

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

2016 Second Quarter (ending June 30)



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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 three months ended June 30, 2016. This information is provided as of August 29, 2016.

This MD&A should be read in conjunction with the Company’s audited consolidated financial statements for the years ended December 31, 2015 and 2014 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.

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Business Overview

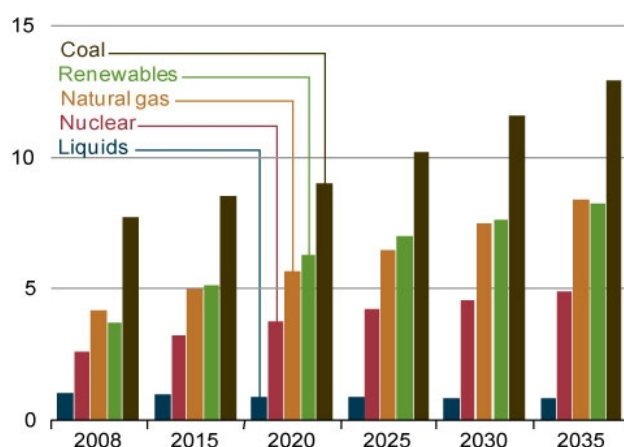
Smartcool Systems Inc. is a clean technology company specializing in the development and distribution of energy efficiency solutions for air conditioning, refrigeration and heat pump systems (HVAC).

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 ECO³™ 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

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/elecprh.html>

clear that a solution to high energy consumption is urgently needed. Energy efficiency is the only option which is both cost effective and can be implemented rapidly.

Smartcool's Energy Efficiency Solutions

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.

Smartcool's ECO³™ 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 ECO³™ and ESM™ dynamically adjust the cooling cycle to save customers energy without any impact to the temperature performance of the HVAC system.

The ECO³™



The ESM™



With the ECO³™ 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 ECO³™, visit www.smartcooleco3.com

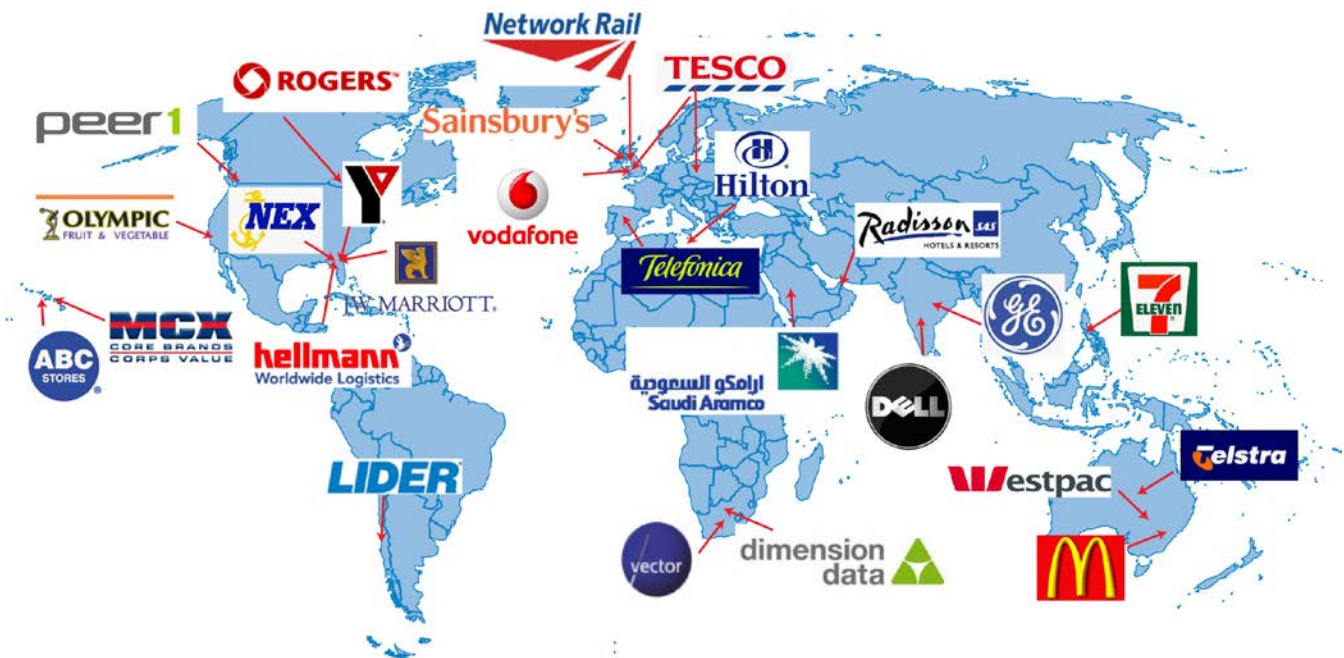
The Market Strategy

Smartcool's ECO³™ and ESM™ are cost effective energy efficiency solutions for any air conditioning, refrigeration or heat pump system. The few other energy efficiency products geared towards the HVAC market, do not offer the full package of benefits that the ECO³™ and ESM™ provide. Other products on the market do not provide the same degree of safety, and can cause temperature and humidity performance to be affected. They all lack the wide range of compatibility held by the ECO³™ and ESM™, which can be installed on any HVAC system. Perhaps most significantly, other products cannot easily prove consistent energy savings. Smartcool's energy savings can be instantly verified on the product display screens, letting customers monitor energy savings as they happen. This is a critical feature for utility rebate

qualification, which Smartcool has already received from major utilities like Florida Power & Light, Southern California Edison and Con Edison. These factors give Smartcool exclusive access to an immense market.

Direct Sales

The company distributes its products directly to major clients, providing them with superior project management and service as they roll out Smartcool products to their facilities. For direct sales, Smartcool targets specific industries such as food retailers, telecommunications, commercial real estate and hospitality, where HVAC energy usage tends to represent a very high percentage of a client's operating budget. In Europe, Smartcool has built a strong portfolio of direct sales through major electrical wholesalers like Rexall, utilities like EON and facilities management companies like Matrix and EMCOR. They have introduced Smartcool to their customers for energy efficiency solutions such as Southern Gas & Electric and Transport for London.



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 second quarter saw an unusual decline in revenue. A large project in the UK was delayed and several smaller projects in North American did not complete as expected resulting in abnormally poor financial results.

Revenue for the quarter decreased to \$26,854 from \$181,855 for the second quarter of 2015, a decrease of \$155,001. Net loss for the quarter was \$403,029 compared to \$593,017 for the second quarter of 2015. Operating expenses decreased to \$430,347 from \$718,941 for the second quarter of 2015.

Total assets decreased to \$ 2,072,814 from \$2,437,023 at the end of 2015. The Company had \$14,767 in cash and cash equivalents at the end of the quarter, compared to \$ 18,478 at the end of 2015.

Current liabilities at the end of the quarter were \$1,646,476 (December 31, 2015 - \$1,549,708) which includes current portion of acquisition obligations and debentures totaling \$542,355 (December 31, 2015 - \$513,269). Long-term liabilities were \$273,043 (December 31, 2015 - \$358,176), consisting of acquisition obligations \$96,586 and deferred tax liability of \$176,817.

All the fiscal quarters below have been prepared using IFRS.

	Sep 2015 (\$)	Dec 2015 (\$)	Mar 2016 (\$)	Jun 2016 (\$)
Total revenues	126,602	287,375	142,497	26,854
Net income (loss)	(469,150)	(267,173)	(312,448)	(403,029)
Income (loss) per share – basic & diluted	(0.00)	(0.00)	(0.00)	(0.00)

	Sep 2014 (\$)	Dec 2014 (\$)	Mar 2015 (\$)	Jun 2015 (\$)
Total revenues	147,729	183,502	189,666	181,855
Net income (loss)	(291,963)	(175,181)	(356,703)	(593,017)
Income (loss) per share – basic & diluted	(0.00)	(0.00)	(0.00)	(0.01)

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, 2013* (\$)	Dec. 31, 2014* (\$)	Dec 31, 2015* (\$)
Revenue	858,636	738,121	785,498
Selling, General & Administrative	1,058,940	1,367,476	1,449,091
Net Income (Loss)	(414,976)	(849,400)	(1,676,473)
Net income (loss) – per share (basic and diluted)	(0.01)	(0.01)	(0.00)
Total assets	4,177,175	2,525,695	2,437,023
Total long term liabilities	787,581	443,515	358,176
Cash dividends	-	-	-

* Continuing operations only

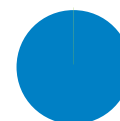
Results Summary of Operating

Revenue

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

Distribution sales were \$26,854 or 100% of total revenue for the quarter, compared to \$95,044 or 52% of total revenue for the second quarter of 2015. There were no direct sales for the quarter compared to \$86,811 or 48% of total revenue for the

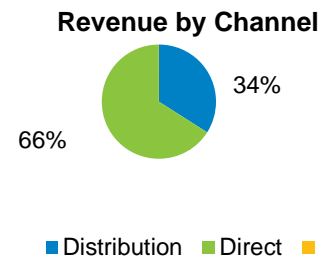
Revenue by Channel



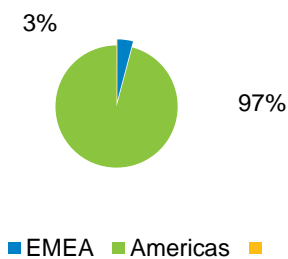
■ Distribution Channels

second quarter of 2015.

Distribution sales for the six months ended June 30, 2016 were \$58,215 or 34% of total revenue, compared to \$266,356 or 72% of total revenue for the same period of 2015. Direct sales were \$111,136 or 66% to total revenue, compared to \$105,165 or 34% of total revenue for the same period of 2015.

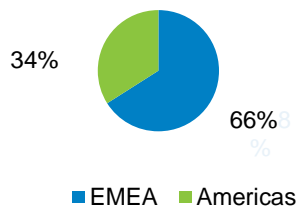


Revenue by Region



Revenue from the Americas for the quarter was \$26,142 or 97% of total revenue, compared to \$134,716 or 74% of total revenue for the second quarter of 2015. Revenue from the Europe, Middle East, and Africa for the quarter was \$712 or 3% of total revenue compared to \$47,139 or 26% of total revenue for the same period of 2015.

Revenue by Region



Revenue from the Americas for the six months ended June 30, 2016 was \$57,503 or 34% of total revenue compared to \$262,891 or 71% of total revenue for the same period of 2015. Revenue from the Europe, Middle East, and Africa was \$111,848 or 66% of total revenue compared to \$108,630 or 29% of total revenue for same period of the previous year.

Gross profit

Gross profit for the quarter was \$10,650 compared to \$149,328 for the second quarter of 2015, a decrease of \$138,678. Profit margin for the quarter was 40%, compared to 82% for the second quarter of 2015. The quarter’s performance, in terms profit margin, was significantly below the expected range.

Gross profit for the six months ended June 30, 2016 was \$119,130 compared to \$314,552 for the second quarter of 2015, a decrease of \$195,422. Profit margin for the six months was 70%, compared to 85% for the same period of 2015.

General and administrative expenses

General and administrative (“G & A”) expenses for the quarter were \$273,682, compared to \$473,530 for the second quarter of 2015, a decrease of \$199,848. The decrease was attributable to reduced consulting fees, filing fees and travel expenses. Consulting fees for the quarter decreased to \$78,922 from \$220,278 for the second quarter of 2015, primarily as a result of the termination of service agreements with a couple of US consultants in late 2015.

Filing fees decreased to \$17,162 from \$32,579 and travel expenses decreased to \$16,947 from \$29,604, due to fewer activities.

General and administrative (“G & A”) expenses for the six months ended June 30, 2016 were \$542,564, compared to \$809,131 for the same period of 2015, a decrease of \$266,567. The decrease was attributable to reduced consulting fees, professional fees and travel expenses. Consulting fees for the period decreased to \$162,451 from \$327,342 for the same period of 2015. Professional fees decreased to \$10,631 from \$49,981 and travel expenses decreased to \$31,123 from \$57,905...

	Three months ended June 30, 2016	Three months ended June 30, 2015
Advertising and promotion	\$393	\$9,541
Commissions	6,853	-
Consulting & management fees	78,922	220,278
Filing and transfer fees	17,162	32,579
Insurance	3,326	1,962
Interest	2,605	134
Investor relations	1,250	5,208
Product certification	534	1,501
Professional fees	8,274	24,310
Office and supplies	9,486	17,930
Rent	5,330	8,799
Salaries and benefits	119,161	117,437
Telephone	3,442	4,247
Travelling	16,947	29,604
Total general & administrative expenses	\$273,682	\$473,530

	Six months ended June 30, 2016	Six months ended June 30, 2015
Advertising and promotion	\$412	\$9,875
Bad debts (recoveries)	-	(15,894)
Consulting and management fees	162,451	327,342
Filing and transfer fees	26,132	39,527
Insurance	5,218	4,901
Interest	4,259	251
Investor relations	5,830	20,342
Product certification	2,697	3,042
Professional fees	10,631	49,981
Office and supplies	15,706	25,508
Rent	19,360	33,155
Salaries and benefits	243,412	245,519
Telephone	8,477	7,676
Travelling	31,123	57,905
Total general and administrative expenses	\$542,564	\$809,131

Total operating expenses for the quarter decreased to \$430,347 from \$718,941 for the second quarter of 2015, a reflection of reduced business volume combined with lower share-based expense.

Total operating expenses for the six months ended June 30, 2016 decreased to \$860,138 from \$1,250,029 for the same period of 2015.

Net loss

Net loss for the quarter was \$403,029 compared to \$593,017 for the second quarter of 2015. . The loss per share (basic and diluted) for the quarter was \$0.0032, compared to the loss per share \$0.0051 for the second quarter of 2015.

Net loss for the six months ended June 30, 2016 was \$715,479, compared to net loss of \$949,717 for the same period of 2015. The loss per share (basic and diluted) for the period was \$0.0058, compared to the loss per share \$0.0092 for the same period of 2015.

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 \$384,389 consisting of net operating loss \$403,029 and positive foreign currency translation adjustment \$18,639. As the functional currencies of

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 June 30, 2016 exchange rate under IFRS. This method of foreign currency translation resulted in the above adjustment which is classified as a component of equity.

Comprehensive loss for the second quarter of 2015 was \$581,407, consisting of net operating loss \$593,017 and foreign currency translation adjustment \$11,610.

Comprehensive loss for the six months ended June 30, 2016 was \$695,227 consisting of net operating loss \$715,479 and positive foreign currency translation adjustment \$20,252.

Amortization and depreciation

Amortization and depreciation expenses for the quarter were \$142,070 compared to \$147,984 for the second quarter of 2015. Depreciation of property and equipment was \$4,458 (June 30, 2015 - \$7,502) and amortization of intangible assets was \$137,612 (June 30, 2015 - \$140,482).

Amortization and depreciation expenses for the six months ended June 30, 2016 were \$284,194 compared to \$304,187 for the same period of 2015. Depreciation of property and equipment was \$8,970 (June 30, 2015 - \$15,885) and amortization of intangible assets was \$275,224 (June 30, 2015 - \$288,302).

Share-based compensation

Share-based compensation costs for the quarter was \$12,496, compared to \$97,427 for the second quarter of 2015. 50,000 stock options were granted in the quarter while 4,670,000 were granted in the second quarter of 2015.

Share-based compensation costs for the six months ended June 30, 2016 was \$31,281, compared to \$136,711 for the same period of 2015.

Capital expenditures

The Company had no capital expenditures during the six months ended June 30, 2016 and the same period of 2015.

Liquidity and Capital Resources

As at June 30, 2016, the Company had \$14,767 in cash and cash equivalents (December 31, 2015 - \$18,478). Working capital deficit at June 30, 2016 was \$1,001,239 compared to \$824,492 at December 31, 2015.

The Company used net cash flow of \$302,156 during the quarter to finance operations and used \$498,622 in the second quarter of 2015. The decrease in net cash used was attributable to increase in account payables.

The Company was unable to make debenture, acquisition obligation and short-term loan payments as scheduled.

On June 30, 2016, these scheduled payments included debenture obligations totaling \$275,317, acquisition obligations totaling \$210,145 (£122,000) and short-term loans totaling \$346,489.

To ensure that Smartcool continues to be a going concern with adequate working capital in the next 12 months, the Company completed a private placement in June 2016 and obtained additional capital of \$300,000. Another private placement has been announced and is expected to close in early September 2016.

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

	Total	1 year	1-2 years
Trade payables	\$ 717,576	\$ 717,576	\$-
Short-term loans	346,489	346,489	-
Debentures	275,317	275,317	-
Obligations under acquisition contracts	332,759	267,038	65,721
Total	\$1,672,141	\$1,606,420	\$65,721

Outstanding Share Data

The authorized share capital of the Company is an unlimited number of common shares without par value. As at June 30, 2016 the Company had 135,142,737 (December 31, 2015 – 122,097,737) common shares outstanding. The weighted average number of common shares outstanding for the quarter was 127,870,210 (June 30, 2015 - 115,155,869).

As at August 29, 2016 the outstanding shares are 135,142,737 and fully diluted are 187,507,737.

Warrants and Stock Options

As at June 30, 2016, there were 40,145,000 (December 31, 2015 – 28,800,546) share purchase warrants and 12,220,000 (December 31, 2015 – 12,415,000) stock options outstanding which collectively could result in the issuance of 52,365,000 common shares if these warrants and stock options are exercised. The outstanding options have a weighted average exercise price of \$0.05. The outstanding warrants have weighted average exercise price of \$0.07.

As at June 30, 2016 there were 9,247,500 (December 31, 2015 - 8,630,000) exercisable options with a weighted average exercise price of \$0.05 (December 31, 2015 - \$0.06). During the quarter no (June 30, 2015 – 1,970,000) options were granted to directors, officers and employees and 50,000 (June 30, 2015 – 2,700,000) options were granted to consultants.

As at August 29, 2016, there are 40,145,000 outstanding warrants and 12,220,000 outstanding options. The outstanding options have weighted average exercise price of \$0.05.

Intangible Assets

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.

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

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 7).

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.

During the year ended December 31, 2014, management performed a review of the carrying value of these assets. As discrepancies between revenue projections and actual operating results in 2014 resulted in significant uncertainty in future cash generation of these assets, an impairment loss of \$528,716 (\$344,251 for distribution rights and \$184,465 for a customer relationship) was recorded based on cash flow projections as at December 31, 2014.

d. *SmartACR Intellectual Property and Customer Relationship*

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

Critical Accounting Policies & Estimates

Revenue Recognition

Revenue from the sale and installation of the ESMTM and ECO3TM is recognized when the ESMTM and ECO3TM 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 ESMTM and ECO3TM 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. 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.

Intangible assets

Intangible assets are recorded at cost and include the ESM™ brand, ESM™ intellectual property, distribution rights, distribution agreements, supplier agreements and customer relationships. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses. The ESM™ brand has been determined to have an indefinite life and is not amortized. The remaining intangible assets with finite lives are amortized on a straight-line basis. The useful lives of the intangible assets have been assessed as follows:

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

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

Use of estimates and judgments

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

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

- Allowance for doubtful accounts – as at December 31, 2015, approximately \$186,000 in trade receivables was outstanding for more than 120 days. This balance is primarily receivable from one customer. It is management’s opinion, based on an assessment of the customer’s business, the payment plan in place and payment received subsequent to year end that this balance will be received in full.

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.

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.