



CRITICALCONTROL SOLUTIONS CORP.

Consolidated Financial Statements
December 31, 2007

AUDITORS' REPORT

To the Shareholders of CriticalControl Solutions Corp.

We have audited the consolidated balance sheets of CriticalControl Solutions Corp. as at December 31, 2007 and 2006 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2007 and 2006 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Calgary, Canada
April 28, 2008

Ernst & Young LLP
Chartered Accountants

CRITICALCONTROL SOLUTIONS CORP.

Consolidated Balance Sheets

As At December 31, 2007 and 2006

(In thousands of Canadian dollars, except share data)

	2007	2006
Assets (note 11)		
Current assets:		
Cash	566	158
Restricted cash (note 2c)	200	0
Accounts receivable	3,440	5,640
Unbilled revenue	337	266
Inventory	105	216
Prepaid expenses and other	397	318
Assets held for sale (note 3)	0	1,930
	5,045	8,528
Deferred costs	91	230
Property & equipment (note 6)	2,653	2,971
Customer relationships & contracts (note 7)	3,920	4,152
Goodwill (note 8)	6,110	5,948
Assets held for sale (note 3)	0	345
	17,819	22,174
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating line of credit (note 10)	823	550
Accounts payable and accrued liabilities	1,896	2,363
Unearned revenue	432	473
Current portion of long-term debt (note 11)	550	1,697
Current portion of deferred lease inducement	160	0
Current liabilities associated with assets held for sale (note 3)	0	900
	3,861	5,983
Long-term warranty liability associated with assets held for sale (note 3)	0	17
Deferred lease inducement (note 2o)	1,310	0
Long-term debt (note 11)	950	4,040
	2,260	4,057
Shareholders' equity:		
Share capital (note 12)	23,995	23,537
Contributed surplus (note 12)	1,697	1,709
Deficit	(13,994)	(13,112)
	11,698	12,134
Commitments and contingencies (note 14)		
	17,819	22,174

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 Losses and Deficit

As At December 31, 2007 and 2006

(In thousands of Canadian dollars, except share data)

	2007	2006
Revenue	23,085	21,762
Cost of revenue	12,116	11,830
	10,969	9,932
Operating expenses:		
Selling and administrative	7,328	6,429
Research & development	908	205
Amortization of property & equipment (note 2)	987	1,024
Amortization of customer relationships & contracts (note 7)	527	471
Loss on sale of property & equipment	0	7
Loss on foreign exchange	25	86
Interest - long-term debt	950	1,379
Interest - other	25	49
Restructuring charge (note 13)	102	0
	10,852	9,650
Income from continuing operations	117	282
Loss from discontinued operations (note 3)	(999)	(555)
Net loss and comprehensive loss for the year	(882)	(273)
Deficit, beginning of year	(13,112)	(12,839)
Deficit, end of year	(13,994)	(13,112)
Net income (loss) from continuing & discontinued operations per share		
Earnings per share		
from continuing operations	0.001	0.002
from discontinued operations	(0.008)	(0.004)
Basic and diluted	(0.007)	(0.002)
Weighted average number of shares outstanding (note 12)		
Basic and diluted	130,826,608	127,890,482

See accompanying notes to consolidated financial statements.

CRITICALCONTROL SOLUTIONS CORP.

Consolidated Statement of Cash Flows

As At December 31, 2007 and 2006

(In thousands of Canadian dollars, except share data)

	2007	2006
Cash flows from (used in) operating activities:		
Net income from continuing operations	117	282
Increase (decrease) in cash from discontinued operations (note 3)	501	(674)
Proceeds from lease inducement	1,115	-
Items not involving cash:		
Amortization of property & equipment	987	1,024
Amortization of customer relationships & contracts	527	471
Loss on sale of property & equipment	-	7
Deferred annual bonus plan (note 12e)	53	52
Stock-based compensation (note 12d)	17	58
Non-cash interest	223	357
Amortization of deferred financing costs	133	222
	3,673	1,799
Change in non-cash working capital balances:		
Accounts receivable	2,042	(562)
Unbilled revenue	(506)	(76)
Inventory	33	(277)
Prepaid expenses and other	(147)	(22)
Accounts payable and accrued liabilities	(727)	(228)
Unearned revenue	358	147
Warranty liability	48	(1)
	4,774	780
Cash flows from (used in) financing activities:		
Shares issued for cash	121	141
Proceeds from operating line of credit	823	550
Repayment of operating line of credit	(550)	-
Proceeds from long-term debt	1,500	-
Repayment of long term debt	(5,961)	(1,302)
	(4,067)	(611)
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired (note 5)	(394)	(1,350)
Short-term investments (restricted cash)	(200)	-
Purchase of property & equipment	(339)	(601)
Proceeds on sale of property & equipment	-	1
Proceeds from sale of discontinued operations (note 3)	634	-
	(299)	(1,950)
Increase (decrease) in cash from continuing operations	408	(1,781)
Cash, beginning of year	158	1,939
Cash, end of year	566	158
Supplemental disclosure of cash flow information:		
Interest paid	619	849

See accompanying notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

As At December 31, 2007 and 2006

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1. Incorporation and nature of business

CriticalControl Solutions Corp. (the "Corporation" or "CriticalControl") is a technology company that enables its clients with better access to their critical business operational information. CriticalControl's proprietary products are technologies to allow faster access to and better control of the information required to operate the critical business operations of government and energy sector clients.

2. Significant accounting policies

a. Consolidation

The consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Corporation and its wholly-owned subsidiaries.

b. Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant areas requiring the use of estimates are the useful lives and impairment of customer relationships & contracts, valuation of stock based compensation and the impairment of goodwill. Actual results could differ from these estimates.

c. Restricted Cash

Restricted cash consists of cash set aside by the Corporation, and held by the Corporation's bank, to secure the letters of credit, which maybe drawn upon non-performance of the provincial government revenue contracts. The letters of credit expire in March and April, 2008, at which time the cash is expected to be released.

d. Inventory

Inventory is valued at lower of cost or market and relates to the hardware installed in the field. The Company determines its allowance for inventory obsolescence based upon expected inventory turnover, inventory aging, and current and future expectations with respect to product offerings. Assumptions underlying the allowance for inventory obsolescence include future sales trends and offerings and the expected inventory requirements and inventory composition necessary to support these future sales offerings. Given the current offering in the Energy sector where these inventory items are used, the company does not have an allowance for inventory obsolescence.

e. Property & equipment

Property & equipment are amortized over their estimated useful lives using the declining balance ("DB") method or straight-line ("SL"), method depending upon asset type, at the following annual rates:

Assets	Rate
Computer software	DB 20% - 50%
Computer hardware	DB 30% - 45%
Office furniture and equipment	DB 20%
Leasehold improvements	SL over the lease term

Property & equipment under capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Amortization of the equipment under capital lease is on the same basis as similar property and equipment.

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Capitalized costs for computer software include the costs of commercial software applications acquired through business acquisitions and costs incurred to develop commercial software applications. Costs incurred to develop commercial software applications are capitalized only after technological feasibility is established.

The Corporation regularly reviews the carrying value of its property & equipment. If the carrying amount exceeds the estimated recoverable amount, a write-down is charged to the consolidated statement of operations in the period the impairment is identified.

f. Customer relationships and contracts

Acquired customer relationships and contracts associated with business acquisitions are initially recorded at fair value and are amortized on a straight-line basis over the terms of the underlying contracts. Acquired customer contracts are assessed for impairment at least on an annual basis by estimating the associated net undiscounted future cash flows. The amount of impairment loss, if any, is the excess of the carrying value over the present value of estimated future cash flows and is charged to the consolidated statement of operations in the period the impairment is identified.

g. Goodwill

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the underlying net identifiable assets acquired or liabilities assumed. The Corporation assesses the carrying value of goodwill for impairment on an annual basis, or more frequently when changes in circumstances indicate that impairment may exist. To test for impairment, the fair value of the reporting units to which the goodwill relates to is compared to the carrying value of the reporting units. The Corporation determines the fair value of the reporting units using the present value of estimated cash flows. If the carrying value exceeds the fair value, an impairment loss is recognized. The amount of impairment loss, if any, is the excess of the carrying value over the fair value of the goodwill and is charged to the consolidated statement of operations in the period the impairment is identified.

h. Revenue recognition

The Corporation derives revenues primarily from providing solutions to clients in the Government and energy sectors. The Corporation's solutions for each sector comprise of (i) services, (ii) maintenance & support services and (iii) hardware and third party software. Each component of the Corporation's solution has specific revenue recognition policies as follows:

(i) Services

Services include the Corporation's document imaging and control business as well as the Corporation's solutions to the Energy sector which are dependent on the Corporation's proprietary ScanGas, NetFlow and ProTrend applications.

Revenue related to services is on a time and materials basis and recognized as the services are performed. Amounts invoiced in advance of work performed are recorded as unearned revenue and revenue recognized in advance of being invoiced is recorded as unbilled revenue.

(ii) Maintenance and support services

Revenue related to agreements for maintenance and support services is recognized on a straight-line basis over the term of the agreement.

(iii) Third party hardware and software

Sales of hardware and third-party software applications are recognized if there is persuasive evidence of acceptance and delivery, revenue is determinable and collection is probable.

i. Income taxes

The Corporation follows the liability method of accounting for income taxes. Under the liability method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates expected to

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apply in the years in which those temporary differences are expected to reverse. The effect on the future tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the date of substantive enactment. A valuation allowance is recorded to the extent there is uncertainty regarding the utilization of future tax assets.

j. Investment tax credits

Investment tax credits earned for qualifying Scientific Research and Experimental Development expenditures are deducted from the related expenditures when there is reasonable assurance they are recoverable.

k. Foreign currency

Monetary items denominated in foreign currency are translated to Canadian dollars at the exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets are acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the consolidated statement of operations.

l. Stock-based compensation

The Corporation has stock-based compensation plans described in note 12d and 12e. The Corporation accounts for stock options using the fair value based method whereby compensation expense is recognized based on the fair value of stock options granted, over the vesting period. The fair value of stock options granted is determined using a Black-Scholes option pricing model and is recorded as compensation expense in selling and administration and contributed surplus. Contributed surplus is reduced as stock options are exercised and credited to share capital.

m. Net loss per share

The treasury stock method is used in calculating diluted earnings per share. This method assumes that any proceeds from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the period. As the Corporation has experienced losses, the issuance of additional common shares upon exercise of warrants and stock options would be anti-dilutive, and therefore all warrants and options outstanding during the years ended December 31, 2007 and 2006 have been excluded from the calculation of diluted net loss per share.

n. Adoption of new accounting policies

Effective January 1, 2007 the Corporation adopted the new accounting standards for Section 1506 – Accounting Changes, 1530 - Comprehensive Income, 3855 - Financial Instruments – Recognition and Measurement, and 3865 - Hedges as issued by CICA. In accordance with transitional provisions for the new standards, these policies were adopted prospectively without restatement of prior periods.

CISA Section 1506, “Accounting Changes” prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of this revised standard did not have any material impact on the consolidated financial statements of the Corporation.

CICA Section 1530, “Comprehensive Income” introduces a new requirement to present certain gains and losses from changes in fair value outside net income in a new account, Other Comprehensive Income (“OCI”). It includes unrealized gains and losses such as changes in currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available for sale investments; and the effective portion of gains and losses on derivatives designated as cash flow hedges. The adoption of this revised standard did not result in recognition of any OCI for the periods presented.

CICA Section 3855, “Financial instruments – Recognition and Measurement”, prescribes when a financial instrument is to be recognized on a balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. Based on the Corporation’s categorization of its financial instruments, the adoption of the revised standard did not have an impact on the Corporation’s financial instruments. The Corporation has adopted a policy of recognizing the transaction costs as an expense when incurred. For the year 2007, \$20 was expensed as transaction costs to secure the term loan facility.

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CICA Section 3865, "Hedges", provides alternative treatments to Section 3855 for entities which chose to designate transactions as hedges for accounting purposes. It replaces and expands on Accounting Guidelines 13 "Hedging relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how the hedge accounting is applied and what disclosures are necessary when it is applied. At the present time the Corporation does not employ hedge instruments.

o. Lease inducement

All lease inducements received from the Corporation's landlords are recorded as liabilities and recognized as a reduction in rent over the term of the lease. In 2007, the Corporation recorded a cash inducement of \$1,115.

p. Future accounting changes

CICA Section 1535, "Capital Disclosures"

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007, 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. This new section is effective for the Corporation beginning January 1, 2008. The Corporation does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

CICA Section 3031 "Inventories"

Effective for interim and annual financial statements for fiscal years beginning on or after January 1, 2008, the new CICA Handbook 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. This new section is effective for the Corporation beginning January 1, 2008. The Corporation does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

CICA Section 3064 "Goodwill and Intangible Assets"

Effective for interim and annual financial statements for fiscal year beginning January 1, 2009, the new CICA handbook Section 3064 will replace 3062. The Corporation is in the process of evaluating the requirements of the new standard.

CICA Section 3862, "Financial Instruments – Disclosures" and Section 3863 – "Financial Instruments – Presentation"

Effective for interim and annual financial statements for fiscal years beginning on or after October 1, 2007, the new CICA Handbook Sections 3862 and 3863 will replace 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. These new sections are effective for the Corporation beginning January 1, 2008. The Corporation does not expect the adoption of this standard will have a material impact on its consolidated financial statements.

International Financial Reporting Standards ("IFRS")

In 2006 the Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements in Canada. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a five – year transition period with adoption required effective January 1, 2011. The Corporation is still in the process of understanding the financial impact of the transition to IFRS, which cannot be reasonably estimated at this time

3. Assets held for sale and discontinued operations

In the third quarter, 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

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business have been netted and reported as income (loss) from discontinued operations on the consolidated statements of operations, comprehensive income and deficit. Accordingly, the results of the PipeWorks and IMS business units and their financial positions have been segregated and presented separately as discontinued operations in the accompanying consolidated financial statements. As such, financial information included herein for the period ended December 31, 2006 has been restated to reflect this presentation.

The results of the discontinued operations for the period ended December 31, were as follows:

Operating Results	2007	2006
Revenue	2,089	3,840
Cost of revenue	1,457	2,325
	632	1,515
Selling & administrative expense	960	1,243
Research & development expense	183	695
Amortization of property & equipment	73	132
Loss from divesture	415	-
	1,631	2,070
Net loss for the period	(999)	(555)

Cash Flows	2007	2006
Loss for the period	(999)	(555)
Amortization	73	132
Disposal of goodwill	140	-
Loss on sale of property & equipment	274	-
	(512)	(423)
Change in non-cash working capital balances:		
Accounts receivable	1,050	(36)
Unbilled revenue	755	(135)
Inventory	111	-
Prepaid expenses and other	14	(93)
Accounts payable and accrued liabilities	(56)	(27)
Unearned revenue	(790)	65
Warranty liability	(71)	(25)
Increase (decrease) in cash from discontinued operations	501	(674)

The summarized Balance Sheet information for the periods ended December 31 was as follows:

	2007	2006
Current assets	-	1,930
Property & equipment	-	345
Total assets held for sale	-	2,275
Current liabilities	-	900
Long term warranty liability	-	17
Total liabilities associated with assets held for sale	-	917

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4. 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, and the accounting policies of the segments are the same as those described in note 2.

	Government	Energy	Corporate & Other	Year ended December 31, 2007
Revenue	12,521	10,564	-	23,085
Cost of revenue	7,451	4,665	-	12,116
Gross margin	5,070	5,899	-	10,969
Selling & administrative expense	2,542	2,508	2,278	7,328
Research & development expense		908	-	908
Amortization of property & equipment	287	692	8	987
Amortization of customer relationships & contracts	212	315	-	527
Interest, contract losses & other expenses	-	-	1,000	1,000
Restructuring charge	-	-	102	102
	3,041	4,423	3,388	10,852
Income (loss) from continuing operations for the	2,029	1,476	(3,388)	117
Segment assets	5,007	10,290	2,522	17,819
Capital expenditures	108	168	63	339

	Government	Energy	Corporate & Other	Year ended December 31, 2006
Revenue	11,645	9,708	409	21,762
Cost of revenue	6,671	4,988	171	11,830
Gross margin	4,974	4,720	238	9,932
Selling & administrative expense	1,103	1,263	4,103	6,469
Research & development expense	-	205	-	205
Amortization of property & equipment	174	485	365	1,024
Amortization of customer relationships & contracts	211	260	-	471
Interest, contract losses & other expenses	-	-	1,481	1,481
	1,488	2,213	5,949	9,650
Income (loss) from continuing operations for the year	3,486	2,507	(5,711)	282

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The Corporation earned revenue from sales in the following geographic areas (based on location of the customer):

	Year ended December 31, 2007	Year ended December 31, 2006
Canada	\$22,584	\$21,140
United States	501	622
	<u>\$23,085</u>	<u>\$21,762</u>

For the year ended December 31, 2007 the Corporation derived approximately 43% (2006 – 34%) of its total revenue from the Government of Alberta. As at December 31 2007, 33% (2006 – 21.2%) of accounts receivable pertained to this customer.

5. Business acquisitions

- a. Effective March 1, 2007, the Corporation acquired all of the issued and outstanding common shares of Idein Technologies Ltd. ("Idein"). Based in Calgary, Alberta, Idein's primary business is providing access to and control of electronic flow measurement and other devices at the well site. As consideration, CriticalControl paid \$255 in cash and issued 1,133,333 common shares of CriticalControl valued at a price of \$0.225 per share (based on the 3-day average closing share price prior to the announcement date) and transaction costs of \$10. The acquisition has 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.

The acquisition has 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.

Fair value of net assets acquired:	
Non-cash working capital	50
Property & equipment	2
Customer relationships & contracts	140
Goodwill	302
	<u>494</u>
Cash	26
Net assets acquired	<u>520</u>
Consideration:	
Cash	255
1,133,333 common shares	255
Transaction costs	10
	<u>520</u>

- b. On March 1, 2007, the Corporation paid \$135 to Crimtech Services Ltd. as final payment for the contingent portion of the purchase price related to the purchase of Remote Data Acquisition ("RDA") in April, 2006. This component of the purchase price has been recognized as an additional cost of the purchase being assigned to customer relationships and contracts.
- c. On August 9, 2006, CriticalControl acquired 100% of the outstanding shares of ProTrend Software Inc. ("ProTrend") for \$1,156 in cash and shares of CriticalControl. \$775 of the purchase price was paid in cash in addition to 1,843,318 common shares of the Corporation valued at a deemed price of \$0.163 per share (discounted from the 3-day average trading price due to the hold periods), transaction costs of \$40 and an additional \$41 working capital adjustment. In addition, a deferred payment of \$108 will be payable over 3 years based upon meeting certain performance criteria. This component of the purchase price will be recognized as an additional cost of the purchase being assigned to goodwill if and when the contingency is resolved and the additional consideration is issued.

The acquisition has 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.

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Fair value of net assets acquired:	
Working capital	41
Property & equipment	8
Computer software	430
Customer relationships and contracts	310
Goodwill & trademarks	367
Net assets acquired	1,156
Consideration:	
Cash	775
1,843,318 common shares	300
Transaction costs	40
Working capital adjustment	41
	1,156

The computer software related to the acquisition of ProTrend is being amortized over 5 years reflecting its estimated economic life, while customer relationships and contracts is being amortized over 15 years which reflects the pattern in which the economic benefit of the contracts will be consumed.

- d. Effective April 28, 2006, the Corporation acquired the "RDA assets from Crimtech Services Ltd. ("Crimtech") for \$560, consisting of \$495 of cash, 189,655 common shares of the Corporation valued at a price of \$0.29 per share (based on the 3-day average closing share price prior to the announcement date) and transaction costs of \$10.

The acquisition has 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.

Fair value of net assets acquired:	
Property & equipment	22
Customer relationships and contracts	538
Net assets acquired	560
Consideration:	
Cash	495
189,655 common shares	55
Transaction costs	10
	560

The computer software related to the acquisition of RDA is being amortized over 5 years reflecting its estimated economic life, while customer relationships and contracts is being amortized over 15 years which reflects the pattern in which the economic benefit of the contracts will be consumed.

6. Property & Equipment

2007	Cost	Accumulated amortization	Net book value
Computer software	4,631	3,316	1,315
Computer hardware	1,049	447	602
Office furniture and equipment	661	346	315
Leasehold improvements	703	282	421
	7,044	4,391	2,653

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2006	Cost	Accumulated amortization	Net book value
Computer software	4,595	2,860	1,735
Computer hardware	855	77	778
Office furniture and equipment	629	265	364
Leasehold improvements	187	93	94
	6,266	3,295	2,971

7. Customer relationships & contracts

	Net book value
Balance, December 31, 2005	3,746
Acquisition of RDA (note 5d)	538
Acquisition of Protrend (note 5c)	310
Acquisition of certain assets of Oil & Gas Accounting	29
Amortization	(471)
Balance, December 31, 2006	4,152
Acquisition of Idein (note 5a)	140
Acquisition of RDA (note 5b)	135
Acquisition of certain assets of Oil & Gas Accounting	20
Amortization	(527)
Balance, December 31, 2007	3,920

8. Goodwill

The changes in the carrying amount of goodwill are as follows:

	Net book value
Balance, December 31, 2005	5,581
Acquisition of ProTrend (note 5c)	367
Balance, December 31, 2006	5,948
Acquisition of Idein (note 5a)	302
Goodwill disposal related to discontinued operations (note 3)	(140)
Balance, December 31, 2007	6,110

The goodwill balance at December 31, 2007 is included in the segment assets of Government (\$2,490) and Energy (\$3,620). At December 31, 2006, the goodwill balance is included in the segmented assets of Government (\$2,490) and Energy (\$3,458). In 2007, \$140 of the goodwill associated with the Corporation's discontinued operations was written off and is included in the operating results of discontinued operations. No impairment charges resulted from the required impairment evaluations of the continuing operations reporting units.

9. Income taxes

- The provision for income taxes differs from the amount computed by applying the statutory income tax rate to loss before income tax recovery. The sources and tax effects of the differences are as follows:

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	Year ended December 31, 2007	Year ended December 31, 2006
Loss before income tax recovery	(882)	(273)
Statutory income tax rate	32.12%	32.49%
Expected income tax recovery	(283)	(89)
Adjustments resulting from:		
Rate adjustment	331	763
Revaluation of future assets	(978)	(642)
Other	134	77
(Increase) / Decrease in valuation allowance	796	(109)
Income tax recovery	-	-

Future income tax assets and liabilities are comprised of:

	Year ended December 31, 2007	Year ended December 31, 2006
Non-capital losses carried forward	2,784	3,245
Property & equipment	1,070	2,301
Share issuance costs	61	116
Future tax asset	3,915	5,662
Less:		
Future tax liability related to customer contracts	(559)	(846)
Valuation allowance	(3,356)	(4,816)
Future income taxes	-	-

As at December 31, 2007 the Corporation and its subsidiaries have approximately \$11,136 of non-capital loss carry-forwards for income tax purposes available to reduce future taxable income, which expire as follows:

Year ending December 31,	2007	2006
2008	-	498
2009	1,975	3,641
2010	696	1,178
2011	952	1,829
2012	-	836
2014	679	-
2015	3,205	1,667
2026	2,031	1,541
2027	1,598	-
	11,136	11,190

The future tax asset with respect to non-capital loss carry forwards has been recognized only to the extent that it reduces the future tax liability from customer contracts.

10. Operating line of credit

On August 21, 2006, the Corporation entered into a revolving credit agreement which provided a line of credit up to \$1,000. The interest on the line was at prime rate plus 2.5% payable monthly in arrears. As of December 31, 2006, \$550 was drawn on the line and fully paid out in the first quarter of 2007.

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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 December 31, 2007, \$823 was drawn on the line.

11. Long-term debt

- a. The Corporation has the following long-term debt obligations:

	December 31, 2007	December 31, 2006
i. Capital lease obligation \$225.	-	10
ii. Debenture, \$1,700, due August 20, 2007, general security agreement placing a charge on the assets of the Corporation and securities pledge agreements, subordinated to the interests of the Corporation's bank, have been provided as collateral (note 11b).	-	1,687
iii. Debenture, \$4,250, paid prior to maturity date of January 3, 2008, general security agreement placing a charge on the assets of the Corporation and securities pledge agreements, subordinated to the interests of the Corporation's bank, have been provided as collateral (note 11c).	-	4,040
iv. Term loan, \$1,500, expiring June 2010, monthly payments of \$50 general security agreement placing a charge on the assets of the Corporation and securities pledge agreements, have been provided as collateral (note 11d).	1,500	-
	1,500	5,737
Less: current portion	550	1,697
	950	4,040

- b. On August 20, 2004, the Corporation closed a private placement of a debenture in the principal amount of \$2,700. The terms of the debenture included interest at 12% per annum payable monthly, with principal being due on August 20, 2006. In addition, the Corporation granted to the debenture holder 11,739,130 special warrants (the "Special Warrants"), each Special Warrant entitling the holder to receive, without payment of any additional consideration, one common share purchase warrant (the "Warrants"), each Warrant entitling the holder to acquire one common share of the Corporation at \$0.115 per share. 2,934,783 Special Warrants are exercisable for Warrants that expire on August 20, 2008 and 8,804,347 Special Warrants are exercisable for Warrants that expire on February 20, 2009.

On June 30, 2006, the Corporation extended the term of its financing agreements with its lender. Repayment of the \$2,700 debenture which was due on August 20, 2006 was amended such that \$1,000 was paid on August 20, 2006 and the remainder was paid on August 20, 2007.

- c. On March 31, 2005, the Corporation closed a private placement of a debenture in the principal amount of \$4,250. The terms of the debenture include interest at 12% per annum payable monthly, with the principal amount being due on March 31, 2007. In addition, the Corporation granted to the debenture holder 4,250,000 Warrants, each Warrant entitling the holder to purchase one common share of the Corporation at a price of \$0.35 per share. An amount of \$613 has been attributed to the Warrants and has been recorded as contributed surplus.

On June 30, 2006, the Corporation extended the term of its financing agreements with its lender. Repayment of the debentures in the amount of \$4,250 due March 31, 2007 was extended to January 3, 2008 and paid on December 21, 2007. As consideration the Corporation also paid its lender a 1% extension fee and replaced Warrants previously granted to purchase 4.25 million shares at \$0.35 per share prior to March 31, 2009 with Special Warrants to purchase 4.25 million shares at \$0.22 per share prior to January 3, 2010. An additional amount of \$85 was attributed to the Warrants and recorded as contributed surplus.

- d. On December 21, 2007, the Corporation secured a term loan facility in the principal amount of \$1,500. The term of the facility is for a period of 30 months, includes interest rate of bank prime plus 1% and monthly payment of principal plus interest. The proceeds of the facility were used to retire the debenture, as described in note c above.

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Pursuant to the terms of the facility, the Corporation is required to maintain certain covenants all of which were met for the period ended December 31, 2007.

12. Share capital

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

Common shares	Number	Amount
Balance, December 31, 2005	126,121,271	\$22,986
Issued on exercise of stock options– see (i) below	215,659	38
Issued on exercise of Warrants – see (ii) below	1,073,913	158
Issued on acquisition of RDA (note 5d)	189,655	55
Issued on acquisition of ProTrend (note 5c)	1,843,318	300
Balance, December 31, 2006	129,443,816	\$23,537
Issued on exercise of stock options – see (iii) below	1,075,966	189
Issued on acquisition of Idein (note 5a)	1,133,333	255
Proceeds from employee trust shares		14
Balance, December 31, 2007	131,653,115	\$23,995

- i. During the year ended December 31, 2006, options to purchase common shares were exercised for proceeds of \$22. The additional \$16 credited to share capital represents a transfer of the contributed surplus in respect of these options.
- ii. During the year ended December 31, 2006, Warrants to purchase common shares were exercised for proceeds of \$119. The additional \$39 credited to share capital represents a transfer of the contributed surplus in respect of these Warrants.
- iii. During the year ended December 31, 2007, options to purchase common shares were exercised for proceeds of \$107. The additional \$82 credited to share capital represents a transfer of the contributed surplus in respect of these options.

- c. Contributed surplus:

Balance, December 31, 2005	\$1,569
Stock-based compensation expense (note 12d)	58
Reclassification of deferred annual bonus plan	52
Reclassification to Share Capital for stock options exercised (note 12b(i))	(16)
Reclassification to Share Capital for warrants exercised (note 12b(ii) & 12f)	(39)
Value attributed to Warrants (note 11c)	85
Balance, December 31, 2006	\$1,709
Stock-based compensation expense (note 12d)	17
Reclassification of deferred annual bonus plan	53
Reclassification to share capital for stock options exercised (note 12b(iii))	(82)
Balance, December 31, 2007	\$1,697

- d. Stock option plan:

The Corporation grants stock options pursuant to an incentive plan (the "Plan"). Under the Plan, stock options may be granted to directors, officers, employees, and consultants of the Corporation. A maximum of 10% of the issued and outstanding common shares of the Corporation have been reserved for issuance under the Plan. If any option expires without having been exercised or an award is terminated or forfeited

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for any reason, the common shares shall again be available for issuance in connection with future awards under the Plan. The Board of Directors (or Compensation Committee of the Board, if designated by the Board) may set the exercise price of each option, subject to certain pricing restrictions. Generally, stock options vest over a three-year period from the date of grant and are exercisable over a period of not more than five years. The Board of Directors or Compensation Committee, as the case may be, must specify the vesting schedule for each option upon its grant.

As at December 31, 2007, the Corporation had 2,493,300 (2006 – 4,019,600) stock options outstanding with exercise prices ranging from \$0.10 to \$0.25 per share, expiring January 16, 2008 to August 9, 2011. The following table summarizes stock option transactions:

	Number of options	Weighted-average exercise price
Outstanding, December 31, 2005	5,166,433	\$0.15
Granted	145,000	0.21
Exercised	215,659	0.10
Cancelled	1,076,174	0.30
Outstanding, December 31, 2006	4,019,600	\$0.12
Exercisable, December 31, 2006	3,306,765	\$0.11
Granted	-	-
Exercised	1,075,966	0.10
Cancelled	450,334	0.13
Outstanding, December 31, 2007	2,493,300	\$0.12
Exercisable, December 31, 2007	2,291,292	\$0.12

The Corporation has the following stock options outstanding:

Exercise Price	Number outstanding at December 31, 2007	Weighted-average remaining contractual life (years)	Number exercisable at December 31, 2007
\$0.10	1,794,800	0.27	1,794,800
\$0.11	50,000	1.56	50,000
\$0.12	230,000	1.97	186,662
\$0.20	225,500	1.77	131,164
\$0.24	40,000	2.20	26,666
\$0.25	153,000	3.61	102,000
	2,493,300	0.83	2,291,292

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:

	December 31, 2007	December 31, 2006
Stock-based compensation expense	\$17	\$58
Dividend yield	0.00%	0.00%
Expected volatility	103%	103% - 147%
Risk-free interest rate	4.00%	4.00%
Expected life	3 years	4 years
Weighted-average grant date fair value	\$0.08	\$0.15

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e. Deferred Annual Bonus and Share Purchase Plan:

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"). All annual fees to directors of the Corporation and annual bonuses to management who are also directors of the Corporation are paid exclusively in DCS. The number of DCS issued is calculated by dividing the amount of the fee payable or portion of annual bonus so elected by the three day average trading price of the common shares of the Corporation at the end of each month (for DCS issued in lieu of annual salary) or fiscal year (for DCS issued for directors fees or in lieu of annual bonus) for which the DCS are issued. DCS are only issued to directors and senior officers of the Corporation upon the filing of the annual financial statements of the Corporation and only in the event such director or senior officer of the Corporation remains as such at such time as the audited annual financial statements of the Corporation are filed. Until such time as the DCS are issued, the liability associated with them are included herein as an accrued liability. Once the DCS are issued, the liability is deemed to be paid and the accrued liability is reclassified to Contributed Surplus.

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.

The following table represents all DCS granted:

Outstanding, December 31, 2006	181,035	\$52
Issued in 2007	294,446	\$53
Outstanding, December 31, 2007	475,481	\$105

f. Warrants and Special Warrants:

As at December 31, 2007, the Corporation has 13,981,630 Special Warrants (December 31, 2006 – 13,981,630 Special Warrants and 11,111,280 Warrants) outstanding to acquire common shares with exercise prices ranging from \$0.115 to \$0.22 per share, expiring August 20, 2008 to January 3, 2010, as follows:

Exercise price	Number outstanding at December 31, 2007	Weighted-average remaining contractual life (years)
\$0.12	9,731,630	1.0
\$0.22	4,250,000	2.0
	13,981,630	1.3

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The following table summarizes Warrant and Special Warrant transactions:

	Number of warrants	Weighted-average exercise price
Outstanding, December 31, 2005	27,166,823	\$0.27
Cancelled (see note 11d)	(4,250,000)	0.35
Granted (see note 11d)	4,250,000	0.22
Exercised in 2006	(1,073,913)	0.11
Expired in 2006	(1,000,000)	0.9
Outstanding, December 31, 2006	25,092,910	\$0.23
Expired	(11,111,280)	0.33
Outstanding, December 31, 2007	13,981,630	\$0.15

g. Loss per share:

The calculation of net loss per share is based on the weighted-average number of common shares outstanding for the year (2007 – 130,826,608 and 2006 – 127,890,482). Diluted amounts are calculated taking into consideration the potential conversions and the exercise of options and warrants. Such conversions and exercises of options and warrants are anti-dilutive and have been excluded from the calculation of diluted net loss per share.

13. Restructuring Charges

In 2007 the Corporation incurred restructuring charges of \$102. These charges related to professional and legal fees associated with the restructuring plan, employee severance and other related charges.

14. Commitments and contingencies

The Corporation is committed to annual minimum lease payments under operating leases for premises and equipment through 2017. Annual payments required are as follows:

Year ending	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
December 31,										
Annual payments	787	788	794	790	595	560	560	560	560	373

15. Financial instruments

As at December 31, 2007, the estimated fair values of cash, accounts receivable, operating line of credit, long term debt and accounts payable approximated their carrying values.

16. Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted for the current period.