SMARTCOOL™

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

2015 First Quarter (ending March 31)

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SMARTCOOL™

Management's Discussion and Analysis

The following is management's discussion and analysis ("MD&A") of the operating and financial results of Smartcool Systems Inc. for the quarter ended March 31, 2015. This information is provided as of May 28, 2015. This MD&A should be read in conjunction with the Company's condensed consolidated financial statements for the quarter ended March 31, 2015, its audited consolidated financial statements for the years ended December 31, 2014 and 2013 together with accompanying notes. These documents and additional information about Smartcool can be located on the SEDAR website at www.sedar.com or the Company's website at www.smartcool.net .

SMARTCOOL™

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SMARTCOOL™

Business Overview

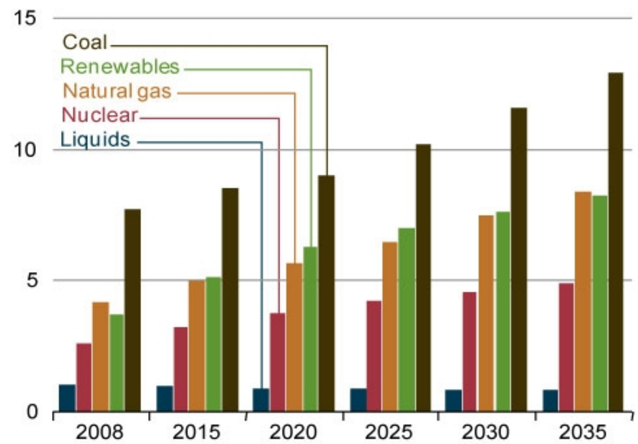
Smartcool Systems Inc. is a clean technology company specializing in the development and distribution of energy efficiency solutions for air conditioning, refrigeration and heat pump systems (HVAC).

Smartcool was established in 2004, beginning as the North American distributor for the Energy Saving Module (ESM) ™, a unique energy efficiency retrofit developed by Abbotly Technologies Pty Ltd of Australia. In 2006, Smartcool purchased the assets of Abbotly, including the intellectual property of the ESM™, and became the sole manufacturer and master distributor. In 2009, Smartcool's research and development cumulated in the delivery of the ECO^3™ to market, a new product specifically designed to bring unprecedented energy efficiency to small scale HVAC systems.

Energy Issues

Smartcool has focused on developing energy efficiency solutions to address the critical energy issues facing the world today and in the future. Electricity is a crucial part of the global economy and our communities. The worldwide demand for electricity has increased by 5.4% since 2010, with developing countries averaging a 9.5% growth in demand. Coal continues to be the most widely used fuel for electricity generation, followed by natural gas. Electricity generated by these fossil fuels releases vast amounts of greenhouse gases into the atmosphere, contributing to climate change and general air pollution.

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



An instinctive solution is to switch to renewable energy sources, not only for environmental reasons but also due to issues of energy security. Electricity generation by renewable resources such as hydro, wind, waves and solar is increasing by an average of 3% each year thanks to government incentives. However, as the Energy Information Administration explains, "Although renewable energy sources have positive environmental and energy security attributes, most renewable technologies other than hydroelectricity are not able to compete economically with fossil fuels during the projection period except in a few regions or in niche markets."[1]

On average, residential electricity rates around the globe have increased by 150% from 2005 to 2008.[2] Combined with environmental concerns surrounding fossil fuel generated electricity, it is clear that a solution to high energy consumption is urgently needed. Energy efficiency is the only option which is both cost effective and can be implemented rapidly.

[1] Energy Information Administration, *International Energy Outlook 2011*, Published Sept. 19, 2011 http://www.eia.gov/forecasts/ieo/electricity.cfm

[2] Energy Information Administration, *Electricity Prices for Households*, Updated June 10, 2010 http://www.eia.gov/emeu/international/elecprih.html

Smartcool's Energy Efficiency Solutions

Smartcool focuses on reducing the electricity used by refrigeration, air conditioning and heat pumps (HVAC). For target customer industries, such as supermarkets, these systems consume well over 50% of their total energy usage. Even for customers less dependent on HVAC, the systems still account for roughly 20% of their energy bill. The ability to save energy with Smartcool's energy efficiency technology represents a major opportunity to cut operating expenses for any customer, typically giving them a return on their investment averaging 18 to 36 months. Electricity generated for buildings produces more greenhouse gases than any other source, so cutting HVAC energy consumption can also have a significant impact on the environment.

The ECO^3™

Smartcool's ECO^3™ and ESM™ are retrofit products, meaning that they are installed by wiring in between the existing thermostat and the compressor in the HVAC system, rather than replacing any expensive equipment. Once installed, the products immediately begin monitoring the cooling cycle of the compressor to identify inefficiencies and opportunities for saving energy. Even the most modern systems have pre-existing inefficiencies that can only be resolved by the intellectual property provided in Smartcool's products. The ECO^3™ and ESM™ dynamically adjust the cooling cycle to save customers energy without any impact to the temperature performance of the HVAC system.

The ESM™

With the ECO^3™ and ESM™, customers see all the benefits of energy efficiency, without any risks. The technology has undergone extensive independent third party testing by highly reputable organizations such as Oak Ridge National Laboratories, the University of Miami for Florida Power & Light, and the Los Angeles Department of Power & Water. These tests have proven unequivocally that the technology provides energy savings with no risks, as do over 30,000 installations worldwide.

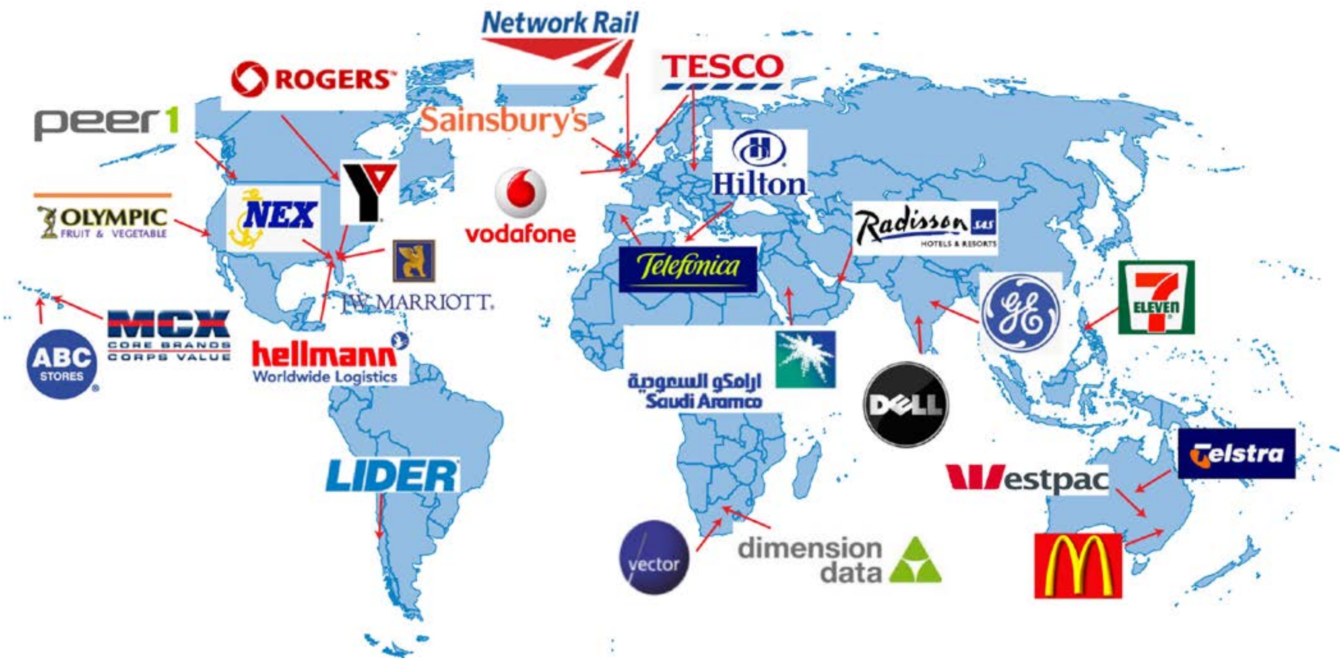
For more information on Smartcool's technology, visit www.smartcool.net or for information specific to the ECO^3™, visit www.smartcooleco3.com

The Market Strategy

Smartcool's ECO^3™ and ESM™ are cost effective energy efficiency solutions for any air conditioning, refrigeration or heat pump system. The few other energy efficiency products geared towards the HVAC market, do not offer the full package of benefits that the ECO^3™ and ESM™ provide. Other products on the market do not provide the same degree of safety, and can cause temperature and humidity performance to be affected. They all lack the wide range of compatibility held by the ECO^3™ and ESM™, which can be installed on any HVAC system. Perhaps most significantly, other products cannot easily prove consistent energy savings. Smartcool's energy savings can be instantly verified on the product display screens, letting customers monitor energy savings as they happen. This is a critical feature for utility rebate qualification, which Smartcool has already received from major utilities like Florida Power & Light, Southern California Edison and Con Edison. These factors give Smartcool exclusive access to an immense market.

Direct Sales

The company distributes its products directly to major clients, providing them with superior project management and service as they roll out Smartcool products to their facilities. For direct sales, Smartcool targets specific industries such as food retailers, telecommunications, commercial real estate and hospitality, where HVAC energy usage tends to represent a very high percentage of a client's operating budget. In Europe, Smartcool has built a strong portfolio of direct sales to Fortune 500 clients such as Sainsbury's and Tesco.



Distribution Sales

Smartcool has developed an intricate network of distributors to target regional markets. Distributors are provided both technical and sales training by Smartcool and receive ongoing support. Distributors have the advantage of detailed regional knowledge, allowing them to build strong client portfolios across the residential sector as well as in industries like food retail, climate controlled storage, hospitality and commercial real estate. Smartcool's distributors have continued to expand their businesses in Australia, India, UAE, Saudi Arabia, Eastern Europe, France, South Africa, and the US (particularly Florida, California and the Mid-West). Distributors have also proven instrumental in launching key accounts for Smartcool, like Telefonica, GE Healthcare, Dell, Saudi Aramco, 7-Eleven, JW Marriott and more.

Corporate Structure

Smartcool has gone through several phases of growth to reach its current structure. Smartcool Systems Inc. is the publicly traded parent company, with three wholly owned subsidiaries: Smartcool International Inc., Smartcool Systems USA Inc. and Lenten Street Ltd. DBA Smartcool. Smartcool International holds the intellectual property and is the master distributor of Smartcool's product line. Smartcool Systems USA distributes the technology within the United States, using a network of local distributors to deliver the products to market. Lenten Street distributes the technology in Europe, the Middle East, Africa and the Indian Sub-Continent with a focus on direct sales.

Financial Overview

The first quarter marked a major development in the Company's business focus with a number of initiatives implemented for North American operations: The acquisition of SmartACR technology to enhance the application of Smartcool ESM algorithm and the establishment of a network of independent sales agents to promote revenue growth without the burden of fixed costs. Financial results of these strategic changes are not expected to materialize until the second or third quarter, however. Though there has been already some improvement in this region's revenue along with increased activities in the UK, the quarter reflected a slow period.

Revenue from continuing operations for the quarter decreased to $189,666 from $214,475 for the first quarter of 2014, a decrease of $24,809 or 12%. Net loss for the quarter was $356,703 compared to $280,067 ($137,952 from continuing operations and $142,115 from discontinued operations) for the first quarter of 2014. Operating expenses for continuing operations increased to $531,090 from $ 367,806 for the first quarter of 2014.

Total assets increased to $2,623,166 from $2,525,695 at the end of 2014, thanks to additional capital obtained during the quarter. The Company had $5,483 in cash and cash equivalents at the end of the quarter, compared to $15,490 at the end of 2014.

Current liabilities at the end of the quarter were $ 1,160,212 (2014 - $1,425,810) which includes current portion of acquisition obligations, debentures, and tenant inducement totaling $423,082 (2014 - $458,837). Long-term liabilities were $449,658 (2014 - $443,515), consisting of acquisition obligations $209,361 and deferred tax liability of $240,297.

All the fiscal quarters below have been prepared using IFRS.

Continuing Operations	**Jun 2014 ($)**	**Sep 2014 ($)**	**Dec 2014 ($)**	**March 2015 ($)**
Total revenues	192,416	147,729	183,502	189,666
Net income (loss)	(255,567)	(291,963)	(175,181)	(356,703)
Income (loss) per share – basic & diluted	(0.00)	(0.00)	0.00	0.00

Continuing Operations	**Jun 2013 ($)**	**Sep 2013 ($)**	**Dec 2013 ($)**	**March 2014 ($)**
Total revenues	377,288	223,475	185,786	214,475
Net income (loss)	(28,245)	(235,868)	79,643	(137,952)
Income (loss) per share – basic & diluted	(0.00)	(0.00)	0.00	0.00

Discontinued Operations	Jun 2014 ($)	Sep 2014 ($)	Dec 2014 ($)	Mar 2015 ($)
Total revenues	7,129	2,950	-	-
Net income (loss)	(273,602)	(507,646)	-	-
Income (loss) per share – basic & diluted	(0.00)	(0.01)	-	-

Discontinued Operations	Jun 2013 ($)	Sep 2013 ($)	Dec 2013 ($)	Mar 2014 ($)
Total revenues	113,965	452,648	171,194	279,720
Net income (loss)	(401,660)	(56,820)	1,890,003	(142,115)
Income (loss) per share – basic & diluted	(0.01)	(0.00)	0.02	(0.00)

Selected Annual Information

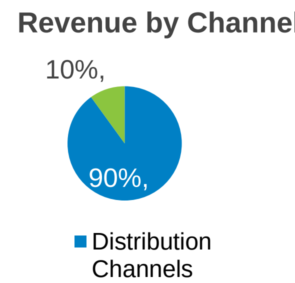
The following is selected information on Smartcool's financial performance for the past three years. This financial information is derived from the audited financial statements of the Company and has been prepared using IFRS.

	Dec. 31, 2012 ($)	Dec. 31, 2013* ($)	Dec 31, 2014* ($)
Revenue	4,212,750	858,636	738,121
Selling, General & Administrative	3,209,334	1,058.940	1,367,476
Net Income (Loss)	(1,932,272)	(414,976)	(849,400)
Net income (loss) – per share (basic and diluted)	(0.03)	(0.01)	(0.01)
Total assets	5,467,176	4,177,175	2,525,695
Total long term liabilities	500,188	787,581	443,515
Cash dividends	0	0	0

*** *Continuing operations only***

Summary of Operating Results

Revenue



Smartcool sells its products both directly to major customers and through a network of independent distributors.

Distribution sales from continuing operations for the quarter were $171,312 or 90% of total revenue from continuing operations, compared to $214,475 or 100% of total revenue for the first quarter of the previous year. Direct sales from continuing operations were $18,354 or 10% of total revenue for the quarter compared to no direct sales from continuing operations for the first quarter of the previous year.

Revenue from the Americas for the quarter was $128,176 or 62% of total revenue from continuing operations, compared to $83,607 or 39% of total revenue from continuing operations for the first quarter of the previous year. The increase was attributable to the establishment of several new distribution channels, most significantly Smart Cooling.

Revenue from the Europe, Middle East, and Africa for the quarter was $61,490 or 38% of total revenue from continuing operations compared to no revenue for this region in the first quarter of the previous year.

There was no revenue from the Australia region in the quarter compared to $130,868 or 61% of total revenue from continuing operations for the first quarter of the previous year. This distribution channel has not been successful in closing its pending projects.

Gross profit

Gross profit from continuing operations for the quarter was $165,223 compared to $184,493 for the first quarter of the previous year, a decrease of $19,270 or 10%. Profit margin for the quarter was 87%, compared to 86% for the first quarter of the previous year. These high margins have become more or less within expectations since 2013 when management were able to negotiate a significant reduction of manufacturing costs of the ECO3 products.

General and administrative expenses

General and administrative ("G & A") expenses from continuing operations for the quarter were $335,601, compared to $245,699 for the first quarter of the previous year, an increase of $89,902 or 37%. The increase was attributable to greater consulting fees, legal fees, investor relations fees and travel expenses. Consulting fees increased to $107,065 from $71,994 as a result of the engagement of Maxwell Mercantile for executive services. Investor Relations consulting fees increased by $15,135 due to the engagement of an IR consultant in March 2014. Legal fees increased to $25,671 from $3,338, partly due to a number of non-routine filings such as SmartACR absorption, private placements and debt settlement. Travel expenses increased to $28,301 from $7,118 due to new developments in the North American operations. Also, salaries for continuing operations increased to $128,082 from $114,035 though there were salary cuts at all levels during the quarter: Salaries expense incurred by Lenten Street, the new entity in the UK, was included in continuing operations expenses for this quarter while it was classified as a discontinued operations expense last year. This increase is therefore merely technical, not an actual increase.

Total operating expenses from continuing operations for the quarter increased to $531,090 from $367,806 for the first quarter of the previous year. Amortization expense increased to $156,204 from $81,001. The transfer of intangible assets from the discontinued business (Smartcool EMEA) to the parent company has shifted this expense from discontinued operations to continuing operations as well.

	Three months ended March 31, 2015	Three months ended March 31, 2014
Advertising and promotion	$335	$1,986
Bad debts	(15,894)	-
Commissions	-	-
Consulting & management fees	107,065	71,994
Filing and transfer fees	6,948	6,406
Insurance	2,939	3,992
Interest	117	108
Investor relations	15,135	-
Product certification	1,541	-
Professional fees	25,671	3,338
Office and supplies	7,577	8,574
Rent	24,356	24,281
Salaries and benefits	128,082	114,035
Telephone	3,429	3,866
Travelling	28,301	7,118
Total selling, general & admin expenses	**335,601**	**245,699**
Share-based compensation	39,285	41,106
Amortization & depreciation	156,204	81,001
Total operating expenses	**$531,090**	**$367,806**

Net loss

Net loss from continuing operations for the quarter was $356,703, compared to net loss of $280,067 for the first quarter of the previous year. The increase in net loss was a result of greater operating expenses. The loss per share (basic and diluted) for the quarter was $0.004, compared to the loss per share $0.002 for the first quarter of previous year.

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

Comprehensive income

Comprehensive loss for the quarter was $361,381, compared to $229,025 for the first quarter of the previous year, consisting of net operating loss $356,703 (March 31, 2014 - $280,067) and foreign currency translation adjustment loss $4,678 (March 31, 2014 - Income $51,042). As the functional currencies of Smartcool EMEA, Smartcool UK, Smartcool USA and Lenten Street are different from the reporting currency (Canadian dollar), their monetary assets and liabilities as well as non-monetary assets and liabilities in the consolidated financial statements must be translated into the reporting currency based on March 31, 2015 exchange rate under IFRS. This method of foreign currency translation resulted in the above adjustment which is classified as a component of equity.

Amortization and depreciation

Continuing operations

Amortization and depreciation expenses from continuing operations for the quarter were $156,204 compared to $81,001 for the first quarter of the previous year. Amortization on property and equipment was $8,384 (March 31, 2014 - $7,187) and amortization of intangible assets was $147,820 (March 31, 2014 - $73,814).

As certain distributions rights previously acquired by Smartcool EMEA were transferred back to the parent company upon the subsidiary's liquidation, amortization of these intangible assets is classified as a discontinued operations expense for the previous year but accounted for as a continuing operations expense in the current year, resulting in a more technical than actual increase.

Share-based compensation

Share-based compensation costs for the quarter was $39,285, compared to $41,106 for the first quarter of the previous year.

Though a greater number of stock options (3,400,000) were granted during the quarter (First quarter of 2014 – 1,200,000), the weighted average fair value of these options ($0.02) was lower than that of the options granted in the first quarter of 2014 ($0.04).

Discontinued operations

Operating results

Discontinued Operations	**Three months ended March 31, 2015**	**Three months ended March 31, 2014**
Revenue	$-	$ 279,720
Cost of sales	-	(40,243)
Gross profit	-	239,477
Operating expenses	-	(390,248)
Finance expense	-	(10,593)
Foreign exchange gain	-	(994)
Gain on sale of equipment	-	913
Income tax recovery	-	19,330
Loss from discontinued operations	**$-**	**$142,115**

Operating expenses

Discontinued Operations	Three months ended March 31, 2015	Three months ended March 31, 2014
Advertising and promotion	$-	$10,249
Insurance	-	5,020
Professional fees	-	17,565
Office and supplies	-	12,181
Rent	-	28,358
Research and development	-	7,227
Salaries and benefits	-	169,274
Telephone	-	6,776
Travelling	-	30,608
Amortization	-	102,990
Total operating expenses, discontinued operations	**$-**	**$390,248**

Capital expenditures

The Company had no capital expenditures during the quarter (March 31, 2014 - $17,224).

Liquidity and Capital Resources

As at March 31, 2015, the Company had $5,483 in cash and cash equivalents (December 31, 2014 - $15,490). Working capital deficit at March 31, 2015 was $761,785 compared to $1,173,229 at December 31, 2014. This improvement in working capital was attributable to a shares-for-debt settlement completed in March and a private placement closed in January 2015.

The Company used net cash flow of $343,300 during the quarter to finance operations compared to $8,188 in the first quarter of the previous year. The increase was primarily attributable to accounts payable payments and inventory purchase.

To ensure that the Company continues to be a going concern through 2015, the Company has raised additional capital in May 2015 and explored different ways to grow revenue and monitor costs, including the restructure of its sales network and the acquisition of a complementary technology from SmartACR.

Outstanding Share Data

The authorized share capital of the Company is an unlimited number of common shares without par value. As at March 31, 2015 the Company had 107,647,737 (December 31, 2014 – 89,017,297) common shares outstanding. The weighted average number of common shares outstanding for the quarter was 99,846,284. The weighted average number of common shares outstanding for the first quarter of the previous year was 79,287,297.

As at May 27, 2015 the outstanding shares were 119,427,737 and diluted were 166,467,020.

Warrants and Stock Options

As at March 31, 2015, there were 18,865,000 (December 31, 2014 – 5,216,000) share purchase warrants and 9,065,000 (December 31, 2014 – 6,215,000) stock options outstanding which collectively could result in the issuance of 27,930,000 common shares if these warrants and stock options are exercised. The outstanding options have a weighted average exercise price of $0.06. The outstanding warrants have weighted average exercise price of $0.07.

As at March 31, 2015 there were 5,558,750 (December 31, 2014 - 4,958,750) exercisable options with a weighted average exercise price of $0.07 ((December 31, 2014 - $0.07). During the quarter 3,400,000 were granted to three directors. During the first quarter of the previous year, 1,200,000 stock options were granted to two consultants.

As at May 28, 2015, there are 30,757,000 outstanding warrants and 13,535,000 outstanding options. The outstanding options have weighted average exercise price of $0.06.

Intangible Assets

Smartcool UK

In February 2011, the Company acquired all the outstanding shares of the third party distributor Smartcool Systems UK Ltd. which held the exclusive rights for sale of ESM™ products to customers in the UK and Ireland.

In consideration, the Company agreed to pay cash consideration of $4,410,745 (£2,840,438) and non-cash consideration of $227,675 (£143,891) in 1,000,000 share purchase warrants. $2,922,622 (£1,840,438) was paid in cash upon closing. The remaining balance of $1,582,200 (£1,000,000) was due in four equal payments quarterly with the last one on March 1, 2012. Total discounted consideration was $4,638,420 (£2,924,822).

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

The terms of the obligation with principal amount of £75,000 was renegotiated again in December 2014.

During the quarter ended March 2015, payment of $19,091(£10,000) was made. In March 2015, the Company issued 231,800 common shares at a deemed price of $0.05 per share to settle a portion of the obligations that was due on December 15, 2014 (£6,100).

As at March 31, 2015, the outstanding balance was $84,484 (£44,883).

The allocation of the purchase price was based on management's estimates and certain assumptions with respect to the fair value increment associated with the assets acquired and the liabilities assumed. The finalized, discounted purchase price allocation is summarized as follows:

	CAD
Purchase of all outstanding shares of Smartcool UK	4,410,745
Fair value of warrants issued	227,675
	4,638,420
Allocation of the purchase price	
Net working capital	850,484
Property and equipment	103,230
Distribution rights	2,570,862
Customer relationship	1,058,584
Goodwill	1,213,285
Finance leases	(79,460)
Deferred tax liability	(1,078,565)
	4,638,420

T.E.C.C. Services

In July 2008, the Company acquired distribution rights for the ESM™ from T.E.C.C. Services Ltd. ("TECC"). TECC held exclusive rights to sell the ESM™ to existing distributors in the United Kingdom, Spain, Portugal, and the Middle East, as well as to develop new distributors in these regions. A consideration of $1,738,750 (£1,035,000) was payable in cash and $532,067 (£265,000) was payable in common shares of the Company. Upon closing, payment of $873,393 (£435,000) was made and 743,709 shares were issued. The remaining balance of $1,204,680 (£600,000) was due in scheduled installments over four years with the last payment due on July 16, 2012. These installments were non-interest bearing at the acquisition date. The fair value of consideration was determined to be $2,270,800 based on discounting the future payments at a rate of 16%. Transaction costs of $28,300 were also incurred.

The purchase agreement was amended in 2009 and again in 2012 to accrue interest at Royal Bank of Canada prime rate plus 4% and to adjust timing and amount of repayments.

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

In March 2015, the Company issued 490,200 common shares at a deemed price of $0.05 per share to settle a portion of the obligations that was due on December 15, 2014 (£12,900).

As at March 31, 2015, the outstanding balance was $272,900 (£144,898).

Impairment

Impairment of Long-Lived Assets
Smartcool amortizes long-lived assets over the estimated useful life of the asset. Evaluation of all long-lived assets occurred periodically for impairment in accordance with IAS 36.

Under IFRS, long-lived assets including property and equipment and intangible assets with a finite life are assessed for indications of impairment at the end of each reporting period. If such indications exist, then the recoverable amount of the asset or cash-generating unit ("CGU") is estimated.

An impairment loss is recognized when the carrying amount of the asset or CGU exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of cash inflows from other assets or groups of assets. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and risks specific to the asset or CGU.

Impairment losses are recognized in respect of CGU's are first allocated to reduce the carrying amount of any goodwill allocated to cash generating units, and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. Impairment losses are recognized in profit and loss for the period it is identified.

Intangible assets with an indefinite life are reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The asset is written down when the carrying amount exceeds its recoverable amount. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognized in the statement of operations.

The Company's definite life intangible assets are ESM™ intellectual property, ESM™ distribution contracts and ESM™ supplier contracts that we acquired from Abbotly USA and Abbotly Technologies Pty, and assets acquired from TECC Services and Smartcool UK. As our revenue is primarily derived from the sales of ESM™ products, revenue associated with the above intangible assets is readily identifiable. Revenue from existing distribution channels is projected based on minimum purchase requirements in conjunction with forecasts provided by the distributors themselves. Revenue expected from potential distribution channels is based on business development progress. Cost of goods sold projections are based on our expected margin and operating costs projections based on 2013 cost structures. The undiscounted cash flows supported the recoverability of our definite life intangible assets.

Impairment of Intangible Assets

ESM™ Intellectual Property and worldwide distribution rights
The Company acquired $2,278,350 of intangible assets in relation to the acquisition of Abbotly.

The Company performed a review of the carrying value of its distribution agreements in 2008 and recognized an impairment of $116,914 related to distribution agreements. As a result of this impairment recognition, the total cost of distribution agreements was reduced by $148,799 to $1,835,702. As at December 31, 2014, cost of distribution agreements consisted of:

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

The impairment loss recognized in 2008 was not reversed upon transition to IFRS.

During the year ended December 31, 2013, management reassessed the useful life of the ESM intellectual property to be 13.5 years (2012 – 10 years), and the useful life of the worldwide distribution rights to be 13.5 to 15 years (2012 – 10 to 15 years).

In September 2014, management performed a review of the carrying value of these assets upon the liquidation of Smartcool EMEA. As discrepancies between revenue projections and actual operating results in 2014 have resulting in significant uncertainty in future cash generation of these assets, impairment loss of $175,313 was recognized as at September 30, 2014 based on cash flow projections at this time.

No further impairment was recognized as at December 31, 2014.

Intangible assets from Smartcool UK

On February 28, 2011, the Company acquired $4,842,731 of intangible assets in relation to the acquisition of Smartcool UK as described in note 3 of December 31, 2011 consolidated financial statements.

In December 2011, management performed a review of the carrying values of these intangible assets. Discrepancies between revenue projections and actual operating results indicated significant uncertainty in future cash generation of these assets and an impairment loss was recorded for the year based on cash flow projections as at December 31, 2011. The value of goodwill was written off and the other assets were reduced as follows:

	Impairment
Distribution rights-General	$104,919
Distribution rights-Major customer	347,740
Customer relationship	188,484
Goodwill	1,213,285
Total impairment for the year 2011	**$1,854,428**

In September 2014, management performed a review of the carrying value of these assets upon the liquidation of Smartcool UK. As discrepancies between revenue projections and actual operating results in 2014 have resulting in significant uncertainty in future cash generation of these assets, impairment loss of $528,716 was recognized as at September 30, 2014 based on cash flow projections at this time.

No further impairment was recognized as at December 31, 2014.

	Impairment
Distribution rights - Major customer	$344,251
Customer relationship	184,465
Total impairment for the year 2014	**$528,716**

Critical Accounting Policies & Estimates

Business combinations

The identifiable assets, liabilities and contingent liabilities of a subsidiary, joint venture entity or an associate, which can be measured reliably, are recorded at their provisional fair values at the date of acquisition. Goodwill is the fair value of the consideration transferred (including contingent and previously held non-controlling interests) less the fair value of the Company's share of identifiable net assets on acquisition. Transaction costs incurred in connection with the business combination are expensed. Provisional fair values are finalized within twelve months of the acquisition date.

Where the fair value of the identifiable net assets acquired exceeds the cost of the acquisition, the surplus, which represents the discount on the acquisition, is recognized directly in the statement of operations and total comprehensive loss in the period of acquisition.

Revenue Recognition

Revenue from the sale and installation of the ESM™ and ECO3™ is recognized when the ESM™ & ECO3™ have been installed, significant risks and rewards of ownership of the equipment have been transferred to the customer, the Company does not retain continuing managerial involvement or effective control over the equipment, the sales price can be determined and probably collectible, and the cost of the transaction can be measured reliably.

Revenue from the international distribution of the ESM™ & ECO3™ is recognized when the equipment has been shipped, title has been transferred, the sales price has been determined and the cost of the equipment can be measured reliably. Revenue is also recognized when equipment has been ordered and laid away as instructed by the customer, the sales price has been determined and a significant portion of it has been paid. Provisions are established for estimated warranty costs at the time revenue is recognized. The Company records deferred revenue when cash is received in advance of the above revenue recognition criteria being met.

Share-based Payments

The fair value of all stock options granted to employees is determined using the Black-Scholes option pricing model, and the resulting value is charged to operations over the vesting period.

The fair value of options granted to non-employees is determined using fair value of the goods or services received. The resulting value is charged to operations when a performance commitment is made or the options are fully vested and non-forfeitable, whichever is earliest, and the expense is recognized over the period in which the goods or services from the non-employees are received. A corresponding increase in equity reserve is recorded when stock options are expensed. When stock options are exercised, share capital is credited by the sum of the consideration paid and the related portion previously recorded in equity reserve. At the time of grant, the expense is determined based on estimated forfeiture rate. The expense will be adjusted to recognize the effect of actual forfeitures as they occur.

The fair value of warrants issued to agents for their finder's fee is determined using the Black-Scholes option pricing model and the resulting value is charged to share issuance costs.

Intangible assets

Intangible assets are recorded at cost and include the ESM™ brand, ESM™ intellectual property, distribution agreements, supplier agreements and customer relationship. The ESM™ brand has been determined to have an indefinite life and is not amortized. The remaining intangible assets with finite lives are amortized on a straight-line basis.

During the year ended 31 December 2013, management re-assessed the useful lives of the remaining intangible assets as follows:

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

Use of estimates and judgments

The preparation of these consolidated financial statements in accordance with IFRS requires the use of certain critical accounting estimates and assumptions. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are outlined below. Actual results may differ from those estimates.

Significant estimates are used for, but not limited to, assessment of impairment of intangible assets and recoverability of long-lived assets, determination of present value of obligations under acquisition contract, determination of fair value of debentures, valuation of stock options and warrants, recoverability of trade and other receivables, inventory valuation, determination of valuation allowance for income tax assets, amortization rates and methods and ability to continue as a going concern.

Judgments made by management in the application of IFRS that have a significant effect on the consolidated financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed below:

- Useful lives – the useful lives of intangible assets and the related depreciation
- Impairment – the assessment of impairment of intangible assets and goodwill
- Inventory valuation – the provision for obsolescence of inventory and net realizable value

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

Accounting Standards Issued but not yet Effective

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

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

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

Off-balance sheet arrangements

The Company has no off-balance sheet arrangements that would require disclosure.

Forward-looking statements

This MD&A contains forward-looking information and statements regarding the future results of operations and marketing activities. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "anticipate", "plan", "foresee", "believe" or similar terminology. Although these forward-looking statements are based on what management believes to be current and reasonable assumptions, they involve known and unknown risks, uncertainties and other factors that may cause the actual results and performance to differ materially from those stated, anticipated, or implied in these forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking information as no assurances can be given to future results, performances, or achievements.

The forward-looking statements included in this MD&A speak only as of the date of this document. The Company does not undertake any obligation to publicly update or revise any of these forward-looking statements to reflect events or circumstances after this date except when required by applicable legislation.

Additional Information

Additional information relating to the Company, including the Company's latest Annual Financial Statements and news releases can be located on the Company's website at www.smartcool.net or on the SEDAR website at www.sedar.com.