

July, 2010

Smartcool Systems Inc.

A Business Update From the President

We appreciate that at times it can be difficult for shareholders and the market to truly assess how a company is performing because what is “brewing below the surface” is not easily seen outside the organization.

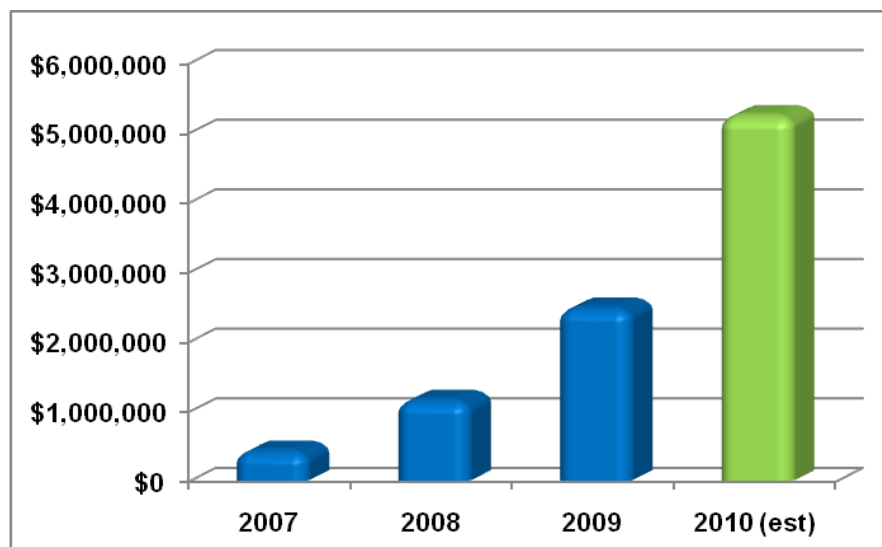
Dynamics and energy are a key part of building an organization. Without question, we at Smartcool are in a very positive frame of mind simply due to the accelerated pace that industry is adopting our energy saving technologies.

While I will discuss the hard numbers that illustrate the real progress we have made, they simply underpin the theme of this update; namely that we’ve moved into a new phase of growth.

In **2008**, we reported a little more than **\$1.17 million** in revenues. **2009** saw revenues jump by over **100%** to **\$2.4 million**. Our objective is to achieve a similar percentage increase this year with revenues in the range of **\$5 million** AND reach a breakeven position for the last quarter of **2010**.

The first quarter of **2010** saw our revenues jump to **\$634** thousand compared to the **\$225** thousand in the same quarter of last year, which continues to show sales momentum and had the potential to be even higher if some of the sales contracts had not been delayed. The positive is that these sales will fall into the second quarter, which will continue to re-enforce the projected growth for **2010**.

Revenue Growth



Without question, we are determined to drive revenues and cash flow at an aggressive pace.

We expect our success will represent not only an important financial milestone but will also influence how the market evaluates our growth prospects and valuation into 2011 and beyond.

Recent business developments have attracted independent coverage from Toronto based Byron Capital Markets. Al P. Nagaraj, Bryon's Special Situations analyst has recommended Smartcool as a Speculative Buy with a target price of \$0.64. The full report is available by [clicking on the logo](#).



We've come a long way since Smartcool acquired its technologies via an acquisition in 2006. The following two years were spent validating and testing the technologies in various markets and in 2009, we assembled a team to build a global sales network. We accomplished all of this in spite of the global economic crisis.

The reality is that it takes a long time to secure contracts through the "initial" sales cycle. Business is naturally apprehensive about adopting new technologies without understanding its merits and economic benefits. It is very much a "show me" world.

- Experience tells us that once we get through the early proving period, the time to secure subsequent orders progressively decreases while the size of orders increase.
- Without question we can prove our technologies cut annual air conditioning and cooling bills by 10% to 20%.
- The more name brand clients we secure, the more weight it carries with other large companies looking at our energy saving technologies.
- Our global reach has grown immeasurably with the number of new distributors we have secured over the past two years.



It is for these reasons I said earlier that we've moved into a new growth phase. Smartcool is no longer spending the bulk of its energy trying to "survive" while "twisting" the arms of potential customers, which is normal for an emerging company. Now, our resources are going into managing our growth and dealing with the realities of business such as inventory control.

The last thing a business wants is to keep a customer waiting that is ready to write a cheque for your product. To ensure we maintain the right levels of inventory, we very recently raised an additional \$500 thousand.

Planning ahead and securing new investment for the right reasons is also a big part of any business. We are fortunate that in spite of a very difficult period for junior public companies, the capital markets continue to support Smartcool.

The following illustrates what we are achieving with our global initiative.

North America;

- Budget approval from a Fortune 150 computer manufacturer for installation in facilities in Texas, Panama, Brazil, and Malaysia. Ongoing funding is expected for further sites upon completion of the first phase which is currently underway.
- Strong growth in distributors in Florida and California with committed orders for over 5,000 ECO³™ this year.
- California Utilities providing Express Rebates (ER's) for installation of Smartcool technology.
- Pilot program underway with one of Canada's largest Telecom provider.

EMEA Region (Europe, Middle East, India)

- Installation of 25 sites with Colt Telecom has started and will continue through mid August with an expected \$1.8 million in revenue in 2010. This is the first phase for the company's facilities that have been targeted for energy reduction strategies.
- Installation of 25 stores with Sainsbury, 2nd largest grocery in UK has commenced. There is potential for an additional 80 stores before the end of 2010.
- Waiting for final approval from a global Fortune 20 client for a regional rollout in Europe of 20 data facilities.
- Testing scheduled in July with largest retailer in Europe.

SE Asia

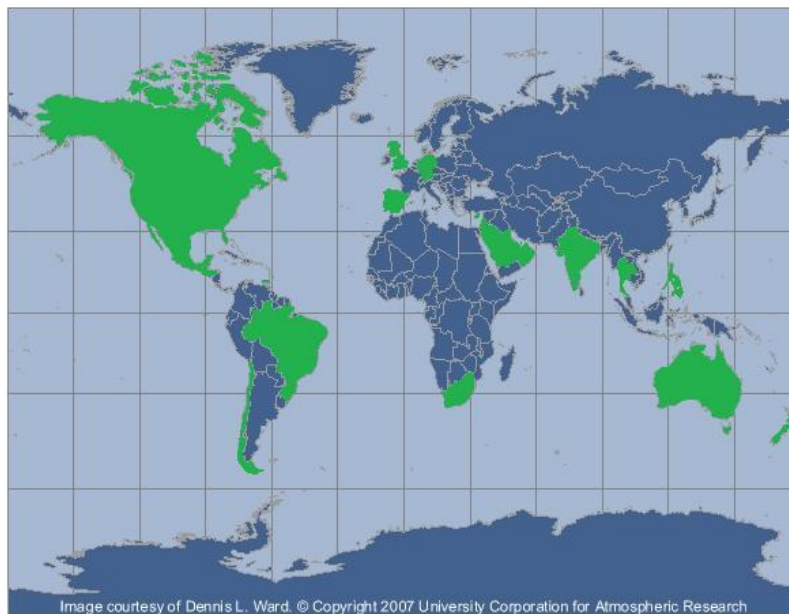
- Distribution agreement signed with Tegma Asia PTY providing Smartcool with \$1.2 million in revenue for 2010 from minimum purchase requirements.
- Projects underway with retailers in Malaysia, Indonesia, Singapore and Philippines. Each customer has hundreds of sites which will fall under a shared savings program.
- Tegma to open offices in Thailand and Hong Kong before the end of 2010.

Australia

- Installation of 250 sites with one of the largest financial institutions is underway.

Mexico/Central America

- Distributor in Mexico focusing on Telecom has begun installations in remote communication sites for CFE (national utility provider).
- Discussions underway with large air conditioning contractor for adoption of technology within its organization.
- Distributor in Brazil completed successful pilot with major banking client and also fast food chain. Approvals are pending for roll out to multiple sites.



Management and the Board of Directors take our responsibility to create real shareholder value very seriously. This will happen as we meet our objectives while simultaneously sharing our story with the investment community and the investing public.

I encourage you to visit our website: www.smartcool.net and for investor relations inquiries to contact The Howard Group: www.howardgroupinc.com / (888) 221-0915. You can also follow our ongoing activity through The Howard Group's Insight newsletter.

THE HOWARD GROUP

On behalf of the Board of Directors,
George Burnes
President & CEO
Smartcool Systems Inc.

Cautionary Note Regarding Forward Looking Statements

1. All statements in this summary, other than statements of historical fact, that address events or developments that Smartcool expect to occur, are "forward-looking statements". Forward-looking statements are statements that are not historical facts and are identified by the words "projected", "potential", "scheduled", "forecast", "budget", and similar expressions, or that events or conditions "will", "would", "may", "could", "should" or "might" occur. All such forward-looking statements are subject to important risk factors and uncertainties, many of which are beyond Smartcool's ability to control or predict. Forward-looking statements are necessarily based on estimates and assumptions that are inherently subject to known and unknown risks, uncertainties and other factors that may cause Smartcool's actual results, level of activity, performance or achievements to be materially different from those expressed or implied by such forward-looking statements.

2. The forward-looking information and statements in this summary are based upon a number of assumptions and are subject to a number of risk factors that could cause results to differ materially and which include the following material assumptions and risks:

(a) The projected revenues have been calculated using minimum purchase obligations under existing agreements with distributors and assuming continued purchases by existing customers. There is a risk that the distributors may not purchase such minimum amounts and existing customers may not continue to make anticipated purchases of products from the Company;

(b) There may be delays in manufacturing products and shipping products which may result in delayed revenues in addition to causing harm to the Company's reputation which may adversely impact future sales and revenues;

(c) Lack of availability of product or parts may cause orders to be unfilled and thereby reducing revenues;

(d) Other companies offer products competitive to, or more attractive, than those sold by the Company and thereby reducing sales by the Company;

(e) There may be risks of materially adverse changes in the business environments in which distributors and customers are operating including changing market conditions, political risks, civil unrest, and risks that disruptions occur, and thereby causing a lack of demand for the Company's products;

(f) There may be the risk of material adverse changes or fluctuations in foreign exchange currency rates.

3. Forward-looking statements are not guarantees of future performance, and actual results and future events could materially differ from those anticipated in such statements. All of the forward-looking statements contained in this summary are qualified by these cautionary statements. Smartcool expressly disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, events or otherwise, except in accordance with applicable securities laws.

4. The forward-looking information provided in this update has been provided for the purposes of providing a summary of the business and affairs of Smartcool. This update is not an offer, or a solicitation of an offer, to buy or sell securities of Smartcool, and the forward-looking information should not be relied upon for investment purposes.