



FINANCIAL STATEMENTS

(Expressed in Canadian Dollar)

March 31, 2007 and 2006

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SmartCool Systems Inc.
Consolidated Balance Sheets
March 31, 2007 and 2006

(Unaudited - Prepared by Management)

	March 31 2007	December 31 2006
ASSETS		
Current assets		
Cash and cash equivalents	\$ 271,159	\$ 700,819
Short-term investments (note 5)	1,114,295	1,103,853
Amounts receivables	125,725	93,726
Inventory	257,768	91,806
Prepaid expenses & deposits	121,820	119,503
	<u>1,890,767</u>	<u>2,109,707</u>
Property and equipment (note 6)	169,262	154,706
Intangible assets (note 7)	2,406,570	2,462,189
	<u>\$ 4,466,599</u>	<u>\$ 4,726,602</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	\$ 323,356	\$ 223,505
Current portion of obligations under acquisition contract (note 7)	667,399	1,023,736
	<u>990,756</u>	<u>1,247,241</u>
Obligations under acquisition contract (note 8)	168,849	146,354
Deferred tenant Inducement	98,173	99,542
	<u>1,257,777</u>	<u>1,493,137</u>
SHAREHOLDERS' EQUITY		
Share capital (note 9(b))	15,809,413	15,210,145
Share purchase warrants (note 8(e))	637,548	577,357
Contributed surplus (note 9(f))	974,376	754,510
Deficit	(14,212,514)	(13,308,547)
	<u>3,208,822</u>	<u>3,233,465</u>
	<u>\$ 4,466,599</u>	<u>\$ 4,726,602</u>

Nature of operations and going concern (note 1)
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Approved by the directors "George Burnes" "Jeffrey Lowe"
 George Burnes Jeffrey Lowe

(See accompanying notes to the consolidated financial statements)

SmartCool Systems Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS & DEFICIT

(Unaudited - Prepared by Management)

	Three months ended March 31	
	2007	2006
Revenue	\$ 11,781	\$ 91,326
Cost of sales	2,660	41,874
Gross profit	9,122	49,452
Survey and testing costs	22,401	-
Selling, general and administrative expenses	585,268	231,584
Amortization	62,097	2,124
Stock-based compensation	219,866	-
	867,231	233,708
Interest expense	(19,745)	-
Interest Income	13,245	2,464
Foreign exchange gain (loss)	(16,957)	3,294
Loss and comprehensive loss for the period	(903,967) \$	(178,498)
Deficit, beginning of period	(13,308,547)	(11,109,667)
Deficit, end of period	\$ (14,212,514) \$	(11,288,165)
Loss per share - basic and diluted	(0.03)	(0.01)
Weighted average number of common shares outstanding - basic and diluted	29,121,137	14,297,820

SmartCool Systems Inc.

CONSOLIDATED STATEMENTS OF OPERATIONS & DEFICIT

(Unaudited - Prepared by Management)

	Three months ended March 31				
	2007		2006		
Revenue	\$	11,781	\$	91,326.0	\$
Cost of sales, approved projects		2,660		41,874.0	
Gross profit		9,122		49,452.0	
Survey & testing costs, pending projects		22,401		-	
Selling, general & administrative expenses					
Advertising & media		18,108		1,076	
Amortization		62,097		2,124	
Commissions		-		10,959	
Equipment lease		3,017		6,165	
Filing and transfer fee		18,422		6,940	
Financing fee		-		-	
Insurance and licenses		12,074		-	
Investor relations & news dissemination		50,058		11,978	
Management and consulting fees		142,607		127,716	
Office and sundries		24,965		5,867	
Professional fees		25,555		28,541	
Project investigation recoveries		-		-	
Rent		11,782		10,071	
Salaries & wages		151,144		4,987	
Stock-based compensation		219,866		-	
Telephone		9,525		2,682	
Technical consulting		34,903		-	
Travel		83,109		14,602	
		867,231		233,708	
Interest expense	-	19,745		-	
Interest Income		13,245		2,464	
Foreign exchange gain (loss)		(16,957)		3,294	
Loss for the period		(903,967)	\$	(178,498)	\$
Deficit, beginning of period		(13,308,547)		(11,109,667)	
Deficit, end of period	\$	(14,212,514)	\$	(11,288,165)	\$
Loss per share - basic and diluted		(0.03)		(0.01)	
Weighted average number of common shares outstanding - basic and diluted		29,121,137		14,297,820	

1 Nature of operations and going concern

Smartcool Systems Inc. (“Smartcool” or the “company”), which was incorporated on August 31, 2000 under the Canada Business Corporations Act as 378211 Canada Inc., changed its name to Citotech Systems Inc. on October 16, 2000, and changed its name again to Smartcool Systems Inc. on July 20, 2004.

In 2004, the company incorporated a wholly owned subsidiary, Smartcool Systems (USA) Inc. (“Smartcool USA”), under the laws of Nevada. Smartcool International Inc. (“Smartcool International”), another wholly owned subsidiary, was incorporated in Barbados in June 2006.

Smartcool and its subsidiaries are focused on acquiring, commercializing, and marketing energy saving technologies for commercial and retail businesses. Currently the company has two principal revenue streams: the sale and installation of Energy Savings Modules (ESMs) to customers in North America and the sale of the ESMs to distributors worldwide.

The ESM is manufactured by a third party in Australia and is designed specifically to reduce the electricity consumption and maximum demand of refrigeration and air conditioning compressors by improving their performance and maintaining temperature control. The ESM uses the latest in microprocessor technology and software developments.

While these financial statements have been prepared using Canadian generally accepted accounting principles applicable to a going concern, which contemplates the realization of assets and liquidation of liabilities during the normal course of operations, certain conditions cast doubt on the validity of this assumption. The Company has not yet realized its revenue expectations and has relied on financing to fund operations and, as at March 31, 2007, has accumulated deficit of \$14,212,514. The company’s ability to continue as a going concern is dependant on management's ability to successfully execute its business plan which includes the existence of a market for its products and achieving profitable operations in the future, making the payments required as part of the business acquisition, and the continued support of the company's shareholders and employees. These interim financial statements do not include any adjustments that may result from the Company’s inability to continue as a going concern. If the going concern assumption is not appropriate for these interim statements, then adjustments would be necessary in the carrying value of the assets and liabilities, the reported revenues and expenses and the balance sheet classifications used.

2 Basic of presentation

The unaudited balance sheets at March 31, 2007 and the unaudited interim statements of operations, statements of cash flows for the three months ended March 31, 2007 and 2006, have been prepared in accordance with Canadian generally accepted accounting principles (“Canadian GAPP”), on the same basis as the audited financial statements for the year 2006. These interim financial statements include all adjustments, which, in the opinion of management, are necessary for the fair presentation of the results of operations for the interim periods presented. Results for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year. These unaudited interim statements do not include all the disclosures required for annual financial statements, and should be read in conjunction with the Company’s annual audited financial statements for the year ended December 31, 2006.

3 Significant accounting policies

These interim financial statements follow the same accounting policies and methods of their application as the Company's annual audited financial statements for the year ended December 31, 2006 with the exception of accounting for financial instruments.

Financial Instruments & Comprehensive Income

The Company adopted CICA Handbook Section 3855, Financial Instruments – Recognition and Measurement; Section 3865, Hedges; Section 1530, Comprehensive Income; Section 3861, Financial Instruments – Disclosure and Presentation; and Section 3251, Equity, effective October 1, 2006 on a prospective basis. Among other things, these sections specify when a financial instrument or non-financial derivative is to be recognized on the balance sheet, require a financial instrument or non-financial derivative to be measured at fair value or using the cost-based measures, and establish how gains and losses are to be recognized and presented, including the introduction of comprehensive income.

The Company has classified its financial instruments as follows:

- a) Cash and cash equivalents: are designated as held for trading and carried on the balance sheet at fair value
- b) Accounts receivable: are designated as loans and receivables and measured at amortized cost.
- c) Short-term investments: are classified as held to maturity and their carrying value approximates fair value, being cost plus accrued interest.
- d) Accounts payable and accrued liabilities and obligations under acquisition contract: are classified as other financial liabilities and measured at amortized cost.

The Company had no 'other comprehensive income or loss' transactions for the three months ended March 31, 2007 and no opening or closing balances for accumulated other comprehensive income or loss. The adoption of these CICA sections had no effect on the Company's financial statements.

4 Cash and cash equivalents

Cash and cash equivalents consist of cash on deposit and highly liquid investments that are readily convertible into cash with maturities of less than 90 days when purchased. As at March 31, 2007 and 2006, cash equivalents consisted mainly of bank redeemable term investment certificates. They are carried at cost plus accrued interest which approximates fair value.

5 Short-term investments

Short-term investments consist of guaranteed investment certificates with maturities of greater than ninety days and less than one year. They are carried on the balance sheets at amortized cost plus accrued interest.

Smartcool Systems Inc.
Notes to Consolidated Financial Statements
March 31st, 2007

6 Property and equipment

	2007		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer hardware and software	17,760	4,659	13,101
Demonstration and display equipment	35,542	6,720	28,882
Engineering and energy monitoring equipment	9,903	5,450	4,453
Office equipment	91,801	63,908	27,893
Leasehold improvements	116,318	21,325	94,993
	<u>271,324</u>	<u>102,062</u>	<u>169,062</u>
	2006		
	Cost	Accumulated amortization	Net book value
	\$	\$	\$
Computer hardware and software	7,953	4,152	3,801
Demonstration and display equipment	26,916	5,383	21,533
Engineering and energy monitoring equipment	9,903	5,215	4,688
Office equipment	89,197	62,414	26,783
Leasehold improvements	116,318	18,417	97,901
	<u>250,287</u>	<u>95,581</u>	<u>154,706</u>

Smartcool Systems Inc.
Notes to Consolidated Financial Statements
March 31st, 2007

7 Intangible assets

	2007		
ESM brand	53,700	-	53,700
ESM intellectual property	184,000	13775	170225
North American distribution rights	279,853	27985	251868
Distribution agreements	1,925,040	125354	1799686
Supplier agreements	141,750	10659	131091
	2,584,343	177,773	2,406,570
			2006
	Cost	Accumulated	Net book
	\$	amortization	value
		\$	\$
ESM brand	53,700	-	53,700
ESM intellectual property	184,000	9,183	174,817
North American distribution rights	279,853	20,989	258,864
Distribution agreements	1,925,040	84,876	1,840,164
Supplier agreements	141,750	7,106	134,644
	2,584,343	122,154	2,462,189

Smartcool Systems Inc.
Notes to Consolidated Financial Statements
March 31st, 2007

8 Obligations under acquisition contract

At March 31, 2007, the company owes AU\$995,000 related to its acquisition of Abbotly. The amount is non-interest bearing and has been recorded at its present value using a discount rate of 9.7% as follows:

	\$
Balance - June 26, 2006	1,419,950
Accretion	36,992
Repayments	(440,790)
Foreign exchange	<u>153,938</u>
Balance - December 31, 2006	1,170,090
Accretion	19,727
Payment	(371,080)
Foreign exchange	17,511
Balance – March 31, 2007	<u>836,248</u>
Less: Current portion	<u>(667,399)</u>
	<u>168,849</u>

The obligations under the acquisition contract are being accreted to their face value over their term. The accretion charge for the year is recorded within interest expense in the consolidated statement of operations and deficit.

Required repayments are as follows:

	AU\$
July 31, 2007	400,000
December 31, 2007	400,000
May 31, 2008	<u>195,000</u>
	995,000
Less: Current portion	<u>800,000</u>
	<u>195,000</u>

In the event the company defaults on a payment, title to the purchased assets and business transfers back to the former owner of Abbotly.

Smartcool Systems Inc.
Notes to Consolidated Financial Statements
March 31st, 2007

9 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 common shares

	Shares	Amount \$
Balance - December 31, 2005	14,196,292	11,491,354
Private placement	3,250,000	504,414
Private placement	1,000,000	237,023
Private placement	2,500,000	809,074
Private placement	1,100,000	440,000
Private placement	1,500,000	1,125,000
Share purchase warrants exercised	4,626,250	863,114
Shares for consulting services	30,698	12,000
Options exercised	133,081	48,780
Share issuance costs	-	(320,614)
Balance - December 31, 2006	28,336,321	15,210,145
Share purchase warrants exercised	1,239,481	580,390
Options exercised	221,419	73,068
Share for consulting services	4,565	6,000
Share issuance costs		(154,969)
Balance March 31, 2007	<u>29,801,786</u>	<u>15,809,413</u>

- c) Shares for consulting services

On July 1, 2006, the company entered into a contract with a consulting firm where it is entitled to receive \$2,000 a month of common shares of the company from July 1, 2006 until December 31, 2006. The contract was extended to June 30, 2007. During the first three months of 2007, the Company issued 4,565 common shares for service under this contract.

- d) Stock options

Under the company's stock option plan, the company may grant stock options to employees, directors, officers and consultants. The maximum number of shares to be awarded under the plan is 3,561,758. The stock options have vesting periods of up to 18 months and an exercise period of up to five years.

Smartcool Systems Inc.
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March 31st, 2007

A summary of the company's stock option activity for employees, directors, officers and consultants is as follows:

	Number of options	Weighted average exercise price \$
Balance - December 31, 2005	2,167,500	0.25
Granted	1,920,000	0.48
Cancelled	(50,000)	0.23
Exercised	(133,081)	0.29
		<hr/>
		0.37
Balance - December 31, 2006	3,904,419	
Granted	100,000	1.14
Exercised	(371,419)	0.33
Balance – March 31, 2007	3,633,000	0.39
		<hr/>
Exercisable	2,131,750	
Weighted average remaining life	4.08 years	
Weighted exercisable price	\$0.31	
		<hr/>

During the three months ended March 31, 2007, the Company granted 100,000 options to a non-employee.

These options had an exercise price that was lower than the stock price at the date of grant.

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:

	2007
Risk-free interest rate	4.03%
Dividend yield	0%
Volatility	100%
Expected life	5 years

Smartcool Systems Inc.
Notes to Consolidated Financial Statements
March 31st, 2007

e) Share purchase warrants

A summary of the company's warrant activity is as follows:

	Number outstanding	Weighted average exercise price \$
Balance - December 31, 2005	6,240,000	0.26
Granted	4,327,581	0.48
Exercised	(4,626,250)	0.18
Balance - December 31, 2006	<u>5,941,331</u>	0.48
Granted	221,419	0.50
Exercise	<u>(40,669)</u>	0.50
Balance - March 31, 2007	<u><u>5,073,269</u></u>	0.48

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

f) Contributed surplus

At March 31, 2007, the company's contributed surplus comprised the following:

	\$
Balance - December 31, 2005	289,150
Stock option expense	<u>475,224</u>
Stock option exercise	(9,864)
Balance - December 31, 2006	754,510
Stock option expense	<u>219,866</u>
Balance – March 31, 2007	<u><u>974,376</u></u>

10. Commitments

a) Premise lease

On June 1, 2005, the company entered into an agreement to lease office facilities for 10 years. On April 1, 2006, Smartcool USA entered into an agreement to lease office facilities for one year. This lease was renewed in February 2007.

The future minimum commitments for the company's office premises are:

	\$
2007	52,163
2008	47,762
2009	47,475
2010	48,600
2011	51,175
2012 and thereafter	<u>180,675</u>
	<u>427,850</u>

During the period, the company's rent expense including certain operating expenses and property taxes was \$22,659 (2006 - \$23,758) and its sublease revenue was \$11,328 (2006 - \$10,599).

b) Letter of credit

Upon the signing of the lease contract in June 2005, the company was required to secure its obligations with a letter of credit of \$100,000. The letter of credit is reduced by \$25,000 every year. As of March 31, 2006, the company had open letters of credit of \$75,000 (2005 - \$100,000).

c) Equipment lease

In July 2005, the company signed a contractual lease agreement for equipment as follows:

- Telecommunication equipment for 40 months at \$8,400 per annum
- Office equipment for 36 months at \$14,800 per annum

In March 2007, the company signed a contractual agreement for the financing of computer software. Under the financing agreement, the company will make 36 monthly payments of \$1,607.

Smartcool Systems Inc.
Notes to Consolidated Financial Statements
March 31st, 2007

d) Abbotly USA

Under the terms of the North American distribution rights acquisition (note 7), the company is required to pay a 20% royalty on all product purchased from Abbotly for North American sales. Once the company purchases all of the remaining ESM inventory from Abbotly USA, the company is required to purchase a minimum of \$200,000 of ESM inventory from Abbotly per year until July 23, 2008 for purposes of the royalty calculation. During the three months ended March 31, 2007, the company did not purchase any product from Abbotly and no royalty has been paid or accrued.

11 Segmented information

During the three months ended March 31, 2007, all of the Company's revenue came from the United Kingdom.

Property and equipment are located in:

Canada	88%
USA	12%

12 Related party transactions

Management and consulting fees of \$6,000 (2005 - \$8,000), were incurred to a director of the company during the year. These transactions were recorded at their exchange amounts. At March 31, 2007, there were no amounts owed to the related parties.

The company subleases its office and other facilities to companies owned by certain directors and officers. During the quarter ended March 31, 2007, sublease income was \$11,328 (2005 - \$11,599). At March 31, 2007, there were no amounts owed from these related parties.

13 Supplementary cash flow information

	2007	2005
Interest paid in cash	-	-
Income taxes paid in cash	-	-
Non-cash financing and investing activities		
Issuance of warrants for share issue costs	154,969	141,705
Issuance of warrants for intangible assets		77,900
Purchase of Abbotly for obligations under acquisition contract		1,419,950

14 Subsequent events

On April 17th, 2007, the company granted 25,000 stock options to a director of one of the Company's subsidiaries. The options have an exercise price of \$0.94 and will expire on April 17, 2012.

These options are subject to shareholders' approval at the next annual general meeting.