



CriticalControl Solutions Corp.
Consolidated Financial Statements
September 30, 2009

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management. The Corporation's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements.

Consolidated Balance Sheets

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

	September 30, 2009	December 31, 2008
Assets		
Current assets:		
Cash	1,027	1,127
Accounts receivable	5,514	4,338
Unbilled revenue	85	258
Inventory	377	136
Prepaid expenses and other	1,706	469
	8,709	6,328
Deferred costs	59	59
Property & equipment	2,466	2,328
Customer relationships & contracts	6,583	4,521
Goodwill	6,310	6,203
	24,127	19,439
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating Loan (note 6)	1,025	-
Accounts payable and accrued liabilities	3,701	2,431
Unearned revenue	2,509	753
Current portion of long-term debt (note 7)	-	600
Current portion of deferred lease inducement	160	160
	7,395	3,944
Deferred lease inducement	1,311	1,150
Long-term debt (note 7)	-	250
	8,706	5,344
Shareholders' equity:		
Share capital (note 8b)	22,496	22,921
Contributed surplus (note 8c)	1,684	1,724
Deficit	(8,759)	(10,550)
	15,421	14,095
	24,127	19,439

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed) "William Hammett"
William Hammett, Director

(signed) "Alykhan Mamdani"
Alykhan Mamdani, Director

Consolidated Statements of Operations, Comprehensive Income and Deficit

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

	Three Months Ended Sep 30, 2009	Three Months Ended Sep 30, 2008	Nine Months Ended Sep 30, 2009	Nine Months Ended Sep 30, 2008
Revenue	7,057	6,699	19,119	18,947
Cost of revenue	3,396	2,999	9,185	8,723
	3,661	3,700	9,934	10,224
Operating expenses:				
Selling and administrative	2,321	1,875	6,335	6,104
Research & development	186	155	523	507
Amortization of property & equipment	305	273	808	730
Amortization of customer relationships & contracts	191	146	492	417
(Gain) on sale of property & equipment	-	(9)	-	(55)
(Gain)/loss on foreign exchange	(15)	6	(29)	13
Interest	8	22	14	70
	2,996	2,468	8,143	7,786
Net income and comprehensive income for the period	665	1,232	1,791	2,438
Deficit, beginning of period	(9,424)	(12,787)	(10,550)	(13,993)
Deficit, end of period	(8,759)	(11,555)	(8,759)	(11,555)
Net income from per share (note 8g)				
Basic earnings per share	0.02	0.03	0.04	0.06
Diluted earnings per share (note 8g)	0.02	0.03	0.04	0.05
Weighted average number of shares outstanding - Sep 30, 2009				
Basic	40,864,943	42,868,689	41,603,216	43,750,646
Diluted	42,956,512	47,084,689	42,300,403	47,897,645

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

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

	Three Months Ended Sep 30, 2009	Three Months Ended Sep 30, 2008	Nine Months Ended Sep 30, 2009	Nine Months Ended Sep 30, 2008
Cash flows from (used in) operating activities:				
Net income from operations	665	1,232	1,791	2,438
Items not involving cash:				
Amortization of property & equipment	305	273	808	730
Amortization of customer relationships & contracts	191	146	492	417
Deferred annual bonus plan	-	-	-	165
Rent reduction (deferred credit)	(43)	(40)	(123)	(120)
Gain on sale of property & equipment	-	(9)	-	(55)
Stock-based compensation (note 8d)	-	3	-	9
	1,118	1,605	2,968	3,584
Change in non-cash working capital balances:				
Accounts receivable	(458)	(526)	806	(830)
Unbilled revenue	29	(7)	173	44
Inventory	8	(38)	6	(29)
Prepaid expenses and other	166	36	44	(115)
Accounts payable and accrued liabilities	(807)	191	(2,072)	(236)
Unearned revenue	(161)	61	(6)	249
Reduction in deferred cost	-	-	-	33
Increase (decrease) in cash from operations	(105)	1,322	1,919	2,700
Cash flows from (used in) financing activities:				
Repurchase of shares for cancellation	-	(576)	(470)	(1,055)
Shares issued for cash	-	31	5	148
Deferred share purchase plan	-	-	-	13
Proceeds of operating line of credit	1,025	200	1,025	200
Repayment of operating line of credit (note 3a)	(1,517)	-	(1,517)	(823)
Repayment of long term debt (note 3a)	(17)	(150)	(868)	(500)
	(509)	(495)	(1,825)	(2,017)
Cash flows from (used in) investing activities:				
Acquisition of businesses (note 3)	168	(831)	168	(831)
Proceeds from short term investments (restricted cash)	-	-	-	200
Purchase of property & equipment	(193)	(170)	(362)	(405)
Proceeds on sale of property & equipment	-	-	-	76
	(25)	(1,001)	(194)	(960)
Increase (decrease) in cash	(639)	(174)	(100)	(277)
Cash, beginning of period	1,666	463	1,127	566
Cash, end of period	1,027	289	1,027	289
Supplemental disclosure of cash flow information:				
Interest paid	8	18	14	51

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

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

1. Basis of presentation

The 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, 2008, except as described in note 2. In management's opinion, the interim consolidated financial statements include all adjustments necessary to fairly present such information.

2. Accounting policy changes

On January 1, 2009, the Corporation adopted the new accounting handbook section 3064 which establishes new standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard did not have a material impact on the interim consolidated financial statements.

3. Business acquisitions

- a. On July 31, 2009, the Corporation acquired 100% of the outstanding shares of BPO Management Services, Ltd. ("BPOMS"). Pursuant to the acquisition, the Corporation assumed liabilities of \$2,586 including BPOMS line of credit for \$1,517 and long term debt of \$17, which were paid out on closing. The acquisition has been accounted for using the purchase method and the results of operations are included in the consolidated statement of operations, comprehensive income and deficit from the date of acquisition. The purchase equation is preliminary and subject to change.

Fair value of net assets acquired	
Cash	268
Capital assets	583
Customer relationships & contracts	2,660
Net assets acquired	3,511
Consideration	
Cash	100
Assumption of liabilities	2,586
Restructuring costs	725
Transaction costs	100
	3,511

The capital assets will be amortized over their estimated useful lives while the customer relationships and contracts will be amortized over the economic life of the contracts.

- b. Effective October 1, 2008, the Corporation acquired the business and assets of Western Corrosion Technologies ("WCT") for \$542, consisting of \$502 cash and transaction costs of \$40.

The acquisition has been accounted for using the purchase method and the results of operations are included in the consolidated statements of operations, comprehensive income and deficit from the date of acquisition. Upon further review of the purchase equation, the original purchase price allocation as reported as of December 31, 2008 has been revised and \$107 was reallocated from intangible assets to goodwill.

Notes to Consolidated Financial Statements

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

Fair value of net assets acquired	
Computer software	139
Customer relationships & contracts	326
Goodwill	107
Less	
Non-cash working capital	(30)
Net assets acquired	542
Consideration	
Cash	502
Transaction costs	40

The computer software related to the acquisition of WCT will be amortized over 5 years reflecting its estimated economic life, while customer relationships will be amortized over the economic life of the contracts.

- c. Effective July 2, 2008 the Corporation acquired a web-based Supervisory Control and Data Acquisition (SCADA) business called SCADANet from Matrikon Inc. for \$831 consisting of \$800 cash and transaction costs of \$31.

The assets from the acquisition have been accounted for using the purchase method and the results of operations are included in the consolidated statements of operations, comprehensive income and deficit from the date of acquisition.

Fair value of net assets acquired	
Customer relationships & contracts	738
Goodwill	93
Net assets acquired	831
Consideration	
Cash	800
Transaction costs	31
	831

The customer relationships and contracts related to the SCADANet acquisition will be amortized over the economic life of the contracts.

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. All operations from BPOMS have been included in the Corporation's Government sector disclosure. 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 directly attributable to the segments.

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

Notes to Consolidated Financial Statements

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

	Government	Energy	Corporate & Other	Three months ended Sep 30, 2009
Revenue	4,258	2,799	-	7,057
Cost of revenue	2,542	854	-	3,396
Gross margin	1,716	1,945	-	3,661
Selling & administrative expense	1,131	560	630	2,321
Research & development expense	-	186	-	186
Amortization of property & equipment	102	202	1	305
Amortization of customer relationships & contracts	93	98	-	191
Interest & other expenses	-	-	(7)	(7)
	1,326	1,046	624	2,996
Income (loss) from operations	390	899	(624)	665
Segment assets	11,338	12,730	59	24,127
Goodwill	2,490	3,820	-	6,310
Capital expenditures	126	67	-	193

	Government	Energy	Corporate & Other	Three months ended Sep 30, 2008
Revenue	3,703	2,996	-	6,699
Cost of revenue	2,001	998	-	2,999
Gross margin	1,702	1,998	-	3,700
Selling & administrative expense	672	594	609	1,875
Research & development expense	-	155	-	155
Amortization of property & equipment	56	215	2	273
Amortization of customer relationships & contracts	53	93	-	146
Gain on sale of property & equipment	-	-	(9)	(9)
Interest & other expenses	-	-	28	28
	781	1,057	630	2,468
Income (loss) from operations	921	941	(630)	1,232
Segment assets	4,253	12,511	1,544	18,308
Goodwill	2,490	3,713	-	6,203
Capital expenditures	11	159	-	170

Notes to Consolidated Financial Statements

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

	Government	Energy	Corporate & Other	Nine months ended Sep 30, 2009
Revenue	10,400	8,719	-	19,119
Cost of revenue	6,241	2,944	-	9,185
Gross margin	4,159	5,775	-	9,934
Selling & administrative expense	2,636	1,917	1,782	6,335
Research & development expense	-	523	-	523
Amortization of property & equipment	222	583	3	808
Amortization of customer relationships & contracts	200	292	-	492
Interest & other expenses	-	-	(15)	(15)
	3,058	3,315	1,770	8,143
Income (loss) for the period	1,101	2,460	(1,770)	1,791
Segment assets	11,338	12,730	59	24,127
Goodwill	2,490	3,820	-	6,310
Capital expenditures	257	105	-	362

	Government	Energy	Corporate & Other	Nine months ended Sep 30, 2008
Revenue	10,678	8,269	-	18,947
Cost of revenue	5,830	2,893	-	8,723
Gross margin	4,848	5,376	-	10,224
Selling & administrative expense	2,341	1,958	1,805	6,104
Research & development expense	-	507	-	507
Amortization of property & equipment	173	553	4	730
Amortization of customer relationships & contracts	159	258	-	417
Gain on sale of property & equipment	-	-	(55)	(55)
Interest & other expenses	-	-	83	83
	2,673	3,276	1,837	7,786
Income (loss) for the period	2,175	2,100	(1,837)	2,438
Segment assets	4,253	12,511	1,544	18,308
Goodwill	2,490	3,713	-	6,203
Capital expenditures	186	219	-	405

For the 9 months ended September 30, 2009 the Corporation derived approximately 40% (2008 – 49%) of its total revenue from the Government of Alberta. As at September 30, 2009, 14% (2008 – 33%) of accounts receivable pertained to this customer.

Notes to Consolidated Financial Statements

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

5. Income taxes

As at September 30, 2009 the Corporation and its subsidiaries have non-capital loss carry-forwards for income tax purposes available to reduce future taxable income.

6. Operating line of credit

The Corporation has a secured revolving line of credit with a Canadian chartered bank, for up to \$5,000 to support the Corporation's working capital requirements. The line bears interest at prime plus 1.25% payable monthly in arrears. As of September 30, 2009, \$1,025 was drawn on the line of credit.

7. Long-term debt

The Corporation had a secured term loan facility in the principal amount of \$1,500 which was paid out in March, 2009.

	Sep 30, 2009	December 31, 2008
Term loan, \$1,500, expiring June 2010, monthly payments of \$50.	-	850
	-	850
Less: current portion	-	600
	-	250

8. Share capital

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

On February 11, 2009, the Corporation consolidated its shares on a one (1) new for three (3) old shares. All comparative information reflects the consolidation of the shares.

Effective May 19, 2009, the Corporation received regulatory approval for Normal Course issuer bid ("the bid") from the Toronto Stock Exchange to purchase for cancellation, from time to time as the Corporation considers advisable, up to 2,788,457 common shares or 10% of the Corporation's public float. The bid commenced on May 21, 2009 and will expire on May 20, 2010.

During the three months ended September 30, 2009, the Corporation did not purchase any shares through the bid.

Common shares	Number	Amount
Balance, December 31, 2008	41,372,305	\$22,921
Issued on exercise of stock options – see (i) below	16,666	6
Issued on exercise of warrants – see (ii) below	481,716	39
Shares purchased and cancelled - see (iii) below	(1,005,744)	(470)
Balance, September 30, 2009	40,864,943	\$22,496

- i. During the period ended September 30, 2009, options to purchase common shares were exercised for proceeds of \$5. The additional \$1 credited to share capital represents a transfer of the contributed surplus in respect of these options.

Notes to Consolidated Financial Statements

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

- ii. During the period ended September 30, 2009, warrants for common shares were exercised on a cashless basis, such that 481,716 shares were issued on the exercise and cancellation of 2,934,783 warrants. The \$39 credited to share capital represents a transfer of the contributed surplus in respect of these warrants.
- iii. During the period ended September 30, 2009, through the bid, the Corporation purchased for cancellation 1,005,744 shares at an average cost per share of \$0.468.

c. Contributed surplus

Balance, December 31, 2008	\$1,724
Stock-based compensation expense	-
Reclassification to share capital for stock options exercised (note 8.b.i)	(1)
Reclassification to share capital for warrants (note 8.b.ii)	(39)
Balance, September 30, 2009	\$1,684

d. Stock option plan

As at September 30, 2009, no stock options had been granted. The Corporation had 139,327 (2008 – 834,800) stock options outstanding with exercise prices ranging from \$0.36 to \$0.75 per share, expiring January 7, 2010 to August 9, 2011. The following table summarizes stock option transactions:

	Number of options	Weighted-average exercise price
Outstanding, December 31, 2008	182,133	\$0.51
Exercised	16,666	0.30
Cancelled	26,140	0.54
Outstanding, September 30, 2009	139,327	0.56
Exercisable, September 30, 2009	139,327	\$0.56

The Corporation has the following stock options outstanding:

Exercise Price	Number outstanding at September 30, 2009	Weighted-average remaining contractual life (years)	Number exercisable at September 30, 2009
\$0.36	56,665	0.27	56,665
\$0.60	31,665	0.88	31,665
\$0.75	50,997	0.58	50,997
	139,327	0.52	139,327

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:

Notes to Consolidated Financial Statements

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

	September 30, 2009	December 31, 2008
Stock-based compensation expense	-	\$3
Dividend yield	0%	0%
Expected volatility	106%	91%
Risk-free interest rate	0.5%	3.82%
Expected life	1 year	3 years
Weighted-average grant date fair value	\$0.33	\$0.45

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"). Each DCS shall be redeemable 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 1,000,000 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.

As at September 30, 2009, 697,187 DCS have been granted with a deemed value of \$283.

f. **Warrants and Special Warrants**

As at September 30, 2009, the Corporation had 1,416,666 Special Warrants outstanding to acquire common shares at an exercise price of \$0.66 per share, expiring on January 3, 2010.

The following table summarizes Warrant and Special Warrant transactions:

	Number of warrants	Weighted-average exercise price
Outstanding December 31, 2008	4,351,449	\$0.45
Cancelled	(2,453,067)	\$0.36
Exercised	(481,716)	\$0.36
Outstanding September 30, 2009	1,416,666	\$0.66

g. **Net income per share**

The calculation of net income per share is based on the consolidated weighted-average number of common shares outstanding and the diluted shares for the nine months ended September 30, 2009 of 42,300,403 (nine months ended September 30, 2008 – 47,897,645). Diluted amounts are calculated using the treasury stock method, taking into consideration the potential conversions and the exercise of options, warrants and deferred share units.

9. Financial instruments

The Corporation's financial instruments consist of cash, accounts receivable, accounts payable and accrued liabilities, operating loan, and long term debt.

The Corporation has classified cash as held-for-trading measured at fair value with any gains or losses identified during periodic evaluations recorded in net income.

Notes to Consolidated Financial Statements

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

Accounts receivable are classified as loans and receivables and are measured at fair value with any gains or losses identified during periodic evaluations recorded in net income. The carrying values of these financial assets approximate their fair value due to the relatively short period to maturity.

Accounts payable, accrued liabilities, and long term debt are classified as other financial liabilities and measured at fair value with any gains or losses identified during periodic evaluations recorded in net income. The carrying values of these other financial liabilities approximate their fair value due to the relatively short period to maturity.

Financial risk management

The Corporation's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. Management reviews these risks on an ongoing basis to ensure that the risks are appropriately managed. The Corporation does not have a practice of trading derivatives and has none outstanding at September 30, 2009.

a. Interest rate risk

The Corporation's objective in managing interest rate risk is to monitor expected volatility in interest rates while also minimizing financing expense levels. Interest rate risk mainly arises from fluctuations of interest rates and the impact on the return earned on cash and the expense on floating rate debt. On an ongoing basis, management monitors changes in short-term rates and considers long-term forecasts to assess potential cash flow impact to the Corporation. A change of 100 basis points in the market interest rate would have had no impact on net earnings for the period ended September 30, 2009. The Corporation does not currently hold any financial instruments to mitigate its interest risk.

b. Credit risk

Credit risk is the risk of a financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk through its cash and accounts receivables. Credit risk for accounts receivables are managed through established credit monitoring activities.

The Corporation has a concentration of customers in government agencies. Losses under trade accounts receivable have been historically insignificant. The credit worthiness of new customers is subject to review by management, and that of existing customers is monitored.

The Corporation reviews its trade receivable accounts regularly and amounts are written down to their expected realizable value when the account is determined not to be fully collectible. The bad debt expense is charged to net income in the period that the account is determined to be doubtful. The accounts receivable aging for the period ended September 30, 2009 was as follows:

	Current	30 days	60 days	over 90 days
Accounts receivable carrying values	3,557	796	769	392
	64%	15%	14%	7%

The Corporation currently has an allowance for doubtful accounts.

c. Liquidity risk

The Corporation's liquidity risk stems from its potential inability to meet its financial liabilities. The Corporation regularly monitors its operations and cash flow to ensure that current and future obligations will be met.

The Corporation's financial liabilities inclusive of operating leases were as follows:

Notes to Consolidated Financial Statements

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

	2009	2010 - 2011	2012 - 2013	Beyond 2013
Accounts payable and accrued liabilities	3,701	-	-	-
Commitments & contingencies	300	1,671	1,275	2,052
Total	4,001	1,671	1,275	2,052

Management believes that forecasted cash flows from operating activities will provide sufficient cash requirements to cover the Corporation's forecasted operating and capital expenditures.

10. Subsequent events

- a. On October 1, 2009, the Corporation acquired 100% of the outstanding shares of Southport Data Systems Inc. ("Southport") for \$2,300 which includes \$1,500 paid on closing, \$300 due on October 1, 2010 and \$500 on due on November 1, 2011 based on certain growth performance criteria. The purchase price was financed from cash on hand and CriticalControl's operating line. Southport is a provider of business process outsourcing solutions, based in the greater Toronto area, with key strengths in large scale imaging and data entry.
- b. On October 1, 2009, 64,827 common shares of the Corporation issued in accordance with a plan of arrangement pursuant to the acquisition of TCENet Inc. in August, 2003 were cancelled. The plan of arrangement required security holders of TCENet Inc. to return their shares to the transfer agent for conversion to shares of the Corporation by October 1, 2009, failing which shareholders of such untendered shares would lose their right to have them exchanged for shares of the Corporation.
- c. Effective November 1, 2009, the Corporation acquired 100% of the outstanding shares of Gas Analytical Services, Inc., ("GAS") of Bridgeport, West Virginia for US\$10,000 paid through cash and the issuance of a US\$9,000 note, bearing interest at 4% per annum, payable over a 5 year term. After taking into account adjustments which were anticipated to occur at closing, as at September 30, 2009, GAS had assets of approximately US\$4,100 and liabilities of US\$1,000. The cash portion of the purchase price was financed from cash on hand and CriticalControl's operating line. GAS' primary business includes the provision of gas measurement equipment and services, including gas chart integration services to over 500 active clients based in the Appalachian Basin in the Eastern United States.