



CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended June30, 2010 and 2009

(expressed in Canadian Dollar)

Smartcool Systems Inc.
Consolidated Balance Sheets
As at June 30, 2010 and December 31, 2009

(expressed in Canadian dollars)

	June 30 2010	December 31 2009
	\$	\$
ASSETS		
Current assets		
Cash and cash equivalents	472,368	147,051
Short-term investments	-	101,646
Restricted cash (note 3)	42,351	-
Accounts receivable	1,234,323	657,841
Inventory	670,846	717,857
Prepaid expenses and deposits	70,956	242,302
	<u>2,490,844</u>	<u>1,866,696</u>
Capitalized development costs (note 7)	13,321	39,961
Property and equipment (note 5)	145,607	207,720
	-	-
Intangible assets (note 6)	<u>3,412,790</u>	<u>3,639,843</u>
	<u>6,062,562</u>	<u>5,754,220</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	611,544	552,034
Current portion of obligations under contracts (note 8)	358,022	263,190
Current portion of capital leases (note 9)	-	9,144
Current portion of debentures (note 10)	42,351	-
Current portion of deferred tenant inducement	10,820	10,820
	<u>1,022,737</u>	<u>835,188</u>
Obligations under acquisition contract (note 8)	401,069	582,602
Debentures (note 10)	466,448	
Deferred tenant Inducement	<u>58,424</u>	<u>63,834</u>
	<u>1,948,679</u>	<u>1,481,625</u>
SHAREHOLDERS' EQUITY		
Share capital (note 11(b))	26,063,452	25,639,345
Share purchase warrants (note 11(d))	119,824	52,514
Contributed surplus (note 11(f))	4,251,684	3,983,831
Deficit	<u>(26,321,077)</u>	<u>(25,403,095)</u>
	<u>4,113,883</u>	<u>4,272,595</u>
	<u>6,062,562</u>	<u>5,754,220</u>
Nature of operations and liquidity risk (note 1)		
Commitments (note 12)		
Subsequent events (note 18)		
Approved by the Board of Directors	<u>"George Burnes"</u> George Burnes	<u>"Jeffrey Lowe"</u> Jeffrey Lowe

See accompanying notes to the consolidated financial statements

Smartcool Systems Inc.
Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the six months ended June 30, 2010 and 2009

(expressed in Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenue	1,137,863	510,844	1,772,790	736,400
Cost of sales	303,779	176,527	599,346	255,437
	834,083	334,317	1,173,444	480,963
Operating Expenses				
General and administrative expenses	802,461	990,454	1,512,766	2,233,856
Stock-based compensation	71,146	9,364	215,339	107,693
Research and development	14,666	23,538	29,029	46,068
Amortization	141,864	152,763	290,031	302,864
	1,030,137	1,176,119	2,047,165	2,690,481
Loss before undernoted	(196,053)	(841,802)	(873,721)	(2,209,519)
Other (income) expense				
Interest expense	64,468	22,859	99,139	42,970
Interest Income	(647)	(1,921)	(4,280)	(5,310)
Foreign exchange loss (gain)	(10,092)	66,989	(50,597)	87,085
	53,729	87,927	44,262	124,746
Loss and comprehensive loss for the period	(249,782)	(929,730)	(917,983)	(2,334,265)
Deficit, beginning of period	(26,071,295)	(23,416,700)	(25,403,095)	(22,012,165)
Change in accounting for inventory			-	0
Deficit, end of period	(26,321,077)	(24,346,430)	(26,321,077)	(24,346,430)
Loss per share				
Basic and diluted	(0.01)	(0.02)	(0.02)	(0.06)
Weighted average number of common shares outstanding - basic and diluted	45,145,572	41,389,597	44,735,761	41,286,121

Smartcool Systems Inc.
Consolidated Statements of Cash Flows
For the six months ended June 30, 2010 and 2009

(expressed in Canadian dollars)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Cash flows from operating activities				
Loss and comprehensive loss for the year	(249,782)	(929,730)	(917,983)	(2,334,265)
Items not affecting cash:				
Amortization of property and equipment	27,371	38,677	62,113	74,413
Amortization of intangible assets	114,493	114,086	227,918	228,451
Amortization of capitalized development costs	13,320	13,320	26,640	26,640
Stock-based compensation	71,146	9,364	215,339	107,693
Deferred tenant inducement	(2,705)	(2,260)	(5,410)	(4,297)
Accrued interest on debentures	28,706	-	39,039	-
Accretion of obligation under acquisition contract	19,324	20,198	40,290	39,234
Foreign exchange gain on obligations under acquisition contract	19,207	50,885	(48,473)	56,575
Changes in non-cash working capital items:				
Accounts receivable	(688,485)	(211,775)	(576,483)	(70,239)
Inventory	64,102	143,298	47,010	170,403
Prepaid expenses and deposits	48,052	(13,632)	171,346	(5,261)
Accounts payable and accrued liabilities	(32,403)	(104,990)	59,510	(134,817)
	(567,654)	(872,559)	(659,142)	(1,845,469)
Cash flows from investing activities				
Purchase of short-term investment	-	(352,143)	-	(352,143)
Sale of short-term investment	55,007	26,176	101,646	25,608
Purchase of property & equipment	-	(9,952)	-	(48,049)
Product development	-	-	-	-
	55,007	(335,919)	101,646	(374,584)
Cash flows from financing activities				
Shares and warrants issued for cash-net of issue costs	460,941	473,646	460,941	473,646
Shares issued on exercise of options	-	-	-	-
Shares issued on exercise of warrants	-	-	-	-
Debenture issued for cash	247,500	-	552,750	-
Repayment of obligations under acquisition contract	-	-	(79,383)	-
Repayment of capital lease obligations	(4,317)	(4,284)	(9,144)	(8,401)
	704,125	469,362	925,164	465,245
Decrease in cash and cash equivalents	191,477	(739,116)	367,668	(1,754,808)
Cash and cash equivalents, beginning of period	323,241	1,237,166	147,051	2,252,857
Cash and cash equivalents, end of period	514,719	498,050	514,719	498,050
Cash and cash equivalents consist of:				
Deposits with banks			514,719	498,050
Guaranteed investment certificate with annual interest rate of 2.1%			-	-
			514,719	498,050

Supplementary cash flow information (note 17)

See accompanying notes to the consolidated financial statements

SmartCool Systems Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS & DEFICIT

(Unaudited - Prepared by Management)

	Three months ended June 30		Six months ended June 30	
	2010	2009	2010	2009
	\$	\$	\$	\$
Revenue	1,137,863	510,844	1,772,790	736,400
Cost of sales, approved projects	303,779	176,527	599,346	255,437
Gross profit	834,084	334,317	1,173,444	480,963
Selling, general & administrative expenses				
Advertising & media	1,683	12,537	12,139	34,559
Amortization - Equipment	27,371	38,677	62,113	74,413
Amortization - Intangible	114,493	114,086	227,918	228,451
Bad Debts	-	(1,519)	0	(1,519)
Commissions	1,531	13,354	3,415	15,845
Equipment lease	6,557	1,679	8,417	3,287
Filing and transfer fee	9,178	7,591	20,986	15,095
Financing	-	-	-	-
Insurance and licenses	18,841	16,161	31,246	31,834
Investor relations & news dissemination	33,027	30,229	53,372	80,176
Management and consulting fees	105,417	175,692	201,650	355,290
Office and sundries	53,883	37,020	98,951	106,115
Professional fees	17,286	33,718	44,592	44,923
Research & new product development	14,666	23,538	29,029	46,068
Rent	35,150	35,817	70,314	72,644
Salaries & wages	387,848	460,318	757,321	1,062,850
Stock-based compensation	71,146	9,364	215,339	107,693
Telephone	17,835	21,161	31,551	42,254
Technical consulting	3,517	28,578	5,726	70,848
Travel	110,708	118,118	173,085	299,655
	1,030,137	1,176,119	2,047,164	2,690,481
Interest expense	64,468	22,859	99,139	42,970
Interest Income	(647)	(1,921)	(4,280)	(5,309)
Foreign exchange gain (loss)	(10,092)	66,989	(50,597)	87,085
Loss for the period	(249,782)	(929,730)	(917,983)	(2,334,265)
Deficit, beginning of period	(26,071,295)	(23,416,700)	(25,403,095)	(22,012,165)
Change in accounting for inventory			-	
Deficit, end of period	(26,321,077)	(24,346,430)	(26,321,077)	(24,346,430)