



## **CriticalControl Solutions Corp.**

### **Condensed Consolidated Interim Financial Statements September 30, 2011**

#### **NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**

The accompanying unaudited condensed consolidated interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management. The Corporation's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed consolidated interim financial statements.

# Condensed Consolidated Interim Statement of Financial Position

As At September 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

	Note	September 30, 2011	December 31, 2010
			(restated - note 11)
<b>Assets</b>			
Current assets:			
Cash		943	1,147
Accounts receivable		9,242	9,925
Unbilled revenue		738	251
Inventory		3,570	2,693
Prepaid expenses		1,461	1,719
<b>Total current assets</b>		<b>15,954</b>	<b>15,735</b>
Tax credits recoverable		614	652
Deferred costs		59	59
Deferred tax assets		2,288	2,307
Property & equipment		2,867	2,721
Intangible assets		10,260	10,451
Goodwill		12,468	11,876
<b>TOTAL ASSETS</b>		<b>44,510</b>	<b>43,801</b>
<b>Liabilities and Shareholders' Equity</b>			
Current liabilities:			
Operating line of credit		1,430	-
Accounts payable and accrued liabilities		5,206	6,034
Provisions	6	23	738
Unearned revenue		1,927	2,086
Current portion of long-term debt	7	2,770	2,949
Current portion of deferred lease inducement		181	181
<b>Total current liabilities</b>		<b>11,537</b>	<b>11,988</b>
Provisions	6	691	543
Deferred lease inducement		933	1,069
Deferred tax liabilities		1,427	1,366
Long term debt	7	5,287	5,530
<b>TOTAL LIABILITIES</b>		<b>19,875</b>	<b>20,496</b>
<b>Shareholders' Equity</b>			
Share capital		28,973	28,973
Contributed surplus		956	928
Deficit		(5,232)	(6,250)
Accumulated other comprehensive loss		(62)	(346)
<b>Total shareholders' equity</b>		<b>24,635</b>	<b>23,305</b>
<b>TOTAL LIABILITIES and SHAREHOLDERS' EQUITY</b>		<b>44,510</b>	<b>43,801</b>

The notes on pages 6 to 16 are an integral part of these consolidated financial statements.

These financial statements were approved by the Corporation's board of directors on November 11, 2011.

(signed) "William Hammett"  
William Hammett

(signed) "Alykhan Mamdani"  
Alykhan Mamdani

## Condensed Consolidated Interim Statement of Earnings

For the three and nine month periods ended September 30 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

	Note	Three months ended September 30		Nine months ended September 30	
		2011	2010	2011	2010
			(restated - note 11)		(restated - note 11)
Revenue		12,392	11,669	37,156	37,507
Cost of revenue		8,055	7,427	23,823	23,304
		4,337	4,242	13,333	14,203
Expenses:					
Selling and administrative		3,613	3,068	10,754	10,041
Research & development		311	290	925	920
Finance costs	8	70	158	400	506
Other operating costs	9	-	-	(141)	-
		3,994	3,516	11,938	11,467
Earnings before income tax		343	726	1,395	2,736
Income tax expense		66	131	377	635
Net earnings		277	595	1,018	2,101
Net earnings per share					
Basic	10	0.01	0.01	0.02	0.05
Diluted	10	0.01	0.01	0.02	0.05

The notes on pages 6 to 16 are an integral part of these consolidated financial statements.

## Condensed Consolidated Interim Statement of Comprehensive Income

For the three and nine month periods ended September 30 (unaudited)  
(In thousands of Canadian dollars, except share and per share data)

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
		(restated - note 11)		(restated - note 11)
Net earnings	277	595	1,018	2,101
Other comprehensive income (loss)				
Foreign currency translation adjustments	408	(278)	284	(321)
Total comprehensive income	685	317	1,302	1,780

The notes on pages 6 to 16 are an integral part of these consolidated financial statements.

## Condensed Consolidated Interim Statement of Changes in Equity

For the nine months ended September 30 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

Nine months ended September 30, 2011						
	Note	Share Capital	Contributed Surplus	Deficit	Accumulated other comprehensive loss from foreign currency translation adjustments	Total
Balance January 1, 2011, as originally stated		28,973	928	(5,231)	(376)	24,294
Correction of 2010 inventory error	11	-	-	(1,019)	30	(989)
Balance January 1, 2011, as restated		28,973	928	(6,250)	(346)	23,305
Comprehensive income (loss)		-	-	1,018	284	1,302
Share-based payment	12	-	28	-	-	28
Balance September 30, 2011		28,973	956	(5,232)	(62)	24,635

Nine months ended September 30, 2010						
		Share Capital	Contributed Surplus	Deficit	Accumulated other comprehensive income from foreign currency translation adjustments	Total
				(restated - note 11)	(restated - note 11)	(restated - note 11)
Balance January 1, 2010		24,110	1,005	(8,749)	16	16,382
Comprehensive income		-	-	2,101	(321)	1,780
Common shares issued on exercise of stock options		49	(20)	-	-	29
Common shares issued on redemption of deferred shares		57	(57)	-	-	-
Common shares issued on private placement subscriptions		2,200	-	-	-	2,200
Balance September 30, 2010		26,416	928	(6,648)	(305)	20,391

The notes on pages 6 to 16 are an integral part of these consolidated financial statements.

## Condensed Consolidated Interim Statement of Cash Flows

For the nine months ended September 30 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

	Note	2011	2010
			(restated - note 11)
Cash flows from (used in) operating activities:			
Net earnings		1,018	2,101
Adjustments for:			
Depreciation of property & equipment		623	588
Income tax expense		377	635
Amortization of intangible assets		1,141	1,413
Amortization of deferred lease inducement		(137)	(136)
Share-based payment		28	-
Gain on sale of property & equipment		(21)	-
Interest and unwinding of discount		381	435
		3,410	5,036
Change in non-cash operating working capital:			
Accounts receivable		255	330
Unbilled revenue		(476)	(38)
Inventory		28	(345)
Prepaid expenses		252	161
Tax credits recoverable		38	-
Accounts payable and accrued liabilities		(1,049)	(2,070)
Provisions		(168)	(113)
Unearned revenue		(163)	(526)
Cash generated from operating activities		2,127	2,435
Interest paid		(291)	(351)
Income tax paid		(526)	(1,055)
Net cash from operating activities		1,310	1,029
Cash flows from (used in) financing activities:			
Proceeds from issue of share capital		-	2,229
Proceeds from (repayment of) operating line of credit		1,430	(1,447)
Proceeds from long term debt		1,622	554
Repayment of long term debt		(3,108)	(1,317)
		(56)	19
Cash flows from (used in) investing activities:			
Acquisition of GMI	5	(386)	-
Acquisition of QM4 Engineering Ltd.		-	(411)
Purchase of property, equipment and software		(804)	(504)
Payment of contingent consideration		(400)	-
Proceeds on sale of property & equipment		77	9
		(1,513)	(906)
Effect of exchange rate fluctuations on cash		55	-
Net increase (decrease) in cash		(204)	142
Cash, beginning of period		1,147	1,049
Cash, end of period		943	1,191

The notes on pages 6 to 16 are an integral part of these consolidated financial statements.

# Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

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## 1. Reporting entity:

CriticalControl Solutions Corp. (the "Corporation" or "CriticalControl") is a company domiciled in Canada and incorporated in Alberta. The Corporation is a publicly-traded company listed on the Toronto Stock Exchange under symbol "CCZ". The condensed consolidated interim financial statements ("interim financial statements") of the Corporation as at and for the three and nine months ended September 30, 2011 comprise the Corporation and its subsidiaries (together referred to as "Group" and individually as "Group Entities"). CriticalControl is a technology company, delivering outsourced solutions for information intensive and document intensive transactional processes. Through the implementation of technology, workflow and economies of scale, the Corporation is able to provide highly secure control over sensitive information and processes in a cost effective manner. The Corporation operates in Canada and the United States.

These interim financial statements should be read in conjunction with the Corporation's consolidated financial statements for the year ended December 31, 2010 (see note 11) and interim financial statements for the three months ended March 31, 2011. The consolidated financial statements of the Group as at and for the year ended December 31, 2010 were prepared under Canadian generally accepted accounting principles ("Canadian GAAP"). The Corporation's March 31, 2011 interim financial statements were the first IFRS interim financial statements prepared for part of the period covered by the first IFRS annual financial statements. Both are available upon request from the Corporation's head office at Suite 1100, 840 - 7<sup>th</sup> Avenue SW, Calgary, Alberta, Canada T2P 3G2, at [www.criticalcontrol.com](http://www.criticalcontrol.com) or at [www.sedar.com](http://www.sedar.com).

## 2. Basis of preparation:

### (a) Statement of compliance:

The interim financial statements were prepared using the same accounting policies and methods as those disclosed in the Corporation's March 31, 2011 interim financial statements. The interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These are the Group's third IFRS interim financial statements prepared for part of the period covered by the first IFRS annual financial statements, and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 13. This note includes certain reconciliations of equity, net earnings, and total comprehensive income for comparative periods and 2010 as reported under Canadian GAAP to those reported under IFRSs.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on November 11, 2011.

### (b) Basis of measurement:

The interim financial statements have been prepared on the historical cost basis.

### (c) Functional and presentation currency:

These interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

### (d) Use of estimates and judgments:

The preparation of the interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. In preparing the interim financial statements, the significant judgments made by management applying the Group's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The areas involving a high degree of judgment and areas where assumptions and estimates are significant to the financial statements have been disclosed in note 2(d) to the Corporation's March 31, 2011 interim financial statements.

## 3. New standards and interpretations not yet adopted:

A number of new standards and amendments to standards are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these interim financial statements. The Corporation does not plan to early adopt any of these new

# Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

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standards and amendments. The Corporation has not completed its evaluation of the effect of adopting these standards on its financial statements, but the preliminary assessment is that they will not have a material impact on the financial results and financial position. A summary of new standards that have not been adopted which may impact the Corporation is as follows:

**Fair value measurement:** In May 2011, IFRS 13 *Fair Value Measurement* was issued. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value, and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The new requirements are effective prospectively for annual periods beginning on or after January 1, 2013 and need not be applied in comparative information for periods before initial application. Earlier application is permitted.

**Consolidations, Joint Arrangements and Disclosure of Interests in Other Entities:** In May 2011, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* were issued. IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation-Special Purpose Entities*. IFRS 11 establishes principles for financial reporting by parties to a joint arrangement and replaces guidance in IAS 31 *Interests in Joint Ventures*. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the International Accounting Standards Board ("IASB") also issued amended and re-titled IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

**Financial instrument classification and measurement:** In November 2009, IFRS 9 *Financial Instruments* was published, covering the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39 *Financial Instruments: Recognition and Measurement*. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Most of the added requirements were carried forward unchanged from IAS 39. However, the requirements related to the fair value option for financial liabilities were changed to address the issue of own credit risk to ensure that the effects of changes in a liability's credit risk do not affect earnings unless the liability is held for trading. The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

**Financial instrument disclosures:** Amendments to IFRS 7 *Financial Instruments: Disclosures* were issued in October 2010. The amendments improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted.

**Presentation of financial statements:** In June 2011, amendments to IAS 1 *Presentation of Financial Statements* were issued that will improve and align the presentation of items of other comprehensive income (OCI) in financial statements. The amendments to IAS 1 require items that may be subsequently reclassified to the statement of earnings to be grouped together within OCI. The amendments also reaffirm existing requirements that items in OCI and net earnings should be presented as either a single statement or two consecutive statements. The amendments are effective for financial years beginning on or after July 1, 2012.

**Termination benefits:** In June 2011, amendments to IAS 19 *Employee Benefits* were issued, primarily related to defined benefit plans. The amendments to IAS 19 also finalized changes to the requirements for termination benefits that were part of the exposure draft *Proposed Amendments to IAS 37 and IAS 19* published in 2005. The amendments require an entity to recognize termination benefits when they cannot be withdrawn (e.g., when the employee accepts the offer) and are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

## 4. Operating segments:

The Corporation has identified Service Bureau Operations and Energy Services as reportable segments, which are used to manage the business and are key areas of potential growth to increase profitability. All public company costs, interest and other expenses not directly attributed to the two operating segments are included in Corporate. In assessing performance of the segments and the allocation of resources to the segments, management of CriticalControl evaluates gross margin directly attributable to each segment. All of the Corporation's identifiable assets are located in Canada and the U.S.

## Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

	Three months ended September 30							
	Service Bureau		Energy Services		Corporate		Total	
	Operations							
	2011	2010	2011	2010*	2011	2010	2011	2010*
Revenue	4,891	4,321	7,501	7,348	-	-	12,392	11,669
Cost of revenue	3,484	3,153	4,571	4,274	-	-	8,055	7,427
	1,407	1,168	2,930	3,074	-	-	4,337	4,242
Operating expenses								
Selling and administrative	1,157	1,207	1,315	1,015	1,141	846	3,613	3,068
Research & development	-	-	311	290	-	-	311	290
Finance costs	2	-	-	-	68	158	70	158
	1,159	1,207	1,626	1,305	1,209	1,004	3,994	3,516
Earnings (loss) before income tax	248	(39)	1,304	1,769	(1,209)	(1,004)	343	726
Segment assets	11,652	11,647	31,280	26,806	1,532	358	44,464	38,811
Goodwill	2,168	3,280	10,300	7,302	-	-	12,468	10,582
Purchase of property, equipment and software	4	18	184	58	-	9	188	85

\*(restated - note 11)

	Nine months ended September 30							
	Service Bureau		Energy Services		Corporate		Total	
	Operations							
	2011	2010	2011	2010*	2011	2010	2011	2010*
Revenue	15,854	14,245	21,302	23,262	-	-	37,156	37,507
Cost of revenue	10,971	10,269	12,852	13,035	-	-	23,823	23,304
	4,883	3,976	8,450	10,227	-	-	13,333	14,203
Operating expenses								
Selling and administrative	3,735	4,131	3,642	3,009	3,377	2,901	10,754	10,041
Research & development	-	-	925	920	-	-	925	920
Finance costs	12	-	2	-	386	506	400	506
Other operating costs	(120)	-	-	-	(21)	-	(141)	-
	3,627	4,131	4,569	3,929	3,742	3,407	11,938	11,467
Earnings before income tax	1,256	(155)	3,881	6,298	(3,742)	(3,407)	1,395	2,736
Purchase of property, equipment and software	119	130	685	182	-	192	804	504

\*(restated - note 11)

## Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

### 5. Business combinations:

On April 1, 2011, the Corporation acquired certain assets of Gas Measurement and Integration ("GMI") of Buckhannon, West Virginia through its wholly owned United States subsidiary, GAS Analytical Service, Inc. The consideration provided included cash of US\$400 and a promissory note for US\$800. The promissory note bears interest at 4% and is repayable as follows: US\$300 plus interest due April 1, 2012; US\$300 plus interest due December 28, 2012; and US\$200 plus interest due June 30, 2013.

The business acquired from GMI provides gas measurement products and services, inclusive of gas chart integration, to clients in the Appalachian Basin in the North Eastern United States.

The acquisition has been accounted for using the acquisition method under IFRS 3, and the results of operations have been included in the consolidated statements of earnings and comprehensive income from the date of acquisition.

Fair value of net assets acquired	
Non-cash working capital	96
Property & equipment	5
Customer relationships & contracts	587
Non-compete agreement	150
Goodwill	317
<b>Net assets acquired</b>	<b>1,155</b>
Consideration	
Cash	386
Promissory note payable	769
	<b>1,155</b>

The Corporation is in the process of finalizing the purchase equation, and as such the initial accounting for the business combination may change.

Revenue of GMI included in the condensed consolidated interim statement of earnings since the date of acquisition is estimated to be \$139 and \$290 respectively for the three and nine months ended September 30, 2011. Due to the integration program following the acquisition, it is impractical to disclose earnings before income tax contributed by GMI since the date of acquisition.

Had GMI been consolidated from January 1, 2011, the condensed consolidated statement of earnings would show additional revenue of \$207 and earnings before income tax of \$78. This pro forma financial information was determined using GMI's results from January 1, 2011 to March 31, 2011. The pro forma financial information also includes business combination adjustments such as amortization of acquired intangible assets and interest expense on borrowings. The pro forma financial information does not reflect synergies or changes to historical transactions, and it is not necessarily indicative of the results of operations from GMI that would have resulted had the acquisition actually occurred on January 1, 2011, or the results that may be obtained in the future.

The assets of GMI have been allocated to the US Energy CGU.

### 6. Provisions:

	Onerous Leases	Contingent Consideration	Total
Balance at January 1, 2010	113	500	613
Provisions made during the period	781	-	781
Provisions used during the period	(113)	-	(113)
Balance at December 31, 2010	781	500	1,281
Less current portion	(238)	(500)	(738)
Long-term portion	543	-	543

## Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

	Onerous Leases	Contingent Consideration	Total
Balance at January 1, 2011	781	500	1,281
Provisions used during the period	(211)	(500)	(711)
Reallocation from accrued liabilities	-	250	250
Changes in estimates	(120)	-	(120)
Unwind of discount	14	-	14
Balance at September 30, 2011	464	250	714
Less current portion	(23)	-	(23)
Long-term portion	441	250	691

The onerous leases provision relates to redundant space that is being subleased, or is expected to be subleased, at rates lower than those being paid under the lease agreements with landlords, which expire between July 2014 and August 2017. The net obligations under the subleases have been estimated based on sublease agreements in place or expected to be in place. Where sublease agreements are not in place, the provisions are based on management's best estimate of the sublease rates that will be negotiated, the timing and the discount rates.

The contingent consideration provision relates to the October 2010 acquisition of Visible Data Inc. and Visible One Call Inc. The contingent payments are based on annual revenue targets and are payable within 30 days of each calendar year-end for 2011, 2012 and 2013. The payments are capped at \$250, which is the amount recognized.

### 7. Long term debt:

The Corporation arranged term financing with its bank in July 2011 to fund the US\$1,125 payment due on August 1, 2011 under the terms of the promissory note issued in relation to the acquisition of Gas Analytical Service, Inc. The term loan is repayable in 12 equal monthly installments starting on August 31, 2011. Interest is also payable monthly at the bank's prime rate plus 1.75% per annum. This term loan is an interim step related to a larger refinancing initiative being pursued by the Corporation to optimize security.

### 8. Finance costs:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Interest and bank charges	142	123	365	402
Net foreign exchange loss (gain)	(102)	8	(56)	(152)
Unwind of discounts	30	26	91	84
Impairment loss on accounts receivable	-	1	-	172
	70	158	400	506

### 9. Other operating costs:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Reduction in estimated onerous lease obligation	-	-	(120)	-
Loss (gain) on disposal of property & equipment	-	-	(21)	-
	-	-	(141)	-

# Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

## 10. Net earnings per share:

The following information was used for the net earnings per share calculations:

	Three months ended September 30		Nine months ended September 30	
	2011	2010	2011	2010
Weighted average number of shares outstanding				
Basic	51,235,012	46,334,556	51,235,012	43,668,651
Diluted	51,934,425	46,892,791	51,849,810	44,374,662

## 11. Correction of 2010 inventory error

During 2011, improved processes and controls related to inventory were implemented in Gas Analytical Service, Inc., one of the Corporation's US subsidiaries. In conjunction with these changes in processes and controls, an error was discovered in relation to the recording of cost of revenue in 2010 that was not detected through the inventory count procedures at December 31, 2010. The error has been corrected retrospectively in these interim financial statements with restatement of the 2010 comparative figures. The restatement also includes correction of inventory costing errors that originated in 2010.

The impact of correcting this error on the September 30, 2010 interim financial statements is as follows:

	Three months ended September 30, 2010	Nine months ended September 30, 2010
Increase cost of revenue and decrease earnings		
before income tax	431	563
Decrease income tax expense	173	226
Decrease net earnings	258	337
Decrease other comprehensive loss –		
foreign currency translation adjustments	5	5
Decrease total comprehensive income	253	332
Decrease inventory	554	554
Increase income tax receivable	222	222
Increase deficit	337	337
Decrease accumulated other comprehensive loss	5	5
Decrease net earnings per share, basic	0.01	0.01
Decrease net earnings per share, diluted	0.01	-

The restated balance sheet and statement of earnings for the year ended December 31, 2010 is included in note 13. The impact of correcting this error on the December 31, 2010 consolidated financial statements is as follows:

	Year ended December 31, 2010
Increase cost of revenue and decrease earnings	
before income tax	1,701
Decrease income tax expense	682
Decrease net earnings	1,019
Decrease other comprehensive loss –	
foreign currency translation adjustments	30
Decrease total comprehensive income	989
Decrease inventory	1,651
Increase income tax receivable	662
Increase deficit	1,019
Decrease accumulated other comprehensive loss	30
Decrease net earnings per share, basic	0.02
Decrease net earnings per share, diluted	0.03

# Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

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The restatement does not have any impact on the Corporation's transitional IFRS balance sheet at January 1, 2010.

## 12. Equity-settled share-based payment:

In June 2011, 150,000 deferred common shares (DCSs) were granted under the Corporation's Deferred Annual Bonus and Share Purchase Plan. The DCSs vest in 50,000 tranches at the end of fiscal 2011, 2012 and 2013. Each vested DCS may be redeemed by the holder for one common share of the Corporation for no additional payment on termination of the holder's service to the Corporation, or on death. The following table summarizes all DCSs outstanding and vested:

Outstanding and vested December 31, 2010	549,413
Granted June 2011	<u>150,000</u>
Outstanding September 30, 2011	699,413
Vested September 30, 2011	549,413

The grant date fair value of this equity-settled, share-based payment is being recognized as an employee expense over the vesting periods. During the three and nine months ended September 30, 2011, \$21 and \$28 were recognized respectively.

## 13. Explanation of transition to IFRSs:

As stated in note 2(a), these are the Group's third interim financial statements prepared in accordance with IFRSs.

The accounting policies set out in note 3 to the Corporation's March 31, 2011 interim financial statements have been applied in preparing the interim financial statements for the three and nine months ended September 30, 2011 and 2010.

An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

# Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

## Reconciliation of balance sheets:

	Note	December 31, 2010			September 30, 2010		
		Previous Canadian GAAP *	Effect of transition to IFRSs	IFRSs *	Previous Canadian GAAP *	Effect of transition to IFRSs	IFRSs *
<b>Assets</b>							
<b>Current assets:</b>							
Cash		1,147	-	1,147	1,191	-	1,191
Accounts receivable		9,925	-	9,925	7,791	-	7,791
Unbilled revenue		251	-	251	297	-	297
Inventory		2,693	-	2,693	3,118	-	3,118
Prepaid expenses		1,719	-	1,719	1,915	-	1,915
Deferred tax assets	f	27	(27)	-	-	-	-
<b>Total current assets</b>		<b>15,762</b>	<b>(27)</b>	<b>15,735</b>	<b>14,312</b>	<b>-</b>	<b>14,312</b>
Tax credits recoverable		652	-	652	580	-	580
Deferred costs		59	-	59	59	-	59
Deferred tax assets	f	2,194	113	2,307	331	(104)	227
Property & equipment	e	4,075	(1,354)	2,721	3,005	(552)	2,453
Intangible assets	c,e	9,229	1,222	10,451	10,046	552	10,598
Goodwill	d	12,416	(540)	11,876	11,122	(540)	10,582
<b>Total assets</b>		<b>44,387</b>	<b>(586)</b>	<b>43,801</b>	<b>39,455</b>	<b>(644)</b>	<b>38,811</b>
<b>Current liabilities:</b>							
Operating line of credit		-	-	-	1,250	-	1,250
Accounts payable & accrued liabilities		6,034	-	6,034	3,235	-	3,235
Provisions	a,b	-	738	738	-	-	-
Unearned revenue		2,086	-	2,086	1,805	-	1,805
Current portion of long-term debt		2,949	-	2,949	3,122	-	3,122
Current portion of deferred lease inducement		181	-	181	160	-	160
<b>Total current liabilities</b>		<b>11,250</b>	<b>738</b>	<b>11,988</b>	<b>9,572</b>	<b>-</b>	<b>9,572</b>
Provisions	a,b	-	543	543	-	500	500
Deferred lease inducement		1,069	-	1,069	1,179	-	1,179
Deferred tax liabilities		1,366	-	1,366	1,710	-	1,710
Long-term debt		5,530	-	5,530	5,459	-	5,459
<b>Total liabilities</b>		<b>19,215</b>	<b>1,281</b>	<b>20,496</b>	<b>17,920</b>	<b>500</b>	<b>18,420</b>
<b>Shareholders' equity:</b>							
Share capital		28,973	-	28,973	26,416	-	26,416
Contributed surplus		928	-	928	928	-	928
Deficit	g	(4,383)	(1,867)	(6,250)	(5,504)	(1,144)	(6,648)
Accumulated other comprehensive loss		(346)	-	(346)	(305)	-	(305)
<b>Total shareholders' equity</b>		<b>25,172</b>	<b>(1,867)</b>	<b>23,305</b>	<b>21,535</b>	<b>(1,144)</b>	<b>20,391</b>
<b>Total liabilities and shareholders equity</b>		<b>44,387</b>	<b>(586)</b>	<b>43,801</b>	<b>39,455</b>	<b>(644)</b>	<b>38,811</b>

\*(restated - note 11)

# Notes to the Condensed Consolidated Interim Financial Statements

September 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

## Reconciliation of net earnings and comprehensive income:

	December 31, 2010				September 30, 2010					
	Note	Twelve Months			Three Months			Nine Months		
		Previous Canadian GAAP *	Effect of transition to IFRSs	IFRSs *	Previous Canadian GAAP *	Effect of transition to IFRSs	IFRSs *	Previous Canadian GAAP *	Effect of transition to IFRSs	IFRSs *
Revenue		50,721	-	50,721	11,669	-	11,669	37,507	-	37,507
Cost of revenue	b, h	30,286	2,223	32,509	6,888	539	7,427	21,656	1,648	23,304
		20,435	(2,223)	18,212	4,781	(539)	4,242	15,851	(1,648)	14,203
Selling and administrative	b, h	13,346	161	13,507	2,946	122	3,068	10,024	17	10,041
Research and development		1,111	-	1,111	290	-	290	920	-	920
Finance costs	h	557	85	642	134	24	158	435	71	506
Other operating costs	b,c,h	-	1,262	1,262	-	-	-	-	-	-
Severance costs	h	309	(309)	-	-	-	-	-	-	-
Amortization of property & equipment	h	1,326	(1,326)	-	302	(302)	-	960	(960)	-
Amortization of intangible assets	h	1407	(1,407)	-	375	(375)	-	1,041	(1,041)	-
(Gain) loss on sale of property & equipment	h	(28)	28	-	-	-	-	-	-	-
(Gain) loss on foreign exchange	h	(151)	151	-	8	(8)	-	(152)	152	-
		17,877	(1,355)	16,522	4,055	(539)	3,516	13,228	(1,761)	11,467
Earnings before income tax		2,558	(868)	1,690	726	-	726	2,623	113	2,736
Income tax expense (recovery)	b,c,f	(585)	(224)	(809)	131	-	131	601	34	635
Net earnings		3,143	(644)	2,499	595	-	595	2,022	79	2,101
Net earnings per share:										
Basic (dollars)		0.07	(0.01)	0.06	0.01	-	0.01	0.05	-	0.05
Diluted (dollars)		0.07	(0.02)	0.05	0.01	-	0.01	0.05	-	0.05
Net earnings		3,143	(644)	2,499	595	-	595	2,022	79	2,101
Other comprehensive income (loss)										
Foreign currency translation adjustments		(362)	-	(362)	(278)	-	(278)	(321)	-	(321)
Total comprehensive income		2,781	(644)	2,137	317	-	317	1,701	79	1,780

\* (restated - note 11)

## Material adjustments to the statement of cash flows for 2010:

In accordance with IAS 7 *Statement of Cash Flows*, interest paid and income taxes paid have moved into the body of the Statement of Cash Flows, whereas they were previously disclosed as supplementary information. In addition, there was a reallocation of amortization between property & equipment and intangible assets (see (e) below). There are no other material differences between the statement of cash flows presented under IFRSs and the statement of cash flows presented under previous Canadian GAAP.

## Notes to the reconciliations:

- (a) IFRS 3 *Business Combinations* requires that contingent consideration be recognized initially at fair value as part of the consideration transferred. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is generally recognized in the statement of earnings. Under previous Canadian GAAP, contingent consideration was recognized as part of the consideration transferred when it could be reasonably estimated and the outcome of the contingency could be determined beyond a reasonable doubt. Any subsequent change in the amount of the contingent consideration was recognized as an adjustment to the purchase price equation.

The Corporation issued contingent consideration in relation to an acquisition prior to the date of transition (January 1, 2010). IFRS 3 was not applied to this business combination because the Corporation elected under IFRS 1 *First-time Adoption of International Financial Reporting Standards* not to apply IFRS 3 to business acquisitions prior to transition. However, at the date

# Notes to the Condensed Consolidated Interim Financial Statements

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of transition the contingent consideration met the recognition requirements under IAS 39 *Financial Instruments: Recognition and Measurement*. Accordingly, a provision was recognized with an offsetting charge to retained earnings. The provision was measured at \$500 on January 1, 2010 based on the facts and circumstances at that date and was classified as long term at September 30, 2010. Through negotiation in the first quarter of 2011, the contingent consideration was settled for \$400 and the difference of \$100 was included in selling and administrative expenses. This amount was offset by a \$100 retiring allowance charged to selling and administrative expenses that was also negotiated at the same time. A continuity schedule for provisions is provided in note 6, which includes the current and long term portions at December 31, 2010.

- (b) IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* specifically requires recognition of a provision for any obligation arising under an onerous contract. An onerous contract is defined as a “contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received”. The unavoidable costs under a contract reflect the least net cost of exiting from the contract.

At the date of transition, the Corporation was leasing space that was not being occupied in the Toronto CGU that arose from a business combination in 2009. Under IFRS, this must be accrued as an onerous contract at the date of transition. The amount accrued on transition under IFRS was the estimated settlement amount of \$113 since this was expected to be the least net cost of exiting the lease agreement. The tax impact was to increase deferred tax assets by \$34. The lease was actually settled in the second quarter of 2010, which decreased selling and administrative expenses by \$45, decreased cost of revenue by \$68 and increased income tax expense by \$34.

In the fourth quarter of 2010, another business combination in the Calgary CGU resulted in redundant space that required accrual under IAS 37 as an onerous lease contract. In this situation, the expected least net cost of exiting the contract was to sublease the space to a third party. The difference between the payments required under the lease contract and the expected recovery through subleasing was discounted using a risk free rate of 2.2% since the estimated cash flows had been risk adjusted. The resulting accrual of \$114 was made under IFRS and was charged to other operating costs at December 31, 2010. The tax impact was to increase deferred tax assets and decrease income tax expense by \$29.

Also in the fourth quarter of 2010, management engaged an agent to assist in finding a subtenant for excess space in the Edmonton CGU. The revenues and staffing had declined in 2009 and 2010, and at the end of 2010, a full floor was vacant. Accordingly, an accrual under IAS 37 for this onerous component of the lease contract was required. The difference between the payments required under the lease contract and the expected recovery through subleasing was discounted using a risk free rate of 2.85% since the estimated cash flows had been risk adjusted. The resulting accrual of \$667 was made under IFRS and was charged to other operating costs at December 31, 2010. The tax impact was to increase deferred tax assets and decrease income tax expense by \$169. A continuity schedule for provisions is provided in note 6, which includes the current and long term portions at December 31, 2010.

- (c) Under previous Canadian GAAP, additional severance of \$200 relating to a 2009 acquisition was adjusted to the purchase price allocation in the fourth quarter of 2010. In accordance with IFRS 3, this amount was expensed. The impact of this IFRS adjustment in the fourth quarter of 2010 is to increase other operating costs by \$200, reduce the income tax expense by \$51, reduce the customer relationships & contracts intangible asset by \$132 and decrease the deferred tax assets by \$17.
- (d) In accordance with IAS 36 *Impairment of Assets*, if an entity disposes of an operation within a CGU that has goodwill allocated to it, the goodwill associated with the operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Prior to transition, one of the operations within the Edmonton CGU was effectively disposed of, but no goodwill was allocated to the disposal. Accordingly, \$540 of goodwill was charged to retained earnings on transition.
- (e) Under IAS 38 *Intangible Assets*, computer software that is not an integral part of the related hardware is treated as an intangible asset. At September 30, 2010, software with a net carrying value of \$552 was reallocated from property & equipment to intangibles (December 31, 2010 - \$1,354).
- (f) The following summarizes the increases (decreases) to long-term deferred tax assets:

	Note	December 31, 2010	September 30, 2010
Onerous lease agreements	b	198	-
Additional severance	c	(17)	-
Intangible assets other than goodwill	below	(95)	(104)
Reclassify current deferred tax assets	below	27	-
Increase (decrease) in deferred tax assets		113	(104)

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Under previous Canadian GAAP, the tax basis of an intangible asset acquired that is an “eligible capital expenditure” under the current Canadian Income Tax Act is generally equal to the tax pool value plus 25% of the carrying amount, assuming the intangible asset was not acquired through a business combination effected through the purchase of shares. Under IAS 12 *Income Taxes*, this treatment is not appropriate for intangible assets other than goodwill acquired through a business combination. The effect of this IFRS adjustment is to decrease deferred tax assets at September 30, 2010 by \$104 and December 31, 2010 by \$95, and to decrease income tax expense by \$9 for the year ended December 31, 2010.

Under IFRSs, all deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. The effect is to reclassify \$27 at December 31, 2010 from deferred tax assets (current) to deferred tax assets (non-current).

- (g) The above changes increased the deficit as follows, each net of related tax:

	Note	December 31, 2010	September 30 2010
Contingent consideration	a	500	500
Onerous lease agreements	b	583	-
Additional severance	c	149	-
Disposal of goodwill	d	540	540
Intangible assets other than goodwill	f	95	104
Increase in deficit		1,867	1,144

- (h) Under IAS 1 *Presentation of Financial Statements*, expenses recognized in the statement of earnings must be classified based on either their nature or their function. The Corporation has classified expenses based on their function for IFRSs as this is considered to be more relevant than classification based on nature. Under Canadian GAAP, a hybrid classification model was used, so various reclassifications were required between the different categories of expenses to comply with IFRSs.