



**CRITICALCONTROL SOLUTIONS CORP.**

**Consolidated Financial Statements**  
September 30, 2007

# CRITICALCONTROL SOLUTIONS CORP.

## Consolidated Balance Sheets

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

	September 30, 2007	December 31, 2006
<b>Assets</b> (note 7)		
Current assets:		
Cash and cash equivalents	\$ 494	\$ 158
Accounts receivable	4,478	5,640
Unbilled revenue	358	266
Inventory	147	216
Prepaid expenses and other	428	318
Assets held for sale (note 4)	-	1,930
	5,905	8,528
Deferred costs	91	230
Property & equipment	2,927	2,971
Customer relationships and contracts	4,077	4,152
Goodwill	6,250	5,948
Assets held for sale (note 4)	-	345
	\$ 19,250	\$ 22,174
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Operating line of credit	-	550
Accounts payable and accrued liabilities	2,269	2,363
Unearned revenue	363	473
Current portion of long-term debt (note 7)	3,198	1,697
Current portion of deferred credits	160	-
Current liability associated with assets held for sale (note 4)	-	900
	5,990	5,983
Long-term warranty liability associated with assets held for sale (note 4)	-	17
Deferred lease inducement	1,351	-
Long-term debt (note 7)	-	4,040
	1,351	4,057
Shareholders' equity:		
Share capital (note 8)	23,928	23,537
Contributed surplus (note 8)	1,732	1,709
Deficit	(13,751)	(13,112)
	11,909	12,134
	\$ 19,250	\$ 22,174

See accompanying notes to consolidated financial statements.

On behalf of the Board:

“signed”  
William Hammett, Director

“signed”  
Hashu Remtulla, C.F.O.

# CRITICALCONTROL SOLUTIONS CORP.

## Consolidated Statements of Operations, Comprehensive Income and Deficit

Nine months ended September 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Revenue	\$5,709	\$5,167	\$17,595	\$16,326
Cost of Revenue	2,982	2,886	9,372	8,806
	2,727	2,281	8,223	7,520
<b>Expenses:</b>				
Selling and administrative expenses	1,706	1,649	5,241	4,613
Research and development expenses	259	74	651	133
Amortization of property & equipment	258	262	720	727
Amortization of customer relationships & contracts	127	125	370	347
Loss on foreign exchange	9	8	18	82
Interest - long-term debt	237	287	784	1,090
Interest - other	2	16	24	42
Restructuring charges (note 6)	102	-	102	-
	2,700	2,421	7,910	7,034
<b>Income (loss) from continuing operations</b>	27	(140)	313	486
Loss from discontinued operations (note 4)	(340)	(52)	(952)	(784)
Other Comprehensive Income (note 2)	-	-	-	-
<b>Net loss for the period</b>	(313)	(192)	(639)	(298)
Deficit, beginning of period	(13,438)	(12,945)	(13,112)	(12,839)
Deficit, end of period	(13,751)	(13,137)	(13,751)	(13,137)
Net income (loss) from continuing & discontinued operations per share				
Basic and diluted (note 8)	0.00	0.00	0.00	0.00
Weighted average number of shares outstanding:				
Basic and diluted	131,183,561	128,551,970	130,306,472	127,367,104

See accompanying notes to consolidated financial statements.

# CRITICALCONTROL SOLUTIONS CORP.

## Consolidated Statements of Cash Flows

Nine months ended September 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
<b>Cash flows from continuing operating activities</b>				
Net income (loss) for the period from continuing operations	\$27	\$(140)	\$ 313	\$ 486
Items not involving cash:				
Amortization of property & equipment	258	262	720	727
Amortization of customer relationships & contracts	127	125	370	347
Loss on sale of discontinued operations	69	-	69	-
Deferred annual bonus plan	-	-	53	-
Stock-based compensation (note 8)	6	11	23	42
Non-cash interest	56	57	171	298
Amortization of deferred financing costs	33	34	105	185
	576	349	1,824	2,085
Change in non-cash working capital balances:				
Accounts receivable	442	538	1,429	120
Unbilled revenue	(409)	25	(496)	(58)
Inventory	14	(535)	(14)	(531)
Prepaid expenses and other	(229)	120	(182)	(218)
Accounts payable and accrued liabilities	1,006	158	39	(384)
Unearned revenue	166	(17)	176	165
	1,566	638	2,776	1,179
<b>Cash flows from (used in) financing activities</b>				
Shares issued for cash	29	50	83	141
Repayment of operating line of credit	-	900	(550)	900
Repayment of long term debt	(2,700)	(1,079)	(2,711)	(1,232)
Proceeds from lease inducement	1,155	-	1,155	-
	(1,516)	(129)	(2,023)	(191)
<b>Cash flows from (used in) investing activities</b>				
Purchase of property & equipment	(26)	(89)	(281)	(389)
Acquisition of business, net of cash acquired	-	(775)	(410)	(1,270)
Proceed from sale of discontinued operations	634	-	634	-
	608	(864)	(57)	(1,659)
Increase (decrease) in cash and cash equivalents from continuing operations	658	(355)	696	(671)
Decrease in cash and cash equivalents from discontinued operations (note 4)	(641)	(456)	(360)	(693)
Cash and cash equivalents, beginning of period	477	1,386	158	1,939
Cash and cash equivalents, end of period	494	575	494	575
Supplemental disclosure of cash flow information:				
Interest paid	150	212	532	649

See accompanying notes to consolidated financial statements.

## Notes to Consolidated Financial Statements

Nine months ended September 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

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### 1. Basis of Presentation

These interim consolidated financial statements of CriticalControl Solutions Corp. (“CriticalControl” or “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, 2006. In management’s opinion, the interim consolidated financial statements include all adjustments necessary to present fairly such information.

### 2. Accounting Policy Changes

In Q1 the Corporation adopted the new accounting standards, 1530 Comprehensive Income, 3855 Financial Instruments – Recognition and Measurement, and 3865 Hedges as issued by CICA.

CICA Section 1530, “Comprehensive Income” introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. 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 comprehensive income (loss) 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.

CICA Section 3865, “Hedges”, provide 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.

### 3. Business Acquisition

- (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 statement of operations from the date of acquisition.

# CRITICALCONTROL SOLUTIONS CORP.

## Notes to Consolidated Financial Statements

Nine months ended September 30, 2007

(In thousands of Canadian dollars, except share data)

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

- (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 acquisition of 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.

#### 4. Assets held for Sale and Discontinued Operations

The Corporation in the third quarter 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. Pursuant to the CICA recommendation Section 3475, "Disposal of Long-lived Assets and Discontinued Operations" the revenues and expenses of the 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 three months and nine months ended September 30, 2006 have been restated to reflect this presentation.

The results of the discontinued operations for the period ended September 30, were as follows:

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Operating results				
Revenue	443	897	2,089	2,737
Cost of revenue	241	515	1,457	1,741
	202	382	632	996
Selling & administrative expense	257	247	1,118	1,128
Research & development expense	35	154	183	553
Amortization of property & equipment	-	33	33	99
Loss from divesture	250	-	250	-
	542	434	1,584	1,780
Net Loss for the period	(340)	(52)	(952)	(784)

# CRITICALCONTROL SOLUTIONS CORP.

## Notes to Consolidated Financial Statements

Nine months ended September 30, 2007

(In thousands of Canadian dollars, except share data)

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Cash flows	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Net Income (loss) for the period	(340)	(52)	(952)	(784)
Amortization	-	33	33	99
	(340)	(19)	(919)	(685)
Change in non-cash working capital balances:				
Accounts receivable	(390)	(237)	557	377
Unbilled revenue	693	(44)	724	(37)
Inventory	120	-	115	-
Prepaid expenses and other	77	3	45	(11)
Accounts payable and accrued liabilities	(239)	8	(183)	(24)
Unearned revenue	(562)	(161)	(676)	(307)
Warranty liability	-	(6)	(23)	(6)
Net cash decrease from discontinued operations	(641)	(456)	(360)	(693)

The summarized Balance Sheet information for the periods ended September 30 and December 31 were as follows:

	September 30, 2007	December 31, 2006
Current assets	-	1,930
Property & Equipment	-	345
<b>Total assets held for sale</b>	<b>-</b>	<b>2,275</b>
Current Liabilities	-	900
Long term warranty liability	-	17
<b>Total liabilities associated with assets held for sale</b>	<b>-</b>	<b>917</b>

### 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 evaluate 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.

# CRITICALCONTROL SOLUTIONS CORP.

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Nine months ended September 30, 2007

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The financial information included herein for the comparative periods ending September 30 have been restated to reflect certain discontinued operations and reclassification of Revenue to eliminate reference to "Other Revenue", which given the Corporation's continued focus on the Government and Energy verticals, is no longer material.

	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
	1,218	1,509	-	2,727
Selling & administrative expense	599	616	491	1,706
Research & development expense	-	259	-	259
Amortization of property & equipment	63	161	34	258
Amortization of customer relationships & contracts	53	74	-	127
Restructuring charges (note 6)	-	-	102	102
Interest & other Expenses	-	-	248	248
	715	1,110	875	2,700
Income from Continuing operations	503	399	(875)	27
Loss from Discontinued operations	-	(340)	-	(340)
Net income (loss) for the period	503	59	(875)	(313)
Segment assets	6,254	11,065	1,931	19,250
Capital expenditures	10	16	-	26

	Government	Energy	Corporate & Other	Three months ended September 30, 2006
Revenue	\$2,615	\$2,552	-	\$5,167
Cost of revenue	1,578	1,308	-	2,886
	1,037	1,244	-	2,281
Selling & administrative expense	532	607	510	1,649
Research & development expenses	-	74	-	74
Amortization of property & equipment	49	210	3	262
Amortization of customer contracts	53	72	-	125
Interest & Other expenses	-	-	311	311
	634	963	824	2,421
Income from Continuing operations	403	281	(824)	(140)
Income / (Loss) from Discontinued operations	-	(52)	-	(52)
Net Income (loss) for the period	403	229	(824)	(192)

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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
	3,828	4,395	-	8,223
Selling & administrative expense	1,835	1,847	1,559	5,241
Research & development expense	-	651	-	651
Amortization of property & equipment	186	426	108	720
Amortization of customer relationships & contracts	159	211	-	370
Restructuring charges (note 6)	-	-	102	102
Interest & other Expenses	-	-	826	826
	2,180	3,135	2,595	7910
Income from Continuing operations	1,648	1,260	(2,595)	313
Loss from Discontinued operations	-	(952)	-	(952)
Net income (loss) for the period	1,648	308	(2,595)	(639)
Segment assets	6,254	11,065	1,931	19,250
Capital expenditures	85	147	49	281

	Government	Energy	Corporate & Other	Nine months ended September 30, 2006
Revenue	\$8,871	\$7,455	-	\$16,326
Cost of revenue	4,994	3,812	-	8,806
	3,877	3,643	-	7,520
Selling & administrative expense	1,727	1,419	1,467	4,613
Research & development expenses	-	133	-	133
Amortization of property & equipment	135	532	60	727
Amortization of customer contracts	141	206	-	347
Interest & Other expenses	-	-	1,214	1,214
	2,003	2,290	2,741	7,034
Income (loss) from Continuing operations	1,874	1,353	(2,741)	486
Loss from Discontinued operations	-	(784)	-	(784)
Net Income (loss) for the period	1,874	569	(2,741)	(298)

The Corporation earned revenue from sales to customers in the following geographic areas:

	Three months ended September 30, 2007	Three months ended September 30, 2006	Nine months ended September 30, 2007	Nine months ended September 30, 2006
Canada	\$5,632	\$5,038	\$17,094	\$15,944
United States	77	129	501	382
	\$5,709	\$5,167	\$17,595	\$16,326

## Notes to Consolidated Financial Statements

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For the nine months ended September 30, 2007 the Corporation derived approximately 41% (2006 - 34%) of its total revenue from the Government of Alberta. As at September 30, 2007, 28% (2006 - 19%) of accounts receivable pertained to this customer.

### 6. Restructuring Charges

In 2007 the Corporation undertook an in depth review of its business with a view of identifying the portions of its business which provide the greatest opportunity for growth and profit. As a result of this review, the Corporation divested certain portions of its business, which in turn enabled the Corporation to streamline its overhead. The Corporation incurred restructuring charges of \$102 during the third quarter. These charges related to professional and legal fees associated with the restructuring plan, employee severance and other related charges.

### 7. Long-term Debt

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

	September 30, 2007	December 31, 2006
(i) Capital lease obligation,	-	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 7(b)).	-	1,687
(iii) Debenture, \$4,250, due 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 7(c)).	3,198	4,040
	3,198	5,737
Less: current portion	3,198	1,697
	\$ -	\$ 4,040

(b) On August 20, 2004, the Corporation closed a private placement of a debenture in the principal amount of \$2,700, \$1,000 of which was repaid in August 2006, and the remaining balance of \$1,700 was paid in August 2007 from cash in hand.

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.

(c) On September 30, 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 January 3, 2008. Upon the occurrence of any event of default the interest on the principal amount and any unpaid accrued interest will increase to 20% per annum. A general security agreement and securities pledge agreements have been pledged as security. The Corporation made repayments on this debenture of \$500 on September 19, 2007 and \$500 on September 28, 2007.

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In addition, the Corporation granted to the debenture holder 4,250,000 warrants that expire on January 3, 2010. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.22 per share. An amount of \$698 has been attributed to the warrants and has been recorded as contributed surplus.

Pursuant to the terms of the debenture agreement, the Corporation is required to maintain, for the fiscal quarter ended December 31, 2005 and for every fiscal quarter thereafter, (A) a four-quarter trailing EBITDA of \$1,500 and (B) a four-quarter trailing EBITDA, less any capitalized software development expenses and less any funds used for capital expenditures (in each case over such trailing four quarters), of not less than \$1,100.

The Corporation met these covenants for the fiscal quarter ended September 30, 2007.

### 8. Share capital

(a) Authorized: Unlimited common shares without nominal or par value.

(b) Issued and outstanding:

	Number	Amount
Common shares:		
Balance, December 31, 2006	129,443,816	\$ 23,537
Issued on exercise of stock options	700,966	123
Issued on acquisition of Idein Technology	1,133,333	255
Decrease in note receivable from Employee Trust	0	13
Balance, September 30, 2007	131,278,115	\$ 23,928

(c) Contributed surplus:

Balance, December 31, 2006	\$ 1,708
Stock-based compensation expense	23
Reclassification of deferred annual bonus plan	53
Reclassification to share capital for stock options exercised	(52)
Balance, September 30, 2007	\$ 1,732

(d) Stock option plan: As at September 30, 2007, the Corporation had 3,225,300 stock options outstanding with exercise prices ranging from \$0.10 to \$0.25 per share, expiring January 16, 2008 to August 1, 2011. The following table summarizes stock option transactions:

	Number of options	Weighted-average exercise price
Outstanding, December 31, 2006	4,019,600	\$0.12
Granted	-	-
Cancelled	(93,334)	0.10
Exercised	(700,966)	0.10
Outstanding, September 30, 2007	3,225,300	\$0.12
Exercisable, September 30, 2007	2,935,955	\$0.11

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The Corporation has the following stock options outstanding:

Exercise price	Number outstanding at September 30, 2007	Weighted-average remaining contractual life (years)	Number exercisable at September 30, 2007
\$0.10	2,404,800	0.7	2,391,466
\$0.11	50,000	1.8	50,000
\$0.12	350,000	2.5	229,992
\$0.17	2,000	1.0	1,333
\$0.20	225,500	2.2	134,497
\$0.24	40,000	2.4	26,667
\$0.25	153,000	2.6	102,000
Outstanding, September 30, 2007	3,225,300	1.2	2,935,955

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, 2007	September 30, 2006
Stock-based compensation expense	\$ 23	\$ 31
Dividend yield	0.0%	0.0%
Expected volatility	103% - 147%	170%
Risk-free interest rate	4.0%	3.3%
Expected life	4 years	4 years
Weighted average grant date fair value	0.15	\$0.11

(e) The following table represents all Deferred common shares granted:

	Deferred Common Shares	Deemed Value
Outstanding, December 31, 2006	181,035	\$ 52
Issued in 2007	294,446	\$ 53
Outstanding, September 30, 2007	475,481	\$ 105

(f) Warrants:

As at September 30, 2007, the Corporation has 13,981,630 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, 2007	Weighted-average remaining contractual life (years)
\$0.115	9,731,630	1.2
\$0.22	4,250,000	2.2
Outstanding, September 30, 2007	13,981,630	1.5

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The following table summarizes warrant transactions:

	Number of warrants	Weighted-average exercise price
Outstanding, December 31, 2006	25,092,910	\$ 0.23
Expired	(11,111,280)	0.33
Outstanding, September 30, 2007	13,981,630	\$ 0.15

(g) Loss per share:

The calculation of net income per share is based on the weighted average number of common shares outstanding for the nine months ended September 30, 2007 of 130,306,472 (nine months ended September 30, 2006 of 127,367,104). 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 income per share.