:

	December 31, 2017	December 31, 2016
Company controlled by the Chief Executive Officer	$21,321	$80,585
President (former)	62,255	97,880
Chief Financial Officer	26,917	63,167
Executive VP	68,822	77,352
VP of Operations	56,000	83,838
Other related parties	42,514	25,511
Total	**$277,829**	**$428,333**

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

Compensation of Key Management Personnel

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

	2017	2016
Salaries	$121,803	$310,667
Share-based payments	174,584	26,383
	$296,387	**$337,050**

16. Financial Instruments

Financial Instruments

The Company has classified its financial instruments as follows:

	December 31, 2017	December 31, 2016
Financial assets		
FVTPL , measured at fair value:		
Cash and cash equivalents	$477,000	$3,317
Available-for-sale, measured at fair value:		
Securities	-	8,210
Loans and receivables, measured at amortized cost:		
Trade and other receivables	430,681	201,232
	$907,681	**$212,759**
Other financial liabilities, measured at amortized cost		
Trade payables and accruals	$867,900	$837,349
Loans and advances	82,569	485,191
Acquisition obligations and debentures	992,736	640,723
	$1,943,205	**$1,963,263**

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

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, 2017, the Company had $430,681 (December 31, 2016 - $201,232) in trade and other receivables which were subject to credit risk (note 3). As at December 31, 2017, 87% of trade receivables were from five customers (2016 – 48% 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**	**3 years**
Trade payables and accruals	$867,900	$867,900	$-
Loans and advances	82,569	82,569	-
Obligations under acquisition contracts	384,958	384,958	-
Debentures	607,778	123,778	484,000
Total	**$1,943,205**	**$1,459,205**	**$484,000**

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, 2017, the Company's monetary assets and liabilities denominated in foreign currencies are as follows:

	USD	AUD	GBP
Assets			
Cash and cash equivalents	$190,406	$-	£18,918
Trade and other receivables	5,095	-	206,895
Total	**$195,501**	**$-**	**£225,813**
Liabilities			
Trade payables and accruals	$168,143	$5,399	£126,938
Acquisition obligations	-	-	231,000
Total	**$168,143**	**$5,399**	**£357,938**

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	($19,550)	$-	($22,581)
Monetary liabilities	16,814	540	35,794
Net gain (loss)	**($2,736)**	**$540**	**$13,213**
Gain (loss) on $0.10 decrease in CAD	**USD**	**AUD**	**GBP**
Monetary assets	$19,550	$-	$22,581
Monetary liabilities	(16,814)	(540)	(35,794)
Net gain (loss)	**$2,736**	**($540)**	**($13,213)**

17. General and Administrative Expenses

	2017	2016
Advertising and promotion	$26,694	$2,185
Bad debts	102,256	162,350
Commissions	-	6,467
Consulting and management fees (note 15)	669,231	336,777
Filing and transfer fees	13,898	28,515
Insurance	11,667	14,216
Interest	7,238	4,333
Investor relations	28,452	12,113
Product certification	8,510	4,869
Professional fees	124,945	68,070
Office and supplies	50,906	28,009
Rent	9,101	25,373
Salaries and benefits	522,953	493,055
Telephone	11,797	18,217
Travelling	159,409	73,127
Total general and administrative expenses	**$1,747,057**	**$1,277,676**

18. 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, 2017, the principal amount of the debenture component plus accrued interest payable was $607,778 (December 31, 2016 - $280,574) and shareholders’ deficiency was $189,579 (2016 – $625,196).

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 (note 20).

The Company is not subject to any external capital restrictions.

19. Supplementary Cash Flow Information

	2017	**2016**
Interest paid in cash	$ 63,583	$7,250
Shares cancelled for subscriptions receivable	$-	($25,000)
Shares issued for debt settlement	$394,589	$-
Issuance of warrants for broker finder's fee	$19,234	$800

20. Subsequent Events

On February 15, 2018, the Company entered into a license agreement (the "LA") with Restovate Ltd., a private company in Ontario, Canada, to use certain Licensed Marks (as defined) on an international, worldwide basis. Pursuant to the LA, the Company was granted an exclusive, revocable license for a term of three years commencing on February 15, 2018, unless sooner terminated. The LA will be automatically renewed for additional three year terms unless either party provides 120 days written notice of its intention not to renew. Pursuant to the LA, the Company will:

- Provide Licensed Product ("LP") (as defined) and product support for promotional purposes and LP for giveaways and prizes as required by the licensor;
- Grant the licensor a non-excusive, revocable North American license to use its Marks (as defined) to exercise its rights and perform its obligations;
- Pay for personal appearances by the licensor and/or related individuals; and

- Pay a license fee comprised of:
    - An initial payment of US$18,500 payable on execution of the agreement;
    - A stipend of US$5,000 payable for a period of 12 months commencing on March 15, 2018. If fewer than 10,000 LPs are sold during the first 12 months, the stipend is payable for an additional 12 months commencing on March 15, 2019; and
    - A royalty of US$8 per LP sold for the first 25,000 LPs and US$4 per LP for each LP thereafter.

  The stipend ends on the date that the 25,000th LP is sold. Upon termination or non-renewal of the LA, the royalty remains payable for a period of six months.

Either party can terminate the LA for breaches that are not remedied during the applicable cure periods.

On February 16, 2018, the Company entered into a Term Sheet Agreement with Total Energy Concepts (“TEC”), a Minnesota-based distributor of energy efficiency products, to set out the terms by which the Company will acquire all of the assets and liabilities of TEC in exchange for USD 850,000 payable in common shares of the Company at the closing market price on the day before the closing of a Definitive Acquisition Agreement (the “DAA”). As part of the acquisition, the Company will pay the owner of TEC USD 150,000 in cash payable either at closing or over a maximum period of 12 months from the closing date and grant him options to purchase 5,000,000 common shares of the Company exercisable at the market price of the Company’s common shares at the closing date over a period of five years. The options vest at 25% at the end of each three-month period following the closing. The owner of TEC will be employed by the Company as the President and Chief Executive Officer of the TEC division or subsidiary of the Company. The DAA is subject to regulatory approval.

On March 12, 2018, Lenten Street entered into an agency agreement (the “AA”) with CoolSave Limited (“the Agent”), a private company in England. Pursuant to the AA, the Agent:

- Was appointed as Lenten Street’s exclusive agent within the United Kingdom, excluding Ireland, may act as a non-exclusive agent in Ireland and throughout Europe and as agent in other areas of the world with written permission;
- Will identify, solicit and introduce prospective purchasers of the Company’s air conditioning, refrigeration and HVACR technology with specific responsibilities for sales, marketing, installation and project management;
- Will receive commissions ranging from 20% to 40% on sales of ECO3 units to qualified purchasers (as defined) based on average unit and price per unit sales levels and a similar commission scale will be developed for ESM projects;
- Will receive an annual commission of 49% of net profit (as defined) less commission previously paid on sales in excess of £2,000,000; and

- Was granted 5,000,000 options (see below) that will vest based on total gross revenue from sales of the Company's products generated by the agent in the first year as follows:

    - 1,000,000 options on the first £250,000;
    - 1,000,000 options on the next £250,000; and
    - 1,000,000 options on each of the next three succeeding tranches of £500,000

  such that all 5,000,000 options will have vested upon reaching a total of £2,000,000 pounds of total gross revenue in the first year.

Either party can terminate the AA by giving 90 days written notice.

On April 9, 2018, the Company granted a total of $15,000,000 stock options at an exercise price of $0.05 per common share for a period of five years to two directors, two employees, six independent contractors and a company controlled by a director of the Company.