

CRITICALCONTROL SOLUTIONS CORP.

Consolidated Financial Statements
March 31, 2007

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Consolidated Balance Sheets

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

	March 31, 2007	December 31, 2006
Assets (note 6)		
Current assets:		
Cash and cash equivalents	\$ 1,024	\$ 158
Accounts receivable	5,098	5,640
Unbilled revenue	277	266
Inventory	239	217
Prepaid expenses and other	459	324
Assets held for sale (note 4)	1,306	1,923
	<u>8,403</u>	<u>8,528</u>
Deferred costs	91	230
Property & equipment	2,982	3,120
Customer relationships and contracts	4,331	4,152
Goodwill	6,250	5,948
Assets held for sale (note 4)	162	196
	<u>\$ 22,219</u>	<u>\$ 22,174</u>

Liabilities and Shareholders' Equity

Current liabilities:		
Operating line of credit	\$ -	\$ 550
Accounts payable and accrued liabilities	2,825	2,362
Unearned revenue	347	473
Current portion of warranty liability	0	0
Current portion of long-term debt (note 6)	5,785	1,697
Current liability associated with assets held for sale (note 4)	903	901
	<u>9,860</u>	<u>5,983</u>
Long-term warranty liability associated with assets held for sale (note 4)	34	17
Long-term debt (note 6)	-	4,040
	<u>34</u>	<u>4,057</u>
Shareholders' equity:		
Share capital (note 7)	23,813	23,537
Contributed surplus (note 7)	1,715	1,709
Deficit	(13,203)	(13,112)
	<u>12,325</u>	<u>12,134</u>
	<u>\$ 22,219</u>	<u>\$ 22,174</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, Comprehensive Income and Deficit

Three months ended March 31,
(In thousands of Canadian dollars, except share data)
(unaudited)

	2007	2006
Revenue:	\$ 6,799	\$ 6,382
Cost of Revenue:	3,914	3,476
	2,885	2,906
Expenses:		
Selling and administrative expenses	2,053	1,878
Research and development expenses	84	-
Amortization of property & equipment	240	227
Amortization of customer relationships & contracts	116	106
Loss on foreign exchange	1	3
Interest - long-term debt	280	393
Interest - other	13	9
	2,787	2,616
Income from Continuing operations	98	290
Loss from discontinued operations (note 4)	(189)	(193)
Other Comprehensive income (note 2)	-	-
Net income (loss) for the period	(91)	97
Deficit, beginning of period	(13,112)	(12,839)
Deficit, end of period	\$ (13,203)	\$ (12,742)
Net income (loss) from continuing and discontinued operations per share:		
Basic and diluted (note 7)	0.00	0.00
Weighted average number of shares outstanding:		
Basic and diluted	129,855,442	126,500,414

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Three months ended March 31,
(In thousands of Canadian dollars, except share data)
(unaudited)

	2007	2006
Cash flows from continuing operating activities:		
Net income (loss) for the period from continuing operations:	\$ 98	\$ 290
Items not involving cash:		
Amortization of property & equipment	240	227
Amortization of customer relationships & contracts	116	106
Stock-based compensation (note 7)	10	20
Non –cash interest	58	120
Amortization of deferred financing costs	36	76
	558	839
Change in non-cash working capital balances:		
Accounts receivable	545	(832)
Unbilled revenue	(10)	(63)
Inventory	9	85
Prepaid expenses and other	(30)	(280)
Accounts payable and accrued liabilities	492	634
Unearned revenue	(126)	227
Warranty liability	-	-
	1,438	610
Cash flows from (used in) financing activities:		
Shares issued for cash	18	59
Repayment of operating line of credit	(550)	-
Repayment of long term debt	(11)	(74)
	(543)	(15)
Cash flows from (used in) investing activities:		
Purchase of property & equipment	(99)	(189)
Acquisition of business, net of cash acquired	(410)	-
	(509)	(189)
Increase in cash and cash equivalents from continuing operations	386	406
Increase in cash and cash equivalents from discontinued operations (note 4)	480	255
Cash and cash equivalents, beginning of period	158	1,939
Cash and cash equivalents, end of period	\$ 1,024	\$ 2,600
Supplemental disclosure of cash flow information:		
Interest paid	\$ 235	\$ 213

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Three months ended March 31,
(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, 2006. In management's opinion, the interim consolidated financial statements include all adjustments necessary to present fairly such information.

2. Accounting Policy Changes

In Q1 the Corporation has adopted the new accounting standards, 1530 Comprehensive Income, 3855 Financial Instruments – Recognition and Measurement, and 3865 Hedges as issued by CICA.

CICA Section 1530, "Comprehensive Income" introduces a new requirement to temporarily present certain gains and losses from changes in fair value outside net income. It includes unrealized gains and losses such as changes in currency translation adjustment relating to self-sustaining foreign operations; unrealized gains or losses on available for sale investments; and the effective portion of gains and losses on derivatives designated as cash flow hedges. The adoption of this revised standard did not result in recognition of any comprehensive income (loss) for the periods presented

CICA Section 3855, "Financial instruments – Recognition and Measurement", prescribes when a financial instrument is to be recognized on a balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. Based on the Corporation's categorization of its financial instruments, the adoption of the revised standard did not have an impact on the Corporation's financial instruments.

CICA Section 3865, "Hedges", provide alternative treatments to Section 3855 for entities which chose to designate transactions as hedges for accounting purposes. It replaces and expands on Accounting Guidelines 13 "Hedging relationships", and the hedging guidance in Section 1650 "Foreign Currency Translation" by specifying how the hedge accounting is applied and what disclosures are necessary when it is applied. At the present time the Corporation does not employ hedge instruments

3. Business Acquisition:

(a) Effective March 1, 2007, the Corporation acquired all of the issued and outstanding common shares of Idein Technologies Ltd. ("Idein"). Based in Calgary, Alberta, Idein's primary business is providing access to and control of electronic flow measurement and other devices at the well site. As consideration, CriticalControl paid \$255 in cash and issued 1,133,333 common shares of CriticalControl valued at a price of \$0.225 per share (based on the 3-day average closing share price prior to the announcement date) and transaction costs of \$10. The acquisition, which is expected to be immediately accretive to the company, is expected to add more than \$500 in annualized revenue.

The acquisition has been accounted for using the purchase method and the results of operations are included in the consolidated statement of operations from the date of acquisition.

Notes to Consolidated Financial Statements

Three months ended March 31,
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Fair value of net assets acquired:	
Non-cash working capital	\$ 50
Property & equipment	2
Customer relationships & contracts	140
Goodwill	302
	494
Cash	26
Net assets acquired	\$ 520
Consideration:	
Cash	\$ 255
1,133,333 Common shares	255
Transaction costs	10
	\$ 520

- (b) On March 1, 2007, the Corporation paid \$135 to Crimtech Services Ltd. as final payment for the contingent portion of the purchase price related to the acquisition of RDA in April, 2006. This component of the purchase price has been recognized as an additional cost of the purchase being assigned to customer relationships and contracts.

4. Assets held for Sale and Discontinued Operations

The Corporation has evaluated the performance and future strategic potential of its PipeWorks business unit and has committed to a process of divesting the operations during 2007. Pursuant to the CICA recommendation Section 3475, "Disposal of Long-lived Assets and Discontinued Operations," the assets are classified as assets held for sale on the Consolidated Balance Sheets as of March 31, 2007 while the revenues and expenses of the business have been netted and reported as income (loss) from discontinued operations on the Consolidated Statements of Operations, Comprehensive Income and Deficit. Accordingly, the results of the PipeWorks business unit and the financial position have been segregated and presented separately as discontinued operations in the accompanying consolidated financial statements. As such, financial information included herein for the three months ended March 31, 2006 have been restated to reflect this presentation.

The results of the discontinued operations for the period ended March 31, were as follows:

Operating results	Three months ended March 31, 2007	Three months ended March 31, 2006
Revenue	498	496
Cost of revenue	415	330
	83	166
Selling & administrative expense	162	109
Research & development expense	77	217
Amortization of property & equipment	33	33
	272	359
Net Loss for the period	189	193

Notes to Consolidated Financial Statements

Three months ended March 31,
(In thousands of Canadian dollars, except share data)
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Cash flows	Three months ended March 31, 2007	Three months ended March 31, 2006
Net Income (loss) for the period	(189)	(193)
Amortization	33	33
	(156)	(160)
Change in non-cash working capital balances:		
Accounts receivable	754	517
Unbilled revenue	(100)	14
Inventory	-	(85)
Prepaid expenses and other	(37)	(43)
Accounts payable and accrued liabilities	(9)	(32)
Unearned revenue	28	44
Net cash increase from discontinued operations	480	255

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

Until a transaction has occurred, the assets and liabilities of PipeWorks are reported as current and long term liabilities of discontinued operations respectively on the consolidated balance sheet at March 31, 2007.

The summarized Balance sheet information for the period ended March 31, were as follows:

	March 31, 2007	March 31, 2006
Current assets	1,306	1,923
Property & Equipment	162	196
Total assets held for sale	1,468	2,119
Current Liabilities	903	901
Long term warranty liability	34	17
Total liabilities associated with assets held for sale	937	918

5. **Segmented Information**

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

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

In assessing performance of the segments and the allocation of resources to the segments, management of CriticalControl evaluate Gross Margin and Contribution Margin, defined as Gross Margin less Selling and Administrative expenses directly attributable to the Segments.

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

Notes to Consolidated Financial Statements

Three months ended March 31,
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	Government	Energy	Corporate & Other	Three months ended March 31, 2007
Revenue	\$ 3,521	\$ 3,278	-	\$ 6,799
Cost of revenue	2,179	1,735	-	3,914
	1,342	1,543	-	2,885
Selling & administrative expense	670	816	567	2,053
Research & development expense	-	84	-	84
Amortization of property & equipment	57	165	18	240
Amortization of customer relationships & contracts	53	63	-	116
Interest & other Expenses	-	-	294	294
	780	1,128	879	2,787
Income from Continuing operations	562	415	(879)	98
Income / (Loss) from Discontinued operations	-	(189)	-	(189)
Net income (loss) for the period	562	226	(879)	(91)
Segment assets	\$5,527	\$14,187	\$2,505	\$22,219
Capital expenditures	\$ 2	\$ 77	\$ 20	\$ 99

The financial information included herein for the three months ended March 31, 2006 have been restated to reflect the discontinued operations and the reclassification of Corporate and other revenue.

	Government	Energy	Corporate & Other	Three months ended March 31, 2006
Revenue	\$ 3,357	\$ 3,025	-	\$ 6,382
Cost of revenue	1,775	1,701	-	3,476
	1,582	1,324	-	2,906
Selling & administrative expense	610	739	529	1,878
Research & development expenses	-	-	-	-
Amortization of property & equipment	42	157	28	227
Amortization of customer contracts	52	54	-	106
Interest & Other expenses	-	-	405	405
	704	950	962	2,616
Income from Continuing operations	878	374	(962)	290
Income / (Loss) from Discontinued operations	-	(193)	-	(193)
Net Income (loss) for the period	878	181	(962)	97

Notes to Consolidated Financial Statements

Three months ended March 31,
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The Corporation earned revenue from sales to customers in the following geographic areas:

	Three months ended March 31, 2007	Three months ended March 31, 2006
Canada	\$ 6,547	\$ 6,382
United States	252	-
Other	-	-
	<u>\$ 6,799</u>	<u>\$ 6,382</u>

For the three months ended March 31, 2007 the Corporation derived approximately 32% (2006 - 31%) of its total revenue from the Government of Alberta. As at March 31, 2007, 32% (2006 - 35%) of accounts receivable pertained to this customer.

6. Long-term Debt

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

	March 31, 2007	December 31, 2006
(i) Capital lease obligation,	-	10
(ii) Debenture, \$1,700, due August 20, 2007, general security agreement placing a charge on the assets of the Corporation and securities pledge agreements, subordinated to the interests of the Corporation's bank, have been provided as collateral (note 6(b)).	1,692	1,687
(iii) Debenture, \$4,250, due January 3, 2008, general security agreement placing a charge on the assets of the Corporation and securities pledge agreements, subordinated to the interests of the Corporation's bank, have been provided as collateral (note 6(c)).	4,093	4,040
	<u>5,785</u>	<u>5,737</u>
Less: current portion	<u>5,785</u>	<u>1,697</u>
	<u>\$ -</u>	<u>\$ 4,040</u>

(b) On August 20, 2004, the Corporation closed a private placement of a debenture in the principal amount of \$2,700, \$1,700 of which remains outstanding. The terms of the debenture include interest at 12% per annum payable monthly, with the remaining principal being due on August 20, 2007. Upon the occurrence of any event of default the interest on the principal amount and any unpaid accrued interest will increase to 20% per annum. A general security agreement and securities pledge agreements remain pledged as security.

In addition, the Corporation granted to the debenture holder 11,739,130 special warrants (the "Special Warrants"), each Special Warrant entitling the holder to receive, without payment of any additional consideration, one common share purchase warrant (the "Warrants"), each Warrant entitling the holder to acquire one common share of the Corporation at \$0.115 per share. 2,934,783 Special Warrants are exercisable for Warrants that expire on August 20, 2008 and 8,804,347 Special Warrants are exercisable for Warrants that expire on February 20, 2009.

(c) On 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 January 3, 2008. Upon the occurrence of any event of default

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the interest on the principal amount and any unpaid accrued interest will increase to 20% per annum. A general security agreement and securities pledge agreements have been pledged as security.

In addition, the Corporation granted to the debenture holder 4,250,000 warrants that expire on January 3, 2010. Each warrant entitles the holder to purchase one common share of the Corporation at a price of \$0.22 per share. An amount of \$698 has been attributed to the warrants and has been recorded as contributed surplus.

Pursuant to the terms of the debenture agreement, the Corporation is required to maintain, for the fiscal quarter ended December 31, 2005 and for every fiscal quarter thereafter, (A) a four-quarter trailing EBITDA of \$1,500 and (B) a four-quarter trailing EBITDA, less any capitalized software development expenses and less any funds used for capital expenditures (in each case over such trailing four quarters), of not less than \$1,100.

The Corporation met these covenants for the fiscal quarter ended March 31, 2007.

7. Share capital:

(a) Authorized:

Unlimited common shares without nominal or par value.

(b) Issued and outstanding:

	Number	Amount
Common shares:		
Balance, December 31, 2006	129,443,816	\$ 23,537
Issued on exercise of stock options	45,666	8
Issued on acquisition of Idein Technology	1,133,333	255
Decrease in note receivable from Employee Trust	0	13
Balance, March 31, 2007	130,622,815	\$ 23,813

(c) Contributed surplus:

Balance, December 31, 2006	\$ 1,708
Stock-based compensation expense	10
Reclassification to share capital for stock options exercised	(3)
Balance, March 31, 2007	\$ 1,715

(d) Stock option plan:

As at March 31, 2007, the Corporation had 3,935,600 stock options outstanding with exercise prices ranging from \$0.10 to \$0.50 per share, expiring April 30, 2007 to December 17, 2009. The following table summarizes stock option transactions:

Notes to Consolidated Financial Statements

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	Number of options	Weighted-average exercise price
Outstanding, December 31, 2006	4,019,600	\$0.12
Granted	-	-
Cancelled	(38,334)	0.10
Exercised	(45,666)	0.10
Outstanding, March 31, 2007	3,935,600	\$0.12
Exercisable, March 31, 2007	3,506,100	\$0.11

The Corporation has the following stock options outstanding:

Exercise price	Number outstanding at March 31, 2007	Weighted-average remaining contractual life (years)	Number exercisable at March 31, 2007
\$0.10	3,060,100	1.2	3,046,766
\$0.11	50,000	2.3	50,000
\$0.12	350,000	3.0	243,334
\$0.17	2,000	1.4	667
\$0.20	225,500	2.8	59,333
\$0.24	40,000	3.0	26,667
\$0.25	193,000	3.0	64,333
\$0.50	15,000	0.1	15,000
Outstanding, March 31, 2007	3,935,600	1.6	3,506,100

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:

	March 31, 2007	March 31, 2006
Stock-based compensation expense	\$ 10	\$ 20
Dividend yield	0.0%	0.0%
Expected volatility	103% - 147%	170%
Risk-free interest rate	4.0%	3.3%
Expected life	4 years	4 years
Weighted average grant date fair value	0.15	\$0.11

(e) The following table represents all Deferred common shares granted:

	Deferred Common Shares	Deemed Value
Outstanding, December 31, 2006	181,035	\$ 52
Issued in 2007	0	\$0
Outstanding, March 31, 2007	181,035	\$ 52

Notes to Consolidated Financial Statements

Three months ended March 31,
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(f) Warrants:

As at March 31, 2007, the Corporation has 9,111,280 warrants and 13,981,630 Special Warrants outstanding to acquire common shares with exercise prices ranging from \$0.115 to \$0.33 per share, expiring May 19, 2007 to January 3, 2010, as follows:

Exercise price	Number outstanding at March 31, 2007	Weighted-average remaining contractual life (years)
\$0.115	9,731,630	1.7
\$0.22	4,250,000	2.8
\$0.25	1,111,280	0.1
\$0.33	8,000,000	0.1
Outstanding, March 31, 2007	23,092,910	1.3

The following table summarizes warrant transactions:

	Number of warrants	Weighted-average exercise price
Outstanding, December 31, 2006	25,092,910	\$ 0.23
Expired	(2,000,000)	0.40
Outstanding, March 31, 2007	23,092,910	\$ 0.22

(g) Loss per share:

The calculation of net income per share is based on the weighted average number of common shares outstanding for the three months ended March 31, 2007 of 129,855,442 (three months ended March 31, 2006 – 126,500,414). Diluted amounts are calculated taking into consideration the potential conversions and the exercise of options and warrants. Such conversions and exercises of options and warrants are anti-dilutive and have been excluded from the calculation of diluted net income per share.