



CriticalControl Solutions Corp.

Condensed Consolidated Interim Financial Statements

June 30, 2011

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated 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 condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Financial Position

As At June 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

	Note	June 30, 2011	December 31, 2010
Assets			
Current assets:			
Cash		457	1,147
Accounts receivable		8,862	9,263
Unbilled revenue		568	251
Inventory		4,412	4,344
Prepaid expenses		2,015	1,719
Total current assets		16,314	16,724
Tax credits recoverable		652	652
Deferred costs		59	59
Deferred tax assets		2,287	2,307
Property & equipment		2,814	2,721
Intangible assets		10,347	10,451
Goodwill		12,024	11,876
TOTAL ASSETS		44,497	44,790
Liabilities and Shareholders' Equity			
Current liabilities:			
Operating line of credit		1,740	-
Accounts payable and accrued liabilities		4,426	6,034
Provisions	6	193	738
Unearned revenue		2,441	2,086
Current portion of long-term debt		2,771	2,949
Current portion of deferred lease inducement		181	181
Total current liabilities		11,752	11,988
Provisions	6	594	543
Deferred lease inducement		978	1,069
Deferred tax liabilities		1,325	1,366
Long term debt		4,962	5,530
TOTAL LIABILITIES		19,611	20,496
Shareholders' Equity			
Share capital		28,973	28,973
Contributed surplus		935	928
Deficit		(4,490)	(5,231)
Accumulated other comprehensive (loss) income		(532)	(376)
Total shareholders' equity		24,886	24,294
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY		44,497	44,790

The notes on pages 6 to 13 are an integral part of these consolidated financial statements.

These financial statements were approved by the Corporation's board of directors on August 2, 2011.

(signed) "William Hammett"

William Hammett

(signed) "Alykhan Mamdani"

Alykhan Mamdani

Condensed Consolidated Interim Statement of Earnings

For the three and six month periods ended June 30 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

	Note	Three Months		Six Months	
		2011	2010	2011	2010
Revenue		12,543	12,796	24,764	25,838
Cost of revenue		8,118	7,609	15,768	15,745
		4,425	5,187	8,996	10,093
Expenses:					
Selling and administrative		3,701	3,389	7,141	6,972
Research & development		319	328	614	631
Finance costs	7	165	39	330	348
Other operating costs	8	(105)	-	(141)	-
		4,080	3,756	7,944	7,951
Earnings before income tax		345	1,431	1,052	2,142
Income tax expense		118	356	311	557
Net earnings		227	1,075	741	1,585
Net earnings per share					
Basic	9	0.00	0.03	0.01	0.04
Diluted	9	0.00	0.03	0.01	0.04

The notes on pages 6 to 13 are an integral part of these consolidated financial statements.

Condensed Consolidated Interim Statement of Comprehensive Income

For the three and six month periods ended June 30 (unaudited)
(In thousands of Canadian dollars, except share and per share data)

	Three Months		Six Months	
	2011	2010	2011	2010
Net earnings	227	1,075	741	1,585
Other comprehensive (loss) income				
Foreign currency translation adjustments	(43)	(107)	(156)	(43)
Total comprehensive income	184	968	585	1,542

The notes on pages 6 to 13 are an integral part of these consolidated financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

For the six months ended June 30 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

Six months ended June 30, 2011

	Note	Share Capital	Contributed Surplus	Deficit	Accumulated other comprehensive loss from foreign currency translation adjustments	Total
Balance January 1, 2011		28,973	928	(5,231)	(376)	24,294
Comprehensive income (loss)		-	-	741	(156)	585
Share-based payment	10	-	7	-	-	7
Balance June 30, 2011		28,973	935	(4,490)	(532)	24,886

Six months ended June 30, 2010

	Share Capital	Contributed Surplus	Deficit	Accumulated other comprehensive income from foreign currency translation adjustments	Total
Balance January 1, 2010	24,110	1,005	(8,749)	16	16,382
Comprehensive income	-	-	1,585	(43)	1,542
Common shares issued on exercise of stock options	49	(20)	-	-	29
Common shares issued on redemption of deferred shares	57	(57)	-	-	-
Common shares issued on private placement subscriptions	2,200	-	-	-	2,200
Balance June 30, 2010	26,416	928	(7,164)	(27)	20,153

The notes on pages 6 to 13 are an integral part of these consolidated financial statements.

Condensed Consolidated Interim Statement of Cash Flows

For the six months ended June 30 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

	Note	2011	2010
Cash flows from (used in) operating activities:			
Net earnings		741	1,585
Adjustments for:			
Depreciation of property & equipment		404	379
Income tax expense		311	557
Amortization of intangible assets		747	945
Amortization of deferred lease inducement		(91)	(91)
Share-based payment		7	-
Gain on sale of property & equipment		(21)	-
Interest and unwinding of discount		242	358
		2,340	3,733
Change in non-cash operating working capital:			
Accounts receivable		396	(1,162)
Unbilled revenue		(319)	18
Inventory		(158)	(307)
Prepaid expenses		(305)	76
Accounts payable and accrued liabilities		(1,236)	(495)
Provisions		(94)	(113)
Unearned revenue		359	(353)
Cash generated from operating activities		983	1,397
Interest paid		(177)	(244)
Income tax paid		(526)	(816)
Net cash from operating activities		280	337
Cash flows from (used in) financing activities:			
Proceeds from issue of share capital		-	2,229
Proceeds from (repayment of) operating line of credit		1,740	(2,609)
Proceeds from long term debt		363	554
Repayment of long term debt		(1,705)	(109)
		398	65
Cash flows from (used in) investing activities:			
Acquisition of GMI	5	(386)	-
Acquisition of QM4 Engineering Ltd.		-	(411)
Purchase of property, equipment and software		(616)	(418)
Payment of contingent consideration		(400)	-
Proceeds on sale of property & equipment		64	9
		(1,338)	(820)
Effect of exchange rate fluctuations on cash		(30)	-
Net decrease in cash		(690)	(418)
Cash, beginning of period		1,147	1,049
Cash, end of period		457	631

The notes on pages 6 to 13 are an integral part of these consolidated financial statements.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

1. Reporting entity:

CriticalControl Solutions Corp. (the "Corporation" or "CriticalControl") is a company domiciled in Canada and incorporated in Alberta. The Corporation is a publicly-traded company listed on the Toronto Stock Exchange under symbol "CCZ". The condensed consolidated interim financial statements ("interim financial statements") of the Corporation as at and for the three and six months ended June 30, 2011 comprise the Corporation and its subsidiaries (together referred to as "Group" and individually as "Group Entities"). CriticalControl is a technology company, delivering outsourced solutions for information intensive and document intensive transactional processes. Through the implementation of technology, workflow and economies of scale, the Corporation is able to provide highly secure control over sensitive information and processes in a cost effective manner. The Corporation operates in Canada and the United States.

These interim financial statements should be read in conjunction with the Corporation's consolidated financial statements for the year ended December 31, 2010 and interim financial statements for the three months ended March 31, 2011. The consolidated financial statements of the Group as at and for the year ended December 31, 2010 were prepared under Canadian generally accepted accounting principles ("Canadian GAAP"). The Corporation's March 31, 2011 interim financial statements were the first IFRS interim financial statements prepared for part of the period covered by the first IFRS annual financial statements. Both are available upon request from the Corporation's head office at Suite 1100, 840 - 7th Avenue SW, Calgary, Alberta, Canada T2P 3G2, at www.criticalcontrol.com or at www.sedar.com.

2. Basis of preparation:

(a) Statement of compliance:

The interim financial statements were prepared using the same accounting policies and methods as those used in the Corporation's March 31, 2011 interim financial statements. The interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting*. These are the Group's second IFRS interim financial statements prepared for part of the period covered by the first IFRS annual financial statements, and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The interim financial statements do not include all of the information required for full annual financial statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 12. This note includes certain reconciliations of equity, net earnings, and total comprehensive income for comparative periods as reported under Canadian GAAP to those reported under IFRSs.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on August 2, 2011.

(b) Basis of measurement:

The interim financial statements have been prepared on the historical cost basis.

(c) Functional and presentation currency:

These interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

(d) Use of estimates and judgments:

The preparation of the interim financial statements in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. In preparing the interim financial statements, the significant judgments made by management applying the Group's accounting policies and the key sources of estimation uncertainty are expected to be the same as those to be applied in the first annual IFRS financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

The areas involving a high degree of judgment and areas where assumptions and estimates are significant to the financial statements have been disclosed in note 2(b) to the Corporation's March 31, 2011 interim financial statements.

3. New standards and interpretations not yet adopted:

A number of new standards and amendments to standards are not yet effective for the year ended December 31, 2011, and have not been applied in preparing these interim financial statements. The Corporation does not plan to early adopt any of these new

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

standards and amendments. The Corporation has not completed its evaluation of the effect of adopting these standards on its financial statements, but the preliminary assessment is that they will not have a material impact on the financial results and financial position. A summary of new standards that have not been adopted which may impact the Corporation is as follows:

Fair value measurement: In May 2011, IFRS 13 *Fair Value Measurement* was issued. IFRS 13 defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when other IFRSs require or permit fair value measurements. It does not introduce any new requirements to measure an asset or a liability at fair value, change what is measured at fair value in IFRSs or address how to present changes in fair value. The new requirements are effective prospectively for annual periods beginning on or after January 1, 2013 and need not be applied in comparative information for periods before initial application. Earlier application is permitted.

Consolidations, Joint arrangements and Disclosure of Interests in Other Entities: In May 2011, IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements* and IFRS 12 *Disclosure of Interests in Other Entities* were issued. IFRS 10 provides a single consolidation model that identifies control as the basis for consolidation for all types of entities. IFRS 10 replaces guidance IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation-Special Purpose Entities*. IFRS 11 establishes principles for the financial reporting by parties to a joint arrangement and replaces guidance in IAS 31 *Interests in Joint Ventures*. IFRS 12 combines, enhances and replaces the disclosure requirements for subsidiaries, joint arrangements, associates and unconsolidated structured entities. As a consequence of these new IFRSs, the International Accounting Standards Board ("IASB") also issued amended and re-titled IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

Financial instrument classification and measurement: In November 2009, IFRS 9 *Financial Instruments* was published, covering the classification and measurement of financial assets. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39 *Financial Instruments: Recognition and Measurement*. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Most of the added requirements were carried forward unchanged from IAS 39. However, the requirements related to the fair value option for financial liabilities were changed to address the issue of own credit risk in response to consistent feedback from users of financial statements and others that the effects of changes in a liability's credit risk ought not to affect earnings unless the liability is held for trading. The new requirements are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

Financial instrument disclosures: Amendments to IFRS 7 *Financial Instruments: Disclosures* were issued in October 2010. Those amendments improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with earlier application permitted.

Presentation of financial statements: In June 2011, amendments to IAS 1 *Presentation of Financial Statements* were issued that will improve and align the presentation of items of other comprehensive income (OCI) in financial statements. The amendments to IAS 1 require companies preparing financial statements in accordance with IFRSs to group together items within OCI that may be reclassified to the statement of earnings. The amendments also reaffirm existing requirements that items in OCI and net earnings should be presented as either a single statement or two consecutive statements. The amendments are effective for financial years beginning on or after July 1, 2012.

Termination benefits: In June 2011, amendments to IAS 19 *Employee Benefits* were issued, primarily related to defined benefit plans. The amendments to IAS 19 also finalized changes to the requirements for termination benefits that were part of the exposure draft *Proposed Amendments to IAS 37 and IAS 19* published in 2005. The amendments require an entity to recognize termination benefits when it can no longer withdraw that offer (such as, when the employee accepts the offer) and are effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

4. Operating segments:

The Corporation has identified Service Bureau Operations and Energy Services as reportable segments which are used to manage the business and are key areas of potential growth to increase profitability. All public company costs, interest and other expenses not directly attributed to the two operating segments are included in Corporate. 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 and U.S.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

	Three months ended June 30							
	Service Bureau				Total			
	Operations		Energy Services		Corporate		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenue	5,348	4,835	7,195	7,961	-	-	12,543	12,796
Cost of revenue	3,595	3,347	4,523	4,262	-	-	8,118	7,609
	1,753	1,488	2,672	3,699	-	-	4,425	5,187
Operating expenses								
Selling and administrative	1,459	1,349	1,195	1,019	1,047	1,021	3,701	3,389
Research & development	-	-	319	328	-	-	319	328
Finance costs	5	-	1	-	159	39	165	39
Other operating costs	(120)	-	-	-	15	-	(105)	-
	1,344	1,349	1,515	1,347	1,221	1,060	4,080	3,756
Earnings before income tax	409	139	1,157	2,352	(1,221)	(1,060)	345	1,431
Segment assets	13,000	12,706	30,395	27,405	1102	225	44,497	40,336
Goodwill	2,168	2,168	9,856	8,551	-	-	12,024	10,719
Purchase of property, equipment and software	31	25	348	43	-	32	379	100
	Six months ended June 30							
	Service Bureau				Total			
	Operations		Energy Services		Corporate		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Revenue	10,963	9,924	13,801	15,914	-	-	24,764	25,838
Cost of revenue	7,486	7,116	8,282	8,629	-	-	15,768	15,745
	3,477	2,808	5,519	7,285	-	-	8,996	10,093
Operating expenses								
Selling and administrative	2,579	2,924	2,323	1,993	2,239	2,055	7,141	6,972
Research & development	-	-	614	631	-	-	614	631
Finance costs	10	-	2	-	318	348	330	348
Other operating costs	(120)	-	-	-	(21)	-	(141)	-
	2,469	2,924	2,939	2,624	2,536	2,403	7,944	7,951
Earnings before income tax	1,008	(116)	2,580	4,661	(2,536)	(2,403)	1,052	2,142
Purchase of property, equipment and software	115	112	501	75	-	231	616	418

5. Business combinations:

On April 1, 2011, the Corporation acquired certain assets of Gas Measurement and Integration ("GMI") of Buckhannon, West Virginia through its wholly owned United States subsidiary, GAS Analytical Service, Inc. The consideration provided included cash of US\$400 and a promissory note for US\$800. The promissory note bears interest at 4% and is repayable as follows: US\$300 plus interest due April 1, 2012; US\$300 plus interest due December 28, 2012; and US\$200 plus interest due June 30, 2013.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

The business of GMI acquired by Gas Analytical Service, Inc. includes the provision of gas measurement products and services, inclusive of gas chart integration, to clients in the Appalachian Basin in North Eastern United States.

The acquisition has been accounted for using the acquisition method under IFRS 3 and the results of operations have been included in the consolidated statements of earnings and comprehensive income from the date of acquisition.

Fair value of net assets acquired	
Non-cash working capital	96
Property & equipment	5
Customer relationships & contracts	587
Non-compete agreement	150
Goodwill	317
Net assets acquired	1,155
Consideration	
Cash	386
Promissory note payable	769
	1,155

The Corporation is in the process of finalizing the purchase equation, and as such the initial accounting for the business combination may change.

Revenue of GMI included in the condensed consolidated interim statement of earnings since the date of acquisition was \$152. Due to the integration program following the acquisition, it is impractical to disclose earnings before income tax contributed by GMI since the date of acquisition.

Had GMI been consolidated from January 1, 2011, the condensed consolidated statement of earnings would show additional revenue of \$207 and earnings before income tax of \$78. This pro forma financial information was determined using GMI's results from January 1, 2011 to March 31, 2011. The pro forma financial information also includes business combination adjustments such as amortization of acquired intangible assets and interest expense on borrowings. The pro forma financial information does not reflect synergies or changes to historical transactions and is not necessarily indicative of the results of operations from GMI that would have resulted had the acquisition actually occurred on January 1, 2011, or the results that may be obtained in the future.

The assets of GMI have been allocated to the US Energy CGU.

6. Provisions:

In thousands of dollars	Onerous Leases	Contingent Consideration	Total
Balance at January 1, 2011	781	500	1281
Provisions used during the period	(135)	(500)	(635)
Reallocation from accrued liabilities	-	250	250
Changes in estimates	(120)	-	(120)
Unwind of discount	11	-	11
Balance at June 30, 2011	537	250	787
Less current portion	(108)	(85)	(193)
Long-term portion	429	165	594

The onerous leases provision relates to redundant space that is being subleased or is expected to be subleased at rates lower than those being paid under the lease agreements with the landlords, which expire between July 2014 and August 2017. The net obligations under the subleases have been estimated based on sublease agreements in place or expected to be in place. Where sublease agreements are not in place, the provisions are based on management's best estimate of the sublease rates that will be negotiated, the timing and the discount rates.

The contingent consideration provision relates to the October 2010 acquisition of Visible Data Inc. and Visible One Call Inc. The contingent payments are based on annual revenue targets and are payable within 30 days of each calendar year-end for 2011, 2012 and 2013. The payments are capped at \$250, which is the amount recognized.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

7. Finance costs:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Interest and bank charges	119	142	223	281
Net foreign exchange loss (gain)	15	(161)	46	(159)
Unwind of discounts	31	56	61	56
Impairment loss on accounts receivable	-	2	-	170
	165	39	330	348

8. Other operating costs:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Reduction in estimated onerous lease obligation	(120)	-	(120)	-
Loss (gain) on disposal of property & equipment	15	-	(21)	-
	(105)	-	(141)	-

9. Net earnings per share:

The following information was used for the net earnings per share calculations:

	Three months ended June 30		Six months ended June 30	
	2011	2010	2011	2010
Weighted average number of shares outstanding				
Basic	51,235,012	42,353,360	51,235,012	42,313,606
Diluted	51,829,407	42,914,142	51,807,934	43,022,164

10. Equity-settled share-based payment:

In June 2011, 150,000 deferred common shares (DCSs) were granted under the Corporation's Deferred Annual Bonus and Share Purchase Plan. The DCSs vest in 50,000 tranches at the end of fiscal 2011, 2012 and 2013. Each vested DCS may be redeemed by the holder for one common share of the Corporation for no additional payment on termination of the holder's service to the Corporation or on death. The following table summarizes all DCSs outstanding and vested:

Outstanding and vested December 31, 2010	549,413
Granted June 2011	<u>150,000</u>
Outstanding June 30, 2011	699,413
Vested June 30, 2011	549,413

The grant date fair value of this equity-settled share-based payment is being recognized as an employee expense over the vesting periods. During the three months ended June 30, 2011, \$7 was recognized.

11. Subsequent event:

The Corporation arranged term financing with its bank in July 2011 to fund the US\$1,125 payment due on August 1, 2011 for the promissory note issued in relation to the acquisition of Gas Analytical Service, Inc. The term loan is repayable in 12 equal monthly installments starting on August 31, 2011. Interest is also payable monthly at the bank's prime rate plus 1.75% per annum. This term loan is an interim step related to a larger refinancing initiative being pursued by the Corporation to optimize security.

12. Explanation of transition to IFRSs:

As stated in note 2(a), these are the Group's second interim financial statements prepared in accordance with IFRSs.

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

The accounting policies set out in note 3 to the Corporation's March 31, 2011 interim financial statements have been applied in preparing the interim financial statements for the three and six months ended June 30, 2011 and 2010.

An explanation of how the transition from previous Canadian GAAP to IFRSs has affected the Group's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

Reconciliation of equity:

		June 30, 2010		
In thousands of dollars	Note	Previous Canadian GAAP	Effect of transition to IFRSs	IFRSs
Assets				
Current assets:				
Cash		631	-	631
Accounts receivable		9,060	-	9,060
Unbilled revenue		241	-	241
Inventory		3,077	-	3,077
Prepaid expenses		2,000	-	2,000
Total current assets		15,009	-	15,009
Tax credits recoverable		580	-	580
Deferred costs		59	-	59
Deferred tax assets	e	331	(104)	227
Property & equipment	d	3,254	(630)	2,624
Intangible assets	d	10,488	630	11,118
Goodwill	c	11,259	(540)	10,719
Total assets		40,980	(644)	40,336
Current liabilities:				
Operating line of credit		89	-	89
Accounts payable and accrued liabilities		4,334	-	4,334
Unearned revenue		1,978	-	1,978
Current portion of long-term debt		3,209	-	3,209
Current portion of deferred lease inducement		160	-	160
Total current liabilities		9,770	-	9,770
Provisions	a	-	500	500
Deferred lease inducement		1,233	-	1,233
Deferred tax liabilities		1,761	-	1,761
Long-term debt		6,919	-	6,919
Total liabilities		19,683	500	20,183
Shareholders' equity:				
Share capital		26,416	-	26,416
Contributed surplus		928	-	928
Deficit	f	(6,020)	(1,144)	(7,164)
Accumulated other comprehensive income		(27)	-	(27)
Total shareholders' equity		21,297	(1,144)	20,153
Total liabilities and equity		40,980	(644)	40,336

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

Reconciliation of net earnings and comprehensive income:

June 30, 2010							
In thousands of dollars	Note	Three Months			Six Months		
		Previous Canadian GAAP	Effect of transition to IFRSs	IFRSs	Previous Canadian GAAP	Effect of transition to IFRSs	IFRSs
Revenue		12,796	-	12,796	25,838	-	25,838
Cost of revenue	b, g	7,095	514	7,609	14,636	1,109	15,745
		5,701	(514)	5,187	11,202	(1,109)	10,093
Selling and administrative	b, g	3,393	(4)	3,389	7,077	(105)	6,972
Research and development		328	-	328	631	-	631
Finance costs	g	179	(140)	39	301	47	348
Amortization of property & equipment	g	306	(306)	-	658	(658)	-
Amortization of intangible assets	g	339	(339)	-	666	(666)	-
(Gain) loss on foreign exchange	g	(162)	162	-	(160)	160	-
		4,383	(627)	3,756	9,173	(1,222)	7,951
Earnings before income tax		1,318	113	1,431	2,029	113	2,142
Income tax expense (recovery)	b	322	34	356	523	34	557
Net earnings		996	79	1,075	1,506	79	1,585
Net earnings per share:							
Basic (dollars)		0.02	0.01	0.03	0.04	0.00	0.04
Diluted (dollars)		0.02	0.01	0.03	0.04	0.00	0.04
Net earnings		996	79	1,075	1,506	79	1,585
Other comprehensive income (loss)							
Foreign currency translation adjustments		(107)	-	(107)	(43)	-	(43)
Total comprehensive income		889	79	968	1,463	79	1,542

Material adjustments to the statement of cash flows for 2010:

In accordance with IAS 7 *Statement of Cash Flows*, interest paid and income taxes paid have moved into the body of the Statement of Cash Flows, whereas they were previously disclosed as supplementary information. In addition, there was a reallocation of amortization between property & equipment and intangible assets (see (d) below). There are no other material differences between the statement of cash flows presented under IFRSs and the statement of cash flows presented under previous Canadian GAAP.

Notes to the reconciliations:

- (a) IFRS 3 *Business Combinations* requires that contingent consideration be recognized initially at fair value as part of the consideration transferred. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is generally recognized in the statement of earnings. Under previous Canadian GAAP, contingent consideration is recognized as part of the consideration transferred when it can be reasonably estimated and the outcome of the contingency can be determined beyond a reasonable doubt. Any subsequent change in the amount of the contingent consideration is recognized as an adjustment to the purchase price equation.

The Corporation issued contingent consideration in relation to an acquisition prior to the date of transition (January 1, 2010). IFRS 3 was not applied to this business combination because the Corporation elected under IFRS 1 *First-time Adoption of International Financial Reporting Standards* not to apply IFRS 3 to business acquisitions prior to transition. However, at the date of transition the contingent consideration met the recognition requirements under IAS 39 *Financial Instruments: Recognition and Measurements*. Accordingly, a provision was recognized with an offsetting charge to retained earnings. The provision was measured at \$500 on January 1, 2010 based on the facts and circumstances at that date. Through negotiation in the first quarter of 2011, the contingent consideration was settled for \$400 and the difference of \$100 was included in selling and administrative expenses. This amount was offset by a \$100 retiring allowance charged to selling and administrative expenses that was negotiated at the same time.

- (b) IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* specifically requires recognition of a provision for any obligation arising under an onerous contract. An onerous contract is defined as a "contract in which the unavoidable costs of meeting the

Notes to the Condensed Consolidated Interim Financial Statements

June 30, 2011 (unaudited)

(In thousands of Canadian dollars, except share and per share data)

obligations under the contract exceed the economic benefits expected to be received". The unavoidable costs under a contract reflect the least net cost of exiting from the contract.

At the date of transition, the Corporation was leasing space that was not being occupied in the Toronto CGU that related to a business combination in 2009. Under IFRS, this must be accrued as an onerous contract at the date of transition. The amount accrued on transition under IFRS was the estimated settlement amount of \$113 since this was expected to be the least net cost of exiting the lease agreement. The tax impact was to increase deferred tax assets by \$34. The lease was actually settled in the second quarter of 2010, which decreased selling and administrative expenses by \$45, decreased cost of revenue by \$68 and increased income tax expense by \$34.

- (c) In accordance with IAS 36 *Impairment of Assets*, if an entity disposes of an operation within a CGU that has goodwill allocated to it, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal. Prior to transition, one of the operations within the Edmonton CGU was effectively disposed of, but no goodwill was allocated to the disposal. Accordingly, \$540 of goodwill was charged to retained earnings on transition.
- (d) Under IAS 38 *Intangible Assets*, computer software that is not an integral part of the related hardware is treated as an intangible asset. At June 30, 2010, software with a net carrying value of \$630 was reallocated from property & equipment to intangibles.
- (e) Under previous Canadian GAAP, the tax basis of an intangible asset acquired that is an "eligible capital expenditure" under the current Canadian Income Tax Act is generally equal to the tax pool value plus 25% of the carrying amount, assuming the intangible asset was not acquired through a business combination effected through the purchase of shares. Under IAS 12 *Income Taxes*, this treatment is not appropriate for intangible assets other than goodwill acquired through a business combination. The effect of this IFRS adjustment is to decrease deferred tax assets at June 30, 2010 by \$104.
- (f) The above changes increased the deficit as follows, each net of related tax:

	Note	June 30, 2010
Contingent consideration	a	500
Disposal of goodwill	c	540
Intangible assets other than goodwill	e	104
Increase in deficit		1,144

- (g) Under IAS 1 *Presentation of Financial Statements*, expenses recognized in the statement of earnings must be classified based on either their nature or their function. The Corporation has classified expenses based on their function for IFRSs as this is considered to be more relevant than classification based on nature. Under Canadian GAAP, a hybrid classification model was used, so various reclassifications were required between the different categories of expenses to comply with IFRSs.