

CRITICALCONTROL SOLUTIONS CORP.

Consolidated Financial Statements
June 30, 2007

*SOLUTIONS
that
WORK*



Consolidated Balance Sheets

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

	June 30, 2007	December 31, 2006
Assets (note 6)		
Current assets:		
Cash and cash equivalents	\$ 477	\$ 158
Accounts receivable	4,569	5,640
Unbilled revenue	352	266
Inventory	244	216
Prepaid expenses and other	411	318
Assets held for sale (note 4)	1,069	1,930
	7,122	8,528
Deferred costs	91	230
Property & equipment	3,159	2,971
Customer relationships and contracts	4,204	4,152
Goodwill	6,250	5,948
Assets held for sale (note 4)	275	345
	\$ 21,101	\$ 22,174

Liabilities and Shareholders' Equity

Current liabilities:		
Operating line of credit	-	550
Accounts payable and accrued liabilities	1,521	2,363
Unearned revenue	440	473
Current portion of long-term debt (note 6)	5,842	1,697
Current liability associated with assets held for sale (note 4)	813	900
	8,616	5,983
Long-term warranty liability associated with assets held for sale (note 4)	18	17
Deferred credits	280	-
Long-term debt (note 6)	-	4,040
	298	4,057
Shareholders' equity:		
Share capital (note 7)	23,876	23,537
Contributed surplus (note 7)	1,748	1,709
Deficit	(13,437)	(13,112)
	12,187	12,134
	\$ 21,101	\$ 22,174

See accompanying notes to consolidated financial statements.

On behalf of the Board:

“signed”
William Hammett, Director

“signed”
Alykhan Mamdani, Director



Consolidated Statements of Operations, Comprehensive Income and Deficit

Six months ended June 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Revenue	\$ 5,528	\$ 5,253	\$ 11,886	\$ 11,159
Cost of Revenue	2,786	2,778	6,390	5,920
	2,742	2,475	5,496	5,239
Expenses:				
Selling and administrative expenses	1,657	1,405	3,535	2,964
Research and development expenses	308	59	392	59
Amortization of property & equipment	222	238	462	465
Amortization of customer relationships & contracts	127	116	243	222
Loss on foreign exchange	9	60	9	74
Interest - long-term debt	266	394	547	803
Interest - other	9	17	22	26
	2,598	2,289	5,210	4,613
Income from continuing operations	144	186	286	626
Loss from discontinued operations (note 4)	(378)	(389)	(612)	(732)
Other Comprehensive Income (note 2)	-	-	-	-
Net income (loss) for the period	(234)	(203)	(326)	(106)
Deficit, beginning of period	(13,203)	(12,742)	(13,111)	(12,839)
Deficit, end of period	(13,437)	(12,945)	(13,437)	(12,945)
Net income (loss) from continuing and discontinued operations per share:				
Basic and diluted (note 7)	0.00	0.00	0.00	0.00
Weighted average number of shares outstanding:				
Basic and diluted	130,739,234	127,021,946	130,299,136	126,764,715

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Six months ended June 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Cash flows from continuing operating activities				
Net income (loss) for the period from continuing operations	\$ 144	\$ 186	\$ 286	\$ 626
Items not involving cash:				
Amortization of property & equipment	222	238	462	465
Amortization of customer relationships & contracts	127	116	243	222
Deferred annual bonus plan	53	-	53	-
Stock-based compensation (note 7)	7	11	17	31
Non-cash interest	57	121	115	241
Amortization of deferred financing costs	35	75	72	151
	645	747	1,248	1,736
Change in non-cash working capital balances:				
Accounts receivable	408	578	987	(418)
Unbilled revenue	(76)	(21)	(87)	(83)
Inventory	(16)	24	(28)	4
Prepaid expenses and other	2	(69)	47	(338)
Accounts payable and accrued liabilities	(1,429)	(1,157)	(967)	(542)
Unearned revenue	150	(145)	10	182
Warranty liability	-	-	-	-
	(316)	(43)	1,210	541
Cash flows from (used in) financing activities				
Shares issued for cash	37	32	54	91
Repayment of operating line of credit	-	-	(550)	-
Repayment of long term debt	-	(78)	(11)	(153)
	37	(46)	(507)	(62)
Cash flows from (used in) investing activities				
Purchase of property & equipment	(156)	(110)	(255)	(300)
Acquisition of business, net of cash acquired	-	(495)	(410)	(495)
	(156)	(605)	(665)	(795)
Increase in cash and cash equivalents from continuing operations	(435)	(694)	38	(316)
Increase in cash and cash equivalents from discontinued operations (note 4)	(112)	(520)	281	(237)
Cash and cash equivalents, beginning of period	1,024	2,600	158	1,939
Cash and cash equivalents, end of period	477	1,386	477	1,386
Supplemental disclosure of cash flow information:				
Interest paid	197	215	394	437

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Six months ended June 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

Page 1

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.

Notes to Consolidated Financial Statements

Six months ended June 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

Page 2

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 has evaluated the performance and future strategic potential of its PipeWorks and IMS business units and has committed to a process of divesting the operations during 2007. The Calgary based IMS business, which conducted imaging and microfilm services for upstream oil and gas companies, was sold to a third party in August 2007 for cash proceeds of \$165. Pursuant to the CICA recommendation Section 3475, "Disposal of Long-lived Assets and Discontinued Operations," the assets are classified as assets held for sale on the Consolidated Balance Sheets as of June 30, 2007 while 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 six months ended June 30, 2006 have been restated to reflect this presentation.

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

	Three months ended June 30, 2007	Three months ended June 30, 2006
Operating results		
Revenue	707	853
Cost of revenue	491	562
	216	291
Selling & administrative expense	523	465
Research & development expense	71	182
Amortization of property & equipment	-	33
	594	680
Net Loss for the period	(378)	(389)

Notes to Consolidated Financial Statements

Six months ended June 30, 2007

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

Page 3

Cash flows	Three months ended June 30, 2007	Three months ended June 30, 2006
Net Income (loss) for the period	(378)	(389)
Amortization	-	33
	(378)	(356)
Change in non-cash working capital balances:		
Accounts receivable	230	(67)
Unbilled revenue	131	(7)
Inventory	(6)	-
Prepaid expenses and other	13	19
Accounts payable and accrued liabilities	64	(19)
Unearned revenue	(143)	(90)
	(23)	-
Net cash decrease from discontinued operations	(112)	(520)
Operating results	Six months ended June 30, 2007	Six months ended June 30, 2006
Revenue	1,646	1,840
Cost of revenue	1,216	1,226
	430	614
Selling & administrative expense	861	881
Research & development expense	148	399
Amortization of property & equipment	33	66
	1,042	1,346
Net Loss for the period	(612)	(732)
Cash flows	Six months ended June 30, 2007	Six months ended June 30, 2006
Net Income (loss) for the period	(612)	(732)
Amortization	33	66
	(579)	(666)
Change in non-cash working capital balances:		
Accounts receivable	947	614
Unbilled revenue	31	7
Inventory	(5)	-
Prepaid expenses and other	(31)	(14)
Accounts payable and accrued liabilities	56	(32)
Unearned revenue	(115)	(146)
Warranty liability	(23)	-
Net cash increase/(decrease) from discontinued operations	281	(237)

The value of the net assets of PipeWorks and IMS have been measured and presented at the lower of their carrying amounts or fair value. PipeWorks was a component part of the Energy segment.

Notes to Consolidated Financial Statements

Six months ended June 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

Page 4

Until a transaction has occurred, the assets and liabilities of PipeWorks and IMS are reported as current and long term liabilities of discontinued operations respectively on the consolidated balance sheet at June 30, 2007.

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

	June 30, 2007	December 31, 2006
Current assets	1,069	1,930
Property & Equipment	275	345
Total assets held for sale	1,344	2,275
Current Liabilities	813	900
Long term warranty liability	18	17
Total liabilities associated with assets held for sale	831	917

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.

	Government	Energy	Corporate & Other	Three months ended June 30, 2007
Revenue	\$3,071	\$2,457	-	\$5,528
Cost of revenue	1,803	983	-	2,786
	1,268	1,474	-	2,742
Selling & administrative expense	566	590	501	1,657
Research & development expense	-	308	-	308
Amortization of property & equipment	66	100	56	222
Amortization of customer relationships & contracts	53	74	-	127
Interest & other Expenses	-	-	284	284
	686	1,072	840	2,598
Income from Continuing operations	582	402	(840)	144
Income / (Loss) from Discontinued operations	-	(378)	-	(378)
Net income (loss) for the period	582	24	(840)	(234)
Segment assets	4,587	14,086	2,428	21,101
Capital expenditures	73	54	29	156

Notes to Consolidated Financial Statements

Six months ended June 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

Page 5

The financial information included herein for the three months ending June 30, 2006 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 June 30, 2006
Revenue	\$2,949	\$2,304	-	\$5,253
Cost of revenue	1,641	1,137	-	2,778
	1,308	1,167	-	2,475
Selling & administrative expense	585	392	428	1,405
Research & development expenses	-	59	-	59
Amortization of property & equipment	44	165	29	238
Amortization of customer contracts	36	80	-	116
Interest & Other expenses	-	-	471	471
	665	696	928	2,289
Income from Continuing operations	643	398	(855)	186
Income / (Loss) from Discontinued operations	-	(389)	-	(389)
Net Income (loss) for the period	643	9	(855)	(203)

	Government	Energy	Corporate & Other	Six months ended June 30, 2007
Revenue	\$6,592	\$5,294	-	\$11,886
Cost of revenue	3,982	2,408	-	6,390
	2,610	2,886	-	5,496
Selling & administrative expense	1,236	1,231	1,068	3,535
Research & development expense	-	392	-	392
Amortization of property & equipment	123	265	74	462
Amortization of customer relationships & contracts	106	137	-	243
Interest & other Expenses	-	-	578	578
	1,465	2,025	1,720	5,210
Income from Continuing operations	1,145	861	(1,720)	286
Income / (Loss) from Discontinued operations	-	(612)	-	(612)
Net income (loss) for the period	1,145	249	(1,720)	(326)
Segment assets	4,587	14,086	2,428	21,101
Capital expenditures	75	131	49	255

The financial information included herein for the six months ended June 30, 2006 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.

Notes to Consolidated Financial Statements

Six months ended June 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

Page 6

	Government	Energy	Corporate & Other	Six months ended June 30, 2006
Revenue	\$6,256	\$4,903	-	\$11,159
Cost of revenue	3,416	2,504	-	5,920
	2,840	2,399	-	5,239
Selling & administrative expense	1,195	812	957	2,964
Research & development expenses	-	59	-	59
Amortization of property & equipment	86	322	57	465
Amortization of customer contracts	88	134	-	222
Interest & Other expenses			903	903
	1,369	1,327	1,917	4,613
Income from Continuing operations	1,471	1,072	(1,917)	626
Income / (Loss) from Discontinued operations	-	(732)	-	(732)
Net Income (loss) for the period	1,471	340	(1,917)	(106)

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

	Three months ended June 30, 2007	Three months ended June 30, 2006	Six months ended June 30, 2007	Six months ended June 30, 2006
Canada	\$5,317	\$5,000	\$11,462	\$10,906
United States	211	253	424	253
	5,528	5,253	11,886	11,159

For the six months ended June 30, 2007 the Corporation derived approximately 41% (2006 - 31%) of its total revenue from the Government of Alberta. As at June 30, 2007, 20% (2006 - 17%) of accounts receivable pertained to this customer.

6. Long-term Debt

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

	June 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 6(b)).	1,697	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 6(c)).	4,145	4,040
	5,842	5,737
Less: current portion	5,842	1,697
	\$ -	\$ 4,040

Notes to Consolidated Financial Statements

Six months ended June 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

Page 7

- (b) On August 20, 2004, the Corporation closed a private placement of a debenture in the principal amount of \$2,700, \$1,700 of which remains outstanding. The terms of the debenture include interest at 12% per annum payable monthly, with the remaining principal being due on August 20, 2007. 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 remain pledged as security.

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 June 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.

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 June 30, 2007.

7. 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	406,966	71
Issued on acquisition of Idein Technology	1,133,333	255
Decrease in note receivable from Employee Trust	0	13
Balance, June 30, 2007	130,984,115	\$ 23,876

Notes to Consolidated Financial Statements

Six months ended June 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

Page 8

(c) Contributed surplus:

Balance, December 31, 2006	\$ 1,708
Stock-based compensation expense	17
Reclassification of deferred annual bonus plan	53
Reclassification to share capital for stock options exercised	(30)
Balance, June 30, 2007	\$ 1,748

(d) Stock option plan:

As at June 30, 2007, the Corporation had 3,519,300 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	(406,966)	0.10
Outstanding, June 30, 2007	3,519,300	\$0.12
Exercisable, June 30, 2007	3,167,467	\$0.11

The Corporation has the following stock options outstanding:

Exercise price	Number outstanding at June 30, 2007	Weighted-average remaining contractual life (years)	Number exercisable at June 30, 2007
\$0.10	2,698,800	1.0	2,685,466
\$0.11	50,000	2.1	50,000
\$0.12	350,000	2.7	243,334
\$0.17	2,000	1.2	667
\$0.20	225,500	2.5	59,333
\$0.24	40,000	2.7	26,667
\$0.25	153,000	2.8	102,000
Outstanding, June 30, 2007	3,519,300	1.4	3,167,467

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:

	June 30, 2007	June 30, 2006
Stock-based compensation expense	\$ 17	\$ 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

Notes to Consolidated Financial Statements

Six months ended June 30, 2007

(In thousands of Canadian dollars, except share data)

(unaudited)

Page 9

(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, June 30, 2007	475,481	\$ 105

(f) Warrants:

As at June 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 June 30, 2007	Weighted-average remaining contractual life (years)
\$0.115	9,731,630	1.5
\$0.22	4,250,000	2.5
Outstanding, June 30, 2007	13,981,630	1.8

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, June 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 six months ended June 30, 2007 of 130,299,136 (six months ended June 30, 2006 (126,764,715)). 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.

8. Subsequent events

On August 16th 2007 the Corporation's Government Business in Edmonton, Alberta, entered into a new 10 year lease effective September 1st 2007, at current market rates in the building,. The Corporation will record a cash inducement of \$1,200 paid to it under this agreement as a long term liability and recognize such inducement as a reduction in rent over the term of the lease.

On August 20, 2007, the Corporation repaid its debenture with Wellington Financial in the amount of \$1,700 from cash on hand.