



CriticalControl Solutions Corp.
Restated Consolidated Financial Statements
December 31, 2010

Management's Report

The consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles. Financial statements will also include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the consolidated financial statements are presented fairly in all material respects. All information in this report is the responsibility of management.

Management has established systems of internal control, including disclosure controls and procedures, which are designed to provide reasonable assurance that financial and non-financial information that is disclosed is timely, complete, relevant and accurate. These systems of internal control also serve to safeguard the Corporation's assets.

The Board of Directors is responsible for the corporate governance of the Corporation, including reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors, composed of independent Directors, meets with management and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements and management's discussion and analysis. The Audit Committee reports its findings to the Board of Directors for its approval of such statements for issuance to the shareholders.

The consolidated financial statements have been audited by KPMG LLP, the independent external auditors, in accordance with generally accepted auditing standards on behalf of the shareholders. The auditors' report outlines the scope of their examination and sets forth their opinion.

(signed) "Alykhan Mamdani"

Alykhan Mamdani
President & Chief Executive Officer

(signed) "Hashu Remtulla"

Hashu Remtulla
Vice President & Chief Financial Officer

Calgary, Canada
March 14, 2011



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Independent Auditors' Report to the Shareholders of CriticalControl Solutions Corp.

We have audited the accompanying consolidated financial statements of CriticalControl Solutions Corp., which comprise the consolidated balance sheets as at December 31, 2010 and 2009, the consolidated statements of operations, comprehensive income, changes in deficit and accumulated other comprehensive income and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.



Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of CriticalControl Solutions Corp. as at December 31, 2010 and 2009, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Restatement of Financial Statements

Without modifying our opinion, we draw attention to Note 16 to the consolidated financial statements as at and for the year ended December 31, 2010 which indicates that these consolidated financial statements have been restated from those on which we originally reported on March 14, 2011 and more extensively discusses the reason for the restatement.

KPMG LLP

Chartered Accountants
Calgary, Canada

March 14, 2011 (except for note 16 to the financial statements, which is as of November 17, 2011)

Consolidated Balance Sheets

As at December 31, 2010 and 2009

(In thousands of Canadian dollars, except share data)

	2010	2009
	(restated - note 16)	
Assets		
Current assets:		
Cash	1,147	1,049
Accounts receivable	9,925	7,326
Unbilled revenue	251	259
Inventory	2,693	2,768
Prepaid expenses	1,719	2,074
Future tax asset (note 8)	27	-
	15,762	13,476
Tax credits recoverable	652	580
Deferred costs	59	59
Future tax asset (note 8)	2,194	435
Property & equipment (note 5)	4,075	3,421
Intangible assets (note 6)	9,229	11,114
Goodwill (note 7)	12,416	11,344
	44,387	40,429
Liabilities and Shareholders' Equity		
Current liabilities:		
Operating line of credit (note 9)	-	2,698
Accounts payable and accrued liabilities	6,034	4,628
Unearned revenue	2,086	2,331
Current portion of long-term debt (note 10)	2,949	1,610
Current portion of deferred lease inducement	181	160
	11,250	11,427
Deferred lease inducement	1,069	1,339
Future tax liability (note 8)	1,366	1,738
Long term debt (note 10)	5,530	8,320
	19,215	22,824
Shareholders' equity:		
Share capital (note 11b)	28,973	24,110
Contributed surplus (note 11c)	928	1,005
Deficit	(4,383)	(7,526)
Accumulated other comprehensive (loss) income	(346)	16
	25,172	17,605
Commitments (note 13)		
	44,387	40,429

See accompanying notes to consolidated financial statements.

On behalf of the Board:

(signed) "William Hammett"
William Hammett

(signed) "Alykhan Mamdani"
Alykhan Mamdani

Consolidated Statements of Operations

As at December 31, 2010 and 2009

(In thousands of Canadian dollars, except share data)

	2010	2009
	(restated - note 16)	
Revenue	50,721	29,631
Cost of revenue	30,286	14,975
	20,435	14,656
Operating expenses:		
Selling and administrative	13,346	8,913
Severance costs	309	0
Research & development	1,111	750
Amortization of property & equipment	1,326	1,148
Amortization of intangible assets	1,407	799
Gain on sale of property & equipment	(28)	-
(Gain) loss on foreign exchange	(151)	72
Interest	557	101
	17,877	11,783
Income before income tax	2,558	2,873
Income tax recovery (note 8)	(585)	(151)
Net income	3,143	3,024
Net income per share (note 11f)		
Basic	0.07	0.07
Diluted	0.07	0.07
Weighted average number of shares outstanding		
Basic	45,146,634	40,997,434
Diluted	45,844,810	41,707,020

Consolidated Statements of Comprehensive Income

As At December 31, 2010 and 2009

(In thousands of Canadian dollars, except share data)

	2010	2009
	(restated - note 16)	
Net income	3,143	3,024
Other comprehensive (loss) income		
Foreign currency translation adjustments	(362)	16
Total comprehensive income	2,781	3,040

Consolidated Statements of Changes in Deficit & Accumulated Other Comprehensive Income

As At December 31, 2010 and 2009

(In thousands of Canadian dollars, except share data)

	2010	2009
	(restated - note 16)	
Deficit, beginning of year	(7,526)	(10,550)
Net income	3,143	3,024
Deficit, end of year	(4,383)	(7,526)
Accumulated other comprehensive income, beginning of year	16	-
Unrealized foreign currency translation (losses) gains	(362)	16
Accumulated other comprehensive (loss) income, end of year	(346)	16

See accompanying notes to consolidated financial statements.

Consolidated Statements of Cash Flows

As at December 31, 2010 and 2009

(In thousands of Canadian dollars, except share data)

	2010	2009
	(restated - note 16)	
Cash flows from (used in) operating activities:		
Net income	3,143	3,024
Items not involving cash:		
Tax credits recoverable	(72)	(580)
Amortization of property & equipment	1,326	1,148
Future income tax recovery	(1,311)	(198)
Accretion of long term debt	109	-
Amortization of intangible assets	1,407	799
Amortization of deferred lease inducement	(181)	(163)
Gain on sale of property & equipment	(28)	-
	4,393	4,030
Change in non-cash operating working capital:		
Accounts receivable	(1,747)	1,624
Unbilled revenue	8	(1)
Inventory	79	(216)
Prepaid expenses	388	(360)
Accounts payable and accrued liabilities	(460)	(3,567)
Unearned revenue	(243)	(42)
	2,418	1,468
Cash flows from (used in) financing activities:		
Repurchase shares for cancellation (note 11b)	-	(470)
Shares issued for cash (note 11b)	4,588	940
Proceeds from (repayment of) operating line of credit	(2,698)	2,698
Repayment of operating loan acquired	-	(1,517)
Proceeds from long term debt	1,289	-
Repayment of long term debt	(1,791)	(894)
	1,388	757
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired	(2,741)	(1,679)
Purchase of property & equipment	(963)	(624)
Proceeds on sale of property & equipment	69	-
	(3,635)	(2,303)
Effect of exchange rate changes on cash	(73)	-
Increase (decrease) in cash	98	(78)
Cash, beginning of year	1,049	1,127
Cash, end of year	1,147	1,049
Supplemental disclosure of cash flow information:		
Interest paid	396	101
Income tax paid	1,418	-

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

As At December 31, 2010 and 2009 and for the years then ended
(In thousands of Canadian dollars, except share data)

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1. Incorporation and Nature of Business

CriticalControl Solutions Corp. (the "Corporation" or "CriticalControl") is a technology company, incorporated in Alberta, Canada, delivering outsourced solutions for information intensive and document intensive transactional processes. Through the implementation of technology, workflow and economies of scale we are able to provide highly secure control over sensitive information and processes in a cost effective manner.

2. Significant Accounting Policies

a. Consolidation

The consolidated financial statements of the Corporation have been prepared in accordance with Canadian generally accepted accounting principles and include the accounts of the Corporation and its wholly-owned subsidiaries.

b. Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant areas requiring the use of estimates are the fair value of assets acquired in business combinations, useful lives and impairment of customer relationships & contracts, the impairment of goodwill and the measurement of future income taxes. Actual results could differ from these estimates.

c. Inventory

Inventory is valued at lower of cost and net realizable value. The Company determines its allowance for inventory obsolescence based upon expected inventory turnover, inventory aging, and current and future expectations with respect to product offerings. Assumptions underlying the allowance for inventory obsolescence include future sales trends and offerings and the expected inventory requirements and inventory composition necessary to support these future sales offerings.

d. Property & Equipment

Property & equipment are amortized over their estimated useful lives using the declining balance ("DB") method or straight-line ("SL") method depending upon asset type, at the following annual rates:

Assets	Rate
Computer software	DB 20% - 50%
Computer hardware	DB 30% - 45%
Office furniture and equipment	DB 20%
Vehicles	DB 30%
Leasehold improvements	SL over the lease term

Property & equipment under capital leases are initially recorded at the present value of the minimum lease payments at the inception of the lease. Amortization of the equipment under capital lease is on the same basis as similar property and equipment.

Capitalized costs for computer software include the costs of commercial software applications acquired through business acquisitions and costs incurred to develop commercial software applications. Costs incurred to develop commercial software applications are capitalized only after technological feasibility is established.

The Corporation reviews the carrying value of its property & equipment when there is an indication of impairment. If the carrying amount exceeds the estimated fair value, a write-down is charged to the consolidated statement of operations in the period the impairment is identified.

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As At December 31, 2010 and 2009 and for the years then ended
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e. **Intangible Assets**

Intangible assets consist of non-compete agreements and customer relationships & contracts. Intangible assets are amortized on a straight-line basis over the term of the underlying contracts, agreements or relationships. Intangible assets are assessed for impairment when there is an indication of impairment. The impairment assessment is carried out by estimating the associated net undiscounted future cash flows. The amount of impairment loss, if any, is the excess of the carrying value over fair value estimated as the present value of estimated future cash flows and is charged to the consolidated statement of operations in the period the impairment is identified.

f. **Goodwill**

Goodwill represents the excess of the purchase price of acquired businesses over the fair value of the underlying net identifiable assets acquired or liabilities assumed. The Corporation assesses the carrying value of goodwill for impairment on an annual basis, or more frequently when changes in circumstances indicate that impairment may exist. To test for impairment, the fair value of the reporting units to which the goodwill relates to is compared to the carrying value of the reporting units. The Corporation determines the fair value of the reporting units using the present value of estimated cash flows. If the carrying value exceeds the fair value, an impairment loss is recognized. The amount of impairment loss, if any, is the excess of the carrying value over the implied fair value of the goodwill and is charged to the consolidated statement of operations in the period the impairment is identified.

g. **Revenue Recognition**

The Corporation derives revenues primarily from providing solutions to clients in the government, financial services and energy sectors. The Corporation's solutions for each sector are comprised of (i) services, (ii) maintenance & support services and (iii) third party hardware and software sales. Each component of the Corporation's solution has specific revenue recognition policies, and collection is reasonably assured.

i. Services

Services include the Corporation's document imaging and control business, data entry, as well as the Corporation's solutions to the energy sector which are dependent on the Corporation's proprietary ScanGas, NetFlow, ProTrend and PipeWatch applications and data sets.

Revenue related to services is on a time and materials basis and recognized as the services are performed. Amounts invoiced in advance of work performed are recorded as unearned revenue and revenue recognized in advance of being invoiced is recorded as unbilled revenue.

ii. Maintenance and support services

Revenue related to agreements for maintenance and support services is recognized on a straight-line basis over the term of the agreement.

iii. Third party hardware and software sales

Sales of third-party hardware and software applications are recognized if there is persuasive evidence of acceptance and delivery.

h. **Income Taxes**

The Corporation follows the asset and liability method of accounting for income taxes. Under this method, future tax assets and liabilities are recognized for future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply in the years in which those temporary differences are expected to reverse. The effect on the future tax assets and liabilities of a change in tax rates is recognized in the consolidated statement of operations in the period that includes the date of substantive enactment. Future tax assets are recognized to the extent they are more likely than not to be realized.

i. **Foreign Currency**

For self sustaining foreign operations, the Company translates assets and liabilities at year-end rates and income and expense accounts at average exchange rates. Adjustments resulting from these translations are reflected in other comprehensive income as unrealized foreign currency gains or losses. Intercompany loans of a long term nature that are related to the acquisition or financing of the self sustaining operation are considered part of the net investment. Accordingly, translation

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gains and losses from these intercompany loans are also reported in other comprehensive income as unrealized foreign currency gains or losses.

Transactions of Canadian entities in foreign currencies are translated at rates in effect at the time of the transactions. Foreign currency monetary assets and liabilities at the balance sheet date are translated at current rates. Gains or losses from changes in exchange rates are recognized in the consolidated statement of operations in the year of occurrence.

j. **Stock-based Compensation**

The Corporation has stock-based compensation plans described in note 11(d) and 11(e).

The Corporation accounts for stock options using the fair value based method whereby compensation expense is recognized based on the fair value of stock options granted, over the vesting period. The fair value of stock options granted is determined using a Black-Scholes option pricing model and is recorded as compensation expense in selling and administration and a corresponding entry to contributed surplus. Contributed surplus is reduced as stock options are exercised and credited to share capital.

The Corporation accounts for deferred common shares using the fair value method whereby the common shares are valued based on the volume weighted average price of all common shares traded on the Toronto Stock Exchange for the three (3) trading days immediately preceding the issue date and expensed over the vesting period.

k. **Net Income per Share**

The treasury stock method is used in calculating diluted earnings per share. This method assumes that any proceeds, including related unamortized stock based compensation costs, from the exercise of stock options and other dilutive instruments would be used to purchase common shares at the average market price during the period.

l. **Adoption of New Accounting Policies**

On January 1, 2010, the Corporation early adopted the three new accounting standards issued in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests". Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". Sections 1601 and 1602 together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements. It is equivalent to the corresponding provisions of IAS-27, "Consolidated and Separate Financial Statements". The adoption of these three standards did not have a material impact on the consolidated financial statements.

m. **Lease Inducement**

All lease inducements received from the Corporation's landlords are recorded as liabilities and recognized as a reduction in rent over the term of the lease.

n. **Financial Instruments**

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below.

Classification

Cash	Held-for-trading
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Long term debt	Other financial liabilities
Operating line of credit	Other financial liabilities
Long term liabilities	Other financial liabilities

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Held-for-trading

Held-for-trading financial assets are financial assets typically acquired for resale prior to maturity or that are designated as held-for-trading. They are measured at fair value at each balance sheet date, with changes in fair value flowing through the statement of operations.

Loans and receivables

Loans and receivables are accounted for at amortized cost.

Other financial liabilities

Other liabilities are recorded at amortized cost.

3. Segmented Information

The Corporation has identified Service Bureau Operations and Energy Services as operating segments which are used to manage the business and are key areas of potential growth to increase profitability. Prior to 2010, Services Bureau Operations consisted primarily of the Corporation's government services operations based in Alberta, and now includes the services resulting from the Corporation's expansion of such business outside of Alberta and into verticals outside its previous scope. 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.

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.

	Service Bureau			Year ended
	Operations	Energy Services	Corporate	December 31,
		(restated - note 16)		2010
				(restated - note 16)
Revenue	19,039	31,682	-	50,721
Cost of revenue	13,020	17,266	-	30,286
Gross margin	6,019	14,416	-	20,435
Selling & administrative expense	5,533	3,917	3,896	13,346
Severance costs	139	-	170	309
Research & development expense	-	1,111	-	1,111
Amortization of property & equipment	455	802	69	1,326
Amortization of intangible assets	751	656	-	1,407
Interest & other expenses	-	-	378	378
	6,878	6,486	4,513	17,877
Income before income tax	(859)	7,930	(4,513)	2,558
Segmented assets	13,226	29,974	1,187	44,387
Goodwill	2,708	9,708	-	12,416
Purchase of property & equipment	297	468	198	963

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	Service Bureau Operations	Energy Services	Corporate	Year ended December 31, 2009
Revenue	14,901	14,730	-	29,631
Cost of revenue	9,330	5,645	-	14,975
Gross margin	5,571	9,085	-	14,656
Selling & administrative expense	3,596	2,996	2,321	8,913
Research & development expense	-	750	-	750
Amortization of property & equipment	336	807	5	1,148
Amortization of intangible assets	370	429	-	799
Interest & other expenses	-	-	173	173
	4,302	4,982	2,499	11,783
Income before income tax	1,269	4,103	(2,499)	2,873
Segment assets	14,435	25,965	29	40,429
Goodwill	2,709	8,635	-	11,344
Purchase of property & equipment	390	234	-	624

For the year ended December 31, 2010 the Corporation derived approximately 12% (2009 – 30%) of its total revenue from the Government of Alberta. As at December 31, 2010, 10% (2009 – 12%) of accounts receivable pertained to this customer.

The Corporation earned revenue from sales to customers in the following geographical areas (based on location of the customer):

	Year ended December 31, 2010	Year ended December 31, 2009
Canada	30,018	26,703
U.S.A.	20,703	2,928
	50,721	29,631

	December 31, 2010		December 31, 2009	
	Canada	U.S.A.	Canada	U.S.A.
	(restated - note 16)			
Segmented Assets	26,211	18,176	29,094	11,335
Goodwill	6,828	5,588	6,402	4,942

4. Business Acquisitions

- On November 5, 2010, the Corporation acquired the business and assets of TSM, Ltd. of Girard, Ohio ("TSM") for \$1,903 through its wholly owned United States subsidiary, TSM Analytical Services, Inc. \$1,352 of the purchase price was paid at closing with the remaining \$551 payable on November 1, 2011. In addition to the purchase price, the Corporation also acquired and paid for certain inventory and accounts receivable of TSM, net of certain assumed liabilities for \$451. The cash portion of the purchase price was financed by funding from the private placement subscriptions (note 11b).

TSM currently operates as Tri State Measurement and is a leading provider of gas measurement services, including the integration of gas charts, in Ohio.

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The acquisition has been accounted for using the acquisition method under CICA 1582 and the results of operations are included in the consolidated statements of operations and comprehensive income from the date of acquisition.

Fair value of net assets acquired	
Non-cash working capital	451
Property & equipment	75
Customer relationships & contracts	525
Non-compete agreement	26
Goodwill	1,277
Net assets acquired	2,354
Consideration	
Cash	1,803
Purchase price payable	551
	2,354

- b. On October 1, 2010, the Corporation acquired Calgary, Alberta based Visible Data Inc. and Visible One Call Inc. ("VDG") for \$750. The purchase price includes \$550 paid on closing, \$200 to be paid by June 1, 2011 and additional performance-based compensation based on revenue growth of up to \$250 over the next three years. The cash portion of the purchase price was financed by a term loan from the Corporation's bank at prime plus 1.75%, repayable over a one-year period.

VDG's business includes a service to manage gathering system (pipeline) schematics integrated with data from regulatory databases, proprietary online well production and pipeline attribute databases and outsourced solution to manage regulatory mandated facility tracking requirements.

The acquisition has been accounted for using the acquisition method under CICA 1582 and the results of operations are included in the consolidated statements of operations and comprehensive income from the date of acquisition.

Fair value of net assets acquired	
Cash	98
Non-cash working capital	75
Property & equipment	577
Future tax liability	(172)
Customer relationships & contracts	122
Goodwill	300
Net assets acquired	1,000
Consideration	
Cash	550
Purchase price payable	200
Contingent consideration	250
	1,000

- c. On May 1, 2010, the Corporation acquired 100% of the outstanding shares of QM4 Engineering Ltd. ("QM4") for \$500 cash. Additional contingent consideration totaling a maximum of \$3,000 will be payable over the next 5 years upon meeting certain revenue growth criteria. The fair value of this obligation has been estimated by management to be \$nil. The contingent component of the purchase price will be recognized as an expense if and when the future event is realized and the contingent consideration is paid. The purchase price was financed by a term loan of \$476 from the Corporation's bank at prime plus 1.55%, repayable on May 31, 2011.

QM4 is a provider of advanced algorithms which analyze natural gas production and composition information together with spatial data to determine areas of risk for production flow degradation and corrosion in complex gathering systems.

The acquisition has been accounted for using the acquisition method under CICA 1582 and the results of operations are included in the consolidated statements of operations and comprehensive income from the date of acquisition.

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Fair value of net assets acquired	
Cash	65
Non-cash working capital	135
Property & equipment	397
Future tax liability	(97)
Net assets acquired	500
Consideration	
Cash	500
	500

- d. Revenue included in the consolidated statement of operations since the dates of acquisition for 2010 acquisitions was \$789. Due to the integration program following the acquisitions, it is impractical to disclose income before income tax contributed by the acquired companies since the dates of acquisition.

Had the companies acquired in 2010 been consolidated from January 1, 2010, the consolidated statement of operations would show total revenue of \$53,527 and income before income tax of \$4,796. This pro forma financial information was constructed using the Corporation's 2010 annual results and the acquired companies' results from January 1, 2010 to the dates of acquisition. The pro forma 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 of the Corporation that would have resulted had the acquisitions actually occurred on January 1, 2010, or the results that may be obtained in the future.

- e. On November 1, 2009, CriticalControl Energy Services, Inc. ("CCES"), a wholly-owned subsidiary of the Corporation incorporated in Delaware, acquired 100% of the outstanding shares of Gas Analytical Service, Inc. ("GAS") for \$11,170. GAS is a provider of natural gas measurement services based in Bridgeport, West Virginia with field offices in Indiana, Pennsylvania and Canonsburg, Pennsylvania.

The purchase price consisted of \$960 cash, \$9,669 promissory note bearing an interest rate of 4% over a period of 5 years and transaction costs of \$541. The acquisition has been accounted for using the purchase method under CICA 1581, and the results of operations are included in the consolidated statements of operations and comprehensive income from the date of acquisition. Upon further review of the purchase equation, and based on recommendation of an external valuation report, the original purchase price allocation as reported as of December 31, 2009 has been revised. The value of the promissory note was adjusted by \$465 to reflect the fair value, based on the prevailing market interest rates, with the offset being allocated to intangible assets, goodwill and future tax liability.

Fair value of net assets acquired	
Cash	422
Non-cash working capital	3,068
Property & equipment	938
Long term debt	(244)
Future tax liability	(1,611)
Customer relationships & contracts	3,176
Non-compete agreement	291
Goodwill	4,665
Net assets acquired	10,705
Consideration	
Cash	960
Promissory note	9,204
Transaction costs	541
	10,705

- f. On October 1, 2009 the Corporation acquired 100% of the outstanding shares of Southport Data Systems Inc. ("Southport") for \$1,828, consisting of \$1,500 cash, \$300 non-interest bearing promissory note payable on the 12 month anniversary, and transaction costs of \$28. Contingent consideration of \$500 will be payable on meeting certain performance criteria, the

Notes to Consolidated Financial Statements

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occurrence of which was not determinable on acquisition. The contingent component of the purchase price will be recognized as an additional cost of the purchase being assigned to goodwill if and when the future event is realized and the contingent consideration is paid.

The acquisition has been accounted for using the purchase method under CICA 1581 and the results of operations are included in the consolidated statements of operations and comprehensive income from the date of acquisition.

Fair value of net assets acquired	
Cash	191
Non-cash working capital	1
Property & equipment	417
Long term liabilities	(69)
Future tax liability	(699)
Intangible assets	1,768
Goodwill	219
Net assets acquired	1,828
Consideration	
Cash	1,500
Promissory note	300
Transaction costs	28
	1,828

- g. On July 31, 2009, the Corporation acquired 100% of the outstanding shares of BPO Management Services, Ltd. ("BPOMS"). Pursuant to the acquisition, the Corporation assumed non-cash working capital of \$2,527 including BPOMS line of credit of \$1,517 and long term debt of \$17, which were paid out on closing. The acquisition has been accounted for using the purchase method under CICA 1581 and the results of operations are included in the consolidated statements of operations and comprehensive income from the date of acquisition.

Fair value of net assets acquired	
Cash	268
Property & equipment	339
Future tax asset	1,756
Non-cash working capital	(2,527)
Intangible assets	1,364
Net assets acquired	1,200
Consideration	
Cash	100
Restructuring costs	925
Transaction costs	175
	1,200

- h. The Southport and BPOMS acquisitions are included in the Service Bureau Operations for segmented reporting. The other acquisitions are all included in Energy Services.

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5. Property & Equipment

2010	Cost	Accumulated amortization	Net book value
Computer software	8,987	7,633	1,354
Computer hardware	3,134	2,601	533
Office furniture and equipment	1,653	831	822
Vehicles	772	122	650
Leasehold improvements	1,425	709	716
	15,971	11,896	4,075

2009	Cost	Accumulated amortization	Net book value
Computer software	7,832	7,095	737
Computer hardware	2,893	2,286	607
Office furniture and equipment	1,526	666	860
Vehicles	391	6	385
Leasehold improvements	1,358	526	832
	14,000	10,579	3,421

6. Intangible Assets

	Net book value
Customer Relationships & Contracts	
Balance, December 31, 2008	4,521
Acquisition of GAS (note 4e)	3,846
Acquisition of Southport (note 4f)	1,768
Acquisition of BPOMS (note 4g)	1,984
Foreign currency translation adjustment	(99)
Adjustment to Western Corrosion Technologies	(107)
Amortization	(799)
Balance, December 31, 2009	11,114
Acquisition of TSM (note 4a)	525
Acquisition of VDG (note 4b)	122
Adjustment to GAS (note 4e)	(670)
Adjustment to BPOMS (note 4g)	(620)
Foreign currency translation adjustment	(130)
Amortization	(1,353)
Balance, December 31, 2010	8,988

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Non-Compete Agreements	Net book value
Balance, December 31, 2009	-
Acquisition of TSM (note 4a)	26
Adjustment to GAS (note 4e)	291
Foreign currency translation adjustment	(22)
Amortization	(54)
Balance, December 31, 2010	241

7. Goodwill

The changes in the carrying amount of goodwill are as follows:

	Net book value
Balance, December 31, 2008	6,203
Acquisition of GAS (note 4e)	4,942
Acquisition of Southport (note 4f)	219
Foreign currency translation adjustment	(127)
Adjustment to Western Corrosion Technologies	107
Balance, December 31, 2009	11,344
Acquisition of TSM (note 4a)	1,277
Acquisition of VDG (note 4b)	300
Adjustment to GAS (note 4e)	(277)
Foreign currency translation adjustment	(228)
Balance, December 31, 2010	12,416

No impairment charges resulted from the required impairment evaluations of the operations reporting units.

8. Income Taxes

The provision for income taxes differs from the amount computed by applying the statutory income tax rate to income before income tax. The sources and tax effects of the differences are as follows:

	Year ended December 31, 2010	Year ended December 31, 2009
	(restated - note 16)	
Income before income tax	2,558	2,873
Statutory income tax rate in Alberta	28%	29%
Expected income tax expense	716	833
Adjustments resulting from:		
Higher statutory income tax rates in the USA	79	-
Expired losses and loss adjustments	(283)	-
Rate adjustments and changes in timing of reversals	55	(86)
Other	576	(206)
Change in valuation allowance	(1,728)	(692)
Income tax recovery	(585)	(151)

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	Year ended December 31, 2010	Year ended December 31, 2009
	(restated - note 16)	
Current income tax expense	726	47
Future income tax recovery	(1,311)	(198)
Income tax expense (recovery)	(585)	(151)

Future income tax assets and liabilities are comprised of:

	Canada	U.S.A.	Year ended December 31, 2010	Year ended December 31, 2009
Non capital losses	3,069	-	3,069	4,049
Investment tax credit	(149)	-	(149)	(201)
Property & equipment	(74)	(328)	(402)	(172)
Intangible assets	(625)	(1,182)	(1,807)	(3,251)
Unrealized foreign exchange and other		144	144	-
Valuation allowance	-	-	-	(1,728)
	2,221	(1,366)	855	(1,303)
Classified as follows:				
Future tax asset - current	27	-	27	-
Future tax asset - long term	2,194	-	2,194	435
Future tax liability - long term	-	(1,366)	(1,366)	(1,738)
	2,221	(1,366)	855	(1,303)

9. Operating Line of Credit

The Corporation has a secured revolving line of credit with a Schedule "A" Canadian chartered bank, for up to \$5,000 to support the Corporation's working capital requirements. The line bears interest at prime plus 1.25% payable monthly in arrears. The line of credit is limited by the standard margining of accounts receivable and the outstanding letters of credit which reduce the Corporation's available funds under its operating line of credit.

Pursuant to a US\$9,000 promissory note issued in relation to the acquisition of GAS, the Corporation has agreed with the vendor not to increase the Corporation's operating line above \$5,000 until a total of US\$3,000 has been repaid on the promissory note due to the vendor (notes 4d and 10).

As of December 31, 2010, the allowed margin limit of \$3,473 was available.

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10. Long-term Debt

The Corporation has the following long-term debt obligations:

	December 31, 2010	December 31, 2009
Unsecured promissory note, \$300 due on October 1, 2010.	-	300
Secured promissory note US\$9,000 expiring November 1, 2014.	7,507	9,419
Term loans payable monthly with interest rates of prime plus 1.55% and 1.75% and repayable by May 31, 2011 and November 30, 2011 respectively	643	-
Installment loans with financial institutions, payable in variable monthly installments of \$17, including interest rates of 0% to 9.25%, maturing at various dates through November 2013, secured by vehicles.	329	211
	8,479	9,930
Less: current portion	2,949	1,610
	5,530	8,320

On October 1, 2009 the Corporation, upon the acquisition of Southport (note 4f), issued a \$300 promissory note to the previous shareholders of Southport. The note was non interest bearing and was due and paid on October 1, 2010. The payment consisted of \$102 cash and \$198 by way of shares of the Corporation.

On November 1, 2009 the Corporation, upon the acquisition of GAS (note 4e) issued a \$9,669 (US\$9,000) promissory note, bearing interest at the rate of 4% per annum over a 5 year term. The promissory note is secured by a general security agreement with a first priority security interest on all of the Corporation's present and subsequently acquired property and assets of GAS. Interest payments are payable on a quarterly basis and the principal payments will be made as per the following schedule:

Year	
2011	2,238 (US\$2,250)
2012	2,610 (US\$2,625)
2013	1,492 (US\$1,500)
2014	1,492 (US\$1,500)
	7,832 (US\$7,875)

The fair value of the promissory note when issued was less than the principal amount because the interest rate was lower than the prevailing market rate. Accordingly \$7,507 of the promissory note has been accounted for as long term debt and the remaining \$325 of the principal payments will be accreted to the debt over the remaining term of the promissory note.

As part of the acquisition of GAS, the Corporation assumed various long term debt obligations for vehicle financing. During the period ended December 31, 2010, the Corporation entered into additional debt obligations of \$313 for vehicle financing, which is secured by the vehicles.

On May 1, 2010, upon acquisition of QM4 (note 4c) the Corporation entered into a \$476 term loan agreement with its bank. The term loan bears interest at prime plus 1.55% and is repayable at \$50 per month starting August 31, 2010.

On October 1, 2010, upon acquisition of VDG (note 4b) the Corporation entered into a \$500 term loan agreement with its bank. The term loan bears interest at prime plus 1.75% and is repayable at \$42 per month.

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11. Share Capital

On February 11, 2009, the Corporation consolidated its shares on a one (1) new for three (3) old shares. All comparative information reflects the consolidation of the shares.

Effective May 19, 2009, the Corporation received regulatory approval for a normal course issuer bid ("the bid") from the Toronto Stock Exchange to purchase for cancellation, from time to time as the Corporation considers advisable, up to 2,788,457 common shares or 10% of the Corporation's public float. The bid commenced on May 21, 2009 and expired on May 20, 2010. During the year ended December 31, 2009, the Corporation purchased 1,005,744 shares through the bid.

On June 30, 2010, the Corporation closed a non brokered private placement for gross proceeds of \$2,340 and issued 3.9 million shares at \$0.60 per share to three institutional shareholders. The third party fees and other costs amounted to \$140.

On October 29 and November 10, 2010 the Corporation closed a private placement for gross proceeds of \$2,514 and issued 4,570,456 common shares at \$0.55 per share to Laurentian Bank Securities. The third party brokerage fees and other costs amounted to \$155.

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 stock options - see (ii) below	1,898,382	1,672
Shares purchased and cancelled - see (iii) below	(1,005,744)	(470)
Shares cancelled - see (iv) below	(64,827)	(19)
Balance, December 31, 2009	42,216,782	\$24,110
Issued on exercise of stock options - see (v) below	69,998	49
Issued on redemption of deferred shares - see (vi) below	147,776	57
Issued on payment of promissory note - see (vii) below	330,000	198
Issued on private placement subscriptions	8,470,456	4,559
Balance, December 31, 2010	51,235,012	\$28,973

- i. During the year ended December 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 year ended December 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. A further 1,416,666 warrants were exercised for \$935. The additional \$737 credited to share capital represents a transfer of the contributed surplus in respect of these warrants.
- iii. During the year ended December 31, 2009, through the bid, the Corporation purchased for cancellation 1,005,744 shares at an average cost per share of \$0.468.
- iv. During the year ended December 31, 2009, 64,827 common shares of the Corporation issued in accordance with a plan of arrangement pursuant to the acquisition of TCENet Inc. in August, 2003 were cancelled. The plan of arrangement required security holders of TCENet Inc. to return their shares to the transfer agent for conversion to shares of the Corporation by October 1, 2009, failing which shareholders of such untendered shares would lose their right to have them exchanged for shares of the Corporation. The \$19 deducted from share capital represents a transfer to contributed surplus in respect of these cancelled shares.

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- v. During the year ended December 31, 2010, options to purchase common shares were exercised for proceeds of \$29. The additional \$20 credited to share capital represents a transfer of the contributed surplus in respect of these options.
- vi. During the year ended December 31, 2010, 147,776 deferred shares were redeemed. The \$57 credited to share capital represents a transfer of contributed surplus in respect of these shares.
- vii. During the year ended December 31, 2010, 330,000 common shares were issued as partial payment on the \$300 non interest bearing promissory note issued on acquisition of Southport (notes 4f and 10).

c. Contributed Surplus

Balance, December 31, 2008	\$1,724
Stock-based compensation expense	-
Shares cancelled (note 11b(iv))	19
Reclassification to share capital for stock options exercised (note 11b(i))	(1)
Reclassification to share capital for warrants (note 11b(ii))	(737)
Balance, December 31, 2009	\$1,005
Stock-based compensation expense	-
Reclassification to share capital for stock options exercised (note 11b(v))	(20)
Redemption of deferred shares (note 11b(vi))	(57)
Balance, December 31, 2010	\$928

d. Stock Option Plan

The Corporation grants stock options pursuant to an incentive plan (the "Plan"). Under the Plan, stock options may be granted to directors, officers and employees of the Corporation. A maximum of 10% of the issued and outstanding common shares of the Corporation have been reserved for issuance under the Plan. If any option expires without having been exercised or an award is terminated or forfeited for any reason, the common shares shall again be available for issuance in connection with future awards under the Plan. The Board of Directors (or Compensation Committee of the Board, if designated by the Board) may set the exercise price of each option, subject to certain pricing restrictions. Generally, stock options vest over a three-year period from the date of grant and are exercisable over a period of not more than five years. The Board of Directors or Compensation Committee, as the case may be, must specify the vesting schedule for each option upon its grant.

As at December 31, 2010, the Corporation had 10,000 (2009 – 139,327) stock options outstanding with an exercise price of \$0.60 per share, expiring 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
Exercisable, December 31, 2008	178,800	0.51
Exercised	16,666	0.30
Forfeited	26,140	0.60
Outstanding, December 31, 2009	139,327	0.54
Exercisable, December 31, 2009	139,327	0.54
Exercised	69,998	0.42
Forfeited	59,329	0.48
Outstanding, December 31, 2010	10,000	0.60
Exercisable, December 31, 2010	10,000	0.60

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The Corporation has the following stock options outstanding:

Exercise Price	Number outstanding at December 31, 2010	Weighted-average remaining contractual life (years)	Number exercisable at December 31, 2010
\$0.60	10,000	0.59	10,000

The Corporation records compensation costs on the granting of stock options using the fair value based method. No stock options were granted in 2010 or 2009.

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 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.

The following table represents all DCS granted:

	Deferred Common Shares	Deemed Value
Outstanding, December 31, 2008 and 2009	697,189	\$283
Redeemed	(147,776)	(57)
Outstanding, December 31, 2010	549,413	\$226

f. Net Income per Share

On February 11, 2009 the Corporation consolidated the shares of the Company on a one (1) new share for three (3) old shares basis as approved by the Company'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 year ended December 31, 2010 of 45,844,810 (year ended December 31, 2009 – 41,707,020). 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.

12. Capital Disclosures

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

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

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

The debt to equity ratio calculations at December 31, 2010 and December 31, 2009 were as follows:

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	December 31, 2010	December 31, 2009
	(restated -note 16)	
Current portion of long term debt	2,949	1,610
Long term debt	5,530	8,320
Cash	(1,147)	(1,049)
Net debt	7,332	8,881
Share capital	28,973	24,110
Contributed surplus	928	1,005
Deficit	(4,383)	(7,526)
Accumulated other comprehensive (loss) income	(346)	16
Equity	25,172	17,605
Net debt to equity	0.3:1	0.5:1

13. Commitments

The Corporation is committed to annual minimum lease payments under operating leases for premises and equipment through 2019. Annual payments required are as follows:

Year ending December 31	Annual Payments
2011	1,480
2012	1,254
2013	1,010
2014	952
Thereafter	2,013

14. Financial Instruments

The Corporation's financial instruments consist of cash, accounts receivable, operating line of credit, accounts payable and accrued liabilities 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 amortized cost. The carrying value of these financial assets approximates their fair value due to the relatively short period to maturity.

Operating line of credit and accounts payable and accrued liabilities are classified as other financial liabilities and measured at amortized cost. The carrying value of these other financial liabilities approximate their fair value due to the relatively short period to maturity. The carrying value of the long term debt approximates its fair value at December 31, 2010.

Financial Risk Management

The Corporation's activities expose it to a variety of financial risks including foreign currency, 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 December 31, 2010.

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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 impacts to the Corporation. A change of 100 basis points in the market interest rate would have had an approximate impact of net earnings of \$84 (2009 - \$27) for the year ended December 31, 2010. 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 receivable. 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 the credit worthiness 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 years ended December 31, 2010 and 2009 were as follows:

Accounts receivable carrying values (restated - note 16)	Current	30 days	60 days	over 90 days
2010	5,657 57%	2,514 25%	873 9%	881 9%
2009	3,881 53%	2,131 29%	622 9%	692 9%

The Corporation has a \$223 allowance for doubtful accounts as of December 31, 2010 (2009 - \$215).

c. Liquidity Risk

The Corporation's liquidity risk results 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:

	Total	2011	2012	2013	Beyond 2013
Accounts payable and accrued liabilities	6,034	6,034	-	-	-
Long term debt	8,479	2,949	2,630	1,472	1,428
Commitments	6,709	1,480	1,254	1,010	2,965
Total	21,222	10,463	3,884	2,482	4,393

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

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d. Foreign exchange rate risk

A portion of the Corporation's sales and long term debt are in U.S. dollars. Future fluctuations in the exchange rates could have an effect on the Corporation's business and results of operations. In particular, a further decline in the value of the United States dollar relative to the Canadian dollar could have a material adverse effect on the Corporation's results of operations and cash flows. The Corporation does not currently undertake any exchange rate hedging activities.

A change of 100 basis points in exchange rate would have had an approximate impact on net earnings of \$15 (2009 - \$6) for the year ended December 31, 2010. The Corporation does not currently hold any financial instruments to mitigate foreign exchange rate risk.

15. Transactions with Related Parties

Related party transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the year ended December 31, 2010, the Corporation leased its offices in Stonewood, VW and Indiana, PA from an officer of the Corporation. The amount paid was \$198, (2009 - \$41) and was recorded as rent expense. The Corporation has an ongoing four year lease for both of the offices.

16. Correction of Inventory Error

During 2011, and subsequent to the release of the December 31, 2010 consolidated financial statements, improved processes and controls related to inventory were implemented in Gas Analytical Service, Inc., one of the Corporation's US subsidiaries. In conjunction with these changes in processes and controls, an error was discovered in relation to the recording of cost of revenue in 2010 that was not detected through the inventory count procedures at December 31, 2010. The error has been corrected in these restated consolidated financial statements, along with inventory costing errors that existed at December 31, 2010.

The impact of correcting these errors on the December 31, 2010 consolidated financial statements is as follows:

	Year ended December 31, 2010
Increase cost of revenue and decrease earnings	
before income tax	1,701
Decrease income tax expense	682
Decrease net earnings	1,019
Decrease other comprehensive loss –	
foreign currency translation adjustments	30
Decrease total comprehensive income	989
Decrease inventory	1,651
Increase income tax receivable	662
Increase deficit	1,019
Decrease accumulated other comprehensive loss	30
Decrease net earnings per share, basic	0.02
Decrease net earnings per share, diluted	0.03

Other impacted amounts presented throughout these restated consolidated financial statements and accompanying notes have been amended as appropriate.