

SMARTCOOL SYSTEMS INC.

(formerly Citotech Systems Inc.)

Consolidated Financial Statements

(Unaudited - Prepared by Management)

September 30, 2005 and 2004

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SMARTCOOL SYSTEMS INC.

(formerly Citotech Systems Inc.)

Consolidated Statements of Operations and Deficit
For the nine months ended September 30, 2005 and 2004
(Unaudited - Prepared by Management)

	Three Months Ended Sept. 30, 2005	Three Months Ended Sept. 30, 2004	Nine Months Ended Sept. 30, 2005	Nine Months Ended Sept. 30, 2004
Expenses				
Management and consulting fees	\$ 132,780	\$ 47,441	\$ 307,650	\$ 82,854
Amortization	5,195	2,001	13,145	6,002
Audit and accounting	520	-	12,020	6,800
Filing and transfer fees	1,468	6,877	30,191	18,219
Investor relations	6,224	-	9,224	-
Legal	9,852	6,264	74,710	10,620
Office and sundries	16,063	11,214	26,687	46,987
Printing & Dissemination	1,976	-	5,840	-
Project investigation	3,678	15,242	(21,465)	37,368
Rent	28,240	4,500	41,614	13,523
Research and development, net of grant	-	-	-	605
Salary and wages	1,085	-	3,390	-
Secretarial services	-	8,938	-	26,754
Stock-based compensation	-	32,037	24,820	42,530
Technical and business consulting	-	-	-	20,793
Telephone	4,251	2,152	10,325	4,933
Travel	30,512	4,059	48,305	5,134
Interest expenses	6	560	307	397
Total operating expenses	241,850	141,285	586,762	323,519
Interest Income	696	-	696	-
Loss for the period	(241,154)	(141,285)	(586,066)	(323,519)
Deficit, beginning of period	(10,447,644)	(9,317,718)	(10,102,732)	(9,125,689)
Cumulative effect of a change in an accounting policy	-	-	-	(9,795)
Deficit, end of period	\$ (10,688,798)	\$ (9,459,003)	\$ (10,688,798)	\$ (9,459,003)
Loss per share - basic and diluted	\$ (0.02)	\$ (0.03)	\$ (0.05)	\$ (0.07)
Weighted average number of common shares outstanding - basic and diluted	13,893,486	4,725,975	11,964,493	4,725,975

SMARTCOOL SYSTEMS INC.

(formerly Citotech Systems Inc.)

Consolidated Statements of Cash Flows

For the nine months ended September 30, 2005 and 2004

(Unaudited - Prepared by Management)

	Three Months Ended Sept. 30, 2005	Three Months Ended Sept. 30, 2004	Nine Months Ended Sept. 30, 2005	Nine Months Ended Sept. 30, 2004
Cash flows from (used in) operating activities				
Loss for the period	\$ (241,154)	\$ (141,285)	\$ (586,066)	\$ (323,519)
Adjustments for item not involving cash:				
- amortization	5,195	2,001	13,145	6,002
- stock-based compensation	-	32,037	24,820	42,530
	(235,959)	(107,247)	(548,101)	(274,987)
Changes in non-cash working capital items:				
- interest receivable	-	-		606
- refundable tax credits	(16,099)	(4,200)	(17,327)	(5,051)
- inventory	-	-	(113,256)	-
- prepaid expenses and deposits	(13,122)	(573)	(44,237)	897
- accounts payable and accrued liabilities	(22,160)	(9,656)	(40,309)	21,203
- loan payable	-	(5,000)	-	-
Net cash flows used in operating activities	(287,340)	(126,676)	(763,230)	(257,332)
Cash flows from financing activities				
Shares issued for cash	23,750	310,000	1,547,449	310,000
Cash flows used in investing activities				
Acquisition of demonstration and display equipment	(6,224)	(3,225)	(7,109)	(7,940)
Increase in long term investments	(72,500)	-	(145,371)	-
Net cash flows used in investing activities	(78,724)	(3,225)	(152,480)	(7,940)
Increase (decrease) in cash and cash equivalents	(342,314)	180,099	631,739	44,728
Cash and cash equivalents, beginning of period	982,893	1,755	8,840	137,126
Cash and cash equivalents, end of period	\$ 640,579	\$ 181,854	\$ 640,579	\$ 181,854
Supplementary cash flow information:				
Interest paid in cash	\$ -	\$ -	\$ -	\$ -
Income taxes paid in cash	\$ -	\$ -	\$ -	\$ -

SMARTCOOL SYSTEMS INC.

(formerly Citotech Systems Inc.)

Notes to Financial Statements
Nine Months Ended September 30, 2005
(Unaudited – prepared by management)

1. Basis of Presentation

These interim financial statements have been prepared using the same accounting policies and methods of their application as the most recent annual financial statements of the Company. These interim financial statements do not include all disclosures normally provided in the annual financial statements and should be read in conjunction with the Company's audited financial statements for the year ended December 31, 2004. In management's opinion, all adjustments necessary for fair presentation have been included in these interim financial statements. Interim results are not necessary indicative of the results expected for the fiscal year. Certain comparative figures have been reclassified to conform to the current period's presentation.

2. Equipment

(a) Demonstration and display equipment

	September 30, 2005			December 31, 2004
	Cost	Accumulated Amortization	Net book value	Net book value
Demonstration and display equipment	\$ 46,158	\$ 10,847	\$ 35,311	\$ 41,542

(b) Equipment

	September 30, 2005			December 31, 2004
	Cost	Accumulated Amortization	Net book value	Net book value
Office equipment	\$ 77,066	\$ 54,112	\$ 22,954	\$ 26,119
Computer	9,880	3,003	6,877	2,420
Engineering equipment	4,967	2,535	2,432	2,861
Energy Monitoring equipment	4,936	1,141	3,795	4,464
	\$ 96,780	\$ 60,791	\$ 36,058	\$ 35,864

SMARTCOOL SYSTEMS INC.

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(Unaudited – prepared by management)

3. Long Term Investments

(a) Microstart Engine Starting System

In 2002, the Company completed the acquisition of the U.S. patent and other intellectual property associated with the Microstart Engine Starting System (the “System”). Total consideration for the acquisition, and subsequent write down are as the follows:

	Amount
Cash	\$ 260,000
Issuance of 4,325,000 shares pursuant to the acquisition	85,373
European and Japanese patent registration/application costs	26,450
Balance, as at December 31, 2003 and 2002	371,823
Write down in 2004	(371,723)
Balance, as at September 30, 2005 and December 31, 2004	\$ 100

(b) Abbotly Technologies Pty. Ltd.

On February 1, 2005, the Company entered into a memorandum of understanding (MOU) to purchase the assets of Abbotly Technologies Pty. Ltd., an Australian company. Under the terms of the MOU, subject to completion of a satisfactory due diligence review, the company will pay \$5.25-million (Australian) (\$4.97-million (Canadian)) in cash and issue share purchase warrants to purchase up to \$1.32-million (Australian) (\$1.25-million (Canadian)) in shares of the company, at a price to be determined. A non-refundable deposit of \$52,500 (Australian) (\$51,581 Canadian)) was paid by the company on February 9, 2005, to be applied toward the purchase price if the transaction closes.

On July 18, 2005 the Company announced that Abbotly had granted the Company an extension for the negotiation of a formal definitive agreement until December 31, 2005. In consideration for the extension, the Company paid Abbotly a non-refundable deposit of CAD \$49,700. This deposit will be applied towards the purchase price if the transaction closes.

SMARTCOOL SYSTEMS INC.

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4. Share Capital

- (a) Authorized: unlimited common shares without par value
100,000,000 class A preferred shares
100,000,000 class B preferred shares

- (b) Issued:

	Shares	Amount
Balance, December 31, 2003	14,171,505	\$ 9,630,238
Three-to-one consolidation of shares	(9,447,671)	-
Bonus shares issued in consideration of loan to company	13,333	667
Private placement	3,875,000	310,000
Balance, December 31, 2004	8,612,167	9,940,905
Private placement (Note 4(c)(i))	710,000	177,500
Private Placement (Note 4(c)(ii))	4,545,000	1,346,199
Share Purchase Warrants (Note 4(c)(iii))	237,500	23,750
Escrow Shares (Note 4 (c)(iv))	(9,375)	-
Balance, September 30, 2005	14,095,292	\$11,488,354

- (c) Shares:
- In January 2005, the Company issued 710,000 Units at \$0.25 per Unit pursuant to a private placement, with total proceeds of \$177,500. Each Unit consists of one common share and one-half share purchase warrant. Each warrant entitles the holder to purchase one common share at \$0.35 until January 19, 2007.
 - In April 2005, the Company issued 4,545,000 Units at \$0.33 per Unit pursuant to a short form offering, with net proceeds of \$1,346,199, net of share issuance costs. Each Unit consists of one common share and one half non-transferable share purchase warrant. Each full share purchase warrant entitles the holder to purchase one common share at a price of \$0.40 in the first year and \$0.50 in the second year.
 - During the Third Quarter, 237,500 share purchase warrants were exercised at an exercise price of \$0.10 per share.

SMARTCOOL SYSTEMS INC.

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Notes to Financial Statements

Nine Months Ended September 30, 2005

(Unaudited – prepared by management)

- iv. During the Third Quarter 9,375 common shares held in escrow were cancelled due to the expiry of the underlying escrow agreement.

In accordance with *Financial Instruments – Disclosure and Presentation (CICA HB3860)*, share purchase warrants attached to private placement units in 2004 were valued using the Residual Approach. Under this approach, proceeds up to the Company's share market value are allocated to the shares and only the excess above the market value is allocated to the attached share purchase warrants. No value has been allocated to these warrants as determined under the Residual Approach.

SMARTCOOL SYSTEMS INC.

(formerly Citotech Systems Inc.)

Notes to Financial Statements
Nine Months Ended September 30, 2005
(Unaudited – prepared by management)

4. Share Capital (continued)

(d) Stock options

During the period ended September 30, 2005, 50,000 stock options were granted by the Company.

On August 6, 2004, the Company granted 708,000 stock options with an exercise price of \$0.10. The exercise price was lower than the market price at grant date. These options vest from August 6, 2004 to February 6, 2006 and expire on August 6, 2009. On November 15, 2004, these options were re-priced at exercise price of \$0.21 per share, which was lower than the market price at the time of re-pricing.

On November 1, 2004, the Company granted 275,000 stock options with an exercise price of \$0.21 per share. The exercise price was lower than the market price at the grant date. These options vest from November 1, 2004 to May 1, 2006 and expire on November 1, 2009.

On December 22, 2004, the Company granted 50,000 stock options with an exercise price of \$0.33 per share. The exercise price was lower than the market price at the grant date. These options vest from December 22, 2004 to June 22, 2006 and expire on December 22, 2009.

On July 13, 2005 the Company granted 50,000 stock options with an exercise price of \$0.21 per share.

A summary of the Company's stock options as of September 30, 2005 and December 31, 2004, is presented below:

	September 30, 2005		December 31, 2004	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Options outstanding	1,083,000	\$ 0.22	1,033,000	\$ 0.22
Options exercisable	774,750	\$ 0.22	258,250	\$ 0.22

	September 30 2005	December 31 2004
Weighted average remaining contractual life	4.44 years	4.68 years
Weighted average fair value of options granted	\$ 0.18	\$ 0.18

SMARTCOOL SYSTEMS INC.

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Notes to Financial Statements
Nine Months Ended September 30, 2005
(Unaudited – prepared by management)

4. Share Capital (continued)

(e) Stock options (continued)

The Company charged \$24,820 and \$85,717 stock-based compensation to operations in March 31, 2005 and December 31, 2004, respectively.

The Company used the *Black-Scholes Option Pricing Model* to determine the fair value of the options at the date of grant with the following assumptions:

	September 30, 2005 and December 31, 2004
Risk-free interest rate	3.70% - 3.857%
Dividend yield	0%
Volatility	91% - 136%
Approximate expected lives	5 years

(f) Warrants

Share purchase warrants outstanding as at September 30, 2005:

Number of Shares	Exercise Price	Expiry Date
450,000	\$ 0.51	November 5, 2005
3,637,500	\$ 0.10	October 26, 2006
355,000	\$ 0.35	January 19, 2007
2,272,500	\$ 0.40	April 11, 2007
6,715,000		

Each warrant entitles the holder to purchase one common share of the Company.

5. Related Party Transactions

\$162,900 of the management and consulting fees (2004 - \$15,222), were paid or accrued to the directors of the Company.

SmartCool Systems Inc.
Management's Discussion and Analysis
As at November 28, 2005
For the Period Ended September 30, 2005

Business History

SmartCool Systems Inc. ("SmartCool or the Company") is focused on acquiring, commercializing, and marketing energy saving technology. On July 20, 2004 the Company changed its name from Citotech Systems Inc. to SmartCool Systems Inc.

In August, 2003 the Company signed a letter of intent with Abbotly Technologies Inc. ("Abbotly USA") to make SmartCool the exclusive distributor of Abbotly products in Canada and New York State. Abbotly USA is the master distributor of the ESM manufactured by Abbotly Technologies Pty Ltd., Australia ("Abbotly"). Abbotly specializes in energy and cost reduction technologies for commercial and retail businesses. The Company signed a definitive agreement granting it exclusive rights to Canada and New York State on October 15, 2003.

On July 22, 2004 the Company amended its License Agreement with Abbotly USA to expand its territory to include Arizona, Nevada, New Hampshire, Rhode Island, Massachusetts, Connecticut, Colorado, New Mexico, Vermont, Maine and New Jersey (north of Interstate 105). Due to the significant size of the Company's territory within the United States, the Company decided to proceed with the assignment of its US territories to a wholly owned a US subsidiary of SmartCool Systems Inc. The agreement from Abbotly USA to proceed with such an assignment was received on September 8, 2004.

Effective October 6, 2004 the Company completed the incorporation of SmartCool Systems USA, a wholly owned subsidiary. On November 4, 2004 Abbotly USA and SmartCool Systems USA signed a License Agreement to grant SmartCool Systems USA exclusive marketing and distribution rights in New York, Arizona, Nevada, New Hampshire, Rhode Island, Massachusetts, Connecticut, Colorado, New Mexico, Vermont, Maine and New Jersey (north of Interstate 105). The License Agreement also includes non-exclusive marketing and distribution rights in the state of Hawaii. The Company also amended the original License Agreement (signed October 15, 2003) to include only Canada in its territory.

The Company paid no consideration for the licenses to market the Abbotly System and no finder's fees were paid. The term of the License Agreements is 5 years and the Company must purchase a minimum value of goods from Abbotly USA throughout the term of the agreement. The cumulative total required purchases under the License Agreements of Abbotly Systems by the Company and its wholly owned subsidiary, SmartCool Systems USA is US\$40,000 in 2004, US\$460,000 in 2005, and US\$1,000,000 in each subsequent year. As at the date of this report all purchase obligations had been met.

During the first quarter the Company announced that it had entered into a memorandum of understanding (the “MOU”) to purchase the assets of Abbotly Technologies Pty Ltd. (“Abbotly”). As of the date of this report, the Company was continuing its due diligence review. The Company’s decision to proceed with the acquisition will be based upon the satisfactory results of this review as well as the Company’s successful completion of a financing to fund the cash portion of the purchase price. Under the terms of the MOU, the Company will pay AU \$5,250,000 (CAD \$4,970,000) in cash and issue share purchase warrants to purchase up to CAD \$1,250,000 in shares of the Company, at a price to be determined. A non-refundable deposit of CAD \$49,700 was paid to Abbotly and will be applied towards the purchase price if the transaction closes.

On July 18, 2005 the Company announced that Abbotly had granted the Company an extension for the negotiation of a formal definitive agreement until December 31, 2005. In consideration for the extension, the Company paid Abbotly a non-refundable deposit of CAD \$49,700. This deposit will be applied towards the purchase price if the transaction closes.

SmartCool retains ownership of the patents and intellectual property for the Microstart Engine Starting system. The Microstart Engine Starting system is a compressed air-type device that replaces the starter and the standard lead acid battery. The Company continued to market the system during the start of the 2003 fiscal year. It discussed commercialization with a number of Tier 1 automotive part manufacturers and came to the conclusion that full commercialization would require a significant investment. The Company felt that, at the current time, it would focus on the Abbotly System see “Liquidity”). As such, the Company decided to write down the Microstart Engine Starting System to \$100 at December 31, 2004 to more accurately reflect the Company’s business and focus. The Company will reassess the asset value of the Microstart System if it chooses to proceed with its development in the future.

On July 15, 2005 the Company announced that it had signed a Memorandum of Understanding with Airtest Technologies Inc. of Delta, British Columbia. The MOU provides SmartCool with the non-exclusive right to sell AirTest products to retailers, including retail chains. Additionally, AirTest will be granted non-exclusive distribution rights to market SmartCool products through its established marketing channels in territories authorized by SmartCool. The MOU also outlines a research and development program, to be jointly undertaken, to develop wireless transmitters to be used with AirTest’s CO₂, CO, and NO₂ sensors/transmitters, LON interfaces for all AirTest sensors, and BACnet modules for use with AirTest CO₂, CO, and NO₂ sensors/transmitters. Any resulting technologies developed under the MOU will be jointly owned by SmartCool and AirTest.

Change of Business

In the fourth quarter of the 2004 fiscal year the TSX Venture Exchange discussed with the Company whether it should comply with the filing requirements of the Exchange

applicable to a Change of Business. This concern arose as a result of SmartCool now devoting its entire resources to the sale of certain refrigeration and air conditioning energy saving technology (the "Abbotly System") in SmartCool's licensed territory. When it first acquired rights to market the Abbotly System in October 2003, SmartCool (then named Citotech Technologies) was at the same time still contemplating the commercialization of its Microstart engine technology acquired in 2002. Subsequently, while the Microstart technology remained promising, SmartCool determined that it did not have the financial resources to make the research and development investments that certain automotive companies and Tier 1 suppliers indicated would be required to complete the commercialization of this technology. As a result, SmartCool, though continuing to retain the Microstart technology, began to increasingly focus its efforts on marketing the Abbotly System as it was fully commercially developed, with customers in Australia and the United Kingdom, and therefore offered nearer-term potential to generate revenues. As a result of this decision to postpone further development of the Microstart technology and focus its efforts on the Abbotly System, the Exchange has determined that SmartCool needs to comply with its filing requirements related to a Change of Business.

To comply with the Exchange's requirements under its policies dealing with a Change of Business, SmartCool has agreed to provide the customary sponsorship report to the Exchange by mid-February 2005 (which it did) and a total of 2.94 million common shares of SmartCool held by insiders and certain of their associates will be pooled and released over at least an 18 month time period but only after SmartCool has also had its acquisition of the license rights to the Abbotly System accepted by the Exchange as a Change of Business under its policies or SmartCool has abandoned this technology. Warrants to acquire a further 2.43 million common shares held by such insiders and their associates will also be pooled on the same basis.

The pooling of SmartCool securities is being made in compliance with the Exchange's policy that on a Change of Business shares owed by certain principals of the issuer should be escrowed. The shares pooled include certain shares acquired in the July 2004 private placement and certain shares acquired in other transactions. In addition to the above, certain officers and directors have also agreed to reprice 708,000 options that were announced on August 6, 2004 from \$0.10 to \$0.21.

The Exchange accepted the Company's filing for its Change of Business during the first quarter on April 11, 2005.

About Abbotly Systems

The Energy Saving Module System 4000, manufactured by Abbotly Australia Pty Ltd. is designed specifically to reduce the electricity consumption (kwh) and maximum demand (Kw/KVA) of refrigeration and air conditioning compressors by improving their performance and maintaining temperature control. The Abbotly Module System 4000 is the most advanced Abbotly unit model to date and takes advantage of the latest in microprocessor technology and software developments. By monitoring the temperature

time rate of change and compressor operating parameters occurring each cooling cycle, the Energy Saving Module, using current and historical data through exclusive algorithms incorporating predicative analyses, determines the optimum operating parameters for the compressor. This process is termed “Load Proportional Differential Adjustment (PDA)”.

During every cycle the Energy Saving Module adjusts the differential by altering the cut in (start) point and the cut out (stop) point in response to the specific load conditions. The “stop” “start” values are selected to achieve over any three operating cycles the same average mid point temperature and heat removal as the normal control while reducing energy consumption.

SmartCool understands that the Abbotly System was first sold commercially in 1986 and that to date 20,000 units have been installed worldwide. Abbotly has advised SmartCool that cost reductions for refrigeration and air conditioning systems of 15% to 25% are possible using the Abbotly System.

A unique feature of the Abbotly System is its ability to interface with, not replace, existing compressor controls. The Abbotly System’s on and off feature allows it to be switched out of the compressor circuit for easy savings verification, a must for most utility rebate programs. The modules are compatible with all types of control systems including the latest building automation systems and computer controlled refrigeration plants. They are also suitable for virtually all types of refrigeration and air conditioning equipment.

The modular design of the Abbotly System has resulted in a low cost solution for businesses of any size. Based on the estimates of cost reductions provided by Abbotly, clients with electricity bills as little as \$3,500 per month could conceivably receive a full return on investment within two years. The Abbotly System may be used in retail, commercial and/or industrial operations.

Competition

Control systems which reduce electricity consumption of refrigeration and air conditioning units by improving the efficiency of run cycles of the compressors and represent the primary indirect competition for the Abbotly System. Control systems are software programs designed to improve the efficiency of compressor run cycles or interaction between compressors. Most modern control systems use Direct Digital Control. Direct Digital Control is commonly referred to as: Controls, BMS or building management system, DDC or Direct Digital Control. The major function of a control system is to provide the primary control and information system for the air conditioning or refrigeration equipment. Abbotly Technologies is not a control system. The major function of the ESM is to reduce the cost of running the air conditioning system/refrigeration compressors while operating within the control parameters set by the control system.

Control systems represent an indirect competition to the Abbotly System as the Abbotly System augments building and refrigeration control systems. Using BMS (used here to mean Building Management Systems or refrigeration controls) and the Abbotly System together will achieve two distinctly different but compatible approaches to savings. The major function of a BMS is to provide the primary control and information system for the air conditioning or refrigeration equipment. The major function of the Abbotly System is to reduce the cost of running the air conditioning system/refrigeration compressors while operating within the control parameters set by the BMS.

Companies that manufacture and/or distribute building management systems and digital control systems include Emerson Electric Co., Hensch Controls Corporation, Delta Controls, Logix, Intellidyne, and PowerCold Corporation.

Markets

The Company operates in the air conditioning and refrigeration energy savings market. This market includes companies which operate heat, ventilation, and air conditioning and refrigeration equipment.

The Abbotly System's market can be segmented into retail, commercial, and industrial segments.

Retail

The Abbotly System can save energy in all types of retail establishments. The greater the air conditioning and refrigeration need of the retailer the greater the value of the Abbotly System. Any retailer that requires a large air conditioned space and refrigeration area can benefit. Typically, the retail category includes shopping malls, supermarkets, department stores, and movie theatres.

Commercial

This category includes all businesses that require air conditioning. Potential users in this category include electric utilities, telephone companies, office buildings, banks and financial institutions, government buildings, medical centers, and hospitals, and ice rinks.

Industrial

This segment includes any industry or manufacturer that has an air conditioned administration building or uses refrigeration or mechanical cooling in the manufacturing process. Such users include food storage and distribution, food processing, plastic injection and molding, computer manufacture, pharmaceuticals, computer rooms, and cold storage facilities.

Marketing

The Company is currently evaluating various methods of marketing, distributing, and installing the Abbotly System throughout its territory. The Company's goal is to establish a team of commissioned marketing and technical personnel throughout its territory with direction coming from full time employees of the Company.

The initial sales efforts will focus on markets that provide for government sponsored rebate programs. This will allow the Company to accelerate the deployment of capital and thus installations.

Selected Annual Information

	December 31, 2002	December 31, 2003	December 31, 2004
Net Sales	\$0	\$0	\$0
Income (Loss) - Total	\$(684,687)	\$(508,712)	\$(967,248)
Income (Loss) – Per Share (Basic and Diluted)	\$(0.06)	\$(0.12)	\$(0.18)
Total Assets	\$905,145	\$558,063	\$100,902
Total Long Term Liabilities	\$0	\$0	\$0
Cash Dividends	\$0	\$0	\$0

The Company had no income for the period ended September 30, 2005 and had a net loss of \$565,606 for the nine month period, The loss per share (basic and diluted) for the third quarter was \$0.02. The Company had assets of \$1,046,795 at the end of the third quarter and no long term financial liabilities. Current liabilities at September 30, 2005 were \$90,101. There were no cash dividends declared during the third quarter of 2005.

Operating expenses during the third quarter of 2005 were \$221,390; an increase of approximately \$80,000 from the previous year. This increase is largely due to increases in management fees, legal fees, and stock based compensation.

The Company had \$640,579 in cash and cash equivalents at the end of the third quarter. The Company believes that its cash position as of the date of this report is sufficient for operations through the remainder of the 2005 fiscal year.

Effective January 1, 2004, the Company adopted the Canadian Institute of Chartered Accountants Handbook section on *Stock-based compensation and other stock-based payments*. Under this Handbook section, the Company is required to expense, over the vesting period, the fair value of options at the date of grant. As permitted by this Handbook section, the Company applies this change retroactively, without restatement, for options granted on or after January 1, 2003. As a result, the opening deficit as at January 1, 2004 was adjusted to reflect an expense of \$9,795 relating to options granted

since January 1, 2003. Prior to January 1, 2004, no compensation expense was recognized when options were issued to employees or directors but pro-forma information was provided had the Company applied the fair value-based method.

Results of Operations

The Company had no revenues from neither the Microstart Engine Starting System nor Abbotly Technologies during its second quarter. As stated above, the Company decided to suspend development and commercialization of the Microstart Engine Starting System mid way through 2003 – partly due to cash constraints and partly due to market conditions. The Company will focus, in the short term, on the marketing of Abbotly systems. To that end, the Company will be focusing on setting up marketing networks throughout its territory, and developing the necessary technical expertise in each territory to allow for timely installations.

Summary of Quarterly Results

	Dec 2003	Mar 2004	Jun 2004	Sept 2004	Dec 2004	Mar 2005	Jun 2005	Sep 2005
Total Revenues	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Income/(Loss)	\$(66,822)	\$(100,900)	\$(81,334)	\$(141,285)	\$(525,784)	\$(141,290)	\$(208,222)	\$(221,390)
Income/(Loss) Per Share – basic & diluted	\$(0.01)*	\$(0.01)	\$(0.01)	\$(0.03)	\$(0.09)*	\$(0.02)	\$(0.02)	\$(0.02)

*represents the loss per share (basic and diluted) for the fiscal year ended December 2003 and December 2004.

The above quarterly information is presented in Canadian Dollars and is presented in accordance with Canadian generally accepted accounting principles.

Liquidity

The Company had \$640,579 in cash and cash equivalents at the end of the third quarter. The Company believes that this cash is sufficient to continue operations throughout the remainder of the fiscal year. However, if it proceeds with the acquisition of Abbotly, it will be required to raise additional funds.

Transactions with Related Parties

The Company incurred administration and management fees of \$162,900 to directors of the Company during the first three quarters of 2005. There were no other related party transactions.

Outstanding Share Data

On July 20, 2004 the shares of the Company were consolidated on a 3 to 1 basis. As at September 30, 2005 the Company had 14,095,292 common shares outstanding. The

Company also had a total of 6,715,000 share purchase warrants outstanding. The following table outlines the exercise price and expiry date of these warrants:

Number of Warrants and Underlying Shares	Exercise Price	Expiry Date
2,272,500	\$0.40	April 11, 2007
450,000	\$0.51	November 5, 2005
3,637,500*	\$0.10	October 26, 2006
355,000	\$0.35	January 19, 2007

*A total of 3,875,000 warrants were issued at an exercise price of \$0.10. During the quarter ended September 30, 2005 237,500 warrants were exercised leaving 3,637,500 outstanding. Subsequent to the end of the quarter, an additional 25,000 share purchase warrants were exercised.

On December 2, 2004 the Company announced a brokered private placement of up to 2 million units (the "Units") at \$0.25 per Unit. Each Unit consisted of one common share and one half warrant. Each full warrant entitles the holder to purchase one common share at a price of \$0.35 for a period of two years. On January 19, 2005 the Company closed this private placement with the issuance of 710,000 units for gross proceeds of \$177,500.

During the first quarter, the Company announced that it had engaged Haywood securities to act as its agent in connection with a financing to raise up to \$1.5 million by the issuance of up to 4.545 million units at a price of \$0.33 per unit. The offering was made using a Short Form Offering Document and each unit consisted of one common share and one-half of one non-transferable share purchase warrant. Each full Warrant entitles the holder to purchase one common share at a price of \$0.40 in the first year and \$0.50 in the second year. The Company closed this Short Form Offering with gross proceeds of \$1,499,850 (4.545 million units) on April 11, 2004.

A total of 2.94 million common shares of SmartCool held by insiders and certain of their associates will be pooled and released over an 18 month time period beginning September 13, 2004. Warrants to acquire a further 2.43 million common shares held by such insiders and their associates will also be pooled on the same basis. The following table provides information on the escrow share recipients:

Name	Relationship to Issuer	Number of Shares Subject to Escrow	Number of Warrants Subject to Escrow	Consideration Paid (per Share)
Jeffrey Lowe	Director	776,375	609,375	\$0.08
Shaun Maskerine	None	234,375	234,375	\$0.08
George Burnes	Director/Officer	140,625	140,625	\$0.08
Allan Thompson	Officer	93,750	93,750	\$0.08
Frances Burnes	None	93,750	93,750	\$0.08
Gary Stewart	None	131,250	131,250	\$0.08
Faye Konyi	None	375,000	375,000	\$0.08
June Holliday	None	541,000	375,000	\$0.08
Henri Holliday	None	551,500	375,000	\$0.08

Corporate Information

The authorized share capital of the company is an unlimited number of common shares without par value. As at September 30, 2005, a total of 14,095,292 common shares were issued and outstanding.

Directors and Officers

As at September 30, 2005 the following individuals were directors and/or officers of the Company. The following table shows the equity positions of all directors and officers of the Company.

Name	Positions Held with Issuer	Equity Share Owned (Directly and Indirectly)	
		Escrow/Pooled	Other
Jeffrey Lowe	Director	776,375	258,791
Shaun Maskerine	Director/Vice President, Operations	254,375	180,804
Rae Warburton	Director	13,750	65,000
George Burnes	Director/President	140,625	46,875
Allan Thompson	Corporate Secretary	93,750	31,250
Ted Konyi	Vice President, Business Development	0	0

Options to Purchase Securities of the Company

The Company had 1,083,000 options outstanding as at September 30, 2005 as per the following table. During the quarter the Company granted 50,000 to one director at an exercise price of \$0.21. Subsequent to the end of the quarter ended September 30, 2005 the Company granted an additional 430,000 options to two officers of the Company at an exercise price of \$0.27.

Optionee	Number of Options	Exercise Price	Expiry Date
Jeffrey Lowe	161,000	\$0.21	August 6, 2009
Shaun Maskerine	150,000	\$0.21	August 6, 2009
Allan Thompson	150,000	\$0.21	August 6, 2009
Joe Seruto	25,000	\$0.21	August 6, 2009
Maxwell Mercantile	222,000	\$0.21	August 6, 2009
George Burnes	275,000	\$0.21	November 1, 2009
Russ Visser	50,000	\$0.33	December 22, 2009
Rae Warburton	50,000	\$0.21	July 13, 2010

Risk Factors

The business of the Company is subject to a number of risks and uncertainties associated with its business for the marketing and distribution of the Abbotly System.

Limited History with Respect to Business Strategy

Although there is market potential for the Abbotly System, no sustainable revenues have been generated to date by the Company from the sale of the Abbotly System. While the Company's directors and management team are experienced in entrepreneurial ventures, the Company has no direct experience in marketing and installing refrigeration energy saving technologies.

Lack of Marketing Network

At the current time the Company has not established a marketing network throughout its territory. A primary objective of the Company's business plan includes the building of this network however there can be no assurances that the Company can establish such a network and as such revenues from the sale of the Abbotly System could be delayed.

Reliance on Key Personnel

The Company is dependent on certain key members of its management team, and in particular Mr. George Burnes, President, to complete the market development of the Abbotly System. If any of these individuals are unavailable for any reason, the ability of the Company to implement its business plan in the short term would be materially and adversely affected.

Default in License Agreements

The Company holds its rights to market the Abbotly System throughout its territory through the US licensee. Therefore, the loss of rights by the US licensee may adversely affect the ability of the Company to either retain its territory to carry out its business plan.