SMARTCOOL™ SYSTEMS INC

CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

(Expressed in Canadian Dollar)

March 31, 2008 and 2007

Index

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Smartcool Systems Inc.
Consolidated Balance Sheets
March 31, 2008 and December 31, 2007

(Unaudited - Prepared by Management)

	March 31 **2008** **$** (Unaudited)	December 31 **2007** **$**
ASSETS		
Current assets		
Cash and cash equivalents	5,352,640	6,020,860
Short-term investments (note 4)	51,278	227,536
Amounts receivable	454,450	197,494
Inventory	362,701	351,267
Prepaid expenses and deposits	290,847	87,546
	6,511,916	6,884,703
Property and equipment (note 5)	305,524	304,220
	-	-
Intangible assets (note 6)	2,074,345	2,124,386
	8,891,785	9,313,309
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	308,802	333,122
Current portion of obligations under contracts (note 7)	169,626	138,117
Current portion of capital Leases (note 8)	15,530	14,924
Current portion of deffered tenant inducement	8,148	8,148
	502,106	494,311
Capital leases (note 8)	22,527	26,644
Deferred tenant Inducement	82,323	84,360
	606,956	605,315
SHAREHOLDERS' EQUITY		
Share capital (note 9(b))	22,704,046	22,573,211
Share purchase warrants (note 9(e))	1,627,104	1,666,760
Contributed surplus (note 9(f))	2,340,693	2,099,851
Deficit	(18,387,014)	(17,631,828)
	8,284,829	8,707,994
	8,891,785	9,313,309

Commitments and obligations (note 12)
Subsequent events (note 17)

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, Comprehensive loss and Deficit
Three months ended March 31, 2008 and March 31, 2007
(Unaudited - Prepared by Management)

	Three months ended March 31	
	2008	**2007**
	$	**$**
Revenue	422,663	11,781
Cost of sales	154,135	2,660
Gross profit	268,528	9,121
Operating Expenses		
Survey and testing costs	871	22,401
Selling, general and administrative expenses	775,043	585,267
Stock-based compensation	240,842	219,866
Research and development	1,032	-
Amortization	78,031	62,097
	1,095,819	889,631
Loss before undernoted	(827,291)	(880,510)
Other (Income) expense		
Interest expense and accretion	21,132	19,745
Interest Income	(56,160)	(13,245)
Foreign exchange gain (loss)	(46,530)	16,477
	(81,558)	22,977
Loss and comprehensive loss for the period	(745,733)	(903,487)
Deficit, beginning of period	(17,641,281)	(13,308,547)
Deficit, end of period	(18,387,014)	(14,212,034)
Loss per share		
Basic and diluted	(0.02)	(0.03)
Weighted average number of common shares outstanding	37,129,563	29,121,137

Smartcool Systems Inc.

Consolidated Statements of Cash Flows
Three months ended March 31, 2008 and March 31, 2007
(Unaudited - Prepared by Management)

	Three months ended March 31 2008 $	2007 $
Cash flows from operating activities		
Loss and comprehensive loss for the period	(745,733)	(903,487)
Adjustments for item not involving cash:		
Amortization of property and equipment	27,990	6,478
Amortization of intangible assets	50,041	55,619
Stock-based compensation	240,842	219,866
Deferred tenant inducement	(2,037)	(1,369)
Adjustment of inventory opening balance	(9,453)	-
Accretion of obligation under acquisition contract	19,466	19,727
Foreign exchange (gain) loss on obligations under acquisition contract	12,042	17,512
Consulting fees paid in shares	-	6,000
	(406,842)	(579,654)
Changes in non-cash working capital items:		
Amounts receivable	(256,955)	(31,999)
Inventory	(11,434)	(165,963)
Prepaid expenses and deposits	(203,301)	(2,317)
Accounts payable and accrued liabilities	(24,320)	99,850
	(902,852)	(680,083)
Cash flows from financing activities		
Shares issued for cash-net of cash issue costs	9,654	-
Shares issued on exercise of options	-	73,068
Shares issued on exercise of warrants	81,525	580,390
Repayment of oligations under acquisition contract	-	(371,080)
Repayment of capital lease obligations	(3,512)	
	87,667	282,378
Cash flows from investing activities		
Sale of short-term investment	176,259	-
Purchase short-term investment	-	(10,441)
Purchase of property & equipment	(29,294)	(21,034)
Purchase of intangible assets	-	-
Purchase of Abbotly Australia Pty	-	-
	146,965	(31,475)
Increase (decrease) in cash and cash equivalents	(668,220)	(429,180)
Cash and cash equivalents, beginning of period	6,020,860	700,819
Cash and cash equivalents, end of period	5,352,640	271,639

Supplementary cash flow Information (note 16)

(See accompanying notes to the consolidated financial statements)

1 Nature of operations

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.

During the three months period March 31 2008, the company incurred a loss of $745,733 and the company has a deficit of $18,387,014 as at March 31, 2008

Though the company in the year 2007 was able to raise a substantial amount of capital to finance its operations, the company's ultimate success and the recoverability of its intangible assets will depend on the company'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.

2 Significant accounting policies

Basis of presentation

The unaudited balance sheets at March 31, 2008 and the unaudited interim statements of operations, comprehensive loss and deficit, and statements of cash flows for the three months ended March 31, 2008 and 2007, have been prepared in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"), on the same basis as the audited financial statements for the year ended December 31, 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, 2008 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, 2007.

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, 2007 with the exception of accounting for inventories.

Changes in accounting policies

Inventories

Effective January 1, 2008 the company prospectively adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 3031. This section prescribes the accounting treatment for inventories and provides guidance on the determination of costs and its subsequent recognition as an expense, including any write-down to net realizable value. It also provides guidance on the cost formulas that are used to assign costs to inventories.

As a result of the adoption of this policy, the company has changed its inventory costing method from specific cost to weighted average cost and adjusted cost of inventory as at January 1, 2008 from $351,267 to $341,814. Retained earnings balance as at January has been adjusted to $17,641,281 from $17,631,828.

Financial Instruments

Effective January 1, 2008 the company adopted CICA Handbook Section 3862, Financial Instruments – Disclosure, and Section 3863, Financial Instruments – Presentation. Section 3862 requires disclosure of the significance financial instruments have on an entity's financial position and performance, the nature and extent of risks arising from financial instruments to which the entity is exposed and how the entity manages those risks. Section 3863, establishes standards for presentation of financial instruments and non-financial derivatives.

The adoption of these standards had no impact on the company's financial statements.

Capital Disclosure

Effective January 1, 2008 the company adopted Canadian Institute of Chartered Accountants ("CICA") Handbook Section 1535, Capital Disclosure. This section establishes standards for disclosing information about the entity's capital and how it is managed to enable users of financial statements to evaluate the entity's objectives, policies and procedures for managing capital.

The new disclosure required by Section 1535 is included in note 10. The adoption of this standard did not have a material impact on the company's financial statements.

Future Accounting Standards

Goodwill and intangibles

Goodwill and intangibles, Section 3062, establishes revised standards for recognition, measurement, presentation and disclosure of goodwill and intangible assets.

The company will adopt this new requirement effective January 1, 2009 and is currently considering the impact this will have on its financial statements.

International Financial Reporting Standards

In January 2006, the Accounting Standards Board adopted a strategic plan for the direction of accounting standards in Canada. Public companies in Canada are required to adopt International Financial Reporting Standards effective January 1, 2011.

3 Business acquisition

On June 30, 2006, the company acquired the business and assets of Abbotly Technologies Pty. Limited ("Abbotly") for total consideration of AU$2,954,600 (CA$2,423,958). The assets included the brand and worldwide distribution rights of the ESM, supplier agreements and distribution agreements.

On June 30, 2006, $869,300 was settled in cash with the remaining purchase price due in scheduled installments over two years and the last payment due on March 31, 2008. These installments are non-interest bearing. At the acquisition date, the fair value of consideration was determined to be $2,327,250 based on discounting the future payments at a rate of 9.7%. The acquisition has been accounted for using the purchase method, whereby the fair value of consideration was allocated to the estimated fair value of the acquired assets at the effective date of the purchase. The finalized allocation of the purchase price is as follows:

	$
Inventory	48,900
ESM brand	56,100
ESM Intellectual property	124,100
Distribution agreements	1,984,500
Supplier agreements	113,650
	2,327,250
Consideration	
Cash	869,300
Obligations under acquisition contract (note 7)	1,419,950
Transaction costs	38,000
	2,327,250

4 Short-term investments

Short-term investments consist of guaranteed investment certificates that mature by March 31, 2009.

5 Property and equipment

	March 31, 2008		
	Cost $	**Accumulated amortization** $	**Net book value** $
Computer hardware and software	137,965	26,820	111,145
Testing and demonstration equipment	135,397	46,015	89,382
Engineering and energy monitoring equipment	-	-	-
Office equipment and furniture	30,503	8,868	21,635
Leasehold improvements	116,318	32,956	83,362
	420,183	114,659	305,524

	December 31, 2007		
	Cost $	**Accumulated amortization** $	**Net book value** $
Computer hardware and software	131,199	15,252	115,947
Demonstration and display equipment	123,982	34,128	89,854
Engineering and energy monitoring equipment	-	-	-
Office equipment and furniture	19,390	7,240	12,150
Leasehold improvements	116,318	30,049	86,269
	390,889	86,669	304,220

As at March 31, 2008, assets under capital lease with total cost of $49,543 and accumulated amortization of $12,386 are included in property and equipment.
Amortization expense for assets under capital lease recorded in the statement of operations, comprehensive loss and deficit for the three months ended March 31, 2008 was $4,129.

6 Intangible assets

	March 31, 2008		
	Cost $	**Accumulated amortization** $	**Net book value** $
ESM brand (b)	56,100	-	56,100
ESM intellectual property (b)	124,100	21,718	102,382
North American distribution rights (a)	279,853	55,971	223,882
Distribution agreements (b)	1,861,841	263,621	1,598,220
Supplier agreements (b)	113,650	19,889	93,761
	2,435,544	361,199	2,074,345

	December 31, 2007		
	Cost $	**Accumulated amortization** $	**Net book value** $
ESM brand (b)	56,100	-	56,100
ESM intellectual property (b)	124,100	18,615	105,485
North American distribution rights (a)	279,853	48,975	230,878
Distribution agreements (b)	1,861,841	226,520	1,635,321
Supplier agreements (b)	113,650	17,048	96,602
	2,435,544	311,158	2,124,386

a) 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 US$180,000 ($201,953). 500,000 share purchase warrants with an exercise price of $0.27 and a 20% royalty on all products purchased from Abbotly. The warrants were valued at $77,900 at the transaction date using the Black-Scholes model and the following assumptions:

Expected life	2 years
Volatility	109%
Risk-free interest rate	4.06%
Dividend yield	0%

b) The company acquired $2,278,350 of intangible assets in relation to the acquisition of Abbotly as described in note 3.

c) As one distributor became inactive in 2007, management has performed a review of the carrying value of its distribution agreements. As a result of its assessment, the company recognized an impairment of $116,914 related to distribution agreements.

7 Obligations under acquisition contract

At March 31, 2008, the company owes AU$195,000 related to its acquisition of Abbotly (note 3). 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	153,938
Balance - December 31, 2006	1,170,090
Accretion	76,929
Repayments	(1,082,840)
Foreign exchange	(26,062)
Balance - December 31, 2007	138,117
Accretion	19,466
Foreign exchange	12,043
Balance – March 31, 2008	169,626
Less: Current portion	(169,626)
	-

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

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

8 Capital leases

In the year 2007, the company entered into two contractual lease agreements to finance the purchases of computer equipment. Both leases expire in June 2010 and have an implied annual interest rate of 16.17%. Interest paid in the three months ended March 31, 2008 related to obligations under capital lease was $1,647 (2007 - $3,048).

The following is a schedule of future minimum lease payments under these capital leases together with the balance of the obligations.

Capital lease payments

	$
2008	15,476
2009	20,634
2010	9,610
	45,720
Amount representing interest at 16.17%	(7,663)
Balance of the obligations	38,057
Less current portion	(15,530)
	22,527

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 (i)	3,250,000	504,414
Private placement (ii)	1,000,000	237,023
Private placement (ii)	2,500,000	809,074
Private placement (iv)	1,100,000	440,000
Private placement (v)	1,500,000	1,125,000
Shares for consulting services (c)	30,698	12,000
Options exercised (d)	133,081	48,780
Shares purchase warrants exercised (e)	4,626,250	863,114
Share issuance costs (i) - (vi)	-	(320,614)
Balance - December 31, 2006	28,336,321	15,210,145
Private placement (vii)	5,000,000	6,176,555
Shares for consulting services (c)	11,197	12,000
Options exercised (d)	793,419	343,439
Share purchase warrants exercised (e)	3,933,750	1,765,068
Share issuance costs (vii) - (viii)	-	(933,996)
Balance - December 31, 2007	37,074,687	22,573,211
Share purchase warrants exercised (e)	268,125	122,919
Share issuance cost adjustment	-	7,916
Balance – March 31, 2008	37,342,812	22,704,046

i) On May 31, 2006, the company issued 3,250,000 Units at $0.20 per Unit pursuant to a private placement, for gross proceeds of $650,000. Cash share issuance costs were $29,020. Each Unit consists of one common share and one-half share purchase warrant. Each full share purchase warrant entitles the holder to purchase one common share at a price of $0.40 until May 31, 2008. A total value of $145,586 was allocated to the warrants.

ii) On June 19, 2006, the company issued 1,000,000 Units at $0.30 per Unit pursuant to a private placement, for gross proceeds of $300,000. Cash share issuance costs were $5,000. Each Unit consists of one common share and one-half share purchase warrant. Each full share purchase warrant entitles the holder to purchase one common share at a price of $0.50 until June 19, 2008. A total value of $62,977 was allocated to the warrants.

iii) On June 27 and 28, 2006, the company issued 2,500,000 Units at $0.40 per Unit pursuant to a private placement, for gross proceeds of $1,000,000. Cash share issuance costs were $73,741. Each Unit consists of one common share and one-half share purchase warrant. Each full share purchase warrant entitles the holder to purchase one common share at a price of $0.60 until June 27 and 28, 2008. A total value of $190,926 was allocated to the warrants.

iv) On December 4, 2006, the company issued 1,100,000 common shares at $0.40 per share pursuant to a private placement, for gross proceeds of $440,000. Cash share issuance costs were $2,832.

v) On December 11, 2006, the company issued 1,500,000 common shares at $0.75 per share pursuant to a private placement, for gross proceeds of $1,125,000. Cash share issuance costs were $68,315.

vi) During the year ended December 31, 2006, the company issued 452,581 warrants as part of the private placement commission to agents. The fair value of these warrants of $141,705 has been reflected within share issuance costs.

vii) On August 16, 2007, the company issued 5,000,000 Units at $1.50 per unit pursuant to a brokered private placement, for gross proceeds of $7,500,000. Cash share issuance costs were $605,735. Each Unit consists of one common share and one-half share purchase warrant. Each full share purchase warrant entitles the holder to purchase one common share at a price of $1.90 until August 16, 2009. These warrants are transferable after December 17, 2007. A total value of $1,323,445 was allocated to them.

viii) During the year ended December 31, 2007, the company issued 371,419 warrants as part of the private placement commission to agents. The fair value of these warrants of $257,028 has been reflected within share issuance costs.

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 renewed under the same terms for another six months and expired on June 30, 2007. The issuance of shares for service under this contract was approved by the TSX Venture Exchange.

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 6,298,579. The stock options have vesting periods of up to 18 months and an exercise period of up to five years.

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
Balance - December 31, 2006	3,904,419	0.37
Granted	2,195,000	1.24
Exercised	(793,419)	0.30
Balance - December 31, 2007	5,306,000	0.77
Granted	25,000	1.28
Cancelled	(318,750)	1.20
Balance – March 31, 2008	5,012,250	0.75

During the three months ended March 31, 2008, the company granted 25,000 (2007 – 995,000) options to an employee and none to non-employees (2007 – 850,000).

None of options granted during the period (2007 – 985,000) had an exercise price that was lower than the stock price at the date of grant.

Stock-based compensation expense for the three months ended March 31, 2008 was $240,842 (2007 - $1,229,257).

Weighted average fair value of options granted in the period was $0.93 (2007 - $0.74).

Options outstanding at March 31, 2008 were as follows:

	Options outstanding			Options exercisable	
Exercise price $	**Number outstanding**	**Weighed average remaining contractual life (years)**	**Weighed average exercise price $**	**Number outstanding**	**Weighed average exercise price $**
0.21 - 0.28	1,126,000	2.10	0.23	1,126,000	0.23
0.33 - 0.48	1,185,000	3.03	0.40	1,088,750	0.39
0.60 - 0.89	300,000	3.61	0.64	225,000	0.64
0.90 - 1.10	585,000	3.71	0.91	417,500	0.91
1.11- 1.42	1,466,250	4.45	1.20	707,500	1.20
[illegible]	350,000	0.38	1.50	350,000	1.50
	5,012,250	3.17	0.75	3,914,750	0.66

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:

	Three months ended March 31, 2008	**Year ended December 31, 2007**
Risk-free interest rate	3.86%	3.91% - 4.60%
Dividend yield	0%	0%
Volatility	93%	93% - 100%
Expected life	5 years	1 - 5 years

e) Share purchase warrants

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

	Number outstanding	Amount $
Balance - December 31, 2005	6,240,000	-
Granted	4,327,581	619,094
Exercised	(4,626,250)	(41,737)
Balance - December 31, 2006	5,941,331	577,357
Granted	2,871,419	1,581,433
Expired	(5,000)	
Exercised	(2,933,750)	(343,427)
Warrant issue cost		(148,603)
Balance - December 31, 2007	5,874,000	1,666,760
Exercised	(268,125)	122,919
Warrant issue cost adjustment		1,737
Balance – March 31, 2008	5,605,875	1,627,104

Share purchase warrants outstanding as at March 31, 2008 were as follows:

Number of shares	Exercise price $	Expiry date
220,000	0.27	May 27, 2008
1,070,000	0.40	May 31, 2008
475,000	0.50	June 19, 2008
877,500	0.60	June 27, 2008
336,675	0.60	June 28, 2008
126,700	0.75	Dec 11, 2008
2,500,000	1.90	Aug 16, 2009
5,605,875		

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

As at March 31, 2008, the company assigned a total fair value of $41,395 (2007 - $1,580,474) to warrants exercised during the year and transferred from share purchase warrants to share capital.

f) Contributed surplus

At March 31, 2008, the company's contributed surplus comprised the following:

	$
Balance - December 31, 2005	289,150
Stock option expense	475,224
Stock option exercise	(9,864)
Balance - December 31, 2006	754,510
Stock option expense	1,229,257
Agent stock option expense	219,835
Stock option exercise	(103,751)
Balance - December 31, 2007	2,099,851
Stock option expense	240,842
Balance - December 31, 2007	2,340,693

10 Capital management

The company's capital structure includes shareholders' equity, short-term investments, cash and cash equivalents.

The company's objectives when managing capital are:

1. to effectively finance its operations and growth by meeting its operating and capital expenditure budgets;
2. to maintain financial flexibility in order to meet financial obligations, including obligation under acquisition contracts;
3. to ensure its ability to carry out its strategic plans and take advantage of acquisition opportunities;
4. to provide an appropriate investment return to its shareholders.

11 Inventories

	March 31, 2008	December 31, 2007
ESM & ESM Peripherals	343,481	351,267
Other products	19,220	-
Total inventory	362,701	351,267

For the three months ended March 31, 2008, total inventories of $116,743 has been recognized as an operating expense during the period.

12 Commitments

a) Premise lease

On June 1, 2005, the company entered into an agreement to lease office facilities for 10 years.

In February 2008, Smartcool USA entered into another agreement to lease office facilities in Texas for 37 months.

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

	$
2008	50,949
2009	70,609
2010	71,954
2011	54,067
2012	51,300
2013 and thereafter	129,375
	428,254

For the period, the company's rent expense including certain operating expenses and property taxes was $38,547 (First quarter 2007 - $22,659) and its sublease revenue was $5,919 (First quarter 2007 - $11,328).

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 at March 31, 2008, the company had open letters of credit of $50,000 (March 31, 2007 - $75,000).

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 two contractual agreements for the financing of computer equipment and software. Under these agreements, the company is required to make 36 monthly payments of $1,013 and $706 starting July 2007.

d) Abbotly USA

Under the terms of the North American distribution rights acquisition (note 6(a)), 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, 2008, the company accrued royalties of US$10,488 (2007 – US$76,840).

On June 30, 2006, the company acquired the business and assets of Abbotly Technologies Pty. Limited for total consideration of AU$2,954,600 (CA$2,423,958) with payments being scheduled over a two-year period. The amount is non-interest bearing and has been recorded at its present value using a discount rate of 9.7%. As at December 31, 2007, the company owes Abbotly Technologies Pty AU$195,000. This amount is due on May 31, 2008.

13 Segmented information

The company installs, distributes, markets and sells the ESM products and peripherals. The company operates in one segment.

Revenue was derived from customers located in the following geographical regions:

	Three months ended March 31,2008		Year 2007	
	Amount $	Revenue %	Amount $	Revenue %
United Kingdom	131,334	31	128,670	29
Mexico	-	-	120,327	27
China	2,407	-	114,210	25
USA	71,952	17	45,897	10
Australia	82,682	20	25,116	6
Philippines	42,976	10	9,554	2
Barbados	91,312	22	-	-
Other	-	-	3,501	1
Total revenue	422,663	100	447,275	100

During the three months ended March 31, 2008, revenue from four individual customers exceeded 10% of the company’s total revenue. These customers contributed 31%, 22%, 20% and 10%, respectively.

Property and equipment are located in:

	March 31, 2008	2007
Canada	51%	57%
USA	46%	39%

Other	4%	4%
Total	100%	100%

14 Related party transactions

Consulting fees of $49,300 (2007 - $62,200), were charged by a director of the company during the three months ended March 31, 2008. Consulting fees of $6,000 were charged by a company with a common officer during the period. These transactions were recorded at their exchange amounts. At March 31, 2008 and December 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 three months ended March 31, 2008, sublease income was $5,919 (2007 - $35,408). At March 31, 2008 and December 31, 2007, there were no amounts owed from these related parties.

15 Financial instruments

The company has classified its financial instruments as follows:

a) Cash and cash equivalents: are designated as held for trading and carried 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 measured at amortized cost.

d) Account payable and accrued liabilities and obligations under acquisition contract are classified as financial liabilities and measured at amortized cost.

There has been no change to the classification of financial assets since January 1, 2007.

Fair value

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair value.

The carrying value of cash and cash equivalents, short-term investments, amounts receivable, the current portion of obligations under acquisition contract, and accounts payable and accrued liabilities approximates the fair value because of the short-term nature of these instruments.

At March 31, 2008, the fair value of long-term obligations under acquisition contract is $169,626 (December 31, 2007 – 138,117).

Credit risk

The company's cash and cash equivalents, short-term investments and amounts receivable are subject to credit risk. The company limits its exposure to credit loss by placing its cash and cash equivalents and short-term investments with high credit quality financial institutions. Credit risk with respect to amounts receivable is limited due to the company's credit evaluation process.

Foreign exchange risk

Presently, the company is subject to currency risk as most of its international distribution transactions are being carried in foreign currencies. Purchase obligations to be fulfilled in 2008 under the Abbotly acquisition agreement are to be settled in Australian dollars (note 8). None of this risk has been mitigated through use of foreign currency forward contracts.

16 Supplementary cash flow information

	Three months ended March 31, 2008 $	Year 2007 $
Interest paid in cash	1,647	3,048
Interest income received in cash	53,206	142,613
Income taxes paid in cash	-	-
Non-cash financing and investing activities		
Issuance of warrants for share issue costs	-	257,029
Issuance of stock options for share issue costs	-	219,835
Issuance of warrants for intangible assets	-	-
Purchase of Abbotly for obligations under acquisition contract	-	-
Asset purchased under capital lease	-	49,542

17 Subsequent events

On April 1, 2008, Smartcool International appointed Smartcool GmbH to be its authorized, exclusive distributor within the territory of Germany. The distribution agreement has a term of three years and can be renewed for an additional three year period.

As part of the company's strategic plan, Smartcool International has contemplated the acquisition of certain exclusive distribution rights within the territory of Europe and the Persian Gulf from its existing distributor, TECC Services Inc. Discussions started in March 2008 but the terms of the acquisition agreement have not been finalized. Once the agreement has been finalized, the company will seek the approval of the TSX Exchange.