

CRITICALCONTROL SOLUTIONS CORP.

Consolidated Financial Statements

September 30, 2006

Unaudited

*SOLUTIONS
that
WORK*



Consolidated Balance Sheets

(In thousands of Canadian dollars)
(unaudited)

	September 30, 2006	December 31, 2005
Assets (note 5)		
Current assets:		
Cash and cash equivalents	\$575	\$1,939
Accounts receivable	5,596	6,092
Unbilled revenue	906	810
Inventory	581	24
Prepaid expenses and other	544	341
	<u>8,202</u>	<u>9,206</u>
Deferred financing costs (note 5)	169	278
Property & equipment	3,440	3,418
Customer relationships and contracts	4,247	3,746
Goodwill & Trademarks	5,948	5,581
	<u>\$22,006</u>	<u>\$22,229</u>
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating line of credit (note 4)	\$900	\$ -
Accounts payable and accrued liabilities	2,315	2,596
Unearned revenue	910	1,052
Current portion of warranty liability	73	71
Current portion of long-term debt (note 5)	1,762	2,890
	<u>5,960</u>	<u>6,609</u>
Long-term warranty liability	17	25
Long-term debt (note 5)	3,988	3,879
	<u>4,005</u>	<u>3,904</u>
Shareholders' equity:		
Share capital (note 6)	23,538	22,987
Contributed surplus (note 6)	1,640	1,568
Deficit	(13,137)	(12,839)
	<u>12,041</u>	<u>11,716</u>
	<u>\$22,006</u>	<u>\$22,229</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

"signed"	"signed"
William Hammett, Director	Alykhan Mamdani, Director



Consolidated Statements of Operations and Deficit

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

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Revenue:	\$6,064	\$5,258	\$19,063	\$14,089
Cost of Revenue:	\$3,401	\$3,032	\$10,547	\$8,525
	2,663	2,226	8,516	5,564
Expenses:				
Selling and administrative	1,889	1,600	5,672	4,032
Research and development	228	257	686	677
Amortization of property & equipment	295	309	826	631
Amortization of customer relationships & contracts	125	83	347	435
Gain on debt settlement	-	(50)	-	(50)
Gain on sale of capital assets	-	(10)	-	(18)
Loss on foreign exchange	15	78	151	15
Interest - long-term debt	287	426	1,090	1,028
Interest - other	16	-	42	-
	2,855	2,693	8,814	6,750
Net (loss) for the period	(192)	(467)	(298)	(1,186)
Deficit, beginning of period	(12,945)	(12,232)	(12,839)	(11,513)
Deficit, end of period	\$ (13,137)	\$ (12,699)	\$ (13,137)	\$ (12,699)
Net (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	128,551,970	125,953,238	127,367,014	110,378,654

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands of Canadian dollars)

(unaudited)

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Cash flows from (used in) operating activities:				
Net (loss) for the period	\$(192)	\$(467)	\$(298)	\$(1,186)
Items not involving cash:				
Amortization of property & equipment	295	309	826	631
Amortization of customer relationships & contracts	125	83	347	435
Gain on sale of capital assets	-	(10)	-	(18)
Stock-based compensation (note 6)	11	28	42	83
Noncash interest	58	120	299	305
Amortization of deferred financing costs	34	85	185	203
	331	148	1,401	453
Change in non-cash working capital balances:				
Accounts receivable	299	(180)	496	101
Unbilled revenue	(19)	33	(96)	(200)
Inventory	(368)	(130)	(557)	(44)
Prepaid expenses and other	(44)	(57)	(203)	(128)
Accounts payable and accrued liabilities	166	510	(408)	10
Unearned revenue	(178)	(213)	(142)	(160)
Warranty liability	(6)	-	(6)	(39)
	181	111	485	(7)
Cash flows from (used in) financing activities:				
Shares issued for cash	51	19	142	4,510
Share Issuance cost	-	-	-	(413)
Deferred financing costs	-	-	-	(273)
Proceeds from debentures	-	-	-	4,475
Proceeds from operating line of credit	900	-	900	-
Repayment of long-term debt	(1,080)	(266)	(1,233)	(382)
	(129)	(247)	(191)	7,917
Cash flows used in investing activities:				
Purchase of property & equipment	(88)	(111)	(388)	(508)
Acquisition of business, net of cash acquired (note 2)	(775)	(30)	(1,270)	(4,461)
	(863)	(141)	(1,658)	(4,969)
(Decrease) / Increase in cash and cash equivalents	(811)	(277)	(1,364)	2,941
Cash and cash equivalents, beginning of period	1,386	3,576	1,939	358
Cash and cash equivalents, end of period	\$575	\$ 3,299	\$575	\$3,299
Cash and cash equivalents include the following:				
Cash	\$415	\$226	\$415	\$226
Short-term investments	160	3,073	160	3,073
	\$575	\$3,299	\$575	\$3,299
Supplemental disclosure of cash flow information:				
Interest paid	\$211	\$221	\$648	\$519

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Three & Nine months ended September 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 acquisitions:

- (a) On August 9, 2006, CriticalControl acquired 100% of the outstanding shares of ProTrend Software Inc. ("ProTrend") for \$1,156 in cash and shares of CriticalControl. \$775 of the purchase price was paid in cash in addition to 1,843,318 common shares of the Corporation valued at a deemed price of \$0.163 per share (discounted from the 3-day average trading price due to the hold periods), transaction costs of \$40 and an additional \$41 working capital adjustment. In addition a deferred payment \$108 will be payable over 3 years based upon meeting certain performance criteria. This component of the purchase price will be recognized as an additional cost of the purchase being assigned to goodwill if and 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:	
Working capital	\$41
Property & equipment	8
Computer software	430
Customer relationships and contracts	310
Goodwill & Trademarks	367
Net assets acquired	\$1,156
Consideration:	
Cash	\$775
1,843,318 Common shares	300
Transaction costs	40
Working capital adjustment	41
	\$1,156

- (b) Effective April 28, 2006, the Corporation acquired the Remote Data Acquisition ("RDA") assets 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.

Notes to Consolidated Financial Statements

Three & Nine months ended September 30, 2006 and 2005

(In thousands of Canadian dollars, except share data)

(unaudited)

Fair value of net assets acquired:	
Property & equipment	\$22
Customer relationships and contracts	538
Net assets acquired	\$560
Consideration:	
Cash	\$495
189,655 Common shares	55
Transaction costs	10
	\$560

The computer software related to the acquisition of Protrend will be amortized over 5 years reflecting its estimated economic life, while customer relationships and contracts related to the acquisition of RDA and ProTrend will be amortized over 15 years which reflects the pattern in which the economic benefit of the contracts will be consumed.

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 nine months ended September 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.

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

	Government	Energy	Corporate & Other	Three months ended September 30, 2006
Revenue	\$2,595	\$3,282	\$187	\$6,064
Cost of revenue	1,558	1,750	93	3,401
Gross margin	1,037	1,532	94	2,663
Selling & administrative expenses	211	796	882	1,889
Research & development expenses	-	228	-	228
Amortization of property & equipment	44	110	141	295
Amortization of customer relationships & contracts	53	72	-	125
Interest & other expenses	-	-	318	318
	308	1,206	1,341	2,855
Net income (loss) for the period	\$729	\$326	\$(1,247)	\$(192)
Segment assets at September 30, 2006	\$7,517	\$13,209	\$1,280	\$22,006
Capital expenditures	\$55	\$19	\$14	\$88

Notes to Consolidated Financial Statements

Three & Nine months ended September 30, 2006 and 2005

(In thousands of Canadian dollars, except share data)

(unaudited)

	Government	Energy	Corporate & Other	Three months ended September 30, 2005
Revenue	\$2,180	\$2,492	\$586	\$5,258
Cost of revenue	1,202	1,510	320	3,032
Gross margin	978	982	266	2,226
Selling & administrative expenses	119	390	1,091	1,600
Research & development expenses	-	257	-	257
Amortization of property & equipment	44	154	111	309
Amortization of customer relationships & contracts	77	6	-	83
Interest & other expenses	-	-	444	444
	240	807	1,646	2,693
Net Income (loss) for the period	\$738	\$175	\$(1,380)	\$(467)
Segment assets at September 30, 2005	\$5,260	\$11,720	\$4,563	\$21,543
Capital expenditures	\$111	0	0	\$111

	Government	Energy	Corporate & Other	Nine months ended September 30, 2006
Revenue	\$8,851	\$9,511	\$701	\$19,063
Cost of revenue	4,974	5,241	332	10,547
Gross margin	3,877	4,270	369	8,516
Selling & administrative expenses	836	1,984	2,852	5,672
Research & development expenses	-	686	-	686
Amortization of property & equipment	130	498	198	826
Amortization of customer relationships & contracts	141	206	-	347
Interest & other expenses	-	-	1,283	1,283
	1,107	3,374	4,333	8,814
Net income (loss) for the period	\$2,770	\$896	\$(3,964)	\$(298)
Segment assets at September 30, 2006	\$7,517	\$13,209	\$1,280	\$22,006
Capital expenditures	\$193	\$116	\$79	\$388

Notes to Consolidated Financial Statements

Three & Nine months ended September 30, 2006 and 2005

(In thousands of Canadian dollars, except share data)

(unaudited)

	Government	Energy	Corporate & Other	Nine months ended September 30, 2005
Revenue	\$6,246	\$6,301	\$1,542	\$14,089
Cost of revenue	3,926	3,690	909	8,525
Gross margin	2,320	2,611	633	5,564
Selling & administrative expenses	249	770	3,013	4,032
Research & development expenses	-	677	-	677
Amortization of property & equipment	126	347	158	631
Amortization of customer relationships & contracts	369	66	-	435
Interest & other expenses	-	-	975	975
	744	1,860	4,146	6,750
Net Income (loss) for the period	\$1,576	\$751	\$(3,513)	\$(1,186)
Segment assets at September 30, 2005	\$5,260	\$11,720	\$4,563	\$21,543
Capital Expenditures	\$488	\$20	0	\$508

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

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Canada	\$5,813	\$4,806	\$18,314	\$12,357
United States	226	388	633	1,235
Other	25	64	116	497
	\$6,064	\$5,258	\$19,063	\$14,089

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 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 (i) solutions or services not based on the Corporation's proprietary Solutions ("Services"), (ii) solutions or services directly tied to the Corporation's proprietary products ("Proprietary Solutions"), and (iii) the sale of third party hardware or software to a client ("Third Party Hardware & Software") revenue from such sale is tracked separately as follows:

	Three months ended September 30, 2006	Three months ended September 30, 2005	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Services	\$2,940	\$3,591	\$10,020	\$9,983
Proprietary Solutions	2,312	1,126	6,207	3,204
Third Party Hardware & Software	812	541	2,836	902
	\$6,064	\$5,258	\$19,063	\$14,089

For the nine months ended September 30, 2006 the Corporation derived approximately 33.56% (2005 – 28.47%) of its total revenue from the Government of Alberta. As at September 30, 2006, 18.71% (2005 – 24.26%) of accounts receivable pertained to this customer.

Notes to Consolidated Financial Statements

Three & Nine months ended September 30, 2006 and 2005

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4. Operating line of Credit:

On August 21, 2006, the corporation entered into a revolving credit agreement which provided a line of credit up to \$1,000. The line bears interest at prime rate plus 2.5% payable monthly in arrears. The total cost of obtaining the line is being amortized over a 1 year term.

As of September 30, 2006, \$900 was drawn on the line.

5. Long-term debt:

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

	September 30, 2006	December 31, 2005
(i) Capital lease obligation, \$265, due February 2007, payable in monthly installments of principal and interest of \$12.5 for the third year, bearing interest at 10% per annum	\$41	\$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 September 30, 2006) certain computer hardware, computer software and furniture and fixtures of a subsidiary company have been provided as collateral	6	50
(iii) 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 5 (b),(d))	1,682	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	34	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 5 (c),(d))	3,987	3,867
	5,750	6,769
Less: current portion	1,762	2,890
	<u>\$3,988</u>	<u>\$3,879</u>

(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 5(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.

Notes to Consolidated Financial Statements

Three & Nine months ended September 30, 2006 and 2005

(In thousands of Canadian dollars, except share data)

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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 expired 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 5(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 5(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 September 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 which was due on August 20, 2006 has been amended such that \$1,000 was paid on August 20, 2006 and the remainder is 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 has paid its lender a 1% extension fee and replaced 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.

6. Share capital:

- (a) Authorized:

Unlimited common shares without nominal or par value.

Notes to Consolidated Financial Statements

Three & Nine months ended September 30, 2006 and 2005

(In thousands of Canadian dollars, except share data)

(unaudited)

(b) Issued and outstanding:

	Number	Amount
Common shares:		
Balance, December 31, 2005	126,121,271	\$22,987
Issued on exercise of stock options	215,659	38
Issued on exercise of warrants	1,073,913	158
Issued on acquisition of RDA (note 2(a))	189,655	55
Issued on acquisition of Protrends (note 2(b))	1,843,318	300
Balance, September 30, 2006	129,443,816	\$23,538

(c) Contributed surplus:

Balance, December 31, 2005	\$1,568
Stock-based compensation expense	42
Reclassification to share capital for stock options exercised	(16)
Reclassification to share capital for warrants exercised	(39)
Value attributed to warrants (note 5(d))	85
Balance, September 30, 2006	\$1,640

(d) Stock option plan:

As at September 30, 2006, the Corporation had 4,292,100 stock options outstanding with exercise prices ranging from \$0.10 to \$0.50 per share, expiring November 9, 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	145,000	0.21
Cancelled	(803,674)	0.28
Exercised	(215,659)	0.10
Outstanding, September 30, 2006	4,292,100	\$0.13
Exercisable, September 30, 2006	3,330,069	\$0.13

Notes to Consolidated Financial Statements

Three & Nine months ended September 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 September 30, 2006	Weighted-average remaining contractual life (years)	Number exercisable at September 30, 2006
\$0.10	3,139,100	1.7	2,825,403
\$0.11	50,000	2.8	33,333
\$0.12	400,000	3.2	130,000
\$0.17	2,000	1.9	-
\$0.20	225,500	3.3	31,667
\$0.24	40,000	3.5	13,333
\$0.25	193,000	3.6	66,333
\$0.29	10,000	2.6	-
\$0.30	2,500	2.6	-
\$0.40	215,000	0.2	215,000
\$0.50	15,000	0.6	15,000
Outstanding, September 30, 2006	4,292,100	2.0	3,330,069

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:

	Nine months ended September 30, 2006	Nine months ended September 30, 2005
Stock-based compensation expense	\$42	\$83
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 September 30, 2006, the Corporation has 11,111,280 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 March 31st 2007 to January 3, 2010, as follows:

Exercise price	Number outstanding at September 30, 2006	Weighted-average remaining contractual life (years)
\$0.115	9,731,630	2.2
\$0.22	4,250,000	3.2
\$0.25	1,111,280	0.6
\$0.33	8,000,000	0.6
\$0.40	2,000,000	0.5
Outstanding, September 30, 2006	25,092,910	1.7

Notes to Consolidated Financial Statements

Three & Nine months ended September 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	(1,073,913)	0.11
Expired	(1,000,000)	0.90
Outstanding, September 30, 2006	25,092,910	\$0.23

(f) Loss per share:

The calculation of net (loss) per share is based on the weighted average number of common shares outstanding for the nine months ended September 30, 2006 of 127,367,014 (nine months ended September 30, 2005 – 110,378,654). 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 (loss) per share.