



CRITICAL CONTROL SOLUTIONS CORP.

Consolidated Financial Statements
September 30, 2008

CRITICALCONTROL SOLUTIONS CORP.

Consolidated Balance Sheets

(In thousands of Canadian dollars, except share data)
(Unaudited)

	September 30, 2008	December 31, 2007
Assets		
Current assets:		
Cash	289	566
Restricted cash	-	200
Accounts receivable	4,270	3,440
Unbilled revenue	293	337
Inventory	134	105
Prepaid expenses and other	512	397
	5,498	5,045
Deferred costs	58	91
Property & equipment	2,307	2,653
Customer relationships & contracts	4,242	3,920
Goodwill	6,203	6,110
	18,308	17,819
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating line of credit (note 7)	200	823
Accounts payable and accrued liabilities	1,659	1,895
Unearned revenue	681	432
Current portion of long-term debt (note 8)	600	550
Current portion of deferred lease inducement	160	160
	3,300	3,860
Deferred lease inducement	1,191	1,310
Long-term debt (note 8)	400	950
	1,591	2,260
Shareholders' equity:		
Share capital (note 10b)	23,230	23,995
Contributed surplus (note 10c)	1,742	1,697
Deficit	(11,555)	(13,993)
	13,417	11,699
Subsequent event (note 12)		
	18,308	17,819

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"signed"
William Hammett

"signed"
Alykhan Mamdani

CRITICALCONTROL SOLUTIONS CORP.

Consolidated Statements of Operations, Comprehensive Income and Deficit

(In thousands of Canadian dollars, except share data
(Unaudited))

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Revenue	6,699	5,709	18,947	17,595
Cost of revenue	2,999	2,982	8,723	9,372
	3,700	2,727	10,224	8,223
Operating expenses:				
Selling and administrative	1,875	1,706	6,104	5,401
Research & development	155	259	507	651
Amortization of property & equipment	273	258	730	720
Amortization of customer relationships & contracts	146	127	417	370
(Gain) on sale of property & equipment	(9)	-	(55)	-
Loss on foreign exchange	6	9	13	18
Interest	22	239	70	806
Restructuring Charge	-	102	-	102
	2,468	2,700	7,786	8,068
Income from continuing operations	1,232	27	2,438	155
Loss from discontinued operations (note 4)	-	(340)	-	(794)
Net income (loss) and comprehensive income (loss) for the period	1,232	(313)	2,438	(639)
Deficit, beginning of period	(12,787)	(13,438)	(13,993)	(13,112)
Deficit, end of period	(11,555)	(13,751)	(11,555)	(13,751)
Net income (loss) per share				
Basic	0.010	(0.002)	0.019	(0.005)
Diluted (note 10g)	0.009	(0.002)	0.017	(0.005)
Weighted average number of shares outstanding				
Basic	128,606,069	131,183,561	131,251,938	130,306,472
Diluted	141,254,068	131,183,561	143,692,937	130,306,472

See accompanying notes to consolidated financial statements.

CRITICALCONTROL SOLUTIONS CORP.

Consolidated Statement of Cash Flows

Nine months ended September 30, 2008
(in thousands of Canadian dollars, except share data)
(unaudited)

	Three months ended September 30, 2008	Three months ended September 30, 2007	Nine months ended September 30, 2008	Nine months ended September 30, 2007
Cash flows from (used in) operating activities:				
Net income from operations	1,232	27	2,438	155
Items not involving cash:				
Amortization of property & equipment	273	258	730	720
Amortization of customer relationships & contracts	146	127	417	370
Deferred annual bonus plan	-	-	165	53
Rent reduction (deferred credit)	(40)	-	(120)	-
Gain on sale of property & equipment	(9)	-	(55)	-
Stock-based compensation	3	6	9	23
Non-cash interest	-	56	-	171
Amortization of deferred financing costs	-	33	-	105
	1,605	507	3,584	1,597
Change in non-cash working capital balances:				
Accounts receivable	(526)	442	(830)	1,429
Unbilled revenue	(7)	(409)	44	(496)
Inventory	(38)	14	(29)	(14)
Prepaid expenses and other	36	(229)	(115)	(182)
Accounts payable and accrued liabilities	191	1,006	(236)	39
Unearned revenue	61	166	249	176
Reduction in deferred cost	-	-	33	-
Increase in cash from continued operations	1,322	1,497	2,700	2,549
Decrease in cash from discontinued operations	-	(572)	-	(133)
	1,322	925	2,700	2,416
Cash flows from (used in) financing activities:				
Repurchase of shares for cancellation	(576)	-	(1,055)	-
Shares issued for cash	31	29	148	83
Deferred share purchase plan	-	-	13	-
Proceeds of operating line of credit	200	-	200	-
Repayment of operating line of credit	-	-	(823)	(550)
Repayment of long term debt	(150)	(2,700)	(500)	(2,711)
Proceeds from lease inducement	-	1,155	-	1,155
	(495)	(1,516)	(2,017)	(2,023)
Cash flows from (used in) investing activities:				
Acquisition of businesses (note 3)	(831)	-	(831)	(410)
Proceeds from restricted cash	-	-	200	-
Purchase of property & equipment	(170)	(26)	(405)	(281)
Proceeds on sale of property & equipment	-	-	76	-
Proceeds on sale of discontinued operations	-	634	-	634
	(1,001)	608	(960)	(57)
Increase (decrease) in cash	(174)	17	(277)	336
Cash, beginning of period	463	477	566	158
Cash, end of period	289	494	289	494
Supplemental disclosure of cash flow information:				
Interest paid	18	197	51	394

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

Nine months ended September 30, 2008
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1. Basis of Presentation

These interim consolidated financial statements of CriticalControl Solutions Corp. (the "Corporation") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements. These interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Corporation's annual audited consolidated financial statements as at and for the year ended December 31, 2007. In management's opinion, the interim consolidated financial statements include all adjustments necessary to present fairly such information.

2. Accounting Policy Changes

On January 1, 2008, the Corporation has adopted the new accounting standards, 1535 *Capital Disclosure*, 3031 *Inventories*, 3862 *Financial Instruments – Disclosures* and Section 3863 – *Financial Instruments – Presentation*, as issued by CICA.

CICA Section 1535, "Capital Disclosures", the new CICA Handbook Section 1535 "Capital Disclosures" requires the disclosure of qualitative and quantitative information about the Corporation's objectives, policies and processes for managing capital. Note 9 provides qualitative disclosures regarding objectives, policies and processes for managing capital. The adoption of this standard did not have a material impact on the consolidated financial statements.

CICA Section 3031 "Inventories" provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The adoption of this standard did not have a material impact on the consolidated financial statements.

CICA Section 3862, "Financial Instruments – Disclosures" and Section 3863 – "Financial Instruments – Presentation", the new CICA Handbook Sections 3862 and 3863 replaced Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The adoption of this standard did not have a material impact on the consolidated financial statements.

3. Business Acquisitions

Effective July 2, 2008 the Corporation acquired a web-based Supervisory Control and Data Acquisition (SCADA) business called SCADANet from Matrikon Inc. The purchase price of \$800,000 was paid in cash at closing and financed through a combination of cash on hand and the Corporation's operating line of credit.

The assets from the acquisition have been accounted for using the purchase method and the results of operations are included in the consolidated statements of operations and deficit from the date of acquisition. This purchase equation is preliminary and is subject to change.

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Fair value of assets acquired	
Customer relationships & contracts	738
Goodwill	93
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Net assets acquired	831
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Consideration	
Cash	800
Transaction costs	31
<hr/>	
	831
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Notes to Consolidated Financial Statements

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4. Assets held for sale and discontinued operations

In the third quarter of 2007, the Corporation sold all of the assets of its PipeWorks and IMS business units. The IMS business unit was sold to a third party in August 2007 for cash proceeds of \$165 and the PipeWorks business unit was sold in September 2007 to a third party for cash proceeds of \$550. Revenues and expenses of the business were netted and reported as income (loss) from discontinued operations on the consolidated statements of operations, comprehensive income and deficit for the period ended September 30, 2007. Financial information included herein for the period ended September 30, 2007 has been restated to reflect the year-end adjustments.

5. Segmented information

The Corporation has identified Government and Energy as reportable segments which are used to manage the business and key areas of potential growth to increase profitability. The segmented disclosures reflect these key segments.

All public company costs, interest and other expenses not directly attributed to the two operating segments are included in corporate and other.

In assessing performance of the segments and the allocation of resources to the segments, management of CriticalControl evaluates gross margin and contribution margin, defined as gross margin less selling and administrative expenses directly attributable to the segments.

All of the Corporation's identifiable assets are located in Canada.

	Government	Energy	Corporate & Other	Three months ended September 30, 2008
Revenue	3,703	2,996	-	6,699
Cost of revenue	2,001	998	-	2,999
Gross margin	1,702	1,998	-	3,700
Selling & administrative expense	672	594	609	1,875
Research & development expense	-	155	-	155
Amortization of property & equipment	56	215	2	273
Amortization of customer relationships & contracts	53	93	-	146
Gain on sale of property & equipment	-	-	(9)	(9)
Interest, contract losses & other expenses	-	-	28	28
	781	1,057	630	2,468
Income (loss) for the period	921	941	(630)	1,232
Segment assets	4,253	12,511	1,544	18,308
Capital expenditures	11	159	-	170

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Notes to Consolidated Financial Statements

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	Government	Energy	Corporate & Other	Three months ended September 30, 2007
Revenue	2,909	2,800	-	5,709
Cost of revenue	1,691	1,291	-	2,982
Gross margin	1,218	1,509	-	2,727
Selling & administrative expense	599	616	491	1,706
Research & development expense	-	259	-	259
Amortization of property & equipment	63	193	2	258
Amortization of customer relationships & contracts	53	74	-	127
Restructuring charges	-	-	102	102
Interest, contract losses & other expenses	-	-	248	248
	715	1,142	843	2,700
Income (loss) for the period from continuing operations	503	367	(843)	27
Loss from Discontinued operations	-	(340)	-	(340)
Net Income (loss) for the period	503	27	(843)	(313)

	Government	Energy	Corporate & Other	Nine months ended September 30, 2008
Revenue	10,678	8,269	-	18,947
Cost of revenue	5,830	2,893	-	8,723
Gross margin	4,848	5,376	-	10,224
Selling & administrative expense	2,341	1,958	1,805	6,104
Research & development expense	-	507	-	507
Amortization of property & equipment	173	553	4	730
Amortization of customer relationships & contracts	159	258	-	417
Gain on sale of property & equipment	-	-	(55)	(55)
Interest, contract losses & other expenses	-	-	83	83
	2,673	3,276	1,837	7,786
Income (loss) for the period	2,175	2,100	(1,837)	2,438
Segment assets	4,253	12,511	1,544	18,308
Capital expenditures	186	219	-	405

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	Government	Energy	Corporate & Other	Nine months ended September 30, 2007
Revenue	9,501	8,094	-	17,595
Cost of revenue	5,673	3,699	-	9,372
Gross margin	3,828	4,395	-	8,223
Selling & administrative expense	1,835	2,007	1,559	5,401
Research & development expense	-	651	-	651
Amortization of property & equipment	186	528	6	720
Amortization of customer relationships & contracts	159	211	-	370
Restructuring Charge	-	-	102	102
Interest & other Expenses	-	-	824	824
	2,180	3,397	2,491	8,068
Income from Continuing operations	1,648	998	(2,491)	155
Income / (Loss) from Discontinued operations	-	(794)	-	(794)
Net income (loss) for the period	1,648	204	(2,491)	(639)

For the nine months ended September 30, 2008 the Corporation derived approximately 56% (2007 – 41%) of its total revenue from the Government of Alberta. As at September 30, 2008, 33% (2007 – 28%) of accounts receivable pertained to this customer.

6. Income taxes

As at September 30, 2008 the Corporation and its subsidiaries have non-capital loss carry-forwards for income tax purposes available to reduce future taxable income,

7. Operating line of credit

On December 21, 2007, the Corporation secured a revolving line of credit for up to \$3,500 to support the Corporation's working capital requirement. The line bears interest at prime plus 0.50% payable monthly in arrears. As of September 30, 2008, \$200 was drawn on the line.

8. Long-term debt

The Corporation has the following long-term debt obligations:

	September 30, 2008	December 31, 2007
Term loan in the principal amount of \$1,500 expiring June, 2010 requiring monthly payments of \$50 plus interest. A general security agreement placing a charge on the assets of the Corporation and securities pledge agreements have been provided as collateral. Interest is calculated at bank prime plus 1%.	1,000	1,500
Less: current portion	600	550
	400	950

Interest paid on the long term debt during the period was \$15. Pursuant to the terms of the above facility, the Corporation is required to maintain certain covenants all of which were met for the period ended September 30, 2008.

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9. Capital Disclosures

The Corporation's objective when managing capital is to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders.

The Corporation monitors capital on the basis of debt to equity. This ratio is calculated as long term debt, net of cash, divided by equity.

The Corporation is meeting its objective of managing capital by maintaining a debt to equity ratio below 0.5:1, performing detailed due diligence on all potential acquisitions, and a monthly review of financial results.

The debt to equity ratio calculations at September 30, 2008 and December 31, 2007 were as follows:

	September 30, 2008	December 31, 2007
Current portion of long term debt	600	550
Long term debt	400	950
Cash	(289)	(566)
Net debt	711	934
Share capital	23,230	23,995
Contributed surplus	1,742	1,697
Deficit	(11,555)	(13,993)
Equity	13,417	11,699
Debt to equity	0.05:1	0.08:1

10. Share capital

Effective May 7, 2008, the Corporation received regulatory approval for Normal Course issuer bid ("the bid") from the TSX Venture Exchange to purchase for cancellation, from time to time as the Corporation considers advisable, up to 6,654,105 common shares or 5% of the 133,082,115 shares outstanding. The bid commenced on May 16, 2008 and will expire on May 15, 2009.

During the period ended September 30, 2008, the Corporation purchased for cancellation 6,654,000 shares at an average cost per share of \$0.159.

- Authorized: Unlimited common shares without nominal or par value.
- Issued and outstanding:

Common shares	Number	Amount
Balance, December 31, 2007	131,653,115	23,995
Issued on exercise of stock options	1,476,667	265
Issued on exercise of warrants	274,232	25
Shares repurchased and cancelled	(6,654,000)	(1,055)
Balance, September 30, 2008	126,750,014	23,230

During the period ended September 30, 2008, options to purchase common shares were exercised for proceeds of \$148. The additional \$117 credited to share capital represents a transfer of the contributed surplus in respect of these options.

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c. Contributed surplus:

Balance, December 31, 2007	1,697
Stock-based compensation expense	9
Reclassification of deferred share purchase	178
Reclassification to share capital for stock	(117)
Reclassification to share capital for warrants	(25)
Balance, September 30, 2008	1,742

d. Stock option plan:

As at September 30, 2008, the Corporation had 834,799 stock options outstanding with exercise prices ranging from \$0.10 to \$0.25 per share, expiring December 17, 2008 to August 9, 2011. The following table summarizes stock option transactions:

	Number of options	Weighted-average exercise price
Outstanding, December 31, 2007	2,493,300	\$0.12
Granted	-	0.00
Exercised	1,476,667	0.10
Cancelled	181,833	0.20
Outstanding, September 30, 2008	834,800	0.14
Exercisable, September 30, 2008	824,800	\$0.14

The Corporation has the following stock options outstanding:

Exercise Price	Number outstanding at September 30, 2008	Weighted-average remaining contractual life (years)	Number exercisable at September 30, 2008
\$0.10	316,800	0.69	316,800
\$0.11	50,000	1.06	50,000
\$0.12	195,000	1.52	195,000
\$0.20	120,000	1.45	110,000
\$0.25	153,000	1.84	153,000
	834,800	1.21	824,800

The Corporation records compensation costs on the granting of stock options using the fair value based method. The following table presents the weighted-average assumptions used to determine stock-based compensation expense using the Black-Scholes option pricing model:

	September 30, 2008	September 30, 2007
Stock-based compensation expense	\$9	\$23
Dividend yield	0.00%	0.00%
Expected volatility	91%	103% - 147%
Risk-free interest rate	2.60%	4.00%
Expected life	3 years	4 years
Weighted-average grant date fair value	\$0.15	\$0.15

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- e. The following table represents all deferred common shares granted:

Outstanding, December 31, 2007	475,481	\$105
Issued in 2008	1,616,088	\$178
Outstanding, September 30, 2008	2,091,569	\$ 283

As an additional performance incentive measure, the Corporation adopted a Deferred Annual Bonus and Share Purchase Plan ("DSP") in 2006. The DSP enables employees to elect to receive up to 10% of their annual base salary and up to 100% of any annual bonus to which they become entitled in the form of Deferred Common Shares ("DCS"). The DCS are issued in lieu of cash and as such, the amount of cash that the DCS is issued in lieu of is expensed. Each DCS may be redeemed by the holder for one common share of the Corporation for no additional payment on the death or termination of the holder's service to the Corporation. Up to 3,000,000 DCS may be issued under the Plan, but in no event shall the total number of DCS, combined with the number of outstanding stock options issued pursuant to the Corporation's stock option plan, exceed 10% of the outstanding shares of the Corporation.

- f. Warrants and Special Warrants:

As at September 30, 2008, the Corporation has 13,054,347 Special Warrants outstanding to acquire common shares with exercise prices ranging from \$0.115 to \$0.22 per share, expiring February 20, 2009 to January 3, 2010, as follows:

Exercise price	Number outstanding at September 30, 2008	Weighted-average remaining contractual life (years)
\$0.12	8,804,347	0.26
\$0.22	4,250,000	1.26
	13,054,347	0.59

The following table summarizes Warrant and Special Warrant transactions:

Outstanding December 31, 2007	13,981,630	\$0.15
Granted	-	-
Cancelled	(653,051)	\$0.12
Exercised	(274,232)	\$0.12
Outstanding, September 30, 2008	13,054,347	\$0.15

- g. Net income per share:

The calculation of net income per share is based on the weighted-average number of common shares outstanding and the diluted shares for the three months ended September 30, 2008 of 141,254,068 (three months ended September 30, 2007 – 131,183,561). Diluted amounts are calculated taking into consideration the potential conversions and the exercise of options, warrants and deferred share units. For the period ending September 30, 2007 such conversions and exercises of options, warrants and deferred share units are anti-dilutive and have been excluded from the calculation of diluted net income (loss) per share.

11. Financial instruments

As at September 30, 2008, the estimated fair values of cash, accounts receivable, operating line of credit, long term debt and accounts payable approximated their carrying values.

12. Subsequent event

On October 1, 2008 the Corporation announced that it had acquired the business and assets of Western Corrosion Technologies ("WCT") for \$525,000. \$490,000 of the purchase price was paid at closing, with the balance to be paid in May 2009, subject to certain performance criteria.