



CriticalControl Solutions Corp.
Consolidated Financial Statements
June 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)

	June 30 2009	December 31, 2008
Assets		
Current assets:		
Cash	1,666	1,127
Accounts receivable	3,074	4,338
Unbilled revenue	115	258
Inventory	137	136
Prepaid expenses and other	590	469
	5,582	6,328
Deferred costs	59	59
Property & equipment	1,994	2,328
Customer relationships & contracts	4,114	4,521
Goodwill	6,310	6,203
	18,059	19,439
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	1,165	2,431
Unearned revenue	908	753
Current portion of long-term debt (note 7)	-	600
Current portion of deferred lease inducement	160	160
	2,233	3,944
Deferred lease inducement	1,070	1,150
Long-term debt (note 7)	-	250
	3,303	5,344
Shareholders' equity:		
Share capital (note 8b)	22,496	22,921
Contributed surplus (note 8c)	1,684	1,724
Deficit	(9,424)	(10,550)
	14,756	14,095
	18,059	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 June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Revenue	5,617	6,253	12,062	12,248
Cost of revenue	2,633	2,845	5,789	5,724
	2,984	3,408	6,273	6,524
Operating expenses:				
Selling and administrative	1,953	2,179	4,016	4,224
Research & development	174	181	337	352
Amortization of property & equipment	253	235	502	458
Amortization of customer relationships & contracts	147	136	300	272
Gain on sale of property & equipment	-	(46)	-	(46)
(Gain)/loss on foreign exchange	(9)	3	(14)	7
Interest	-	18	6	51
	2,518	2,706	5,147	5,318
Net income and comprehensive income for the period	466	702	1,126	1,206
Deficit, beginning of period	(9,890)	(13,489)	(10,550)	(13,993)
Deficit, end of period	(9,424)	(12,787)	(9,424)	(12,787)
Net income from per share (note 8g)				
Basic earnings per share	0.01	0.02	0.03	0.03
Diluted earnings per share (note 8g)	0.01	0.01	0.03	0.02
Weighted average number of shares outstanding - June 30, 2009				
Basic	40,864,943	44,111,972	40,864,943	44,198,933
Diluted	42,235,593	48,258,972	42,267,819	48,345,933

Consolidated Statements of Cash Flows

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

	Three Months Ended June 30, 2009	Three Months Ended June 30, 2008	Six Months Ended June 30, 2009	Six Months Ended June 30, 2008
Cash flows from (used in) operating activities:				
Net income from operations	466	702	1,126	1,206
Items not involving cash:				
Amortization of property & equipment	253	235	502	458
Amortization of customer relationships & contracts	147	136	300	272
Deferred annual bonus plan	-	165	-	165
Rent reduction (deferred credit)	(40)	(40)	(80)	(80)
Gain on sale of property & equipment	-	(46)	-	(46)
Stock-based compensation (note 8d)	-	3	-	6
	826	1,155	1,848	1,981
Change in non-cash working capital balances:				
Accounts receivable	1,216	(123)	1,264	(304)
Unbilled revenue	83	(25)	143	51
Inventory	42	7	(1)	9
Prepaid expenses and other	(7)	(92)	(121)	(151)
Accounts payable and accrued liabilities	(480)	(189)	(1,264)	(427)
Unearned revenue	(381)	(253)	154	188
Reduction in deferred cost	-	-	-	32
Increase in cash from operations	1,299	480	2,023	1,379
Cash flows from (used in) financing activities:				
Repurchase of shares for cancellation	(470)	(507)	(470)	(507)
Shares issued for cash	-	1	5	144
Deferred share purchase plan	-	3	-	13
Repayment of operating line of credit	-	-	-	(823)
Repayment of long term debt	-	(100)	(850)	(350)
	(470)	(603)	(1,315)	(1,523)
Cash flows from (used in) investing activities:				
Proceeds from short term investments (restricted cash)	-	-	-	200
Purchase of property & equipment	(34)	(127)	(169)	(235)
Proceeds on sale of property & equipment	-	75	-	76
	(34)	(52)	(169)	41
Increase (decrease) in cash	795	(175)	539	(103)
Cash, beginning of period	871	638	1,127	566
Cash, end of period	1,666	463	1,666	463
Supplemental disclosure of cash flow information:				
Interest paid	-	18	6	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. Segmented information

The Corporation has identified Government and Energy as reportable segments which are used to manage the business and key areas of potential growth to increase profitability. The segmented disclosures reflect these key segments.

All public company costs, interest and other expenses not directly attributed to the two operating segments are included in corporate and other.

In assessing performance of the segments and the allocation of resources to the segments, management of CriticalControl evaluates gross margin 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, 2009
Revenue	2,776	2,841	-	5,617
Cost of revenue	1,665	968	-	2,633
Gross margin	1,111	1,873	-	2,984
Selling & administrative expense	763	638	552	1,953
Research & development expense	-	174	-	174
Amortization of property & equipment	60	192	1	253
Amortization of customer relationships & contracts	53	94	-	147
Interest & other expenses	-	-	(9)	(9)
	876	1,098	544	2,518
Income (loss) from operations	235	775	(544)	466
Segment assets	5,490	11,866	703	18,059
Goodwill	2,490	3,820	-	6,310
Capital expenditures	10	24	-	34

Notes to Consolidated Financial Statements

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

	Government	Energy	Corporate & Other	Three months ended June 30, 2008
Revenue	3,577	2,676	-	6,253
Cost of revenue	1,891	954	-	2,845
Gross margin	1,686	1,722	-	3,408
Selling & administrative expense	851	657	671	2,179
Research & development expense	-	181	-	181
Amortization of property & equipment	60	173	2	235
Amortization of customer relationships & contracts	53	83	-	136
Gain on sale of property & equipment	-	-	(46)	(46)
Interest & other expenses	-	-	21	21
	964	1,094	648	2,706
Income (loss) from operations	722	628	(648)	702
Segment assets	3,377	11,814	2,164	17,355
Goodwill	2,490	3,620	-	6,110
Capital expenditures	70	57	-	127

	Government	Energy	Corporate & Other	Six months ended June 30, 2009
Revenue	6,142	5,920	-	12,062
Cost of revenue	3,698	2,091	-	5,789
Gross margin	2,444	3,829	-	6,273
Selling & administrative expense	1,508	1,357	1,151	4,016
Research & development expense	-	337	-	337
Amortization of property & equipment	119	381	2	502
Amortization of customer relationships & contracts	106	194	-	300
Interest & other expenses	-	-	(8)	(8)
	1,733	2,269	1,145	5,147
Income (loss) for the period	711	1,560	(1,145)	1,126
Segment assets	5,490	11,866	703	18,059
Goodwill	2,490	3,820	-	6,310
Capital expenditures	130	39	-	169

Notes to Consolidated Financial Statements

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

	Government	Energy	Corporate & Other	Six months ended June 30, 2008
Revenue	6,975	5,273	-	12,248
Cost of revenue	3,830	1,894	-	5,724
Gross margin	3,145	3,379	-	6,524
Selling & administrative expense	1,668	1,363	1,193	4,224
Research & development expense	-	352	-	352
Amortization of property & equipment	117	338	3	458
Amortization of customer relationships & contracts	106	166	-	272
Gain on sale of property & equipment	-	-	(46)	(46)
Interest & other expenses	-	-	58	58
	1,891	2,219	1,208	5,318
Income (loss) for the period	1,254	1,160	(1,208)	1,206
Segment assets	3,377	11,814	2,164	17,355
Goodwill	2,490	3,620	-	6,110
Capital expenditures	174	61	-	235

For the 6 months ended June 30, 2009 the Corporation derived approximately 44% (2008 – 49%) of its total revenue from the Government of Alberta. As at June 30, 2009, 37% (2008 – 37%) of accounts receivable pertained to this customer.

4. Business acquisitions

- a. 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.

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.

- b. 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.

Notes to Consolidated Financial Statements

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

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.

5. Income taxes

As at June 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 for up to \$3,500 to support the Corporation's working capital requirements. The line bears interest at prime plus 1.25% payable monthly in arrears. As of June 30, 2009, there were no outstanding amounts drawn.

The revolving line of credit requires the Corporation meeting certain adjusted earnings covenants, which includes an adjustment for any amount the Corporation uses to acquire shares under a Normal Course Issuer Bid. The Corporation acquired 1,005,744 shares pursuant to its Normal Course Issuer Bid during the three months ended June 30, 2009, resulting in a technical breach of such covenant even though no funds were drawn on the facility. Subsequent to the end of the quarter, the Corporation has terminated its operating line of credit in favour of a new facility with a Canadian Chartered Bank for \$5,000. The new facility has no such associated restrictions or other earnings covenants (see Note 10a).

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.

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

Notes to Consolidated Financial Statements

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

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 June 30, 2009, the Corporation purchased for cancellation 1,005,744 shares at an average cost per share of \$0.468.

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	(1,005,744)	(470)
Balance, June 30, 2009	40,864,943	\$22,496

i. During the period ended June 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.

ii. During the period ended June 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.

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, June 30, 2009	\$1,684

d. **Stock option plan**

As at June 30, 2009, the Corporation had 147,660 (2008 – 296,933) 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:

Notes to Consolidated Financial Statements

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

	Number of options	Weighted-average exercise price
Outstanding, December 31, 2008	182,133	\$0.51
Exercised	16,666	0.30
Cancelled	17,807	0.32
Outstanding, June 30, 2009	147,660	0.56
Exercisable, June 30, 2009	144,327	\$0.56

The Corporation has the following stock options outstanding:

Exercise Price	Number outstanding at June 30, 2009	Weighted-average remaining contractual life (years)	Number exercisable at June 30, 2009
\$0.36	56,665	0.52	56,665
\$0.60	39,998	0.54	36,665
\$0.75	50,997	0.84	50,997
	147,660	0.63	144,327

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:

	June 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	\$0.36	\$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 may be redeemed by the holder for one common share of the Corporation for no additional payment on the death or termination of the holder's service to the Corporation. Up to 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 June 30, 2009, 697,187 DCS have been granted with a deemed value of \$283.

f. Warrants and Special Warrants

As at June 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:

Notes to Consolidated Financial Statements

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

	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 June 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 six months ended June 30, 2009 of 42,267,819 (six months ended June 30, 2008 - 48,345,933). 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, operating line of credit, accrued liabilities, 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.

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, unearned revenue 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 June 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 June 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.

Notes to Consolidated Financial Statements

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

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 June 30, 2009 was as follows:

	Current	30 days	60 days	over 90 days
Accounts receivable carrying values	2,228	505	126	215
	72%	16%	4%	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:

	2009	2010 - 2011	2012 - 2013	Beyond 2013
Accounts payable and accrued liabilities	1,165	-	-	-
Commitments & contingencies	420	1,596	1,155	2,052
Total	1,585	1,596	1,155	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

- On July 29, 2009, the Corporation entered into a facility agreement for a secured revolving line of credit for up to \$5,000 to support the Corporation's working capital requirements with a Canadian Chartered Bank. The line bears interest at prime plus 1.25% payable monthly in arrears. This new facility replaces the Corporation's existing \$3,500 facility (see Note 6).
- On July 31, 2009, the Corporation acquired 100% of the outstanding shares of BPO Management Services, Ltd. ("BPO") for \$100. As part of the acquisition, the Corporation assumed a working capital deficit of approximately \$2,300 prior to applicable closing costs. BPO is a provider of imaging products and services, inclusive of business process outsource solutions based in Winnipeg and Toronto.