SMARTCOOL™

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

2014 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, 2014. This information is provided as of November 28, 2014.

This MD&A should be read in conjunction with the Company's condensed consolidated financial statements for the three months ended September 30, 2014, its audited consolidated financial statements for the years ended December 31, 2013 and 2012 together with accompanying notes. These documents and additional information about Smartcool can be located on the SEDAR website at www.sedar.com or the Company's website at www.smartcool.net .

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Business Overview

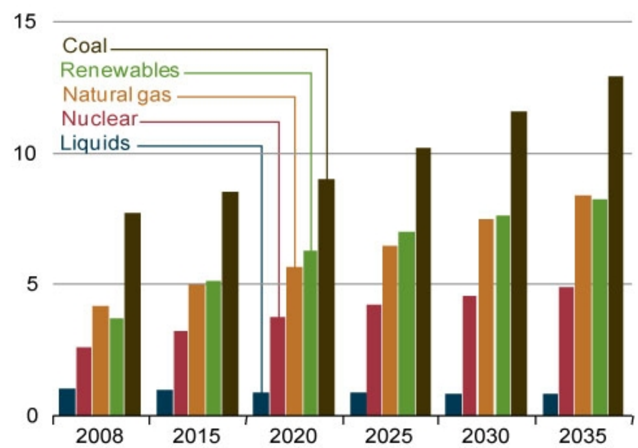
Smartcool Systems Inc. is a clean technology company specializing in the development and distribution of energy efficiency solutions for air conditioning, refrigeration and heat pump systems (HVAC).

Smartcool was established in 2004, beginning as the North American distributor for the Energy Saving Module (ESM)™, a unique energy efficiency retrofit developed by Abbotly Technologies Pty Ltd of Australia. In 2006, Smartcool purchased the assets of Abbotly, including the intellectual property of the ESM™, and became the sole manufacturer and master distributor. In 2009, Smartcool's research and development cumulated in the delivery of the 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

[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

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

Smartcool's Energy Efficiency Solutions

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

Smartcool's 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 ECO^{3}™

The ESM™

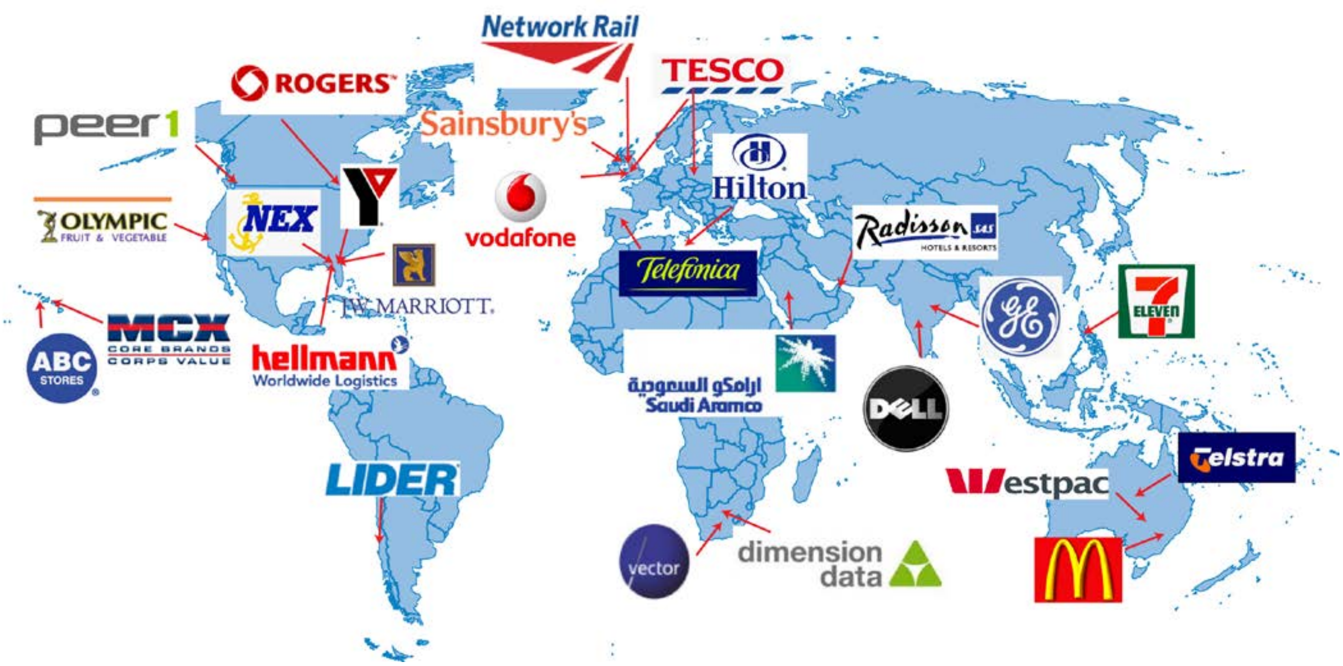
With the ECO^{3}™ and ESM™, customers see all the benefits of energy efficiency, without any risks. The technology has undergone extensive independent third party testing by highly reputable organizations such as Oak Ridge National Laboratories, the University of Miami for Florida Power & Light, and 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.

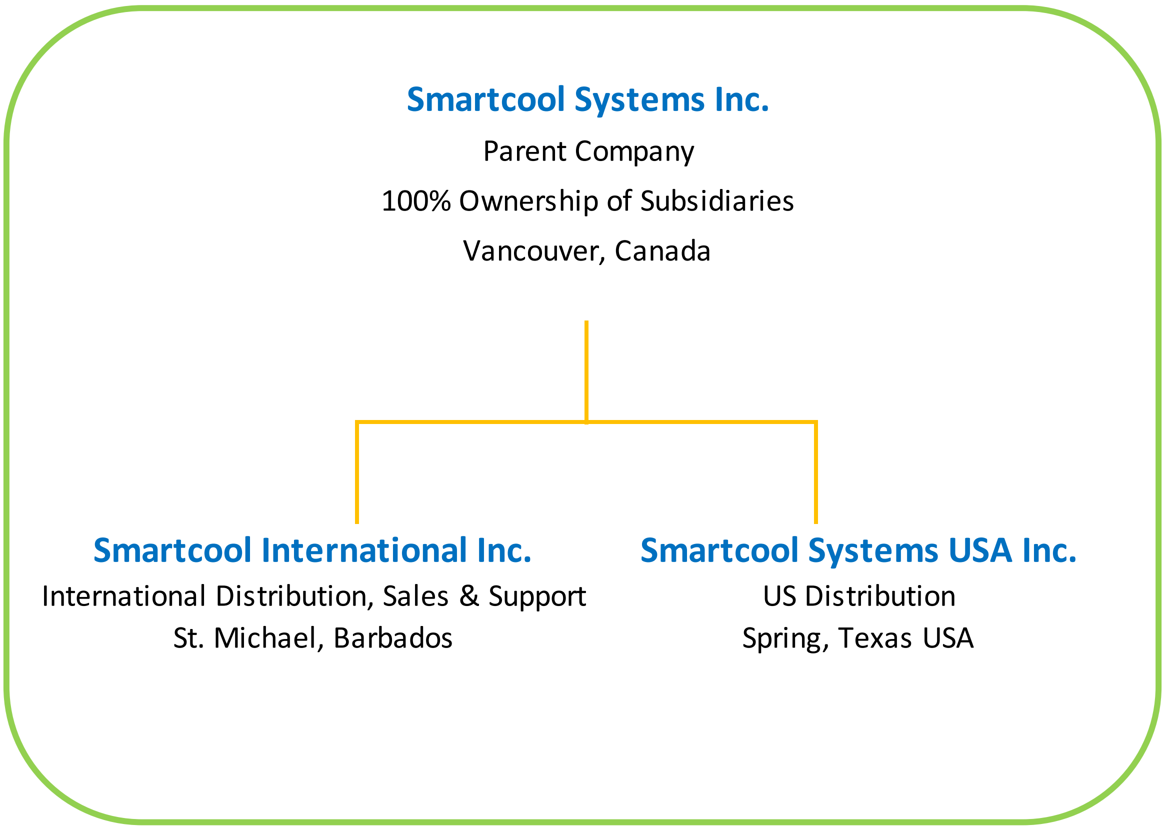
Direct Sales
The company distributes its products directly to major clients, providing them with superior project management and service as they roll out Smartcool products to their facilities. For direct sales, Smartcool targets specific industries such as food retailers, telecommunications, commercial 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 two wholly owned subsidiaries:

International and USA. 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.

In response to an unexpected shift, which management believes is short-tem in nature, in energy saving strategies of European customers, the Company has decided to redirect the region's focus from direct sales to distribution sales for the medium term. Smartcool EMEA and Smartool UK were discontinued through voluntary liquidation in September 2014 and a new wholly owned subsidiary, Lenten Street Limited, was incorporated in Alton in October 2014 to assume the distribution rights previously granted to Smartcool UK and Smartcool EMEA.

Financial Overview

Contrary to management's expectations, Smartcool has been unable to close projects that were pending but are continuing to discuss these opportunities with the clients.

Total revenue for the quarter was $150,679 with $147,729 from continued operations and $2,950 from discontinued operations.

Operating expenses increased to $346,031 from $339,231 for the third quarter of 2013. Operating loss for the quarter increased to $245,348 from $174,954 for the third quarter of 2013. Net loss for the quarter was $574,233 ($0.01 per share) compared to $292,688 ($0.00 per share) for the third quarter of 2013.. Total assets decreased to $ 2,852,844 from $4,177,175 at the end of 2013. The Company had $22,759 in cash and cash equivalents at the end of the quarter, compared to $28,036 at the end of 2013.

Current liabilities at the end of the quarter were $ 1,173,977 (December 31, 2013 - $1,264,361) which includes current portion of acquisition obligations, debentures, and tenant inducement totaling $431,335 (December 31, 2013 - $332,173). Long-term liabilities were $487,370 (December 31, 2013 - $787,581), consisting of acquisition obligations $221,681 and deferred tax liability of $265,689.

All the fiscal quarters below have been prepared using IFRS:

Continued Operations	**Dec 2013 ($)**	**Mar 2014 ($)**	**Jun 2014 ($)**	**Sep 2014 ($)**
Total revenues	185,786	214,474	192,416	147,729
Net income (loss)	258,262	(126,689)	(255,567)	(291,963)
Income (loss) per share – basic & diluted	0.00	0.00	(0.00)	(0.00)
Continued Operations	**Dec 2012 ($)**	**Mar 2013 ($)**	**Jun 2013 ($)**	**Sep 2013 ($)**
Total revenues	393,835	72,087	377,288	223,475
Net income (loss)	218,375	(230,506)	(28,245)	(235,868)
Income (loss) per share – basic & diluted	0.00	(0.00)	(0.00)	(0.00)

Discontinued Operations	Dec 2013 ($)	Mar 2014 ($)	Jun 2014 ($)	Sep 2014 ($)
Total revenues	171,193	279,720	7,129	2,950
Net income (loss)	1,711,384	(153,379)	(273,269)	(282,269)
Income (loss) per share – basic & diluted	0.02	0.00	(0.00)	(0.00)
Discontinued Operations	**Dec 2012 ($)**	**Mar 2013 ($)**	**Jun 2013 ($)**	**Sep 2013 ($)**
Total revenues	804,133	71,515	113,965	452,648
Net income (loss)	(686,037)	(608,252)	(401,660)	(56,819)
Income (loss) per share – basic & diluted	(0.01)	(0.01)	(0.01)	(0.00)

Selected Annual Information

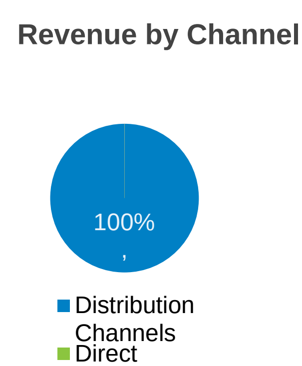
The following is selected information on Smartcool's financial performance for the past three years. This financial information is derived from the audited financial statements of the Company and has been prepared using IFRS.

	Dec. 31, 2011	Dec. 31, 2012	Dec. 31, 2013
Revenue	$3,943,794	$4,212,750	$1,667,957
Selling, General & Administrative	$4,355,436	$3,209,334	$2,308,343
Net Income (Loss)	$(5,217,928)	$(1,932,272)	$408,295
Net income (loss) – per share (basic and diluted)	$(0.09)	$(0.03)	$0.01
Total assets	$7,365,680	$5,467,176	$4,177,175
Total long term liabilities	$860,932	$500,188	$787,581
Cash dividends	$0	$0	$0

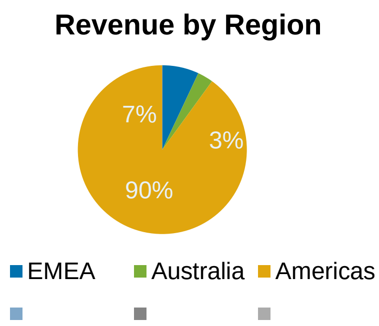
Summary of Operating Results

Revenue (from continued operations)

Smartcool sells its products both directly to major customers, and through a network of independent distributors.
Distribution sales were $149,729 or 100% of total revenue from continued operations for the quarter, compared to $223,475 or



100% of total revenue from continued operations for the third quarter of 2013. There were no direct sales in the third quarter of 2014 and 2013 from continued operations.



Revenue from the Americas was $133,324 for the quarter or 90% of total revenue from continued operations, compared to $99,804 for the third quarter of 2013. The increase was attributable to the establishment of several new distribution channels in the region.

Revenue from the Australia region was $3,867 or 3% of total revenue compared to $123,379 for the same quarter of 2013 as this distribution channel still experienced delays in closing of pending projects.

Revenue from the Europe, Middle East, Africa was $10,538 or 7% of total revenue compared to $292 for the third quarter of 2013. Though operations in the UK have been discontinued due to anticipation of no immediate direct sales, distribution sales from Europe and Africa have continued through Smartcool international's network.

For the nine months ended September 30, 2014, distribution sales were $554,619 or 100% total revenue from continued operations, compared to $672,849 for the same period of 2013. There were no direct sales from continued operations in the nine months ended September 30, 2014. Direct sales for the same period of 2013 were also minimal.

For the nine month period, the Americas contributed $280,817 or 51% of total revenue from continued operations, compared to $296,487 or 44% of total revenue. Australia region contributed $263,264 or 57% of total revenue. The EMEA (Europe, Middle East Africa, & India) region contributed $10,538 or 2% of total revenue, compared to $660 for the same period of 2013.

Gross profit (from continued operations)

Gross profit from continued operations for the third quarter was $100,683 compared to $164,277 for the third quarter of 2013, a decrease of $ 63,594 or 39%. Profit margin for the quarter was 68%, compared to 74% for the same quarter of 2013. Gross profit for nine months ended September 30, 2014 was $435,864 compared to $510,118 for the same period of 2013, a decrease of $74,254 or 15%. Profit margin for the nine months was 79%, compared to 76% for the same period of 2013.

All these margins were within the expected range.

General and administrative expenses (from continued operations)

	Three months ended September 30 2014	Three months ended September 30 2013	Change	%
Advertising and promotion	$382	$244	$138	56%
Bad debts	-	(5,650)	5,650	(100%)
Commissions	2,723	779	1,943	249%
Consulting	69,175	74,600	(5,425)	(7%)
Filing and transfer fees	973	1,038	(65)	(6%)
Insurance	2,247	5,450	(3,203)	(59%)
Interest	1,680	188	1,492	793%
Investor relations	14,891	3,571	11,320	317%
Product certification	3,702	3,623	79	2%
Professional fees	4,667	6,003	(1,336)	(22%)
Office and supplies	5,931	7,939	(2,008)	(25%)
Rent	23,495	24,287	(792)	(3%)
Salaries and benefits	115,359	113,265	2,094	2%
Telephone	3,926	4,144	(219)	(5%)
Travelling	1,920	9,285	(7,365)	(79%)
Total selling, general & admin expenses	**251,071**	**248,766**	**2,305**	1%
Share-based compensation	13,962	2,495	11,467	460%
Amortization & depreciation	80,998	87,970	(6,972)	(8%)
Total operating expenses	**$346,031**	**$339,231**	**$6,800**	2%

For the quarter ended September 30, 2014, General and administrative ("G & A") expenses from continued operations were $346,031, compared to $339,031 for the same quarter of 2013, an increase of $6,800 or 2%.   Most expenses were reduced but cost savings were more than offset by the amortization of expenses related to an investor relations service agreement and stock option grant initiated earlier this year.

	Nine months ended September 30 2014	Nine months ended September 30 2013	Change	%
Advertising and promotion	$7,096	$1,451	$5,646	389%
Bad debts	-	(5,651)	5,651	(100%)
Commissions	2,723	779	1,943	249%
Consulting	236,766	186,282	50,484	27%
Filing and transfer fees	11,271	17,259	(5,988)	(35%)
Insurance	8,585	12,182	(3,597)	(30%)
Interest	1,702	1,398	304	22%
Investor relations	30,284	5,036	25,248	501%
Product certification	6,320	6,008	312	5%
Professional fees	14,310	16,414	(2,104)	(13%)
Office and supplies	18,862	27,670	(8,808)	(32%)
Rent	72,681	72,675	5	0%
Salaries and benefits	349,807	353,509	(3,702)	(1%)
Telephone	11,290	15,147	(3,858)	(25%)
Travelling	16,982	22,111	(5,129)	(23%)
Total selling, general & admin expenses	788,677	732,270	56,407	8%
Share-based compensation	81,554	45,070	36,484	81%
Amortization & depreciation	242,998	264,624	(21,626)	(8%)
Total operating expenses	**$1,113,229**	**$1,041,964**	**$71,265**	7%

For the nine months ended September 30, 2014, General and administrative ("G & A") expenses from continued operations were $1,113,229, compared to $1,041,964 for the same period of 2013, an increase of $71,265 or 7%. Consulting fees for the nine months increased to $236,766 from $186,282 for the same period of 2013. Share-based compensation increased to $81,554 from $45,070 due to the grant to options to two consulting firms in March 2014.

Net loss (from continued operations)

Net loss from continued operations for quarter was $291,963, compared to $235,869 for the same quarter of 2013. The increase in net loss was primarily a result of reduced revenue.
The loss per share (basic and diluted) for the three months was $0.003, no change from the loss per share for the same quarter of the previous year.

Net loss for the nine months ended September 30, 2014 was $674,219 compared to $494,619 for the same period of the previous year, an increase of $179,600 or 36%.
The loss per share (basic and diluted) for the nine months was $0.008 compared to $0.007 for the same period of the previous year.

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

Operating Results (from Discontinued Operations)

Revenue (from discontinued operations)

Revenue from discontinued operations was $2,950 for the quarter compared $452,648 for the same quarter of 2013.

Revenue from discontinued operations was $289,799 for the nine months ended September 30, 2014 compared to $638,128 for the same period of 2013.

General and administrative expenses (from discontinued operations)

	Three months ended		Nine months ended	
G& A	**September 30, 2014**	**September 30, 2013**	**September 30, 2014**	**September 30, 2013**
Advertising and promotion	-	1,013	10,865	9,150
Bad debts	-	-	-	4,371
Commissions	-	-	-	-
Consulting	-	-	-	4,292
Filing and transfer fees	-	-	-	-
Insurance	682	5,919	10,501	25,145
Professional fees	1,440	2,279	20,012	9,228
Office and supplies	2,000	4,345	20,118	21,196
Rent	(13,791)	24,487	47,947	118,272
R&D	-	-	7,227	21,376
Salaries and benefits	3,494	153,469	312,743	625,329
Telephone	3,716	8,143	16,955	17,150
Travelling	5,587	29,476	55,930	95,045
Total selling, general & admin expenses	3,129	229,130	502,298	950,555
Share-based compensation				
Amortization & depreciation	95,404	179,659	299,891	524,166
Total operating expenses	**98,533**	**408,789**	**802,189**	**1,474,720**

Net loss (from discontinued operations)

Net loss from discontinued operations for the third quarter was $282,269 compared to $56,819 for the third quarter of 2013

Net loss for the nine months ended September .30, 2013 was $709,250.compared to $1,066,732 for the same period of 2013.

	Three months ended September 30 2014	Three months ended September 30 2013
Revenue	$2,950	$ 452,648
Cost of sales	(970)	(116,901)
Gross margin	3,920	335,747
Total operating expenses	(98,533)	(408,789)
Finance expense	(7,565)	(38,924)
Foreign exchange gain (loss)	266,539	15,570
Gain on sale of equipment	3,308	695
Impairment loss	(607,260)	-
Income tax recovery	157,323	38,882
Net earnings (loss) from discontinued operations	**$(282,269)**	**$ (56,819)**

	Nine months ended September 30 2014	Nine months ended September 30 2013
Revenue	$289,799	$638,128
Cost of sales	(35,814)	(140,089)
Gross margin	253,985	498,039
Total operating expenses	(802,189)	(1,474,720)
Finance expense	(27,442)	(113,121)
Foreign exchange gain (loss)	264,095	(89,991)
Gain on sale of equipment	13,479	695
Impairment loss	(607,260)	-
Income tax recovery	196,082	112,366
Net earnings (loss) from discontinued operations	**$(709,250)**	**$(1,066,732)**

Comprehensive income

Comprehensive loss for the third quarter was $511,724 (September 30, 2013 - $293,860) consisting of net operating loss $574,233,169 and foreign currency translation adjustment $179,573. 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 September 30, 2014 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, 2014 was $1,494,555 (September 30, 2013 - $1,568,471), consisting of net operating loss $1,383,469 and foreign currency translation adjustment $111,086.

Amortization and depreciation

Continued operations

Amortization expenses for the third quarter were $80,998 compared to $87,970 for the same quarter of 2013. Amortization on property and equipment was $7,184 (September 30, 2013 - $7,436) and amortization of intangible assets was $73,814 (September 30, 2013 - $80,534).
Amortization expenses for the nine months ended September 30, 2014 were $242,998 compared to $264,624 for the same period of 2013. Depreciation of property and equipment was $21,556 (September 30, 2013 - $22,666) and amortization of intangible assets was $221,442 (September 30, 2013 - $241,958).

Discontinued operations

Amortization expenses for the third quarter were $ 95,404 compared to $ 179,659 for the same quarter of 2013. Amortization expenses for the nine months ended September 30, 2014 were $299,891 compared to $ 524,166.

The decrease in amortization expenses was a result of the reassessment of the useful life of distribution rights from TECC and Smartcool UK in 2013.

Share-based compensation

Share-based compensation costs for the third quarter was $13,962, compared to $2,495 for the same quarter of 2013, an increase of $11,467.
Share-based compensation costs for the nine months ended September 30, 2014 were $81,554, compared to $45,070 for the same period of 2013, an increase of $36,484.
The increases were primarily a result of the grant of 1,200,000 stock options to two consulting firms in March 2014. These firms provide consulting services to help Smartcool build strategic alliances with groups interested in participating in market research, product development and distribution for new markets and products. The firms also provide services directed at better communication of Smartcool's strategies and progress.

Capital expenditures

There were no capital expenditures for the quarter (September 30, 2013 - Nil). During the nine months ended September, 2014, the company purchased a vehicle, resulting in capital expenditure of $17,224 (September 30, 2013 - $2,499).

Liquidity and Capital Resources

As at September 30, 2014, the Company had $22,759 in cash and cash equivalents (December 31, 2013 - $28,036). Working capital deficit at September 30, 2014 was $719,081 compared to $674,067 at December 31, 2013.

The Company generated net cash flow $36,333 from operating activities during the third quarter and used $355,664 to finance operations during the nine months ended September 30, 2014.

The Company was unable to make debenture and acquisition obligation payments as scheduled. These payments include two debenture interest payments totaling $14,446, scheduled for June 1, 2014 and September 1, 2014, three debenture principal payments totaling $90,288, scheduled for March 1, June 1 and September 1, 2014, three UK acquisition obligation installments totaling $81,801 (£45,000) scheduled for Apr 30, May 30 and June 30, 2014. The Company is in the process of renegotiating the terms of these delayed payments. Certain terms of the short-term loan are being negotiated as well.

To ensure that Smartcool continues to be a going concern with adequate working capital in the next 12 months, the Company is planning on obtaining additional capital. A non-brokered private placement has been completed in April 2014 and gross proceeds of $486,500 have been raised.

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

	Total	**1 year**	**1-2 years**
Trade payables	$597,688	$597,688	$-
Premises leases	36,000	36,000	-
Short-term loan	66,138	66,138	-
Debentures	240,785	240,785	-
Obligations under acquisition contracts	292,666	210,865	81,801
Total	**$1,233,277**	**$1,151,476**	**$81,801**

Outstanding Share Data

The authorized share capital of the Company is an unlimited number of common shares without par value. As at September 30, 2014 the Company had 89,017,297 (December 31, 2013 – 79,287,297) common shares outstanding. The weighted average number of common shares outstanding for the three months ended September 30, 2014 was 89,017,297 (September 30, 2013 – 74,341,645).

As at November 28, 2014 the outstanding shares were 89,017,297 and diluted were 101,403,297.

Warrants and Stock Options

As at September 30, 2014, there were 5,216,000 (December 31, 2013 – 851,000) share purchase warrants and 7,170,000 (December 31, 2013 – 6,435,000) stock options outstanding which collectively could result in the issuance of 12,386,000 common shares if these warrants and stock options are exercised. The outstanding options have a weighted average exercise price of $0.07. The outstanding warrants have weighted average exercise price of $0.10.

As at September 30, 2014 there were 5,182,500 (December 31, 2013 - 4,282,500) exercisable options with a weighted average exercise price of $0.08 (December 31, 2013 - $0.09). No options were granted during the third quarter of 2014 and the same quarter of 2013.

As at November 28, 2014, there are 5,216,000 outstanding warrants and 7,170.000 outstanding options. The outstanding options have weighted average exercise price of $0.07.

Intangible Assets

Smartcool UK

On February 28, 2011, the Company acquired all the outstanding shares of the third party distributor Smartcool Systems UK Ltd., which held the exclusive rights for sale of ESM™ products to customers in the UK and Ireland.

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

The Company was unable to make payments as scheduled. As at December 10, 2013, principal balance of $1,744,600 (£1,000,000) and accrued interest of $285,274 (£163,517) were outstanding. The Company was able to negotiate a debt reduction; the existing obligation was extinguished and replaced with two new obligations. These new obligations have principal amounts of $130,845 (£75,000), which is non-interest bearing, secured, and will be paid in installments over 6 months, and $53,210 (£30,500), which is non-interest bearing, unsecured, and will be paid in installments over 5 years. Fees of $2,291,510 (£1,300,000) will be payable by the Company if it defaults on any of the prepayment terms with respect to the obligation with a principal amount of £75,000. As at September 30, 2014 three installments totaling $81,801 (£45,000) have not been made as scheduled and the Company is the process of negotiating an extension of the term.

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

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

During the year ended December 31, 2013, the useful life of the intangible assets from Smartcool UK was reassessed to be 12 years (2012 – 5 years).

T.E.C.C. Services

On July 11, 2008, the Company formed Smartcool EMEA, which acquired distribution rights for the ESM™ from T.E.C.C. Services Ltd. ("TECC"). TECC held exclusive rights to sell the ESM™ to existing distributors in the United Kingdom, Spain, Portugal, and the Middle East, as well as to develop new distributors in these regions. A consideration of $1,738,750 (£1,035,000) was payable in cash and $532,067 (£265,000) was payable in 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 remaining balance of $1,204,680 (£600,000) was due in scheduled installments over four years with the last payment due on July 16, 2012. These installments were non-interest bearing at the acquisition date. The fair value of consideration was determined to be $2,270,800 based on discounting the future payments at a rate of 16%. Transaction costs of $28,300 were also incurred.

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

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

During the year ended December 31, 2013, the useful life of the distribution rights from TECC was reassessed to be 9.5 years (2012 – 9 years).

Abbotly Technologies Pty

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

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 rights was reduced by $148,799 to $1,835,702. As at September 30, 2014, distribution rights consist of:

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

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

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

Impairment

Impairment of Long-Lived Assets

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

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

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

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

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

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

Impairment of Intangible Assets

ESM™ Intellectual Property and worldwide distribution rights

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

The Company performed a review of the carrying value of its distribution agreements in 2008 and recognized an impairment of $116,914 related to distribution agreements. As a result of this impairment recognition, the total cost of distribution agreements was reduced by $148,799 to $1,835,702. As at September 30, 2014, cost of distribution agreements consisted of:

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

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

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

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

Intangible assets from Smartcool UK

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

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

	Impairment
Distribution rights-General	$104,919
Distribution rights-Major customer	347,740
Customer relationship	188,484
Goodwill	1,213,285
Total impairment for year ended December 31, 2011	**$1,854,428**

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

	Impairment
Distribution rights - Major customer	$344,251
Customer relationship	184,465
Total impairment for the nine months ended September 30, 2014	**$528,716**

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.

On December 31, 2012, the Company decided that the distribution agreement, expiring on March 6, 2013, will not be renewed under the terms set out in the existing agreement.

During the year ended December 31, 2013, management performed a review of the carrying value of these assets and an impairment loss of $Nil (2012 - $83,787) was recognized.

Critical Accounting Policies & Estimates

Business combinations

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

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

Revenue Recognition

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

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

Share-based Payments

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

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

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

Intangible assets

Intangible assets are recorded at cost and include the ESM™ brand, ESM™ intellectual property, distribution agreements, supplier agreements and customer relationship. The ESM™ brand has been determined to have an indefinite life and is not amortized. The remaining intangible assets with finite lives are amortized on a straight-line basis. During the year ended 31 December 2013, management re-assessed the useful lives of the remaining intangible assets as follows:

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

Use of estimates and judgments

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

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

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

- Useful lives – the useful lives of intangible assets and the related depreciation
- Impairment – the assessment of impairment of intangible assets and goodwill
- Inventory valuation – the provision for obsolescence of inventory and net realizable value
- Receivable valuation – the recoverability of trade receivables
- Share-based payments – the inputs used in accounting for share-based payments
- Debentures – discount rate used in fair value calculation of the debentures
- Contingencies – any future contingencies and commitments
- Going concern – the assessment of the Company's ability to continue as a going concern

Changes in accounting policies

A number of standards and amendments were issued effective for accounting periods beginning on or after January 1, 2014. Many of these updates are not applicable to the Company. As of January 1, 2014, the Company adopted the following IFRS standards and amendments:

- Amendments to IAS 32 - Offsetting Financial Assets and Financial Liabilities clarifies that an entity currently has a legally enforceable right to set-off if that right is:
  a) not contingent on a future event; and
  b) enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties.

- IFRS 10 (Amendment), "Consolidated Financial Statements" includes an exception to specific consolidation requirements for investment entities.

The adoption of the above standards did not have a significant impact on the Company's consolidated financial statements.

Accounting Standards Issued but not yet Effective

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

- IFRS 9, "Financial Instruments", is a new financial instruments standard effective for annual periods beginning on or after January 1, 2015 that replaces IAS 39 and IFRIC 9 for classification and measurement of financial assets and financial liabilities.
  IFRS 9 was amended in November 2013, to include guidance on hedge accounting, allow entities to early adopt the requirement to recognize changes in fair value attributable to changes in an entity's own credit risk in other comprehensive income without having to adopt the remainder of IFRS 9, and to remove the previous mandatory effective date for adoption of January 1, 2015. The new mandatory effective date will be determined once the classification and measurement and impairment phases of IFRS 9 are finalized. In February 2014, the IASB tentatively decided that IFRS 9 would be mandatorily effective for fiscal years beginning on or after January 1, 2018.

- IFRS 15 – Revenue from Contracts with Customers. This standard replaces IAS 11

Construction Contracts, IAS 18 Revenue, IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfer of Assets from Customers, and SIC 31Revenue – Barter Transactions Involving Advertising Services.

IFRS 15 contains a single model that applies to contracts with customers and two approaches to recognizing revenue: at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine the timing and amount of revenue recognized. The new standard applies to contracts with customers. It does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other IFRSs. The new standard is effective for fiscal years ending on or after December 31, 2017 and is available for early adoption.

Off-balance sheet arrangements

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

Forward-looking statements

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

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

Additional Information

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