SMARTCOOL™

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

2013 Third Quarter (ending September 30)

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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 three months ended September 30, 2013. This information is provided as of November 28, 2013.

This MD&A should be read in conjunction with the Company's unaudited condensed consolidated financial statements for the three months ended September 30, 2013, its audited consolidated financial statements for the years ended December 31, 2012 and 2011 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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Business Overview

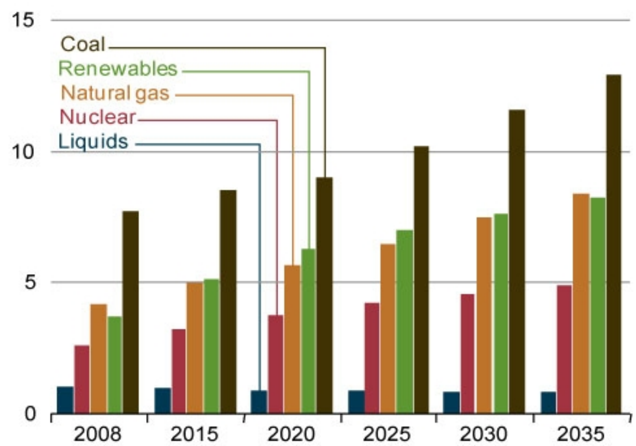
Smartcool Systems Inc. is a clean technology company specializing in the development and distribution of energy efficiency solutions for air conditioning, refrigeration and heat pump systems (HVAC).

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

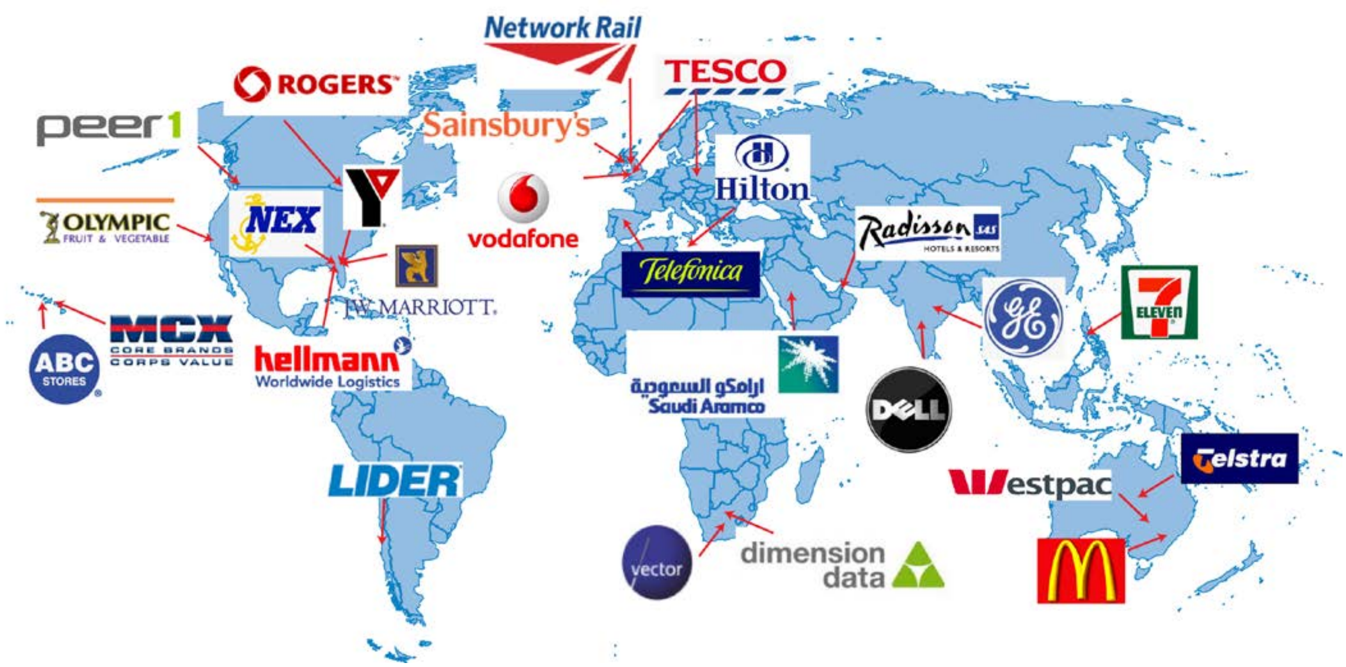
The Market Strategy

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.

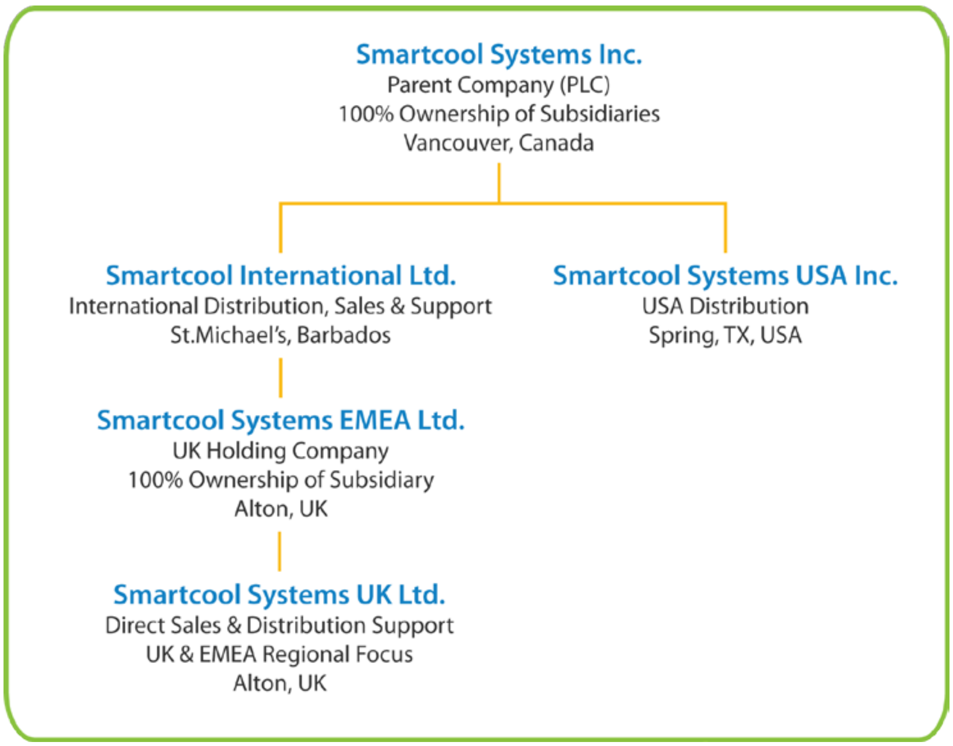


Distribution Sales

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 four wholly owned subsidiaries: International, USA, EMEA and UK. Smartcool International Ltd. holds the intellectual property and is the master distributor of Smartcool's product line. Smartcool Systems USA Inc. distributes the technology within the United States, using a network of local distributors to deliver the products to market.



Smartcool Systems EMEA was formed in 2008 and is the master distributor for Europe, the Middle East, Africa and the Indian Sub-Continent. In February 2011, Smartcool EMEA acquired all the outstanding shares of Smartcool Systems UK Ltd., a previously independent distributor with extensive technical expertise in Smartcool products.

Smartcool EMEA now conducts business as Smartcool Systems UK Ltd., directly managing a large portfolio of well established customer accounts. This improves gross revenue and profitability for Smartcool. Another significant factor in the acquisition is leveraging the considerable technical abilities of the UK team to assist in continuing the research and development of the Smartcool product line, and providing the best possible service and support to Fortune 500 clients and distribution channels. Smartcool EMEA / UK is headquartered in Alton, UK, providing Smartcool a strong base from which to serve Europe, its fastest growing market.

Financial Overview

Business continued to pick up with a steady increase in revenue from quarter to quarter and a growing number of pending projects. Compared to the same quarter of 2012, the quarter's revenue decreased to $676,122 from $1,645,225, a decrease of 59%, however. Significant reduction of costs also continued, with operating expenses for the quarter decreasing to $747,833 from $1,010,911 for the same quarter of 2012, a decrease of 26%. Net loss for the quarter was $292,688 ($0.00 per share), compared to $46,203 ($0.00 per share) for the same quarter of 2012.

Total assets decreased to $4,527,806 from $5,467,176 at the end of 2012. The Company had $144,500 in cash and cash equivalents at the end of the quarter, compared to $247,150 at the end of 2012. Current liabilities at the end of the quarter were $3,946,960 (December 31, 2012 - $3,860,206) which includes current portion of acquisition obligations, debentures and tenant inducement totaling $2,915,401. Long-term liabilities were $505,063 (December 31, 2012 - $500,188), consisting of debentures $120,385, tenant inducement $10,784 and deferred tax liability of $373,894.

	Dec 2012 ($)	Mar 2013 ($)	Jun 2013 ($)	Sep 2013 ($)
Total Revenues	1,197,968	143,063	491,253	676,122
Loss	(467,682)	(838,758)	(429,905)	(292,688)
Loss Per Share – basic & diluted	(0.01)	(0.01)	(0.01)	(0.00)
	Dec 2011 ($)	**Mar 2012 ($)**	**Jun 2012 ($)**	**Sep 2012 ($)**
Total Revenues	1,937,749	303,450	1,066,107	1,645,225
Loss	(2,282,010)	(1,071,915)	(346,472)	(46,203)
Loss Per Share – basic & diluted	(0.04)	(0.02)	(0.01)	(0.00)

Selected Annual Information

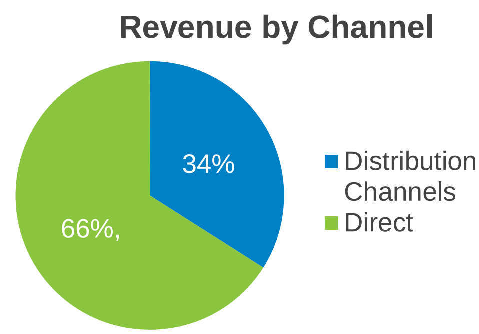
The following is selected information on Smartcool's financial performance for the past three years:

	Dec. 31, 2010	Dec. 31, 2011	Dec. 31, 2012
Revenue	$4,209,645	**$3,943,794**	**$4,212,750**
Selling, General & Administrative	$3,272,909	**$4,355,436**	**$3,209,334**
Net loss	$(1,619,771)	**$(5,217,928)**	**$(1,932,272)**
Net loss – Per Share (Basic and Diluted)	$(0.04)	**$(0.09)**	**$(0.03)**
Total Assets	$5,343,272	**$7,365,680**	**$5,467,176**
Total Long Term Liabilities	$531,167	**$860,932**	**$500,188**
Cash Dividends	**$0**	**$0**	**$0**

Summary of Operating Results

Revenue

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



Distribution sales for the three months ended September 30, 2013 were $ 227,070 or 34% of total revenue, compared to $191,485 or 12% of total revenue for the third quarter of 2012. The increase was contributed by both the North Amercian distribution channel and the Australian channel.

Direct sales for the three months ended September 30, 2013 were $ 449,052 or 66% of total revenue, compared to $1,453,740 or 88% of total revenue for the third quarter of 2012. The decrease was attributable to the slow progress on Sainsbury's budget approval.

Revenue from the EMEA (Europe, Middle East Africa, & India) region contributed $ 452,939 of the quarter's total revenue compared to $1,463,327 for the third quarter of 2012. Revenue from Australia contributed $ 123,379, compared to $118,781 in third quarter of 2012. Revenue from the North America contributed $ 99,804 compared to $63,117 in the third quarter of 2012.

Revenue for the ECO^3™ for the quarter was $130,218 or 19% of total revenue compared to $68,727 or 4% of total revenue for the third quarter of 2012. Smartcool is delivering the ECO^3™ to a large market base including the residential sector, through small independent distributors. This strategy, though requires more time to develop, is starting to provide stable, recurring revenue for Smartcool.

The ESM™ is Smartcool's original product, and due to its complexity is generally reserved for direct sales and only the most experienced and well-resourced distributors. Revenue for the ESM™ in the quarter was $ 545,904 or 81% of total revenue compared to $1,576,498 or 96% of total revenue in the third quarter of 2012.

For the nine months ended September 30, 2013, revenue from the EMEA (Europe, Middle East Africa, & India) region was $638,789, compared to $2,381,683 for the same period of 2012. Revenue from Australia was $375,702, compared to $383,616. Revenue from the North America was $296,487 compared to $249,483.

Distribution sales for the nine months were $ 693,639 or 53% of total revenue, compared to $701,774 or 23% of total revenue for the first nine months of 2012. Direct sales were $ 617,339 or 47% of revenue, compared to $2,313,008 or 77% of total revenue for the same period of 2012. ECO3 revenue for the nine months was $537,278 compared to $361,883 for the same period of 2012. ESM™ revenue was $ 773,700 compared to $2,652,899 for the same period of 2012.

Gross profit

Gross profit for the three months ended September 30, 2013 was $500,023 compared to $1,052,192 for the third quarter of 2012, a decrease of $552,169 or 52%. Profit margin for the quarter was 74%, compared to 64% for the same quarter of 2012. The quarter's margin was highter as 34% of revenue came from the more profitable distribution business compared to 12% for the same period of 2012.

Gross profit for the nine months ended September 30, 2013 was $1,008,157 compared to $1,786,688 for the same period of 2012, a decrease of $778,531 or 44%. Profit margin for the nine months was 77%, compared to 59% for the same period of 2012. The period's margin was better than the average margin as a high percentage of total revenue (53%) came from the more profitable distribution business.

General and administrative expenses

Cost reduction measures implemented earlier in the year continued to result in a leaner and more productive operation. General and administrative ("G & A") expenses for the three months ended September 30, 2013 decreased to $477,709 from $716,775 for the same period of 2012, a decrease of $239,066 or 33%. The decrease was mainly attributable to salary reduction of $182,459 (from $449,193 for the third quarter of 2012 to $266,734) and travel expense reduction of $17,800 (from $56,560 for the third quarter of 2012 to $38,760).

For the nine months ended September 30, 2013, G & A expenses were reduced to $1,1660,051 from $2,378,744 for the same period of 2012, a decrease of $718,693 or 30%. The decrease was mainly attributable to salary reduction of $381,789 ($978,837 from $1,360,626), travel expense reduction of $74,093 ($117,156 from $191,249), consulting fee reduction of $108,409 ($186,282 from $294,691), and professional fee reduction of $35,421 ($25,642 from $61,063).

	Three months ended September 30 2013	Three months ended September 30 2012	Change	%
Management and consulting fees	$70,308	$82,888	($12,580)	(15%)
Salaries and benefits	266,734	449,193	(182,459)	(41%)
Professional fees	8,282	13,937	(5,655)	(41%)
Investor relations and media	9,120	7,165	1,955	27%
Travel	38,760	56,560	(17,800)	(31%)
Rent, office and other expenses	84,505	107,032	(22,527)	(21%)
Total selling, general & admin expenses	**477,709**	**716,775**	**(239,066)**	**(33%)**
Share-based compensation	2,495	18,355	(15,860)	(86%)
Research & Development	-	(793)	-	-
Amortization & depreciation	267,629	276,574	(8,945)	(5%)
Total operating expenses	**$747,833**	**$1,010,911**	**($263,872)**	**(24%)**

	Nine months ended September 30 2013	Nine months ended September 30 2012	Change	%
Management and consulting fees	$186,282	$294,691	($108,409)	(37%)
Salaries and benefits	978,837	1,360,626	(381,789)	(28%)
Professional fees	25,642	61,063	(35,421)	(58%)
Investor relations and media	19,929	29,647	(9,719)	(33%)
Travel	117,156	191,249	(74,093)	(39%)
Rent, office and other expenses	332,205	441,469	(109,264)	(25%)
Total selling, general & admin expenses	**1,660,051**	**2,378,744**	**(718,693)**	**(30%)**
Share-based compensation	45,070	107,143	(62,073)	(58%)
Research & Development	21,376	8,761	12,615	124%
Amortization & depreciation	788,790	825,685	(36,895)	(4%)
Total operating expenses	**$2,515,287**	**$3,320,333**	**($805,046)**	**(24%)**

Net loss

Net loss for the three months ended September 30, 2013 was $292,688 compared to $46,203 for the third quarter of 2012, a increase of $246,485. Though significant reduction of operating expenses has been achieved, decreased direct sales still resulted in a larger net loss for the period.

Net loss for the nine months ended September 30, 2013 was $1,561,351 compared to $1,464,590 for the same period of 2012, an increase of $96,761. Greater margin and reduced operating expenses have minimized the impact of the decreased revenue on the nine months' loss.

The loss per share (basic and diluted) for the three months ended September 30, 2013 was $0.00, unchanged from the loss per share for the third quarter of 2012. The loss per share (basic and diluted) for the nine months ended September 30, 2013 was $0.02, also the same as the loss per share for the same period of 2012. Loss per share is calculated based on the weighted average number of common shares outstanding throughout the period.

Comprehensive income

Comprehensive loss for the three months ended September 30, 2013 was $293,860, consisting of net operating loss $292,688 and foreign currency translation adjustment $1,172, compared to comprehensive income of $8,584 for the same period of 2012. As the functional currencies of Smartcool EMEA, Smartcool UK and Smartcool USA 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 Septemer 30, 2013 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 nine months ended September 30, 2013 was $1,568,471, consisting of net operating loss $1,561,351 and foreign currency translation adjustment $7,120, compared to comprehensive loss of $1,510,749 for the first nine months of 2012.

Comprehensive loss for the six months ended June 30, 2013 was $1,274,610, consisting of net operating loss $1,268,662 and foreign currency translation adjustment $5,948, compared to comprehensive loss of $1,519,332 for the first six months of 2012.

Amortization and depreciation

Amortization and depreciation expenses for the three months ended September 30, 2013 were $267,629 compared to $276,574 for the third quarter of 2012. Depreciation of property and equipment was $15,726 (September 30, 2012 - $26,021) and amortization of intangible assets was $251,903 (September 30, 2012 - $250,553).

Amortization expenses for the nine months ended September 30, 2013 were $788,790 compared to $825,685 for the same period of 2012. Depreciation of property and equipment was $51,583 (September 30, 2012 - $71,549) and amortization of intangible assets was $737,207 (September 30, 2012 - $754,136).

Share-based compensation

Share-based compensation costs for the three months ended September 30, 2013 were $2,495, compared to $18,355 for the third quarter of 2012, a decrease of $15,860 of 86%.

Share-based compensation costs for the nine months ended September 30, 2013 were $45,070, compared to $107,143 for the same period of 2012, a decrease of $62,073 or 58%.

Only 30,000 options were granted during the first nine months of this year compared to 805,000 options granted in the same period of 2012.

Capital expenditures

There were no capital expenditures for the three months ended September 30, 2013 and the same period of 2012. Capital expenditures for the nine months ended September 30, 2013 were $2,499 compared to $87,521 for the same period of 2012. The Company had upgraded its ERP (Enterprise Resource Planning) system in the previous year and there was no need for large capital expenditures in 2013.

Liquidity and Capital Resources

As at September 30, 2013, the Company had 144,500 in cash and cash equivalents (December 31, 2012 - $247,150).

Working capital deficit at the end of the period was $2,758,254 (December 31, 2012 - $2,484,192). Part of the obligations under Smartcool UK acquisition contract, scheduled for payments in 2012 and classified as current liabilities, can be deferred at the Company's discretion. These scheduled payments total $1,247,925 (£750,000).

The Company's net cash flow used in operating activities during the quarter was $203,910, increased by $236,016 from net cash flow generated in the third quarter of 2012 of $32,106. The average monthly burn for the quarter was $68,000. Cash resources consumed in the quarter were for inventory ordering and operation financing.

To ensure that the Company continues to be a going concern with adequate working capital over the next twelve months steps have been taken to reduce expenses, secure more predictable revenue generation and collect outstanding receivables. Management has arranged with a UK bank to have a short term overdraft protection.

The Company has also received confirmation from the holders of TECC and Smartcool UK purchase obligations that they will not require settlement of outstanding amounts through 2013.

In June 2013, the Company raised additional capital of $250,000 by way of a non-brokered private placement. A second private placement was completed in September 2013 with gross proceeds of $250,000. The company also obtained a short-term loan of $125,000 from an investor in May 2013. These financing arrangements have helped the Company meet short-term trading obligations.

Management is still working on accounts receivable factoring arrangements. Funds provided from these strategies will smooth out the Company's cash flow.

Debentures

As at September 30, 2013, the outstanding principal balance was $281,455 (December 31, 2012 - $308,473) and the carrying amount of these debentures was $273,965 (December 31, 2012 - $348,520).

Maturity date	March 1, 2014	March 1, 2015	Total
Balance at March 1, 2013	82,303	246,590	328,893
Accrued interest	6,377	22,209	28,586
Interest payments	(4,427)	(15,469)	(19,896)
Principal payments	(43,637)	(19,981)	(63,618)
Balance at September 30, 2013	**$40,616**	**$233,349**	**$273,965**
Less: Current portion	(40,616)	(112,964)	(153,580)
	-	120,385	120,385

For the three and nine months ended September 30, 2013, total interest expenses were $11,437 (September 30, 2012 - $17,160) and $49,539 (September 30, 2012 - $61,766), respectively.

Interest payments totaling $44,296 (December 31, 2012 - $73,200) and principal payments totaling $63,618 (December 31, 2012 - $128,755) were paid during the nine months ended September 30, 2013.

The next interest and principal payments will be in December 2013.

Outstanding Share Data

The authorized share capital of the Company is an unlimited number of common shares without par value. As at September 30, 2013 the Company had 79,287,297 (December 31, 2012 – 64,287,297) common shares outstanding. The weighted average number of common shares outstanding for the quarter was 74,341,645 (September 30, 2012 – 64,287,297).

As at November 28, 2013, the outstanding shares were 79,287,297 and diluted were 84,153,297.

Warrants and Stock Options

As at September 30, 2013, there were 1,251,000 share purchase warrants and 3,615,000 stock options outstanding which collectively could result in the issuance of 4,866,000 common shares if these warrants and stock options are exercised. The outstanding options have a weighted average exercise price of $0.12 (December 31, 2012 - $0.28). The outstanding warrants have weighted average exercise price of $0.26 (December 31, 2012 - $0.43).

As at September 30, 2013 there were 3,585,000 (December 31, 2012 - 3,402,500) exercisable options with a weighted average exercise price of $0.12 (December 31, 2012 - $0.29).
No options were granted during in three months ended September 31, 2013 and the same period of 2012. During the nine months ended September 30, 2013, 30,000 (September 30, 2012 - 805,000) options were granted to an employee with weighted average fair value of $0.05 (September 30, 2012 - $0.11).

As at November 28, 2013, there are 1,251,000 outstanding warrants and 3,615,000 outstanding options. The outstanding options have weighted average exercise price of $0.12.

Intangible Assets

a. *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, 2013, cost of distribution agreements consisted of:

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

No impairment was recorded in the three months ended September 30, 2013.

b. *Distribution Rights from TECC Services*

On July 11, 2008, the Company acquired the exclusive rights to distribute the ESMTM in the United Kingdom, Spain, Portugal, and the Middle East from T.E.C.C. Services Ltd. (“TECC”). Consideration of $2,078,073 (£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 purchase agreement was amended on December 21, 2009 and payments were rescheduled. As at September 30, 2013, the balance of $835,860 (£502,350), including accrued interest of $128,702 (£77,350), was payable to TECC. 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 2013.

c. *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 (December 31, 2012 Financial statements - Note 3).

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**

In 2011, management performed a review of the carrying value of these assets. As discrepancies between revenue projections and actual operating results in 2011 have resulting 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 the year ended December 31, 2011	**$1,854,428**

No impairments were recorded in the three months ended September 30, 2013 and the impairment loss recognized in 2011 was not reversed.

Transactions with Related Parties

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.

	Three months ended September 30		**Nine months ended September 30**	
	2013	**2012**	**2013**	**2012**
Consulting fees	$3,000	$41,719	$32,567	$112,316
Legal fees	6,491	1,195	10,431	5,183
Rent expense	-	9,542	-	15,910
Rental income	-	-	-	(3,000)
Vehicle lease	5,506	8,049	21,729	27,312
	$14,997	**$60,505**	**$64,727**	**$157,721**

As at September 30, 2013, $71,426 was due to related parties (December 31, 2012 - $206,127). The amounts due to related parties are unsecured, non-interest bearing and have no fixed terms of repayment.

Financial Instruments

The Company has classified its financial instruments as follows:

	September 30, 2013	December 31, 2012
Financial assets		
Fair value through profit or loss , measured at fair value:		
Cash and cash equivalents	$144,500	$247,150
Loans and accounts receivable, recorded at amortized cost:		
Trade and other receivables	680,886	747,684
	$825,386	**$994,834**
Other financial liabilities, recorded at amortized cost		
Trade payables	$615,684	$696,514
Loans payable	128,611	-
Acquisition obligations, finance leases and debentures	3,019,618	2,904,286
	$3,763,913	**$3,600,800**

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. This risk arises principally from the Company's cash and cash equivalents 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 receivables the Company subjects all major customer accounts to its credit evaluation process.

The Company has $675,886 (December 31, 2012 - $742,684) 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 twelve months, the Company has raised additional capital totaling $500,00 during the year.

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

	Total	1 year	1-2 years
Trade payables	$615,684	$615,684	$-
Short-term loan	128,611	128,611	
Premises leases	227,800	113,900	113,900
Debentures	273,965	153,580	120,385
Obligations under acquisition contracts	2,745,653	2,745,653	-
Total	**$3,991,713**	**$3,757,428**	**$234,285**

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, and British pounds. 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, 2013, the Company's monetary assets and liabilities denominated in foreign currencies are as follows:

	USD	AUD	GBP	Euro
Assets				
Cash and cash equivalents	3,522	85	-	21
Trade and other receivables	163,835	-	-	4,754
Total	**167,357**	**85**	**-**	**4,775**
Liabilities				
Trade payables	38,141	6,737	30,876	-
Acquisition obligations, current	-	-	302,742	-
Total	**38,141**	**6,737**	**333,618**	**-**

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	(16,736)	(9)	-	(477)
Monetary Liabilities	3,814	674	33,362	-
Net gain (loss)	**(12,922)**	**665**	**33,362**	**(477)**

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, 2013, the total of such payments was $707,158 (£425,000).

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 plus 5%. As at September 30, 2013, the total of such payments was $1,663,900 (£1,000,000).

Assuming a 100-basis point increase in RBC prime rate, as at September 30, 2013, the impact on income before income taxes would be a negative adjustment of $23,711 (£14,250).

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 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 relationships	5 years

Total amortization of $251,903 (September 30, 2012 - $250,553) for the three months ended September 30, 2013 and $737,207 (September 30, 2012 - $754,136) for the nine months ended September 30, 2013 were included under net loss for the period on the statement of operations.

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.