SMARTCOOL™

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

2012 Third Quarter (ending September 30)

www.smartcool.net

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Notice of No Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

SMARTCOOL™

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Smartcool Systems Inc.
Condensed consolidated statements of financial position
(Expressed in Canadian dollars, unless otherwise stated)
(Unaudited)

	September 30 **2012** $	December 31 **2011** $
ASSETS		
Current assets		
Cash and cash equivalents	26,086	498,874
Trade and other receivables (note 3)	1,689,024	1,058,348
Inventory (note 4)	416,778	525,093
Prepaid expenses and deposits	107,935	146,786
	2,239,823	2,229,101
Property and equipment (note 5)	188,971	172,504
Intangible assets (note 6)	4,224,987	4,964,075
Total assets	6,653,781	7,365,680
LIABILITIES		
Current liabilities		
Bank loan (note 7)	92,689	-
Trade payables and accruals	1,473,269	1,210,170
Current portion of obligations under acquistion contracts (note 8)	2,420,722	2,311,351
Current portion of finance leases (note 9)	28,632	38,717
Current portion of debentures (note 10)	385,576	318,716
Current portion of deferred tenant inducement	14,384	13,493
	4,415,272	3,892,447
Finance leases (note 9)	5,607	20,748
Debentures (note 10)	-	178,292
Deferred tenant inducement	26,952	37,962
Deferred tax liability (note 12)	616,512	613,110
Total liabilities	5,064,343	4,742,559
SHAREHOLDERS' EQUITY		
Share capital (note 11(a))	29,835,392	29,465,469
Reserve for equity settled share based transactions (note 11(b)(c))	5,696,529	5,589,386
Foreign currency translation adjustment	(100,149)	(53,990)
Deficit	(33,842,334)	(32,377,744)
	1,589,438	2,623,121
Total liabilities and shareholders' equity	6,653,781	7,365,680

Approved and authorized for issue by the Board of Directors on November 26, 2012

"George Burnes"	"Jeffrey Lowe"
George Burnes	Jeffrey Lowe

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.
Condensed consolidated statements of operations
(Expressed in Canadian dollars, unless otherwise stated)
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2012 $	**2011** $	**2012** $	**2011** $
Revenue	1,645,225	785,689	3,014,782	2,006,045
Cost of sales	593,033	545,874	1,228,094	923,318
Gross profit	1,052,192	239,815	1,786,688	1,082,727
Operating Expenses				
General and administrative expenses	716,776	979,217	2,378,743	2,890,408
Stock-based compensation	18,355	61,041	107,143	225,048
Research and development	(793)	23,941	8,761	29,301
Amortization and depreciation	276,574	194,820	825,685	533,227
	1,010,912	1,259,019	3,320,332	3,677,984
Operating income (loss)	41,280	(1,019,204)	(1,533,644)	(2,595,257)
Rental income	(28,621)	-	(57,242)	-
Finance expense	57,305	83,810	210,713	244,368
Finance income	(25)	(320)	(196)	(1,092)
Foreign exchange (gain) loss	58,825	1,109	27,029	28,579
Acquisition transaction costs	-	-	-	68,805
	87,483	84,599	180,304	340,660
Income taxes (note 12)	-	-	(249,358)	-
Net loss for the period	**(46,203)**	**(1,103,803)**	**(1,464,590)**	**(2,935,917)**
Net loss per share				
Basic	(0.00)	(0.02)	(0.02)	(0.05)
Diluted	(0.00)	(0.02)	(0.02)	(0.05)
Weighted average number of common shares outstanding (basic and diluted)	**64,287,297**	**60,808,726**	**64,101,557**	**57,965,645**

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.
Condensed consolidated statements of comprehensive loss

(Expressed in Canadian dollars, unless otherwise stated)
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Net income (loss) for the period	**(46,203)**	**(1,103,803)**	**(1,464,590)**	**(2,935,917)**
Foreign currency translation adjustment	54,787	145,506	(46,159)	62,293
Total comprehensive income (loss)	**8,584**	**(958,297)**	**(1,510,749)**	**(2,873,624)**
Net loss per share				
Basic	**0.00**	**(0.02)**	**(0.02)**	**(0.05)**
Diluted	**0.00**	**(0.02)**	**(0.02)**	**(0.05)**

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.
Condensed consolidated statement of cash flows

(Expressed in Canadian dollars, unless otherwise specified)
(Unaudited)

	Three months ended September 30		Nine months ended September 30	
	2012	**2,011**	**2012**	**2011**
	$	$	$	$
Cash flows from operating activities				
Loss for the period	(46,203)	(1,103,805)	(1,464,590)	(2,935,917)
Items not affecting cash:				
Depreciation of property and equipment	26,021	22,101	71,549	64,094
Amortization of intangible assets	250,553	172,719	754,136	469,133
Stock-based compensation	18,355	61,041	107,143	225,048
Deferred tax liability	-	-	-	-
Deferred tenant inducement	(3,373)	(3,373)	(10,119)	(9,006)
Foreign exchange (gain) loss	11,252	5,728	(53,227)	87,463
Accrued interest on debentures	(1,134)	8,981	6,871	43,284
Accrued interest of obligation under acquisition contract	36,597	9,692	99,210	18,754
Accretion of obligation under acquisition contract	-	42,977	40,242	121,540
	292,067	(783,939)	(448,785)	(1,915,607)
Changes in non-cash working capital items:				
Trade and other receivables	(502,401)	(220,016)	(606,143)	(492,732)
Inventory	87,304	(58,401)	101,423	(153,201)
Prepaid expenses and deposits	(27,219)	98,512	40,401	(8,673)
Trade payables and accruals	182,355	436,632	256,468	745,348
Net cash flows (used in) provided by operating activities	32,106	(527,212)	(656,636)	(1,824,865)
Cash flows from investing activities				
Purchase of property and equipment	-	(15,378)	(87,521)	(136,958)
Business acquisitions, net of cash acquired	-	-	-	(2,152,154)
Net cash (used in) provided by investing activities	-	(15,378)	(87,521)	(2,289,112)
Cash flows from financing activities				
Bank loan	(11,530)	-	92,689	-
Shares and warrants issued for cash, net of issue costs	-	-	369,923	3,882,018
Debenture issued for cash	-	-	-	-
Decrease in debentures	(10,539)	(30,904)	(118,300)	(146,176)
Decrease in acquisition contract obligation	-	-	(39,060)	(21,180)
Increase (decrease) in finance leases	(7,883)	(9,481)	(26,164)	90,308
Net cash (used in) provided by financing activities	(29,951)	(40,385)	279,089	3,804,970
Net increase (decrease) in cash and cash equivalents	2,155	(582,975)	(465,068)	(309,007)
Effects of exchange rates changes on cash	(8,805)	36,479	(7,720)	26,047
Cash and cash equivalents, beginning of period	32,736	873,797	498,874	610,261
Cash and cash equivalents, end of period	26,086	327,301	26,086	327,301

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.
Condensed consolidated statement of shareholders' equity
(Expressed in Canadian dollars, unless otherwise stated)

(Unaudited)

	Share capital	Reserve for equity settled share based transactions	Foreign currency translation adjustment	Deficit	Total Shareholders' Equity
	$	$	$	$	$
Balance at January 1, 2011	26,036,145	4,477,547	29,654	(27,159,816)	3,383,530
Net loss				(2,935,917)	(2,935,917)
Foreign currency translation adjustment			62,293		62,293
Total comprehensive loss for the period			91,947	(2,935,917)	(2,873,624)
Share issued for:					
Private placement	3,292,666				3,292,666
Exercised options	210,298				210,298
Finder's fee	(154,761)	(33,238)			(187,999)
Warrants		871,270			871,270
Share issue costs	(63,009)	(13,532)			(76,541)
Stock based compensation		225,048			225,048
Balance at September 30, 2011	**29,321,339**	**5,527,095**	**91,947**	**(30,095,733)**	**4,844,648**
Net loss				(2,282,011)	(2,282,011)
Foreign currency translation adjustment			(145,937)		(145,937)
Total comprehensive loss for the period			(53,990)	(32,377,744)	(2,427,948)
Share issued for:					
Private placement	147,350				147,350
Exercised options					-
Finder's fee	(3,220)	(280)			(3,500)
Warrants		59,248			59,248
Share issue costs	-	-			-
Stock based compensation		3,323			3,323
Balance at December 31, 2011	**29,465,469**	**5,589,386**	**(53,990)**	**(32,377,744)**	**2,623,121**
Net loss				(1,464,590)	(1,464,590)
Foreign currency translation adjustment			(46,159)		(46,159)
Total comprehensive loss for the period			(46,159)	(1,464,590)	(1,510,749)
Share issued for:					
Private placement	375,000				375,000
Share issue costs	(5,077)				(5,077)
Stock based compensation		107,143			107,143
Balance at September 30, 2012	**29,835,392**	**5,696,529**	**(100,149)**	**(33,842,334)**	**1,589,438**

See accompanying notes to the consolidated financial statements

Notes

Three and nine months ended September 30, 2012

1. Reporting entity

Smartcool Systems Inc. ("Smartcool" or the "Company"), is a clean technology corporation focusing on acquiring, commercializing, and marketing energy saving technologies for commercial, industrial and residential customers. 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.

The Company's shares are listed on the TSX Venture Exchange and the head office, principal address, and registered office is located at 1620 – 401 West Georgia Street, Vancouver, BC, V6B 5A1.

Basis of Presentation and Statement of Compliance

The condensed consolidated interim financial statements of the Company for the three month ended September 30, 2012 comprise the Company and its subsidiaries. These condensed consolidated financial statements have been prepared in accordance with International Financial Reporting Standards 34, Interim Financial Reporting. They do not include all the necessary annual disclosures as prescribed by International Financial Reporting Standards and should be read in conjunction with the annual audited consolidated financial statements as of December 31, 2011.

These condensed consolidated financial statements are prepared on a historical cost basis, except for certain financial assets and liabilities which are measured at fair value through profit or loss.

Use of Estimates and Judgments

The preparation of 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 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, allocation of purchase price of business acquisitions, valuation of stock options and warrants, recoverability of trade and other receivables, determination of valuation allowance for income tax assets, and amortization rates and methods.

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

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

2. Significant Accounting Policies

Business Combinations and Goodwill

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Company, liabilities incurred by the Company to the former owners of the acquiree and the equity interests issued by the Company in exchange for control of the acquiree. Acquisition-related costs are recognized in profit or loss as incurred.

Where the fair value of the identifiable net assets acquired exceeds the cost of the acquisition, the surplus, which represents the discount on the acquisition, is recognized directly in the statement of operations in the period of acquisition. Where the fair value of consideration paid exceeds the fair value of net identifiable tangible and intangible assets, goodwill is recognized.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

Foreign Currency

The functional currency of Smartcool Systems Inc. and Smartcool International has been determined to be the Canadian dollar. The functional currency of Smartcool USA is the United States dollar. The functional currency of Smartcool EMEA and Smartcool UK 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*.

Financial statements of subsidiaries where the functional currency is other than the Canadian dollar are translated to Canadian dollars using the current rate method. Assets and liabilities are translated at the exchange rate at period end and revenues and expenses are translated using the exchange rates at the date of the transactions. All resulting exchange differences are reported as a separate component of shareholders' equity titled "Foreign Currency Translation Adjustment".

For foreign subsidiaries where the Canadian dollar is the functional currency, non-monetary assets and liabilities are translated to Canadian dollars using the exchange rate in effect at the original transaction date. Monetary balances are translated at rates of exchange at the period end date. The translation difference resulting from translating the foreign currencies to Canadian dollars is recorded as a component of foreign exchange gain and loss.

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 collection is probable, 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.

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 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 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 based on the fair value of the services provided and charged to share issuance costs.

Inventory

Inventory is recorded at the lower of cost and net realizable value. Costs of inventories are determined using the weighted average cost method. Cost of inventory includes invoiced cost from the manufacturer and other costs in bring the inventory to their present location and condition and net realizable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Intangible Assets

Intangible assets are recorded at cost and include the ESM™ brand, ESM™ intellectual property, distribution rights, distribution agreements, supplier agreements and customer relationship. 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 over their estimated useful lives as follows:

ESM™ Intellectual property	10 years
North American distribution rights	10 years
United Kingdom distribution rights	9 years
Distribution agreements	5 - 15 years
Supplier agreements	10 years
Customer relationship	5 years

Total amortization of $250,553 for the three months ended September 30, 2012 (September 30, 2011 - $172,719) and $754,136 for the nine months ended September 30, 2012 (September 30, 2011 - $469,133) were included under net loss for the period on the statement of operations.

Impairment

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 are recognized in respects 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 and loss for the period it is identified.

Intangible assets with an indefinite useful life

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. The ESM™ brand is considered to have an indefinite life as the Company has a global market and there is no direct competition for its instinctive green technology.

Reversal of Impairment

An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss has been recognized. An impairment loss with respect to goodwill is never reversed.

Share Purchase Warrants

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

Income Taxes

Income tax expense 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.

As at December 31, 2011, unrecognized tax assets from net operating losses carried forward and temporary differences amounted to $5,073,000.

Accounting Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Company's consolidated financial statements are listed below:

- Financial Instruments: The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9") which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement ("IAS 39") . The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting of financial instruments and the issuance of IFRS 9 is part of the first phase of this project. This standard becomes effective on January 1, 2013. The Company is currently evaluating the impact of this new standard on its consolidated financial statements.

- Consolidated Financial Statements: The IASB has issued a new standard, IFRS 10, which establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 "Consolidated and

Separate Financial Statements" and SIC-12 "Consolidation—Special Purpose Entities" and is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

- Fair value measurements: The IASB has issued IFRS 13, which defines fair value and sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. The IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Earlier application is permitted. The Company is currently evaluating the impact of this standard on its consolidated financial statements.

- The IASB has issued an amendment to IAS 1 "Presentation of financial statements" ("IAS 1 amendment"), which requires the presentation of items of other comprehensive income ("OCI"), classified by nature, to be grouped into items that will not be reclassified subsequently to profit or loss; and items that will be reclassified subsequently to profit or loss when specific conditions are met. The IAS 1 amendment is effective for annual periods beginning on or after July 1, 2012. IAS 1 amendment is not applicable to the Company.

3. Trade Receivables

	September 30, 2012	**December 31, 2011**
[1]Trade receivables, net of allowances for doubtful accounts	$1,686,654	$1,042,580
Other receivables	2,370	15,768
	1,689,024	**1,058,348**

[1] Allowance for doubtful accounts September 30, 2012: $568,909 (December 31, 2011: $566,599). This allowance consists primarily of receivables from Colt Technology Services $535,178 (£337,247).

4. Inventory

	September 30, 2012	**December 31, 2011**
ESM™ and ECO3™	$358,741	$454,675
Other products	58,037	70,418
Total inventory	**416,778**	**525,093**

During the three months ended September 30, 2012, total inventories of $121,394 were recognized as costs of sales (September 2011 - $340,821). During the nine months ended September 30, 2012, total inventories of $236,734 were recognized as costs of sales (September 2011 - $606,119).

5. Property and Equipment

The Company leases certain assets under finance lease agreements. As at September 30, 2012, assets under capital lease with total cost of $104,836 (December 31, 2011 -$103,749) and accumulated amortization of $49,357 (December 31, 2011 - $23,946) are included in property and equipment for net book value of $55,479 (December 31, 2011 - $79,803).

6. Intangible Assets

Indefinite lives

As at September 30, 2012, ESM™ brand (b) had a carrying amount of $56,100 and is not subject to amortization due to having an indefinite useful life.

Definite Lives

Cost	North American distribution rights (a)	ESM™ intellectual property (b)	Distribution agreements (b)	Supplier agreement (b)	EMEA & UK distribution rights (c)(d)	Customer relationship (d)	Total
Balance at December 31, 2010	256,928	124,100	1,861,842	113,651	2,083,315		4,439,836
Acquisition					2,570,862	1,058,584	3,629,446
Disposal			(100)				(100)
Effect of change in foreign exchange rates	4,032	-	-	-	2,390	(5,494)	928
Balance at December 31, 2011	**260,960**	**124,100**	**1,861,742**	**113,651**	**4,656,567**	**1,053,090**	**8,070,110**
Effect of change in foreign exchange	**(5,994)**				**13,257**	**4,409**	**11,672**
Balance at September 30, 2012	**254,966**	**124,100**	**1,861,742**	**113,651**	**4,669,824**	**1,057,499**	**8,081,782**

Amortization and impairment losses	North American distribution rights (a)	ESM™ intellectual property (b)	Distribution agreements (b)	Supplier agreements (b)	EMEA & UK distribution rights (c)(d)	Customer relationship (d)	Total
Balance at December 31, 2010	**122,040**	**55,845**	**671,773**	**51,145**	**578,684**		**1,479,487**
Amortization period	25,758	12,410	148,414	11,365	661,200	176,239	1,035,386
Amortization for the Impairment					452,659	188,484	641,143
Effect of change in foreign exchange rate	2,261	-	-	-	4,624	(766)	6,119
Balance at December 31, 2011	**150,059**	**68,255**	**820,187**	**62,510**	**1,697,167**	**363,957**	**3,162,135**
Amortization	**19,350**	**9,308**	**111,296**	**8,524**	**480,156**	**125,502**	**754,136**
Effect of change in foreign exchange rate	**(3,674)**				**1,410**	**(1,112)**	**(3,376)**
Balance at September 30, 2012	**165,735**	**77,563**	**931,483**	**71,034**	**2,178,733**	**488,347**	**3,912,895**

Carrying amounts	North American distribution rights (a)	ESM™ intellectual property (b	Distribution agreements (b)	Supplier agreement (b)	EMEA & UK distribution rights (c)(d)	Customer relationship (d)	Goodwill (d)	Total
As at December 31, 2011	110,901	55,845	1,041,555	51,141	2,959,400	689,133	-	4,907,975
Balance at September 30, 2012	89,231	46,537	930,259	42,617	2,491,091	569,152	-	4,168,887

a. *North American distribution rights*

On March 27, 2006, the Company acquired the exclusive rights to distribute the ESM™ throughout North America from Abbotly Technologies Inc. ("Abbotly USA"). Pursuant to the acquisition, Abbotly USA agreed to assign all of its rights and obligations, and the Company agreed to assume all of Abbotly USA's obligations, under a license agreement between Abbotly USA and Abbotly, and the Company became the master distributor of the ESM™ in North America.

Consideration paid for the acquisition was $201,953 (US$180,000), 500,000 share purchase warrants with an exercise price of $0.27 and a 20% royalty on certain products purchased from Abbotly as long as Smartcool Systems USA still holds the distribution rights.

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

The Company acquired $2,278,350 of intangible assets in relation to the acquisition of Abbotly.

Management has performed a review of the carrying value of its distribution agreements. As a result of its assessment, in 2008 the Company 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 September 30, 2012, cost of distribution agreements consisted of:

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

No impairments were recorded in 2011 and 2010 and the impairment loss recognized in 2008 was not reversed upon transition to IFRS.

c. *Distribution Rights from TECC Services*

On July 11, 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"). Consideration of $1,738,750 (£1,035,000) was payable in cash and $532,067 (£265,000) was payable in the form of common shares of the Company. Upon closing, payment of $873,393 (£435,000) was made and 743,709 shares were issued. The share price was based on the average closing price of the Company's shares on the TSX Exchange for 20 consecutive trading days, with the last of such trading days being the second day preceding the date of closing as prescribed by trading regulations.

The remaining balance of $1,204,680 (£600,000) is due in scheduled instalments over four years with the last payment due on July 16, 2012. These instalments are 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 on December 21, 2009 where payments were rescheduled with the first payment due on January 16, 2010 and the last one on July 16, 2012. The parties also agreed that interest would accrue on $119,775 (£75,000) at Royal Bank of Canada prime rate plus 4% from January 16, 2009 and additionally on $119,775 (£75,000) from July 16, 2009 until these amounts are fully paid.

The amendment had no material impact on the company's financial position and no gain or loss was recognized in 2009. The Company was unable to make scheduled payments under the amended agreement. As at September 30, 2012, the balance of $727,024 (£458,140), including accrued interest of $52,591 (£33,140) remained outstanding. Under the purchase agreement the outstanding balance will become due and payable upon default of payment. However, the Company has received confirmation from the holders of these obligations that they will not require settlement of outstanding amounts through 2012.

d. *Intangible assets from Smartcool UK*

On February 28, 2011, the Company acquired $4,842,731of intangible assets in relation to the acquisition of Smartcool UK.

These intangible assets include the following definite lived intangible assets: distribution rights of the ESM™ in the United Kingdom, the distribution right related to sales to a major customer and a customer relationship. The remaining balance of the intangible assets acquired related to goodwill which is an indefinite life intangible asset. The expected life of the definite life intangible assets has been determined to be 5 years.

Distribution rights-General	$595,884
Distribution rights-Major customer	1,974,978
Customer relationship	1,058,584
Goodwill	1,213,285
Total	**$4,842,731**

During the three months ended September 30, 2012, total amortization of $142,804 (September 30, 2011 - $64,243) was recorded. During the nine months ended September 30, 2012, total amortization of $430,374 (September 30, 2011 - $146,146) was recorded.

Management has performed a review of the carrying value of these assets. As discrepancies between revenue projections and actual operating results in 2011 have resulted in significant uncertainty in future cash generation of these assets, an impairment loss was recorded as at December 31, 2011 based on cash flow projections at this time. The value of goodwill was written off and the other assets were impaired 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 year ended December 31, 2011	**$1,854,428**

There were no impairment losses recorded for the three months and nine months ended September 30, 2012 and 2011.

7. Bank Loan

The Company has arranged with a UK bank to have a short term overdraft protection of £80,000 for a period of 21 days for a fee of £800. The bank has agreed to provide this facility four times a year under the same terms. As at September 30, 2012, there was an overdraft balance of £58,409. This overdraft balance was paid back prior to the agreed date for the facility to end.

8. Obligations Under Acquisition Contracts

TECC Services

At September 30, 2012, the Company owed $727,024 (December 31, 2011 - $750,861) related to its 2008 acquisition of distribution rights from TECC Services. The obligations under the acquisition contract are being accreted to their face value over their term. The accretion charge for the period is recorded within interest expense in the consolidated statement of operations.

Smartcool UK

On February 28, 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. Upon closing, $2,922,622 (£1,840,438) was settled in cash with the remaining balance of $1,582,200 (£1,000,000) due in four equal installments over the next 12 months.

The Company was unable to make the first quarterly payment as scheduled. As at September 30, 2012, principal balance of $1,586,900 (£1,000,000) and accrued interest of $106,798 (£67,295) remained outstanding. Principal balance consists of 4 installments of $396,725 (£250,000). Under the purchase agreement the outstanding balance will become due and payable upon default of payment. However, the Company has received confirmation from the holders of these obligations that they will not require settlement of outstanding amounts through 2012.

TECC and Smartcool UK Acquisitions Obligations	TECC	UK	Total
	$	$	$
Balance – December 31, 2010	**622,671**	**-**	**622,671**
Acquisition, February 28, 2011		1,488,049	1,488,049
Accretion	66,671	87,458	154,129
Accrued interest	16,571	20,514	37,085
Foreign exchange	11,582	(2,165)	9,417
Balance – December 31, 2011	**717,495**	**1,593,856**	**2,311,351**
Payment	(39,060)		(39,060)
Accretion	33,750	6,492	40,242
Accrued interest	12,519	86,699	99,218
Foreign exchange	2,320	6,651	8,971
Balance – September 30, 2012	**727,024**	**1,693,698**	**2,420,722**
Current portion	(727,024)	(1,693,698)	(2,420,722)
	-	-	-

9. Finance Leases

The Company entered into an office equipment lease agreement in July 2011. This lease expires in June 2015 and has an implied interest rate of 12%. Under the agreement of Smartcool UK acquisition, the Company also assumed Smartcool UK's liabilities including five vehicle leases. These leases expire in April 2012 and September 2013. They have implied annual interest rate ranging from 5% to 10%. As at September 30, 2012, the undiscounted amount of required repayments was $39,146 (December 31, 2012 – $70,344).

10. Debentures

In May 2010, the Company completed its offer of 122 units of debenture and share purchase warrants for aggregate proceeds of $610,000. The debenture is not redeemable by the holder.

Each unit comprises of a debenture in the principal amount of $5,000 plus 8,600 warrants, issued at a price of $5,000 per unit. They are for a term of three years and entitle the holder to receive interest payment of $150 each quarter per $5,000 of principal amount with an additional interest payment of $150 if the debenture is repaid by December 31, 2011 and two additional interest payments (for a total of $300) if the debenture is repaid after December 31, 2011, but before maturity. The debentures receive 5% of gross cash revenue as principal repayment each quarter. The debentures are secured by a general security agreement over the assets of the Company. One whole warrant entitles the holder to purchase one common share at the price of $0.50 per share for a period of three years from the date of issuance. If the Company's share trade at an average price of $0.80 per share for a period of 60 days, the Company, at its election, may force exercise or cancellation of the warrants

The payment of quarterly principal payments owing during the first twelve-month period commencing from the closing date, however, may be delayed and paid on a date that is 13 months from the closing date. As at September 30, 2012, total principal payments of $66,833 have been deferred. The debenture holders have not expressed an intention to demand payment.

During the three months ended September 30, 2012 interest payments totaling $18,300 and principal payments totaling $10,539 (September 30, 2011 - $30,904) were paid. During the nine months ended September 30, 2012 interest payments totaling $54,900 and principal payments totaling $118,300 (September 30, 2011 - $146,175) were paid.

As at September 30, 2012, the outstanding principal balance was $318,946 (December 31, 2011 - $437,245) and the carrying amount of these debentures was $385,576 (December 31, 2011 - $497,008).

11. Issued Capital and Equity Reserve

Authorized

Unlimited common shares without par value
100,000,000 Class A preferred shares
100,000,000 Class B preferred shares

a) Issued common shares

	Shares	Amount
Balance, December 31, 2010	**46,821,396**	**26,036,145**
Issued for cash via private placements	14,133,330	3,440,016
Options exercised	654,000	210,298
Share issuance costs	-	(220,990)
Balance, December 31, 2011	**61,608,726**	**29,465,469**
Issued for cash via private placements	2,678,571	**375,000**
Share issuance costs	**-**	(5,077)
Balance, September 30, 2012	**64,287,297**	**29,835,392**

On January 20, 2012 the Company completed a non-brokered private placement consisting of 2,678,571 common shares at a price of $0.14 per share for gross proceeds of $375,000.
Cash issuance costs of 5,077 were allocated to common shares.

b) Stock options

Under the Company's stock option plan, the Company may grant stock options to employees, directors, officers and consultants. The maximum number of shares to be awarded under the plan is 12,161,745.

As at September 30, 2012, 4,860,000 (December 31, 2011 5,610,000) options were outstanding. These options have vesting periods of up to 5 years. Stock-based compensation expense for the three months ended September 30, 2012 was $18,355 (September 30, 2011 - $61,041). Stock-based compensation expense for the nine months ended September 30, 2012 was $107,143 (September 30, 2011 - $225,048).

During the three months ended September 30, 2012, no stock options were granted (September 30, 2011 – 80,000, weighted average fair value $0.14). During the nine months ended September 30, 2012, 805,000 (September 30, 2011 – 1,162,500) options were granted with weighted average fair value of $0.10 (September 30, 2011 - $0.15). These granted options vest over 18 months. None of these options had an exercise price lower than the stock price at the date of grant (September 30, 2011 – Nil).

	Number of share options	Weighted average exercise price
Balance, December 31, 2010	6,526,500	0.31
Granted	1,462,500	0.30
Cancelled	(76,250)	0.27
Forfeited	(88,750)	0.26
Expired or exercised	(2,214,000)	0.32
Balance, December 31, 2011	5,610,000	$0.31
Granted	805,000	0.20
Cancelled	(235,000)	0.39
Forfeited	(455,000)	0.36
Expired	(865,000)	0.32
Balance, September 30, 2012	4,860,000	$0.28

The Company used the Black-Scholes option pricing model to determine the fair value of the options at the date of grant with the following assumptions:

	2012	2011
Risk-free interest rate	1.18%-1.62%	2.14% - 2.64%
Dividend yield	0%	0%
Volatility	89%-91%	91.89% - 92.99%
Expected life	5 years	4.60-4.62 years

c) Share purchase warrants

As at September 30, 2012, there were 9,115,865 (December 31, 2011 - 9,742,532) outstanding warrants with weighted average share price of $0.43.

Expiry date	Number of shares	Exercise price $	Weighted average contractual life (yrs)
February 9, 2013	430,000	0.50	0.36
March 19, 2013	146,200	0.50	0.47
April 29, 2013	344,000	0.50	0.58
May 4, 2013	129,000	0.50	0.59
February 22, 2013	6,666,665	0.45	0.39
February 28, 2013	250,000	0.30	0.41
August 28, 2013	250,000	0.30	0.91
December 6, 2013	400,000	0.30	1.18
February 28, 2014	250,000	0.30	1.41
August 28, 2014	250,000	0.30	1.91
Total issued and outstanding, September 30, 2012	**9,115,865**	**0.43**	**0.52**

12. Income Taxes

At December 31, 2011, the Company had unused non-capital losses of approximately $17,467,000 available to offset taxable income of future years. Deferred tax assets were $5,073,000.

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 believed there was uncertainty regarding the realization of these deferred tax assets, they were classified as unrecognized tax assets as at December 31, 2011.

In May 2012, the Company successfully filed a tax loss carry-backward for Smartcool UK and obtained an income tax refund of $248,508 (£153,852). Loss for the year 2011 was applied against the company's taxable income in previous years (pre-acquisition). This tax refund was recorded as current tax reduction.

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. During 2011, these liabilities were reduced by $464,773 upon the recognition of amortization and impairment costs of these assets. Deferred income tax recovery of the same amount was recognized for the period.

As at September 30, 2012, deferred tax liability was $616,512 (December 31, 2011 - $613,110).

13. Segmented Information

The Company installs, distributes, markets and sells the ECO3 and ESM™ products and peripherals. Revenue from the ECO3 for the three months ended September 30, 2012 was $68,727 and revenue for the ESM™ solution was $1,576,498. Revenue from the ECO3 for the nine months ended September 30, 2012 was $361,883 and revenue for the ESM™ solution was $2,652,899.

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

	Three months ended September 30, 2012		Three months ended September 30, 2011	
	Amount	**%**	**Amount**	**%**
Europe, Middle East, Africa	1,463,327	89	555,548	71
Australia	118,781	7	104,721	13
South East Asia	-	-	-	-
Americas	63,117	4	125,420	16
Total revenue	**1,645,225**	**100**	**785,689**	**100**

	Nine months ended September 30, 2012		Nine months ended September 30, 2011	
	Amount	**%**	**Amount**	**%**
Europe, Middle East, Africa	2,381,683	79	988,737	49
Australia	383,616	13	303,524	15
South East Asia	-	-	301,930	15
Americas	249,483	8	411,854	21
Total revenue	**3,014,782**	**100**	**2,006,045**	**100**

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

14. Related Party Transactions

Trading transactions

The Company's related parties consist of companies owned by executive officers and directors and key management as follows:

	Nature of Transaction
384518 BC Ltd.	Consulting
Windstone Financial Corp.	Consulting
Key Management	Consulting/General administrative
Richards Buell Sutton LLP	Legal Services
TECC	Rent
Rossair	Installation tools and materials
Magnum Energy Inc.	Rental income

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.

Transactions with related parties	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
	$	$	$	$
Consulting fees	41,719	62,483	112,316	183,666
Legal fees	1,195	1,908	5,183	19,162
Rent expense	-	-	-	12,777
Lease Income	-	(3,000)	(3,000)	(9,000)

Balances with related parties	September 30, 2012	December 31, 2011
	$	$
Accounts Receivable	1,000	1,000
Trade payables	124,997	42,180

15. Financial Instruments

Financial Instruments

The Company has classified its financial instruments as follows:

	September 30, 2012	December 31, 2011
Financial assets:	$	$
Fair value through profit or loss , measured at fair value:		
Cash and cash equivalents	26,086	498,874
Loans and accounts receivable, recorded at amortized cost:		
Trade and other receivables	1,689,024	1,058,348
Other Financial liabilities, recorded at amortized cost:		
Trade payables and accruals	1,473,269	1,210,170
Bank loan	92,689	-
Acquisition obligations and debentures	2,806,298	2,808,359

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

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

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

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

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

The carrying value of cash and cash equivalents, trade and other receivables, the current portion of obligations under acquisition contract, debentures, finance leases, tenant inducements, and trade payables and accruals approximates the fair value because of the short-term nature of these instruments.

Financial Risk Management

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

a. *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations and arises principally from the Company's cash and cash equivalents, short-term investments and trade and other receivable. The Company limits its exposure to credit loss by placing its cash and cash equivalents and short-term investments with high credit quality financial institutions. To mitigate credit risk with respect to trade and other receivables the Company subjects all major customer accounts to its credit evaluation process.

The Company has $ 1,686,654 (December 31, 2011 - $1,042,580) in trade receivables which are subject to credit risk.

b. *Liquidity risk*

The Company's consolidated financial statements have been prepared on a going concern basis, which assumes the realization of assets and the settlement of liabilities in the normal course of business. Liquidity risk results from the Company's inability to meet its financial obligations when they become due. As part of the risk management process, the Board approves the Company's annual operating and capital budgets as well as any material transactions outside the ordinary course of business. To ensure that the Company has sufficient liquidity to meet its current obligations in the next 12 months, measures have been taken to increase cash resources.

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

	Total	1 year	1-2 years
	$	$	$
Trade payables and accruals	1,394,573	1,341,135	53,438
Bank loan	92,689	92,689	-
Finance leases	36,680	33,392	3,288
Abbotly minimum royalties	78,696	39,348	39,348
Premises leases	217,384	107,842	109,542
Debentures	400,396	400,396	-
Obligations under acquisition	2,420,722	2,420,722	-
Total	**4,641,140**	**4,435,524**	**205,616**

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, British pounds and Euros. The Company's net income 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 September 30, 2012, the Company's monetary assets and liabilities denominated in foreign currencies are as follows:

	USD	AUD	GBP	Euro
Assets				
Cash and cash equivalents	3,130	84	-	303
Trade and other receivables	196,688	-	-	75,232
Total	**199,818**	**84**	**-**	**75,535**
Liabilities				
Total payables and accruals	41,526	9,370	31,626	14,720
Finance lease obligations	-	-	-	-
Acquisition obligations, current	-	-	276,261	-
Acquisition obligations, balance	-	-	-	-
Total	**41,526**	**9,370**	**307,887**	**14,720**

The following table demonstrates the effect of exchange rate movement on net income 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	Euro
Monetary Assets	(19,982)	(8)	-	(7,554)
Monetary Liabilities	4,153	937	30,789	1,472
Net gain (loss)	**(15,829)**	**929**	**30,789**	**(6,082)**

Gain (loss) on $0.10 decrease in CAD	USD	AUD	GBP	Euro
Monetary Assets	19,982	8	-	7,554
Monetary Liabilities	(4,153)	(937)	(30,789)	(1,472)
Net gain (loss)	**15,829**	**(929)**	**(30,789)**	**6,082**

e. *Interest rate risk*

The Company is exposed to this risk as late payments under TECC acquisition obligations are subject to interest based on Royal Bank of Canada prime rate plus 4%. As at September 30, 2012, the total of such payments was $238,035 (£150,000) (December 31, 2011 - $236,985, £150,000).

The Company is exposed to this risk as late payments under Smartcool UK acquisition obligations are subject to interest based on Royal Bank of Canada prime rate As at September 30, 2012, the total of such payments was $1,586,900 (£1,000,000) (December 31, 2011 - $1,184,925, £750,000).

f. *Sensitivity analysis*

Assuming a 100-basis point increase in RBC prime rate, as at September 30, 2012, the impact on income before income taxes would be a negative adjustment of $18,249 (£11,500).

16. 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 September 30, 2012, the principal amount of debenture component was $318,946 (December 31, 2011 - $437,245) and shareholders' equity was $1,589,438 (December 2011 - $2,623,121). The decrease in debentures was attributable to principal payments made during the period, and the decrease in shareholders' equity was attributable to net loss.

The Company's objectives when managing capital are:

- to effectively finance its operations and growth by meeting its operating and capital expenditure budgets;
- to maintain financial flexibility in order to meet financial obligations, including obligations under acquisition contracts;

- to ensure its ability to carry out its strategic plans and take advantage of acquisition opportunities;
- to provide an appropriate investment return to its shareholders and maintain investor, creditor and market confidence.

For more effective capital management, the Company has taken steps to reduce expenses, secure more predictable revenue generation, and collect outstanding receivables.

Management is in the final steps of approval with its major banking relationship to provide accounts receivable factoring for select accounts that will smooth out the Company's cash flow. In addition management will consider securing capital from its investor base if required, which management has demonstrated in the past to be a successful strategy. The Company is not subject to any external capital restrictions.

17. Supplementary cash flow information

	Three months ended September 30, 2012	Three months ended September 30, 2011	Nine months ended September 30, 2012	Nine months ended September 30, 2011
Interest paid in cash	21,551	21,842	63,537	60,451
Interest income received in cash	25	320	196	1,092
Issuance of warrants for share issue costs	-	-		47,000