

CRITICALCONTROL SOLUTIONS CORP.

Consolidated Financial Statements

June 30, 2006

Unaudited

*SOLUTIONS
that
WORK*



Consolidated Balance Sheets

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

	June 30, 2006	December 31, 2005
Assets (note 4)		
Current assets:		
Cash and cash equivalents	\$1,386	\$1,939
Accounts receivable	5,895	6,092
Unbilled revenue	887	810
Prepaid expenses and other	713	365
	<u>8,881</u>	<u>9,206</u>
Deferred financing costs (note 4)	126	278
Property & equipment	3,209	3,418
Customer relationships and contracts	4,062	3,746
Goodwill	5,581	5,581
	<u>\$21,859</u>	<u>\$22,229</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	\$2,031	\$2,596
Unearned revenue	1,088	1,052
Current portion of warranty liability	60	71
Current portion of long-term debt (note 4)	1,161	2,890
	<u>4,340</u>	<u>6,609</u>
Long-term warranty liability	36	25
Long-term debt (note 4)	5,611	3,879
	<u>5,647</u>	<u>3,904</u>
Shareholders' equity:		
Share capital (note 5)	23,176	22,987
Contributed surplus (note 5)	1,641	1,568
Deficit	(12,945)	(12,839)
	<u>11,872</u>	<u>11,716</u>
Subsequent events (note 6)		
	<u>\$21,859</u>	<u>\$22,229</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

“signed”
William Hammett, Director

“signed”
Alykhan Mamdani, Director



Consolidated Statements of Operations and Deficit

For the periods ended
(In thousands of Canadian dollars, except share data)
(unaudited)

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Revenue:	\$6,106	\$5,261	\$12,999	\$8,831
Cost of Revenue:	\$3,340	\$2,992	\$7,146	\$5,493
	2,766	2,269	5,853	3,338
Expenses:				
Selling and administrative expenses	1,796	1,382	3,783	2,408
Research and development expenses	241	212	458	419
Amortization of property & equipment	271	178	531	322
Amortization of customer relationships & contracts	116	93	222	352
Gain on sale of capital assets	-	(8)	-	(8)
Loss (gain) on foreign exchange	134	(93)	136	(63)
Interest - long-term debt	394	410	803	602
Interest - other	17	-	26	24
	2,969	2,174	5,959	4,056
Net income (loss) for the period	(203)	95	(106)	(718)
Deficit, beginning of period	(12,742)	(12,326)	(12,839)	(11,513)
Deficit, end of period	\$(12,945)	\$(12,231)	\$(12,945)	\$(12,231)
Net income (loss) for the period per share:				
Basic and diluted (note 5)	0.00	0.00	0.00	(0.01)
Weighted average number of shares outstanding:				
Basic and diluted	127,021,946	114,703,412	126,764,715	102,505,787

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

For the periods ended
(In thousands of Canadian dollars)
(unaudited)

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Cash flows from (used in) operating activities:				
Net income (loss) for the period	\$ (203)	\$ 95	\$ (106)	\$ (718)
Items not involving cash:				
Amortization of property & equipment	271	178	531	322
Amortization of customer relationships & contracts	116	93	222	352
Gain on sale of capital assets	-	(8)	-	(8)
Stock-based compensation (note 5)	11	26	31	54
Non cash interest	121	122	241	185
Amortization of deferred financing costs	75	76	151	118
	391	582	1,070	305
Change in non-cash working capital balances:				
Accounts receivable	511	(127)	197	281
Unbilled revenue	(28)	3	(77)	(233)
Prepaid expenses and other	(26)	49	(348)	15
Accounts payable and accrued liabilities	(1,175)	(591)	(574)	(575)
Unearned revenue	(236)	(160)	36	54
Warranty liability	-	(1)	-	(39)
	(563)	(245)	304	(192)
Cash flows from (used in) financing: activities:				
Shares issued for cash	32	4,113	91	4,490
Share Issuance cost	-	(413)	-	(413)
Proceeds from long-term debt	-	(18)	-	4,202
Repayment of long-term debt	(78)	(59)	(153)	(116)
	(46)	3,623	(62)	8,163
Cash flows used in investing activities:				
Purchase of property & equipment	(110)	(86)	(300)	(397)
Acquisition of business, net of cash acquired (note 2)	(495)	(500)	(495)	(4,356)
	(605)	(586)	(795)	(4,753)
(Decrease) / Increase in cash and cash equivalents	(1,214)	2,792	(553)	3,218
Cash and cash equivalents, beginning of period	2,600	784	1,939	358
Cash and cash equivalents, end of period	\$1,386	\$ 3,576	\$1,386	\$ 3,576
Cash and cash equivalents include the following:				
Cash	\$ 85	\$ 130	\$ 85	\$ 130
Short-term investments	1,301	3,446	1,301	3,446
	\$1,386	\$ 3,576	\$1,386	\$ 3,576
Supplemental disclosure of cash flow information:				
Interest paid	\$215	\$ 105	\$437	\$215

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Three & Six months ended June 30, 2006 and 2005

(In thousands of Canadian dollars, except share data)

(unaudited)

1. Basis of presentation:

These interim consolidated financial statements of CriticalControl Solutions Corp. (the "Corporation") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements. These interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Corporation's annual audited consolidated financial statements as at and for the year ended December 31, 2005. In management's opinion, the interim consolidated financial statements include all adjustments necessary to present fairly such information.

2. Business acquisition:

Effective April 28, 2006, the Corporation acquired the Remote Data Acquisition ("RDA") 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. A deferred payment of \$250 will be payable upon meeting certain performance criteria. This component of the purchase price will be recognized as an additional cost of the purchase being assigned to customer relationships and contracts 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 statement of operations from the date of acquisition.

Fair value of net assets acquired:

Property & equipment	\$ 22
Customer relationships and contracts	538
<u>Net assets acquired</u>	<u>\$ 560</u>
<u>Consideration:</u>	
Cash	\$ 495
189,655 Common shares	55
Transaction costs	10
	<u>\$ 560</u>

3. Segmented information:

During 2005, the Corporation undertook a review of its operations to focus on identifying key areas of potential growth to increase profitability. The key segments identified were Government and Energy. CriticalControl has reviewed the impact of these changes on its reportable segments and concluded that its segmented disclosure should reflect these key segments. As such, financial information included herein for the three and six months ended June 30, 2005 has been restated to correspond to this new segmentation.

All public company costs, interest and other expenses not directly attributed to the two operating segments are included in Corporate and Other. Revenue attributed to Corporate and Other includes revenue from the Corporation's operations outside the Government and Energy sectors.

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

Notes to Consolidated Financial Statements

Three & Six months ended June 30, 2006 and 2005
(In thousands of Canadian dollars, except share data)
(unaudited)

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

	Government	Energy	Corporate & Other	Three months ended June 30, 2006
Revenue	\$ 2,949	\$ 2,946	\$ 211	\$ 6,106
Cost of revenue	1,641	1,597	102	3,340
Gross margin	1,308	1,349	109	2,766
Selling & administrative expenses	312	524	960	1,796
Research & development expenses	-	241	-	241
Amortization of property & equipment	44	198	29	271
Amortization of customer relationships & contracts	36	80	-	116
Interest & other expenses	-	-	545	545
	392	1,043	1,534	2,969
Net income (loss) for the period	\$ 916	\$ 306	\$ (1,425)	\$ (203)
Segment assets at June 30, 2006	\$ 7,305	\$ 12,321	\$ 2,233	\$ 21,859
Capital expenditures	\$ 75	\$ 23	\$ 12	\$ 110

	Government	Energy	Corporate & Other	Three months ended June 30, 2005
Revenue	\$ 2,265	\$ 2,561	\$ 435	\$ 5,261
Cost of revenue	1,268	1,429	295	2,992
Gross margin	997	1,132	140	2,269
Selling & administrative expenses	65	195	1,122	1,382
Research & development expenses	-	212	-	212
Amortization of property & equipment	44	109	25	178
Amortization of customer relationships & contracts	33	60	-	93
Interest & other expenses	-	-	309	309
	142	576	1,456	2,174
Net Income (loss) for the period	\$ 855	\$ 556	\$ (1,316)	\$ 95

Notes to Consolidated Financial Statements

Three & Six months ended June 30, 2006 and 2005
(In thousands of Canadian dollars, except share data)
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	Government	Energy	Corporate & Other	Six months ended June 30, 2006
Revenue	\$ 6,256	\$ 6,229	\$ 514	\$ 12,999
Cost of revenue	3,416	3,491	239	7,146
Gross margin	2,840	2,738	275	5,853
Selling & administrative expenses	625	1,188	1,970	3,783
Research & development expenses	-	458	-	458
Amortization of property & equipment	86	388	57	531
Amortization of customer relationships & contracts	88	134	-	222
Interest & other expenses	-	-	965	965
	799	2,168	2,992	5,959
Net income (loss) for the period	\$ 2,041	\$ 570	\$ (2,717)	\$ (106)
Segment assets at June 30, 2006	\$ 7,305	\$ 12,321	\$ 2,233	\$ 21,859
Capital expenditures	\$ 138	\$ 97	\$ 65	\$ 300

	Government	Energy	Corporate & Other	Six months ended June 30, 2005
Revenue	\$ 4,066	\$ 3,809	\$ 956	\$ 8,831
Cost of revenue	2,724	2,180	589	5,493
Gross margin	1,342	1,629	367	3,338
Selling & administrative expenses	130	380	1,898	2,408
Research & development expenses	-	419	-	419
Amortization of property & equipment	82	193	47	322
Amortization of customer relationships & contracts	292	60	-	352
Interest & other expenses	-	-	555	555
	504	1,052	2,500	4,056
Net Income (loss) for the period	\$ 838	\$ 577	\$ (2,133)	\$ (718)

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

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Canada	\$ 5,869	\$ 4,547	\$ 12,514	\$ 7,551
United States	199	409	393	848
Other	38	305	92	432
	\$ 6,106	\$ 5,261	\$ 12,999	\$ 8,831

The Corporation derives revenue from the licensing of certain of its proprietary products as well as from providing solutions to clients using the Corporation's proprietary ScanGas and Netflow software, in which case it is not practical to separate the service component of the solution from the proprietary nature of the product. As such, the Corporation's revenue can be distinguished between solutions or services not based on the Corporation's proprietary Solutions ("Services") and solutions or services directly tied to the Corporation's proprietary products ("Proprietary Solutions"). Where a Service or Proprietary Solution requires the sale of third party hardware or software to a client, revenue from such sale is tracked separately as follows:

Notes to Consolidated Financial Statements

Three & Six months ended June 30, 2006 and 2005

(In thousands of Canadian dollars, except share data)

(unaudited)

	Three months ended June 30, 2006	Three months ended June 30, 2005	Six months ended June 30, 2006	Six months ended June 30, 2005
Services	\$ 3,334	\$ 3,896	\$ 7,080	\$ 6,392
Proprietary Solutions	1,985	1,233	3,895	2,078
Third Party Hardware & Software	787	132	2,024	361
	\$ 6,106	\$ 5,261	\$ 12,999	\$ 8,831

For the six months ended June 30, 2006 the Corporation derived approximately 31% (2005 – 23%) of its total revenue from the Government of Alberta. As at June 30, 2006, 17% (2005 – 27%) of accounts receivable pertained to this customer.

4. Long-term debt:

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

	June 30, 2006	December 31, 2005
(i) Capital lease obligation, \$265, due February 2007, payable in monthly installments of principal and interest of \$5 for the first year (beginning March 1, 2004), \$10 for the second year, \$12.5 for the third year, bearing interest at 10% per annum	\$ 70	\$ 137
(ii) Demand loan, payable in monthly installments of principal and interest of \$5, bearing interest at the bank's prime interest rate plus 3% (effective interest rate of 7% for the three months ended June 30, 2006) certain computer hardware, computer software and furniture and fixtures of a subsidiary company have been provided as collateral	21	50
(iii) Debenture, \$2,700, due August 20, 2007 (except \$1,000 due on August 20, 2006) 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 4 (b),(d))	2,676	2,588
(iv) Capital lease obligation, \$225, due February 2007, payable in monthly installments of principal and interest of \$10, bearing interest at 9.9% per annum, computer hardware has been provided as collateral	70	127
(v) 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 4 (c),(d))	3,935	3,867
	6,772	6,769
Less: current portion	1,161	2,890
	\$ 5,611	\$ 3,879

Notes to Consolidated Financial Statements

Three & Six months ended June 30, 2006 and 2005
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- (b) On August 20, 2004, the Corporation closed a private placement of a debenture in the principal amount of \$2,700, arranged by an agent (the "Agent"). The terms of the debenture include interest at 12% per annum payable monthly, with principal being due on August 20, 2006 [see note 4(d)]. 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 paid a commitment fee to the debenture holder of \$135 and a fee to the Agent of \$75 which have been recorded as deferred financing costs in the consolidated balance sheet.

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. The Corporation also issued 1,173,913 Warrants to the Agent (the "Agent Warrants"), each Warrant entitling the holder to acquire one common share of the Corporation at \$0.115 per share. The Agent Warrants expire on August 20, 2006. An amount of \$350 has been attributed to the Special Warrants and Agent Warrants and has been recorded as contributed surplus. This amount was determined by deducting the estimated value of the debenture from the proceeds of the financing. The proceeds of the debenture were used to fund the acquisition of BMP Energy Systems Ltd.

- (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 (see note 4(d)). 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 paid a commitment fee to the debenture holder of \$213 which has been recorded as deferred financing costs in the consolidated balance sheet.

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 (see note 4(d)).

An amount of \$613 has been attributed to the warrants and has been recorded as contributed surplus. This amount was determined by deducting the estimated value of the debenture from the proceeds of the financing.

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, 2006.

- (d) On June 30, 2006, the corporation extended the term of its financing agreements with its lender. Repayment of the \$2,700 debenture due on August 20, 2006 has been amended such that \$1,000 shall be due on August 20, 2006 and the remainder due on August 20, 2007. Repayment of the debentures in the amount of \$4,250 due March 31, 2007 has been extended to January 3, 2008. As consideration the Company will pay its lender a 1% extension fee and, subject to regulatory approval, replace 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 has been attributed to the warrants and has been recorded as contributed surplus.

Notes to Consolidated Financial Statements

Three & Six months ended June 30, 2006 and 2005
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5. Share capital:

(a) Authorized:

Unlimited common shares without nominal or par value.

(b) Issued and outstanding:

	Number	Amount
Common shares:		
Balance, December 31, 2005	126,121,271	\$ 22,987
Issued on exercise of stock options	209,659	37
Issued on exercise of warrants	645,500	97
Issued on acquisition of RDA (note 2)	189,655	55
Balance, June 30, 2006	127,166,085	\$ 23,176

(c) Contributed surplus:

Balance, December 31, 2005	\$ 1,568
Stock-based compensation expense	31
Reclassification to share capital for stock options exercised	(15)
Reclassification to share capital for warrants exercised	(28)
Value attributed to warrants (note 4(d))	85
Balance, June 30, 2006	\$ 1,641

(d) Stock option plan:

As at June 30, 2006, the Corporation had 4,165,607 stock options outstanding with exercise prices ranging from \$0.10 to \$0.50 per share, expiring November 6, 2006 to May 1, 2010. The following table summarizes stock option transactions:

	Number of options	Weighted-average exercise price
Outstanding, December 31, 2005	5,166,433	\$0.15
Granted	12,500	0.29
Cancelled	(803,667)	0.28
Exercised	(209,659)	0.10
Outstanding, June 30, 2006	4,165,607	\$0.13
Exercisable, June 30, 2006	3,266,069	\$0.13

Notes to Consolidated Financial Statements

Three & Six months ended June 30, 2006 and 2005
(In thousands of Canadian dollars, except share data)
(unaudited)

The Corporation has the following stock options outstanding:

Exercise price	Number outstanding at June 30, 2006	Weighted-average remaining contractual life (years)	Number exercisable at June 30, 2006
\$0.10	3,145,100	1.9	2,753,069
\$0.11	50,000	3.0	33,333
\$0.12	400,000	3.5	141,667
\$0.17	2,000	2.1	-
\$0.20	93,000	3.5	28,333
\$0.24	40,000	3.7	13,333
\$0.25	193,000	3.8	66,334
\$0.29	10,000	2.8	-
\$0.30	2,500	2.8	-
\$0.40	215,000	0.3	215,000
\$0.50	15,000	0.8	15,000
Outstanding, June 30, 2006	4,165,600	2.16	3,266,069

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:

	Six months ended June 30, 2006	Six months ended June 30, 2005
Stock-based compensation expense	\$ 31	\$ 54
Dividend yield	0.0%	0.0%
Expected volatility	104%	170%
Risk-free interest rate	4.0%	3.3%
Expected life	4 years	4 years
Weighted average grant date fair value	\$0.29	\$0.11

(e) Warrants:

As at June 30, 2006, the Corporation has 11,539,693 warrants and 13,981,630 Special Warrants outstanding to acquire common shares with exercise prices ranging from \$0.115 to \$0.40 per share, expiring August 20, 2006 to January 3, 2010, as follows:

Exercise price	Number outstanding at June 30, 2006	Weighted-average remaining contractual life (years)
\$0.115	10,160,043	3.0
\$0.22	4,250,000	3.5
\$0.25	1,111,280	0.9
\$0.33	8,000,000	0.9
\$0.40	2,000,000	0.8
Outstanding, June 30, 2006	25,521,323	1.9

Notes to Consolidated Financial Statements

Three & Six months ended June 30, 2006 and 2005

(In thousands of Canadian dollars, except share data)

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The following table summarizes warrant transactions:

	Number of warrants	Weighted-average exercise price
Outstanding, December 31, 2005	27,166,823	\$ 0.27
Exercised	(645,500)	0.11
Expired	(1,000,000)	0.90
Outstanding, June 30, 2006	25,521,323	\$ 0.23

(f) Loss per share:

The calculation of net income (loss) per share is based on the weighted average number of common shares outstanding for the six months ended June 30, 2006 of 126,764,715 (six months ended June 30, 2005 – 114,703,412). 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 (loss) per share.

6. Subsequent events:

On August 9, 2006, CriticalControl acquired 100% of the outstanding shares of ProTrend Software Inc. ("ProTrend") for \$1,175 in cash and shares of CriticalControl, subject to working capital adjustments. \$775 of the purchase price was paid in cash and 1,843,318 shares of CriticalControl were issued to the vendors. In addition \$108 will be payable over 3 years based upon meeting certain performance criteria. ProTrend provides software to effectively manage fluid (or gas) analysis that provides a breakdown of the components of the gas produced at the well site and is used in combination with measurement data to account for the value of gas at each measurement point for both production and joint venture accounting purposes.