



CriticalControl Solutions Corp.
Consolidated Financial Statements
March 31, 2009

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The accompanying unaudited interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management. The Corporation's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements.

Consolidated Balance Sheets

Three Months Ended March 31, (unaudited)
(in thousands of Canadian dollars, except share data)

	March 31, 2009	December 31, 2008
Assets		
Current assets:		
Cash	871	1,127
Accounts receivable	4,290	4,338
Unbilled revenue	198	258
Inventory	179	136
Prepaid expenses and other	583	469
	6,121	6,328
Deferred costs	59	59
Property & equipment	2,214	2,328
Customer relationships & contracts	4,368	4,521
Goodwill	6,203	6,203
	18,965	19,439
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities	1,647	2,431
Unearned revenue	1,288	753
Current portion of long-term debt (note 7)	-	600
Current portion of deferred lease inducement	160	160
	3,095	3,944
Deferred lease inducement	1,110	1,150
Long-term debt (note 7)	-	250
	4,205	5,344
Shareholders' equity:		
Share capital (note 8b)	22,966	22,921
Contributed surplus (note 8c)	1,684	1,724
Deficit	(9,890)	(10,550)
	14,760	14,095
	18,965	19,439

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed) "William Hammett"
William Hammett, Director

(signed) "Alykhan Mamdani"
Alykhan Mamdani, Director

Consolidated Statements of Operations, Comprehensive Income and Deficit

Three Months Ended March 31, (unaudited)

(in thousands of Canadian dollars, except share data)

	March 31, 2009	March 31, 2008
Revenue	6,445	5,995
Cost of revenue	3,156	2,879
	3,289	3,116
Operating expenses:		
Selling and administrative	2,063	2,045
Research & development	163	172
Amortization of property & equipment	249	223
Amortization of customer relationships & contracts	153	136
(Gain)/loss on foreign exchange	(5)	4
Interest	6	32
	2,629	2,612
Net income and comprehensive income for the period	660	504
Deficit, beginning of period	(10,550)	(13,994)
Deficit, end of period	(9,890)	(13,490)
Net income from per share (note 8g)		
Basic earnings per share	0.02	0.01
Diluted earnings per share	0.02	0.01
Weighted average number of shares outstanding - March 31, 2009		
Basic	41,603,216	44,286,861
Diluted	42,300,403	44,594,429

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

Three Months Ended March 31, (unaudited)
(in thousands of Canadian dollars, except share data)

	March 31, 2009	March 31, 2008
Cash flows from (used in) operating activities:		
Net income from operations	660	504
Items not involving cash:		
Amortization of property & equipment	249	223
Amortization of customer relationships & contracts	153	135
Rent reduction (deferred credit)	(40)	(39)
Stock-based compensation (note 8d)	-	3
	1,022	826
Change in non-cash working capital balances:		
Accounts receivable	48	(181)
Unbilled revenue	60	77
Inventory	(43)	2
Prepaid expenses and other	(114)	(59)
Accounts payable and accrued liabilities	(784)	(238)
Unearned revenue	535	440
Reduction in deferred cost	-	32
Increase in cash from operations	724	899
Cash flows from (used in) financing activities:		
Shares issued for cash	5	143
Deferred share purchase plan	-	10
Repayment of operating line of credit	-	(823)
Repayment of long term debt	(850)	(250)
	(845)	(920)
Cash flows from (used in) investing activities:		
Proceeds from short term investments (restricted cash)	-	200
Purchase of property & equipment	(135)	(108)
Proceeds on sale of property & equipment	-	1
	(135)	93
Increase (decrease) in cash	(256)	72
Cash, beginning of period	1,127	566
Cash, end of period	871	638
Supplemental disclosure of cash flow information:		
Interest paid	6	32

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Three Months Ended March 31, (unaudited)
(In thousands of Canadian dollars, except share data)

1. Basis of presentation

The interim consolidated financial statements of CriticalControl Solutions Corp. (the "Corporation") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements. These interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Corporation's annual audited consolidated financial statements as at and for the year ended December 31, 2008, except as described in note 2. In management's opinion, the interim consolidated financial statements include all adjustments necessary to fairly present such information.

2. Accounting policy changes

On January 1, 2009, the Corporation adopted the new accounting handbook section 3064 which establishes new standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets. The adoption of this standard did not have a material impact on the interim consolidated financial statements.

3. Segmented information

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

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

In assessing performance of the segments and the allocation of resources to the segments, management of CriticalControl evaluates gross margin directly attributable to the segments.

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

	Government	Energy	Corporate & Other	Three months ended March 31, 2009
Revenue	3,366	3,079	-	6,445
Cost of revenue	2,033	1,123	-	3,156
Gross margin	1,333	1,956	-	3,289
Selling & administrative expense	745	719	599	2,063
Research & development expense	-	163	-	163
Amortization of property & equipment	59	189	1	249
Amortization of customer relationships &	53	100	-	153
Interest & other expenses	-	-	1	1
	857	1,171	601	2,629
Income (loss) from operations	476	785	(601)	660
Segment assets	6,422	12,513	30	18,965
Goodwill	2,490	3,713	-	6,203
Capital expenditures	120	15	-	135

Notes to Consolidated Financial Statements

Three Months Ended March 31, (unaudited)
(In thousands of Canadian dollars, except share data)

	Government	Energy	Corporate & Other	Three months ended March 31, 2008
Revenue	3,398	2,597	-	5,995
Cost of revenue	1,939	940	-	2,879
Gross margin	1,459	1,657	-	3,116
Selling & administrative expense	818	705	522	2,045
Research & development expense	-	172	-	172
Amortization of property & equipment	56	165	2	223
Amortization of customer relationships &	53	83	-	136
Interest & other expenses	-	-	36	36
	927	1,125	560	2,612
Income (loss)	532	532	(560)	504
Segment assets	6,385	11,162	22	17,569
Goodwill	2,490	3,620	-	6,110
Capital expenditures	104	4	-	108

For the 3 months ended March 31, 2009 the Corporation derived approximately 43% (2008 – 43%) of its total revenue from the Government of Alberta. As at March 31, 2009, 34% (2007 – 32%) of accounts receivable pertained to this customer.

4. Business acquisitions

- a. Effective October 1, 2008, the Corporation acquired the business and assets of Western Corrosion Technologies (“WCT”) for \$542, consisting of \$502 cash and transaction costs of \$40. A deferred payment of \$35 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 if and when the contingency is resolved and the additional consideration is paid.

The acquisition has been accounted for using the purchase method and the results of operations are included in the consolidated statements of operations, comprehensive income and deficit from the date of acquisition. The purchase equation is preliminary and subject to change.

Fair value of net assets acquired	
Computer software	139
Customer relationships & contracts	433
Less	
Non-cash working capital	(30)
Net assets acquired	542
Consideration	
Cash	502
Transaction costs	40
	542

The computer software related to the acquisition of WCT will be amortized over 5 years reflecting its estimated economic life, while customer relationships will be amortized over the economic life of the contracts.

Notes to Consolidated Financial Statements

Three Months Ended March 31, (unaudited)
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- b. Effective July 2, 2008 the Corporation acquired a web-based Supervisory Control and Data Acquisition (SCADA) business called SCADANet from Matrikon Inc. for \$831 consisting of \$800 cash and transaction costs of \$31.

The assets from the acquisition have been accounted for using the purchase method and the results of operations are included in the consolidated statements of operations, comprehensive income and deficit from the date of acquisition. The purchase equation is preliminary and subject to change.

Fair value of net assets acquired	
Customer relationships & contracts	738
Goodwill	93
Net assets acquired	831
Consideration	
Cash	800
Transaction costs	31
	831

The customer relationships and contracts related to the SCADANet acquisition will be amortized over the economic life of the contracts.

5. Income Taxes

As at March 31, 2009 the Corporation and its subsidiaries have non-capital loss carry-forwards for income tax purposes available to reduce future taxable income.

6. Operating line of credit

The Corporation has a secured revolving line of credit for up to \$3,500 which is currently available to support the Corporation's working capital requirement. The line bears interest at prime plus 1.25% payable monthly in arrears. As of March 31, 2009, there was no outstanding amount on the line.

7. Long-term debt

The Corporation had a secured term loan facility in the principal amount of \$1,500 which was paid out in March, 2009. The Corporation is required to maintain certain covenants all of which were met for the period ended March 31, 2009.

	March 31, 2009	December 31, 2008
Term loan, \$1,500, expiring June 2010, monthly payments of \$50 general security agreement placing a charge on the assets of the Corporation and securities pledge agreements, have been provided as collateral.	-	850
	-	850
Less: current portion	-	600
	-	250

Notes to Consolidated Financial Statements

Three Months Ended March 31, (unaudited)
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8. Share capital

a. **Authorized: Unlimited common shares without nominal or par value.**

b. **Issued and outstanding**

Common shares	Number	Amount
Balance, December 31, 2008	41,372,305	\$22,921
Issued on exercise of stock options – see (i) below	16,666	6
Issued on exercise of warrants – see (ii) below	481,716	39
Balance, March 31, 2009	41,870,687	\$22,966

i. During the period ended March 31, 2009, options to purchase common shares were exercised for proceeds of \$5. The additional \$1 credited to share capital represents a transfer of the contributed surplus in respect of these options.

ii. During the period ended March 31, 2009, warrants for common shares were exercised on a cashless basis, such that 481,716 shares were issued on the exercise and cancellation of 2,934,783 warrants. The \$39 credited to share capital represents a transfer of the contributed surplus in respect of these warrants.

c. **Contributed surplus**

Balance, December 31, 2008	\$1,724
Stock-based compensation expense	-
Reclassification to share capital for stock options exercised (note 9.b.i)	(1)
Reclassification to share capital for warrants (note 9.b.ii)	(39)
Balance, March 31, 2009	\$1,684

d. **Stock option plan**

As at March 31, 2009, the Corporation had 147,660 (2008 – 311,210) stock options outstanding with exercise prices ranging from \$0.30 to \$0.75 per share, expiring January 7, 2010 to August 9, 2011. The following table summarizes stock option transactions:

	Number of options	Weighted-average exercise price
Outstanding, December 31, 2008	182,133	\$0.51
Granted	-	0.00
Exercised	16,666	0.30
Cancelled	17,807	0.32
Outstanding, March 31, 2009	147,660	0.56
Exercisable, March 31, 2009	144,327	\$0.56

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Three Months Ended March 31, (unaudited)
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The Corporation has the following stock options outstanding:

Exercise Price	Number outstanding at March 31, 2009	Weighted-average remaining contractual life (years)	Number exercisable at March 31, 2009
\$0.36	56,665	0.77	56,665
\$0.60	39,998	0.79	33,331
\$0.75	50,997	1.08	50,997
	147,660	0.88	144,327

The Corporation records compensation costs on the granting of stock options using the fair value based method. The following table presents the weighted-average assumptions used to determine stock-based compensation expense using the Black-Scholes option pricing model:

	March 31, 2009	December 31, 2008
Stock-based compensation expense	-	\$3
Dividend yield	0%	0%
Expected volatility	106%	91%
Risk-free interest rate	0.5%	3.82%
Expected life	1 year	3 years
Weighted-average grant date fair value	\$0.12	\$0.15

e. **Deferred Annual Bonus and Share Purchase Plan**

As an additional performance incentive measure, the Corporation adopted a Deferred Annual Bonus and Share Purchase Plan ("DSP") in 2006. The DSP enables employees to elect to receive up to 10% of their annual base salary and up to 100% of any annual bonus to which they become entitled in the form of Deferred Common Shares ("DCS"). Each DCS may be redeemed by the holder for one common share of the Corporation for no additional payment on the death or termination of the holder's service to the Corporation. Up to 1,000,000 DCS may be issued under the Plan, but in no event shall the total number of DCS, combined with the number of outstanding stock options issued pursuant to the Corporation's stock option plan, exceed 10% of the outstanding shares of the Corporation.

As at March 31, 2009, 697,187 DCS have been granted with a deemed value of \$283.

f. **Warrants and Special Warrants**

As at March 31, 2009, the Corporation had 1,416,666 Special Warrants outstanding to acquire common shares at an exercise price of \$0.66 per share, expiring on January 3, 2010.

The following table summarizes Warrant and Special Warrant transactions:

	Number of warrants	Weighted-average exercise price
Outstanding December 31, 2008	4,351,449	\$0.45
Cancelled	(2,453,067)	\$0.36
Exercised	(481,716)	\$0.36
Outstanding March 31, 2009	1,416,666	\$0.66

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g. **Net income per share**

On February 11, 2009 the shares of the Corporation were consolidated on a one (1) new share for three (3) old shares basis as approved by the Corporation's shareholders on November 26, 2008. The calculation of net income per share is based on the consolidated weighted-average number of common shares outstanding and the diluted shares for the three months ended March 31, 2009 of 42,300,403 (three months ended March 31, 2008 – 44,594,429). Diluted amounts are calculated using the treasury stock method, taking into consideration the potential conversions and the exercise of options, warrants and deferred share units.

9. Financial instruments

The Corporation's financial instruments consist of cash, accounts receivable, accounts payable, accrued liabilities, unearned revenue and long term debt.

The Corporation has classified cash as held-for-trading measured at fair value with any gains or losses identified during periodic evaluations recorded in net income.

Accounts receivable are classified as loans and receivables and are measured at fair value with any gains or losses identified during periodic evaluations recorded in net income. The carrying values of these financial assets approximate their fair value due to the relatively short period to maturity.

Accounts payable, accrued liabilities, unearned revenue and long term debt are classified as other financial liabilities and measured at fair value with any gains or losses identified during periodic evaluations recorded in net income. The carrying values of these other financial liabilities approximate their fair value due to the relatively short period to maturity.

Financial risk management

The Corporation's activities expose it to a variety of financial risks including market risk, credit risk and liquidity risk. Management reviews these risks on an ongoing basis to ensure that the risks are appropriately managed. The Corporation does not have a practice of trading derivatives and has none outstanding at March 31, 2009.

a. **Interest rate risk**

The Corporation's objective in managing interest rate risk is to monitor expected volatility in interest rates while also minimizing financing expense levels. Interest rate risk mainly arises from fluctuations of interest rates and the impact on the return earned on cash and the expense on floating rate debt. On an ongoing basis, management monitors changes in short-term rates and considers long-term forecasts to assess potential cash flow impact to the Corporation. A change of 100 basis points in the market interest rate would have had, for the three months ended March 31, 2009, an approximate impact on net earnings of \$1. The Corporation does not currently hold any financial instruments to mitigate its interest risk.

b. **Credit risk**

Credit risk is the risk of a financial loss to the Corporation if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Corporation is exposed to credit risk through its cash and accounts receivables. Credit risk for accounts receivables are managed through established credit monitoring activities.

The Corporation has a concentration of customers in government agencies. Losses under trade accounts receivable have been historically insignificant. The credit worthiness of new customers is subject to review by management, and that of existing customers is monitored.

The Corporation reviews its trade receivable accounts regularly and amounts are written down to their expected realizable value when the account is determined not to be fully collectible. The bad debt expense is charged to net income in the period that the account is determined to be doubtful. The accounts receivable aging for the period ended March 31, 2009 was as follows:

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Three Months Ended March 31, (unaudited)
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	Current	30 days	60 days	over 90 days
Accounts receivable carrying values	3,265	737	208	80
	76%	7%	5%	2%

The Corporation currently has an allowance for doubtful accounts.

c. **Liquidity risk**

The Corporation's liquidity risk stems from its potential inability to meet its financial liabilities. The Corporation regularly monitors its operations and cash flow to ensure that current and future obligations will be met.

The Corporation's financial liabilities inclusive of operating leases were as follows:

	2009	2010 - 2011	2012 - 2013	Beyond 2013
Accounts payable and accrued	1,647	-	-	-
Long term debt	-	-	-	-
Commitments & contingencies	839	1,596	1,155	2,052
Total	2,486	1,596	1,155	2,052

Management believes that forecasted cash flows from operating activities will provide sufficient cash requirements to cover the Corporation's forecasted operating and capital expenditures.