



CRITICALCONTROL SOLUTIONS CORP.

Consolidated Financial Statements  
June 30, 2008

# CRITICALCONTROL SOLUTIONS CORP.

## Consolidated Balance Sheets

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

	June 30, 2008	December 31, 2007
<b>Assets (note 7)</b>		
Current assets:		
Cash	463	566
Restricted cash	-	200
Accounts receivable	3,744	3,440
Unbilled revenue	286	337
Inventory	96	105
Prepaid expenses and other	548	397
	5,137	5,045
Deferred costs	58	91
Property & equipment	2,401	2,653
Customer relationships & contracts	3,649	3,920
Goodwill	6,110	6,110
	17,355	17,819
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Operating line of credit (note 6)	-	823
Accounts payable and accrued liabilities	1,469	1,895
Unearned revenue	619	432
Current portion of long-term debt (note 7)	600	550
Current portion of deferred lease inducement	160	160
	2,848	3,860
Deferred lease inducement	1,231	1,310
Long-term debt (note 7)	550	950
	1,781	2,260
Shareholders' equity:		
Share capital (note 9b)	23,747	23,995
Contributed surplus (note 9c)	1,766	1,697
Deficit	(12,787)	(13,993)
	12,726	11,699
Subsequent event (note 10)		
	17,355	17,819

See accompanying notes to consolidated financial statements.

On behalf of the Board:

“signed”  
William Hammett

“signed”  
Alykhan Mamdani

## CRITICALCONTROL SOLUTIONS CORP.

### Consolidated Statements of Operations, Comprehensive Income and Deficit

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

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Revenue	6,253	5,528	12,248	11,886
Cost of revenue	2,845	2,786	5,724	6,390
	3,408	2,742	6,524	5,496
Operating expenses:				
Selling and administrative	2,179	1,774	4,224	3,697
Research & development	181	308	352	392
Amortization of property & equipment	235	222	458	462
Amortization of customer relationships & contracts	136	127	272	243
Gain on sale of property & equipment	(46)	-	(46)	-
Loss on foreign exchange	3	9	7	9
Interest	18	275	51	569
	2,706	2,715	5,318	5,372
Income from continuing operations	702	27	1,206	124
Loss from discontinued operations (note 3)	-	(261)	-	(450)
Net income (loss) and comprehensive income (loss) for the period	702	(234)	1,206	(326)
Deficit, beginning of period	(13,489)	(13,203)	(13,993)	(13,111)
Deficit, end of period	(12,787)	(13,437)	(12,787)	(13,437)
Net income (loss) per share				
Basic	0.005	(0.002)	0.009	(0.002)
Diluted (note 9g)	0.005	(0.002)	0.008	(0.002)
Weighted average number of shares outstanding				
Basic	132,335,917	130,739,234	132,596,800	130,299,136
Diluted	144,776,916	130,739,234	145,037,799	130,299,136

# CRITICALCONTROL SOLUTIONS CORP.

## Consolidated Statement of Cash Flows

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

	Three months ended June 30, 2008	Three months ended June 30, 2007	Six months ended June 30, 2008	Six months ended June 30, 2007
Cash flows from (used in) operating activities:				
Net income from operations	702	27	1,206	124
Items not involving cash:				
Amortization of property & equipment	235	222	458	462
Amortization of customer relationships & contracts	136	127	272	243
Deferred annual bonus plan	165	53	165	53
Rent reduction (deferred credit)	(40)	-	(80)	-
Gain on sale of property & equipment	(46)	-	(46)	-
Stock-based compensation	3	7	6	17
Non-cash interest	-	57	-	115
Amortization of deferred financing costs	-	35	-	72
	1,155	528	1,981	1,086
Change in non-cash working capital balances:				
Accounts receivable	(123)	408	(304)	971
Unbilled revenue	(25)	(76)	51	(87)
Inventory	7	(16)	9	(28)
Prepaid expenses and other	(92)	2	(151)	47
Accounts payable and accrued liabilities	(189)	(1,429)	(427)	(967)
Unearned revenue	(253)	150	188	10
Reduction in deferred cost	-	-	32	-
Increase in cash from continued operations	480	(433)	1,379	1,032
Increase in cash from discontinued operations (note 3)	-	5	-	443
Cash flows from (used in) financing activities:				
Repurchase of shares for cancellation	(507)	-	(507)	-
Shares issued for cash	1	37	144	54
Deferred share purchase plan	3	-	13	-
Repayment of operating line of credit	-	-	(823)	(550)
Repayment of long term debt	(100)	-	(350)	(11)
	(603)	37	(1,523)	(507)
Cash flows from (used in) investing activities:				
Acquisition of businesses, net of cash acquired (note 5)	-	-	-	(394)
Proceeds from restricted cash	-	-	200	-
Purchase of property & equipment	(127)	(156)	(235)	(255)
Proceeds on sale of property & equipment	75	-	76	-
	(52)	(156)	41	(649)
Increase in cash	(175)	(547)	(103)	319
Cash, beginning of period	638	1,024	566	158
Cash, end of period	463	477	463	477
Supplemental disclosure of cash flow information:				
Interest paid	18	197	51	394

## Notes to Consolidated Financial Statements

Six months ended June 30, 2008

(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, 2007. In management's opinion, the interim consolidated financial statements include all adjustments necessary to present fairly such information.

### 2. Accounting Policy Changes

On January 1, 2008, the Corporation has adopted the new accounting standards, 1535 *Capital Disclosure*, 3031 *Inventories*, 3862 *Financial Instruments – Disclosures* and Section 3863 – *Financial Instruments – Presentation*, as issued by CICA.

CICA Section 1535, "Capital Disclosures", the new CICA Handbook Section 1535 "Capital Disclosures" requires the disclosure of qualitative and quantitative information about the Corporation's objectives, policies and processes for managing capital. Note 8 provides qualitative disclosures regarding objectives, policies and processes for managing capital. The adoption of this standard did not have a material impact on the consolidated financial statements.

CICA Section 3031 "Inventories" provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The adoption of this standard did not have a material impact on the consolidated financial statements.

CICA Section 3862, "Financial Instruments – Disclosures" and Section 3863 – "Financial Instruments – Presentation", the new CICA Handbook Sections 3862 and 3863 replaced Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The adoption of this standard did not have a material impact on the consolidated financial statements.

### 3. Assets held for sale and discontinued operations

In the third quarter of 2007, the Corporation sold all of the assets of its PipeWorks and IMS business units. The IMS business unit was sold to a third party in August 2007 for cash proceeds of \$165 and the PipeWorks business unit was sold in September 2007 to a third party for cash proceeds of \$550. Revenues and expenses of the business were netted and reported as income (loss) from discontinued operations on the consolidated statements of operations, comprehensive income and deficit for the period ended June 30, 2007. Financial information included herein for the period ended June 30, 2007 has been restated to reflect the yearend adjustments.

### 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. 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 and contribution margin, defined as gross margin less selling and administrative expenses directly attributable to the segments.

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

# CRITICALCONTROL SOLUTIONS CORP.

## Notes to Consolidated Financial Statements

Six months ended June 30, 2008

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	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, contract losses & other expenses	-	-	21	21
	964	1,094	648	2,706
Income (loss) for the period	722	628	(648)	702
Segment assets	3,377	11,814	2,164	17,355
Capital expenditures	70	57	-	127

	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
Gross margin	1,268	1,474	-	2,742
Selling & administrative expense	566	707	501	1,774
Research & development expense	-	308	-	308
Amortization of property & equipment	66	100	56	222
Amortization of customer relationships & contracts	53	74	-	127
Interest, contract losses & other expenses	-	-	284	284
	685	1,189	841	2,715
Income (loss) for the period	583	285	(841)	27
Segment assets	4,587	14,086	2,428	21,101
Capital expenditures	73	54	29	156

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## Notes to Consolidated Financial Statements

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	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, contract losses & 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
Capital expenditures	174	61	-	235

	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
Gross margin	2,610	2,886	-	5,496
Selling & administrative expense	1,236	1,393	1,068	3,697
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	2,187	1,720	5,372
Income from Continuing operations	1,145	699	(1,720)	124
Income / (Loss) from Discontinued operations	-	(450)	-	(450)
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

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For the six months ended June 30, 2008 the Corporation derived approximately 57% (2007 – 41%) of its total revenue from the Government of Alberta. As at June 30, 2008, 39% (2007 – 20%) of accounts receivable pertained to this customer.

### 5. Income taxes

As at June 30, 2008 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

On December 21, 2007, the Corporation secured a revolving line of credit for up to \$3,500 to support the Corporation's working capital requirement. The line bears interest at prime plus 0.50% payable monthly in arrears. As of December 31, 2007, \$823 was drawn on the line and fully paid out in the first quarter of 2008.

### 7. Long-term debt

The Corporation has the following long-term debt obligations:

	June 30, 2008	December 31, 2007
Term loan in the principal amount of \$1,500 expiring June, 2010 requiring monthly payments of \$50 plus interest. A general security agreement placing a charge on the assets of the Corporation and securities pledge agreements have been provided as collateral. Interest is calculated at bank prime plus 1%.	1,150	1,500
Less: current portion	600	550
	550	950

Interest paid on the long term debt during the period was \$42.

Pursuant to the terms of the above facility, the Corporation is required to maintain certain covenants all of which were met for the period ended June 30, 2008.

### 8. Capital Disclosures

The Corporation's objective when managing capital is to safeguard the Corporation's ability to continue as a going concern in order to provide returns for shareholders.

The Corporation monitors capital on the basis of debt to equity. This ratio is calculated as long term debt, net of cash, divided by equity.

The Corporation is meeting its objective of managing capital by maintaining a debt to equity ratio below 0.5:1, performing detailed due diligence on all potential acquisitions, and a monthly review of financial results.

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The debt to equity ratio calculations at June 30, 2008 and December 31, 2007 were as follows:

	June 30, 2008	December 31, 2007
Current portion of long term debt	600	550
Long term debt	550	950
Cash	(463)	(566)
Net debt	687	934
Share capital	23,747	23,995
Contributed surplus	1,766	1,697
Deficit	(12,787)	(13,994)
Equity	12,726	11,698
Debt to equity	0.05:1	0.05:1

### 9. Share capital

Effective May 7, 2008, the Corporation received regulatory approval for Normal Course issuer bid ("the bid") from the TSX Venture Exchange to purchase for cancellation, from time to time as the Corporation considers advisable, up to 6,654,105 common shares or 5% of the 133,082,115 shares outstanding. The bid commenced on May 16, 2008 and will expire on May 15, 2009.

During the three months ended June 30, 2008, the Corporation purchased for cancellation 3,139,000 shares at an average cost per share of \$0.161.

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

Common shares	Number	Amount
Balance, December 31, 2007	131,653,115	23,995
Issued on exercise of stock options	1,435,667	259
Shares repurchased and cancelled	(3,139,000)	(507)
Balance, June 30, 2008	129,949,782	23,747

- Contributed surplus:

Balance, December 31, 2007	1,697
Stock-based compensation expense	6
Reclassification of deferred share purchase plan	178
Reclassification to share capital for stock options	(115)
Balance, June 30, 2008	1,766

- Stock option plan:

As at June 30, 2008, the Corporation had 890,800 stock options outstanding with exercise prices ranging from \$0.10 to \$0.25 per share, expiring December 17, 2008 to August 9, 2011. The following table summarizes stock option transactions:

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	Number of options	Weighted-average exercise price
Outstanding, December 31, 2007	2,493,300	\$0.12
Granted	-	0.00
Exercised	1,435,667	0.10
Cancelled	166,833	0.20
Outstanding, June 30, 2008	890,800	0.14
Exercisable, June 30, 2008	869,132	\$0.14

The Corporation has the following stock options outstanding:

Exercise Price	Number outstanding at June 30, 2008	Weighted-average remaining contractual life (years)	Number exercisable at June 30, 2008
\$0.10	357,800	0.69	357,800
\$0.11	50,000	1.06	50,000
\$0.12	210,000	1.52	210,000
\$0.20	120,000	1.45	98,332
\$0.25	153,000	1.84	153,000
	890,800	1.21	869,132

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, 2008	June 30, 2007
Stock-based compensation expense	\$3	\$9
Dividend yield	0.00%	0.00%
Expected volatility	91%	103% - 147%
Risk-free interest rate	3.82%	4.00%
Expected life	3 years	4 years
Weighted-average grant date fair value	\$0.15	\$0.15

e. The following table represents all Deferred common shares granted:

Outstanding, December 31, 2007	475,481	\$105
Issued in 2008	1,616,088	\$178
Outstanding, June 30, 2008	2,091,569	\$ 283

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"). The DCS are issued in lieu of cash and as such, the amount of cash that the DCS is issued in lieu of is expensed.

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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 3,000,000 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.

f. Warrants and Special Warrants:

As at June 30, 2008, 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 August 20, 2008 to January 3, 2010, as follows:

<b>Exercise price</b>	<b>Number outstanding at June 30, 2008</b>	<b>Weighted-average remaining contractual life (years)</b>
\$0.12	9,731,630	0.49
\$0.22	4,250,000	1.51
	13,981,630	0.80

The following table summarizes Warrant and Special Warrant transactions:

	<b>Number of warrants</b>	<b>Weighted-average exercise price</b>
Outstanding December 31, 2007	13,981,630	\$0.15
Granted	-	-
Expired	-	-
Outstanding, June 30, 2008	13,981,630	\$0.15

g. Net income per share:

The calculation of net income per share is based on the weighted-average number of common shares outstanding and the diluted shares for the three months ended June 30, 2008 of 149,278,248 (three months ended June 30, 2007 – 130,739,234). Diluted amounts are calculated taking into consideration the potential conversions and the exercise of options, warrants and deferred share units. For the period ending June 30, 2007 such conversions and exercises of options, warrants and deferred share units are anti-dilutive and have been excluded from the calculation of diluted net income (loss) per share.

### 10. Subsequent event

On July 02, 2008 the Corporation announced that it has closed the acquisition of a web-based Supervisory Control and Data Acquisition (SCADA) business called ScadaNet from Matrikon Inc. The purchase price of \$800,000 was paid in cash at closing and financed through a combination of cash on hand and the Corporation's operating line of credit.