



**CriticalControl Solutions Corp.**  
**Consolidated Financial Statements**  
**For the Year Ended December 31, 2008**

# MANAGEMENT'S REPORT

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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  
February 24, 2009

# AUDITORS' REPORT



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## AUDITORS' REPORT

To the Shareholders of CriticalControl Solutions Corp.

We have audited the consolidated balance sheet of CriticalControl Solutions Corp. as at December 31, 2008 and the consolidated statements of operations, comprehensive income (loss) and deficit and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation at December 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The Comparative figures for December 31, 2007 were reported on by another firm of chartered accountants.

*KPMG LLP*

Chartered Accountants  
Calgary, Canada

February 24, 2009

KPMG LLP, a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International, a Swiss cooperative. KPMG Canada provides services to KPMG LLP.

# Consolidated Balance Sheets

As At December 31, 2008 and 2007  
(In thousands of Canadian dollars, except share data)

	2008	2007
<b>Assets</b>		
Current assets:		
Cash	1,127	566
Restricted cash	-	200
Accounts receivable	4,338	3,440
Unbilled revenue	258	337
Inventory	136	105
Prepaid expenses and other	469	397
	6,328	5,045
Deferred costs	59	91
Property & equipment (note 6)	2,328	2,653
Customer relationships & contracts (note 7)	4,521	3,920
Goodwill (note 8)	6,203	6,110
	19,439	17,819
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Operating line of credit (note 10)	-	823
Accounts payable and accrued liabilities	2,431	1,896
Unearned revenue	753	432
Current portion of long-term debt (note 11)	600	550
Current portion of deferred lease inducement	160	160
	3,944	3,861
Deferred lease inducement	1,150	1,310
Long-term debt (note 11)	250	950
	5,344	6,121
Shareholders' equity:		
Share capital (note 12b)	22,921	23,995
Contributed surplus (note 12c)	1,724	1,697
Deficit	(10,550)	(13,994)
	14,095	11,698
Subsequent Events (note 16)		
Commitments and contingencies (note 14)		
	19,439	17,819

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 (Loss) and Deficit

As At December 31, 2008 and 2007

(In thousands of Canadian dollars, except share data)

	2008	2007
Revenue	25,985	23,085
Cost of revenue	11,941	12,116
	14,044	10,969
Operating expenses:		
Selling and administrative	8,272	7,328
Research & development	665	908
Amortization of property & equipment	1,021	987
Amortization of customer relationships & contracts	570	527
(Gain) loss on sale of property & equipment	(55)	0
Loss on foreign exchange	42	25
Interest	85	975
Restructuring charge	-	102
	10,600	10,852
Income from continuing operations	3,444	117
Loss from discontinued operations (note 3)	-	(999)
Net income (loss) and comprehensive income (loss) for the year	3,444	(882)
Deficit, beginning of year	(13,994)	(13,112)
Deficit, end of year	(10,550)	(13,994)
Net income (loss) from continuing / discontinued operations per share (note 12g)		
Basic earnings per share		
from continued operations	0.08	0.00
from discontinued operations	-	(0.02)
Diluted earnings per share		
from continued operations	0.08	0.00
from discontinued operations	-	(0.02)
Weighted average number of shares outstanding - December 31, 2008		
Basic	129,823,110	130,826,608
Diluted	132,725,180	130,826,608
Weighted average number of shares outstanding used for EPS calculations (note 12g)		
Basic	43,274,370	43,608,869
Diluted	44,241,727	43,608,869

See accompanying notes to consolidated financial statements.

# Consolidated Statements of Cash Flows

As At December 31, 2008 and 2007

(In thousands of Canadian dollars, except share data)

	2008	2007
Cash flows from (used in) operating activities:		
Net income from continuing operations	3,444	117
Items not involving cash:		
Amortization of property & equipment	1,021	987
Amortization of customer relationships & contracts	570	527
Rent reduction (deferred credit)	(160)	-
Deferred share purchase plan (note 12e)	165	53
Gain on sale of property & equipment	(55)	-
Stock-based compensation (note 12d)	(4)	17
Non-cash interest	-	223
Amortization of deferred financing costs	-	133
	4,981	2,057
Change in non-cash working capital balances:		
Accounts receivable	(898)	2,042
Unbilled revenue	60	(506)
Inventory	(31)	33
Prepaid expenses and other	(67)	(147)
Accounts payable and accrued liabilities	519	(727)
Unearned revenue	321	358
Warranty liability	-	48
Reduction in deferred cost	32	-
Increase in cash from continued operations	4,917	3,158
Increase (decrease) in cash from discontinued operations	-	501
	4,917	3,659
Cash flows from (used in) financing activities:		
Repurchase shares for cancellation	(1,378)	-
Shares issued for cash	157	121
Deferred share purchase plan	13	-
Proceeds from operating line of credit	-	823
Repayment of operating line of credit	(823)	(550)
Proceeds from long-term debt	-	1,500
Repayment of long term debt	(650)	(5,961)
Proceeds from lease inducement	-	1,115
	(2,681)	(2,952)
Cash flows from (used in) investing activities:		
Acquisition of businesses, net of cash acquired	(1,373)	(394)
Proceeds (to) / from Short term investments (restricted cash)	200	(200)
Purchase of property & equipment	(587)	(339)
Proceeds on sale of property & equipment	85	-
Proceeds from sale of discontinued operations	-	634
	(1,675)	(299)
Increase (decrease) in cash from continuing operations	561	408
Cash, beginning of year	566	158
Cash, end of year	1,127	566
Supplemental disclosure of cash flow information:		
Interest paid	85	975
See accompanying notes to consolidated financial statements.		

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007  
(In thousands of Canadian dollars, except share data)

## 1. Incorporation and nature of business

CriticalControl Solutions Corp. (the "Corporation" or "CriticalControl") is a technology company that enables its clients with better access to their critical business operational information. CriticalControl's proprietary products are technologies to allow faster access to and better control of the information required to operate the critical business operations of government and energy sector clients.

## 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 useful lives and impairment of customer relationships & contracts, valuation of stock based compensation and the impairment of goodwill. Actual results could differ from these estimates.

### C. Inventory

Inventory is valued at lower of cost or market and relates to the hardware installed in the field. 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. The Company does not have an allowance for inventory obsolescence.

### 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%
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

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007

(In thousands of Canadian dollars, except share data)

software applications are capitalized only after technological feasibility is established.

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

## **E. Customer relationships and contracts**

Acquired customer relationships and contracts associated with business acquisitions are initially recorded at fair value and are amortized on a straight-line basis over the terms of the underlying contracts. Acquired customer contracts are assessed for impairment at least on an annual basis by estimating the associated net undiscounted future cash flows. The amount of impairment loss, if any, is the excess of the carrying value over 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 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 and energy sectors. The Corporation's solutions for each sector comprise of (i) services, (ii) maintenance & support services and (iii) hardware and third party software. Each component of the Corporation's solution has specific revenue recognition policies as follows:

### **(1) Services**

Services include the Corporation's document imaging and control business 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.

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.

### **(2) 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.

### **(3) Third party hardware and software**

Sales of hardware and third-party software applications are recognized if there is persuasive evidence of acceptance and delivery, revenue is determinable and collection is probable.

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007  
(In thousands of Canadian dollars, except share data)

## **H. Income taxes**

The Corporation follows the liability method of accounting for income taxes. Under the liability 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 income in the period that includes the date of substantive enactment. A valuation allowance is recorded to the extent there is uncertainty regarding the utilization of future tax assets.

## **I. Investment tax credits**

Investment tax credits earned for qualifying Scientific Research and Experimental Development expenditures are deducted from the related expenditures when there is reasonable assurance they are recoverable.

## **J. Foreign currency**

Monetary items denominated in foreign currency are translated to Canadian dollars at the exchange rates in effect at the balance sheet date and non-monetary items are translated at rates of exchange in effect when the assets are acquired or obligations incurred. Revenues and expenses are translated at rates in effect at the time of the transactions. Foreign exchange gains and losses are included in the consolidated statement of operations.

## **K. Stock-based compensation**

The Corporation has stock-based compensation plans described in note 12(d) and 12(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 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 market value method whereby the common shares are valued based on the volume weighted average price of all Common Shares traded on the TSX Venture Exchange for the three (3) trading days immediately preceding the issue date.

## **L. Net income (loss) per share**

The treasury stock method is used in calculating diluted earnings per share. This method assumes that any proceeds 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.

## **M. Adoption of new accounting policies**

Effective January 1, 2007 the Corporation adopted the new accounting standards for Section 1506 – Accounting Changes, 1530 - Comprehensive Income, 3855 - Financial Instruments – Recognition and Measurement, and 3865 - Hedges as issued by CICA. In accordance with transitional provisions for the new standards, these policies were adopted prospectively without restatement of prior periods.

# Notes to Consolidated Financial Statements

**As At December 31, 2008 and 2007**

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

CICA Section 1506, "Accounting Changes" prescribes the criteria for changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and correction of errors. The adoption of this revised standard did not have any material impact on the consolidated financial statements of the Corporation.

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

CICA Section 3855, "Financial instruments – Recognition and Measurement", prescribes when a financial instrument is to be recognized on a balance sheet and at what amount. It also specifies how financial instrument gains and losses are to be presented. Based on the Corporation's categorization of its financial instruments, the adoption of the revised standard did not have an impact on the Corporation's financial instruments. The Corporation has adopted a policy of recognizing the transaction costs as an expense when incurred. For the year 2007, \$20 was expensed as transaction costs to secure the term loan facility.

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

On January 1, 2008, the Corporation has adopted the new accounting standards, 1535 *Capital Disclosure*, 3031 *Inventories*, 3862 *Financial Instruments – Disclosures* and Section 3863 – *Financial Instruments – Presentation*, as issued by CICA.

CICA Section 1535, "Capital Disclosures", the new CICA Handbook Section 1535 "Capital Disclosures" requires the disclosure of qualitative and quantitative information about the Corporation's objectives, policies and processes for managing capital. Note 13 provides qualitative disclosures regarding objectives, policies and processes for managing capital. The adoption of this standard did not have a material impact on the consolidated financial statements.

CICA Section 3031 "Inventories" provides guidance on the determination of cost and its subsequent recognition as an expense, including any write-down to net realizable value. The adoption of this standard did not have a material impact on the consolidated financial statements.

CICA Section 3862, "Financial Instruments – Disclosures" and Section 3863 – "Financial Instruments – Presentation", the new CICA Handbook Sections 3862 and 3863 replaced Section 3861 to prescribe the requirements for presentation and disclosure of financial instruments. The objective of Section 3862 is to provide users with information to evaluate the significance of the financial instruments on the entity's financial position and performance, the nature and extent of risks arising from financial instruments, and how the entity manages those risks. The provisions of Section 3863 deal with the classification of financial instruments, related interest, dividends, losses and gains, and the circumstances in which financial assets and financial liabilities are offset. The adoption of this standard did not have a material impact on the consolidated financial statements.

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007  
(In thousands of Canadian dollars, except share data)

## N. 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. In 2007, the Corporation recorded a cash inducement of \$1,115, to be recognized as rent over a 10 year period .

## Q. 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	Other liabilities
Loan payable	Other liabilities

### 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 the balance sheet date.

### Loans and receivables

Loans and receivables are accounted for at fair value at the balance sheet date.

### Other liabilities

Other liabilities are recorded at fair value at the balance sheet date and include all financial liabilities.

## P. Future accounting changes

### **CICA Section 3064 "Goodwill and Intangible Assets"**

Effective for interim and annual financial statements for fiscal year beginning January 1, 2009, the new CICA handbook Section 3064 will replace 3062. The Corporation does not expect that the adoption of this standard will have any material impact on its consolidated financial statements.

### **International Financial Reporting Standards (IFRS)**

In February 2008, CICA Accounting Standards Board ("AcSB") confirmed the changeover to International Financial Reporting Standard ("IFRS") from GAAP will be required for publically traded corporations for interim and annual financial statements effective fiscal years beginning on or after January 1, 2011 with comparative data also reported under IFRS. Management is currently assessing the impact of adopting IFRS and it has not yet determined its affect on the company's financial statements.

## 3. Assets held for sale and discontinued operations

In the third quarter of 2007, the Corporation sold all of the assets of its PipeWorks and IMS business units for cash proceeds of \$715. Revenues and expenses of the business have been netted and reported as income (loss) from discontinued operations on the consolidated statements of operations, comprehensive income and deficit for the period ended December, 2007.

## 4. 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.

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007

(In thousands of Canadian dollars, except share data)

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, and the accounting policies of the segments are the same as those described in note 2.

	Government	Energy	Corporate & Other	Year ended December 31, 2008
Revenue	14,201	11,784	-	25,985
Cost of revenue	7,670	4,271	-	11,941
Gross margin	6,531	7,513	-	14,044
Selling & administrative expense	3,190	2,690	2,434	8,314
Research & development expense	-	665	-	665
Amortization of property & equipment	251	764	6	1,021
Amortization of customer relationships & Interest, contract losses & other expenses	212	358	-	570
Gain on sale of property & equipment	-	-	85	85
	-	-	(55)	(55)
	3,653	4,477	2,470	10,600
Income (loss) from continued operations	2,878	3,036	(2,470)	3,444
Segment assets	5,011	13,568	860	19,439
Goodwill	2,490	3,713	-	6,203
Capital expenditures	284	303	-	587

	Government	Energy	Corporate & Other	Year ended December 31, 2007
Revenue	12,521	10,564	-	23,085
Cost of revenue	7,451	4,665	-	12,116
Gross margin	5,070	5,899	-	10,969
Selling & administrative expense	2,542	2,508	2,278	7,328
Research & development expense	-	908	-	908
Amortization of property & equipment	287	692	8	987
Amortization of customer relationships & Interest, contract losses & other expenses	212	315	-	527
Restructuring charge	-	-	1,000	1,000
	-	-	102	102
	3,041	4,423	3,388	10,852
Income (loss) from operations	2,029	1,476	(3,388)	117
Segment assets	5,007	10,290	2,522	17,819
Goodwill	2,490	3,620	-	6,110
Capital expenditures	108	168	63	339

For the year ended December 31, 2008 the Corporation derived approximately 55% (2007 – 43%) of its total revenue from the Government of Alberta. As at December 31 2008, 26% (2007 – 33%) of accounts receivable pertained to this customer.

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007  
(In thousands of Canadian dollars, except share data)

## 5. Business acquisitions

### A. Assets of Western Corrosion Technologies

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 (loss) and deficit from the date of acquisition. The purchase price 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.

### B. SCADANet

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 (loss) and deficit from the date of acquisition. The purchase price equation is preliminary and subject to change.

Fair value of 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.

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007

(In thousands of Canadian dollars, except share data)

## C. Idein Technologies Ltd.

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

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

The customer relationships and contracts related to the Idein acquisition will be amortized over 4 years which reflects the pattern in which the economic benefit of the contracts will be consumed.

## D. RDA

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

## 6. Property & Equipment

2008	Cost	Accumulated amortization	Net book value
Computer software	7,455	6,497	958
Computer hardware	2,626	1,937	689
Office furniture and equipment	865	603	262
Leasehold improvements	819	400	419
	11,765	9,437	2,328

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007

(In thousands of Canadian dollars, except share data)

2007	Cost	Accumulated amortization	Net book value
Computer software	7,307	5,992	1,315
Computer hardware	2,263	1,661	602
Office furniture and equipment	851	536	315
Leasehold improvements	709	288	421
	11,130	8,477	2,653

## 7. Customer relationships & contracts

	Net book value
Balance, December 31, 2006	4,152
Acquisition of Idein (note 5c)	140
Acquisition of RDA (note 5d)	135
Acquisition of certain assets of Oil & Gas Accounting	20
Amortization	(527)
Balance, December 31, 2007	3,920
Acquisition of WCT (note 5a)	433
Acquisition of ScadaNet (note 5b)	738
Amortization	(570)
Balance, December 31, 2008	4,521

## 8. Goodwill

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

	Net book value
Balance, December 31, 2006	5,948
Acquisition of Idein (note 5c)	302
Goodwill disposal related to discontinued operations	(140)
Balance, December 31, 2007	6,110
Acquisition of ScadaNet (note 5b)	93
Balance, December 31, 2008	6,203

The goodwill balance at December 31, 2008 is included in the segmented assets of Government (\$2,490) and Energy (\$3,713). At December 31, 2007, the goodwill balance is included in the segmented assets of Government (\$2,490) and Energy (\$3,620). In 2007, \$140 of the goodwill associated with the Corporation's discontinued operations was written off. No impairment charges resulted from the required impairment evaluations of the continuing operations reporting units.

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007

(In thousands of Canadian dollars, except share data)

## 9. Income taxes

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

	Year ended December 31, 2008	Year ended December 31, 2007
Income from continuing operations	3,444	(882)
Statutory income tax rate	29.50%	32.12%
Expected income tax expense (recovery)	1,016	(283)
Adjustments resulting from:		
Rate adjustment	(157)	331
Revaluation of future assets	-	(978)
Other	68	134
Change in valuation allowance	(927)	796
Income tax (recovery) / expense	-	-

Future income tax assets and liabilities are comprised of:

	Year ended December 31, 2008	Year ended December 31, 2007
Non-capital losses carried forward	2,334	2,784
Property & equipment	597	1,070
Share issuance costs	20	61
Future tax asset	2,951	3,915
Less:		
Future tax liability related to customer	(531)	(559)
Valuation allowance	(2,420)	(3,356)
Future income taxes	-	-

As at December 31, 2008 the Corporation and its subsidiaries have approximately \$9,336 of non-capital loss carry-forwards for income tax purposes available to reduce future taxable income. These losses expire between 2010 and 2028.

The future tax asset with respect to non-capital loss carry forwards has been recognized only to the extent that it reduces the future tax liability from customer contracts and goodwill.

## 10. Operating line of credit

On December 21, 2007, the Corporation secured a 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 0.50% payable monthly in arrears. As of December 31, 2007, \$823 was drawn on the line and fully repaid in 2008.

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007  
(In thousands of Canadian dollars, except share data)

## 11. Long-term debt

The Corporation has the following long-term debt obligations:

	December 31, 2008	December 31, 2007
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	1,500
	850	1,500
Less: current portion	600	550
	250	950

On December 21, 2007, the Corporation secured a term loan facility in the principal amount of \$1,500. The term of the facility is for a period of 30 months, includes interest rate of bank prime plus 1% and monthly payment of principal plus interest. Interest paid on long term debt during the year was \$68. Pursuant to the terms of the facility, the Corporation is required to maintain certain covenants all of which were met for the years ended December 31, 2007 and 2008.

The credit facility is secured by a general security agreement with first priority security interest on all of the Corporation's present and after acquired property and assets.

## 12. Share capital

On September 12, 2008 the Corporation completed the Normal Course Issuer Bid ("NCIB") having purchased for cancellation, 6,654,000 common shares of the Corporation or 5% of the 133,082,115 shares outstanding.

On December 10, 2008, the Corporation completed the Amended Normal Course Issuer Bid ("Amended NCIB") having purchase for cancellation, additional 2,729,500 common shares of the Corporation for a total of 9,383,500 common shares at an average cost per share of \$0.147.

### A. Authorized

Unlimited common shares without nominal or par value.

### B. Issued and outstanding

Common shares	Number	Amount
Balance, December 31, 2006	129,443,816	\$23,537
Issued on exercise of stock options – see (i) below	1,075,966	189
Issued on acquisition of Idein (note 5c)	1,133,333	255
Proceeds from employee trust shares	-	14
Balance, December 31, 2007	131,653,115	\$23,995
Issued on exercise of stock options – see (ii) below	1,573,067	279
Issued on exercise of warrants	274,232	25
Shares repurchased and cancelled	(9,383,500)	(1,378)
Balance, December 31, 2008	124,116,914	\$22,921

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007

(In thousands of Canadian dollars, except share data)

- (1) During the year ended December 31, 2007, options to purchase common shares were exercised for proceeds of \$107. The additional \$82 credited to share capital represents a transfer of the contributed surplus in respect of these options.
- (2) During the year ended December 31, 2008, options to purchase common shares were exercised for proceeds of \$157. The additional \$122 credited to share capital represents a transfer of the contributed surplus in respect of these options.

## C. Contributed surplus

Balance, December 31, 2006	\$1,709
Stock-based compensation expense (note 12d)	17
Reclassification of deferred share purchase plan	53
Reclassification to share capital for stock options exercised (note 12b(i))	(82)
Balance, December 31, 2007	\$1,697
Stock-based compensation expense (note 12d)	(4)
Reclassification of deferred share purchase plan	178
Reclassification to share capital for stock options exercised (note 12b(ii))	(122)
Reclassification to share capital for warrants	(25)
Balance, December 31, 2008	\$1,724

## 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, employees, and consultants 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, 2008, the Corporation had 546,400 (2007 – 2,493,300) stock options outstanding with exercise prices ranging from \$0.10 to \$0.25 per share, expiring February 19, 2009 to August 9, 2011. The following table summarizes stock option transactions:

	Number of options	Weighted-average exercise price
Outstanding, December 31, 2006	4,019,600	\$0.12
Exercisable, December 31, 2006	3,306,765	\$0.11
Exercised	1,075,966	0.10
Cancelled	450,334	0.13
Outstanding, December 31, 2007	2,493,300	\$0.12
Exercisable, December 31, 2007	2,291,292	\$0.12
Exercised	1,573,067	0.10
Cancelled	373,833	0.15
Outstanding, December 31, 2008	546,400	0.17
Exercisable, December 31, 2008	536,400	0.17

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007

(In thousands of Canadian dollars, except share data)

The Corporation has the following stock options outstanding:

Exercise Price	Number outstanding at December 31, 2008	Weighted-average remaining contractual life (years)	Number exercisable at December 31, 2008
\$0.10	53,400	0.16	53,400
\$0.11	50,000	0.56	50,000
\$0.12	170,000	1.02	170,000
\$0.20	120,000	1.03	110,000
\$0.25	153,000	1.33	153,000
	546,400	0.98	536,400

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:

	December 31, 2008	December 31, 2007
Stock-based compensation expense	(4)	\$17
Dividend yield	0%	0.00%
Expected volatility	91.01%	103%
Risk-free interest rate	2.60%	4.00%
Expected life	1 year	3 years
Weighted-average grant date fair value	\$0.14	\$0.08

## **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 3,000,000 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, 2006	181,035	52
Issued in 2007	294,446	53
Outstanding, December 31, 2007	475,481	105
Issued in 2008	1,616,088	178
Outstanding, December 31, 2008	2,091,569	283

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007

(In thousands of Canadian dollars, except share data)

## F. Warrants and Special Warrants

As at December 31, 2008, the Corporation has 13,054,347 Special Warrants outstanding to acquire common shares with exercise prices ranging from \$0.115 to \$0.22 per share, expiring February 20, 2009 to January 3, 2010, as follows:

Exercise price	Number outstanding at December 31, 2008	Weighted-average remaining contractual life (years)
\$0.12	8,804,347	0.14
\$0.22	4,250,000	1.01
	13,054,347	0.42

The following table summarizes Warrant and Special Warrant transactions:

	Number of warrants	Weighted-average exercise price
Outstanding December 31, 2006	25,092,910	\$0.23
Expired in 2006	11,111,280	\$0.33
Outstanding December 31, 2007	13,981,630	\$0.15
Cancelled	(653,051)	\$0.12
Exercised	(274,232)	\$0.12
Outstanding, December 31, 2008	13,054,347	\$0.15

## G. 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. Therefore 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, 2008 of 44,241,727 (year ended December 31, 2007 - 43,608,869). Diluted amounts are calculated taking into consideration the potential conversions and the exercise of options, warrants and deferred share units. For the year ended December 31, 2007 such conversions and exercises of options, warrants and deferred share units are anti-dilutive and have been excluded from the calculation of diluted net income (loss) per share.

## 13. 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 a monthly review of financial results.

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007  
(In thousands of Canadian dollars, except share data)

The debt to equity ratio calculations at December 31, 2008 and December 31, 2007 were as follows:

	December 31, 2008	December 31, 2007
Current portion of long term d	600	550
Long term debt	250	950
Cash	(1,127)	(566)
Net debt	0	934
Share capital	22,921	23,995
Contributed surplus	1,724	1,697
Deficit	(10,550)	(13,994)
Equity	14,095	11,698
Debt to equity	0:1	0.08:1

## 14. Commitments and contingencies

The Corporation is committed to annual minimum lease payments under operating leases for premises and equipment through 2017. Annual payments required are as follows:

Year ending December 31	Annual Payments
2009	839
2010	806
2011	790
2012	595
Thereafter	2,613

## 15. Financial instruments

The Corporation's financial instruments consist of cash, accounts receivable, accounts payable and 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 value of these financial assets approximates their fair value due to the relatively short period to maturity.

Accounts payable and 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 value 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 December 31, 2008.

# Notes to Consolidated Financial Statements

As At December 31, 2008 and 2007  
(In thousands of Canadian dollars, except share data)

## 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 for the year ended December 31, 2008 an approximate impact on net earnings of \$15. 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 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 year ended December 31, 2008 was as follows:

	Current	30 days	60 days	over 90 days
Accounts receivable carrying values	2,723	1,030	386	199
	63%	24%	9%	5%

The Corporation currently has an allowance for doubtful accounts.

## C. Liquidity risk

The Corporation's liquidity risk results from its potential ability 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 Corporations financial liabilities inclusive of operating leases were as follows:

	2009	2010 - 2011	2012 - 2013	Beyond 2013
Accounts payable and accrued liabilities	2,431	-	-	-
Long term debt	600	250	-	-
Commitments & contingencies	839	1,596	1,155	2,052
Total	3,870	1,846	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.

## 16. Subsequent Events

On February 11th, 2009, the Corporation listed its common shares on the Toronto Stock Exchange ("TSX") and simultaneously delisted its shares from the TSX Venture Exchange.

On February 17, 2009, the Corporation announced that it had issued 481,716 post consolidation shares to Wellington Financial pursuant to the cashless exercise and cancellation of Wellington Financial's warrants to acquire 2,934,782 post consolidation shares of the Corporation.