

**CRITICALCONTROL SOLUTIONS CORP.**

**Consolidated Financial Statements**  
March 31, 2006

*SOLUTIONS  
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WORK*



Consolidated Balance Sheets

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

	March 31, 2006	December 31, 2005
<b>Assets</b> (note 3)		
Current assets:		
Cash and cash equivalents	\$2,600	\$1,939
Accounts receivable	6,406	6,092
Unbilled revenue	859	810
Prepaid expenses and other	688	365
	<u>10,553</u>	<u>9,206</u>
Deferred financing costs (note 3)	202	278
Property & equipment	3,348	3,418
Customer relationships and contracts	3,640	3,746
Goodwill	5,581	5,581
	<u>\$23,324</u>	<u>\$22,229</u>
<b>Liabilities and Shareholders' Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$3,198	\$2,596
Unearned revenue	1,323	1,052
Current portion of warranty liability	71	71
Current portion of long-term debt (note 3)	2,871	2,890
	<u>7,463</u>	<u>6,609</u>
Long-term warranty liability	25	25
Long-term debt (note 3)	3,944	3,879
	<u>3,969</u>	<u>3,904</u>
Shareholders' equity:		
Share capital (note 4)	23,071	22,987
Contributed surplus (note 4)	1,563	1,568
Deficit	(12,742)	(12,839)
	<u>11,892</u>	<u>11,716</u>
Subsequent events (note 5)		
	<u>\$23,324</u>	<u>\$22,229</u>

See accompanying notes to consolidated financial statements.

On behalf of the Board:

“signed”  
William Hammett, Director

“signed”  
Alykhan Mamdani, Director



**Consolidated Statements of Operations and Deficit**

Three months ended March 31,  
(In thousands of Canadian dollars, except share data)  
(unaudited)

	2006	2005
Revenue:	\$ 6,893	\$ 3,570
Cost of Revenue:	3,806	2,501
	3,087	1,069
<b>Expenses:</b>		
Selling and administrative expenses	1,987	1,026
Research and development expenses	217	207
Amortization of property & equipment	260	144
Amortization of customer relationships & contracts	106	259
Loss on foreign exchange	3	31
Interest - long-term debt	408	191
Interest - other	9	24
	2,990	1,882
<b>Net income (loss) for the period</b>	97	(813)
Deficit, beginning of period	(12,839)	(11,513)
Deficit, end of period	\$ (12,742)	\$ (12,326)
Net income (loss) for the period per share:		
Basic and diluted (note 4)	0.00	(0.01)
Weighted average number of shares outstanding:		
Basic and diluted	126,500,414	87,947,974

See accompanying notes to consolidated financial statements.

**Consolidated Statements of Cash Flows**

Three months ended March 31,  
(In thousands of Canadian dollars, except share data)  
(unaudited)

	2006	2005
<b>Cash flows from operating activities:</b>		
Net income (loss) for the period	\$ 97	\$ (813)
Items not involving cash:		
Amortization of property & equipment	260	144
Amortization of customer relationships & contracts	106	259
Stock-based compensation (note 4)	20	28
Non –cash interest	120	58
Amortization of deferred financing costs	76	47
	679	(277)
Change in non-cash working capital balances:		
Accounts receivable	(315)	408
Unbilled revenue	(49)	(236)
Prepaid expenses and other	(323)	(34)
Accounts payable and accrued liabilities	602	15
Unearned revenue	271	214
Warranty liability	-	(38)
	865	52
<b>Cash flows from (used in) financing activities:</b>		
Shares issued for cash	59	378
Proceeds from long-term debt, net	-	4,220
Repayment of long term debt	(74)	(57)
	(15)	4,541
<b>Cash flows from (used in) investing activities:</b>		
Purchase of property & equipment	(189)	(311)
Acquisition of business, net of cash acquired	-	(3,856)
	(189)	(4,167)
Increase in cash and cash equivalents	661	426
Cash and cash equivalents, beginning of period	1,939	358
Cash and cash equivalents, end of period	\$ 2,600	\$ 784
Cash and cash equivalents include the following:		
Cash	\$ 698	\$ 353
Short-term investments	1,902	431
	\$ 2,600	\$ 784
<b>Supplemental disclosure of cash flow information:</b>		
Interest paid	\$ 213	\$ 110

See accompanying notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Three months ended March 31,  
(In thousands of Canadian dollars, except share data)  
(unaudited)

1. **Basis of presentation:**

These interim consolidated financial statements of CriticalControl Solutions Corp. (the "Corporation") have been prepared in accordance with Canadian generally accepted accounting principles for interim financial statements. These interim consolidated financial statements follow the same accounting policies and methods of application as the most recent annual audited consolidated financial statements. These interim consolidated financial statements do not include all disclosures normally provided in annual financial statements and should be read in conjunction with the Corporation's annual audited consolidated financial statements as at and for the year ended December 31, 2005. In management's opinion, the interim consolidated financial statements include all adjustments necessary to present fairly such information.

2. **Segmented information:**

During 2005, the Corporation undertook a review of its operations to focus on identifying key areas of potential growth to increase profitability. The key segments identified were Government and Energy. CriticalControl has reviewed the impact of these changes on its reportable segments and concluded that its segmented disclosure reflect these key segments. As such, financial information included herein for the three months ended March 31, 2005 have been restated to correspond to this new segmentation.

All public company costs, interest and other expenses not directly attributed to the two operating segments are included in Corporate and Other. Revenue attributed to Corporate and Other includes revenue from the Corporation's operations outside the Government and Energy sectors.

In assessing performance of the segments and the allocation of resources to the segments, management of CriticalControl evaluate Gross Margin and Contribution Margin, defined as Gross Margin less Selling and Administrative expenses directly attributable to the Segments.

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

	Government	Energy	Corporate & Other	Three months ended March 31, 2006
Revenue	\$ 3,307	\$ 3,283	\$ 303	\$6,893
Cost of revenue	1,775	1,894	137	3,806
	1,532	1,389	166	3,087
Selling & administrative expense	313	664	1,012	1,989
Research & development expense	-	217	-	217
Amortization of property & equipment	42	190	28	260
Amortization of customer relationships & contracts	52	54	-	106
Interest & other Expenses	-	-	418	418
	407	1,125	1,458	2,990
Net income (loss) for the period	1,125	264	(1,292)	97
Segment assets	\$7,612	\$ 12,180	\$3,532	\$23,324
Capital expenditures	\$ 63	\$ 74	\$ 53	\$ 190

Notes to Consolidated Financial Statements

Three months ended March 31,  
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	Government	Energy	Corporate & Other	Three months ended March 31, 2005
Revenue	\$1,801	\$1,248	\$521	\$3,570
Cost of revenue	1,455	752	294	2,501
	346	496	227	1,069
Selling & administrative expense	66	184	776	1,026
Research & development expenses	-	207	-	207
Amortization of property & equipment	38	84	22	144
Amortization of customer contracts	259	-	-	259
Interest & Other expenses	-	-	246	246
	363	475	1,044	1,882
Net Income (loss) for the period	\$(17)	\$21	\$(817)	\$(813)
Segment assets	\$ 5,321	\$12,031	\$1,773	\$19,125
Capital expenditures	\$311	\$ -	\$ -	\$311

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

	Three months ended March 31, 2006	Three months ended March 31, 2005
Canada	\$6,645	\$ 3,019
United States	194	439
Other	54	112
	\$ 6,893	\$ 3,570

The Corporation derives revenue from the licensing of certain of its proprietary products as well as from providing solutions to clients using the Corporation's proprietary ScanGas and Netflow software, in which case it is not practical to separate the service component of the solution from the proprietary nature of the product. As such, the Corporation's revenue can be distinguished between solutions or services not based on the Corporation's proprietary Solutions ("Services") and solutions or services directly tied to the Corporation's proprietary products ("Proprietary Solutions"). Where a Service or Proprietary Solution requires the sale of third party hardware or software to a client, revenue from such sale is tracked separately as follows:

	Three months ended March 31, 2006	Three months ended March 31, 2005
Services	\$ 3,746	\$ 2,496
Proprietary Solutions	1,910	845
Third Party Hardware & Software	1,237	229
	\$ 6,893	\$ 3,570

For the three months ended March 31, 2006 the Corporation derived approximately 31% (2005 - 21%) of its total revenue from the Government of Alberta. As at March 31, 2006, 35% (2005 - 20%) of accounts receivable pertained to this customer.

Notes to Consolidated Financial Statements

Three months ended March 31,  
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3. Long-term debt:

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

	March 31, 2006	December 31, 2005
(i) Capital lease obligation, \$265, due February 2007, payable in monthly installments of principal and interest of \$5 for the first year (beginning March 1, 2004), \$10 for the second year, \$12.5 for the third year, bearing interest at 10% per annum	\$ 105	\$ 137
(ii) Demand loan, payable in monthly installments of principal and interest of \$5, bearing interest at the bank's prime interest rate plus 3% (effective interest rate of 7% for the three months ended March 31, 2006) certain computer hardware, computer software and furniture and fixtures of a subsidiary company have been provided as collateral	35	50
(iii) Debenture, \$2,700, due August 20, 2006, general security agreement placing a charge on the assets of the Corporation and securities pledge agreements, subordinated to the interests of the Corporation's bank, have been provided as collateral (note 3 (b))	2,632	2,588
(iv) Capital lease obligation, \$225, due February 2007, payable in monthly installments of principal and interest of \$10, bearing interest at 9.9% per annum, computer hardware has been provided as collateral	99	127
(v) Debenture, \$4,250, due April 3, 2007, general security agreement placing a charge on the assets of the Corporation and securities pledge agreements, subordinated to the interests of the Corporation's bank, have been provided as collateral (note 3 (c))	3,944	3,867
	6,815	6,769
Less: current portion	2,871	2,890
	<u>\$ 3,944</u>	<u>\$ 3,879</u>

(b) On August 20, 2004, the Corporation closed a private placement of a debenture in the principal amount of \$2,700, arranged by an agent (the "Agent"). The terms of the debenture include interest at 12% per annum payable monthly, with principal being due on August 20, 2006. Upon the occurrence of any event of default the interest on the principal amount and any unpaid accrued interest will increase to 20% per annum. A general security agreement and securities pledge agreements have been pledged as security. The Corporation paid a commitment fee to the debenture holder of \$135 and a fee to the Agent of \$75 which have been recorded as deferred financing costs in the consolidated balance sheet.

In addition, the Corporation granted to the debenture holder 11,739,130 special warrants (the "Special Warrants"), each Special Warrant entitling the holder to receive, without payment of any additional consideration, one common share purchase warrant (the "Warrants"), each Warrant entitling the holder to acquire one common share of the Corporation at \$0.115 per share. 2,934,783 Special Warrants are exercisable for Warrants that expire on August 20, 2008 and 8,804,347 Special Warrants are exercisable for Warrants that expire on February 20, 2009. The Corporation also issued

Notes to Consolidated Financial Statements

Three months ended March 31,  
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1,173,913 Warrants to the Agent (the "Agent Warrants"), each Warrant entitling the holder to acquire one common share of the Corporation at \$0.115 per share. The Agent Warrants expire on August 20, 2006. An amount of \$350 has been attributed to the Special Warrants and Agent Warrants and has been recorded as contributed surplus. This amount was determined by deducting the estimated value of the debenture from the proceeds of the financing.

- (c) On March 31, 2005, the Corporation closed a private placement of a debenture in the principal amount of \$4,250. The terms of the debenture include interest at 12% per annum payable monthly, with the principal amount being due on March 31, 2007. Upon the occurrence of any event of default the interest on the principal amount and any unpaid accrued interest will increase to 20% per annum. A general security agreement and securities pledge agreements have been pledged as security. The Corporation paid a commitment fee to the debenture holder of \$213 which has been recorded as deferred financing costs in the consolidated balance sheet.

In addition, the Corporation granted to the debenture holder 4,250,000 warrants, each warrant entitling the holder to purchase one common share of the Corporation at a price of \$0.35 per share.

An amount of \$613 has been attributed to the warrants and has been recorded as contributed surplus. This amount was determined by deducting the estimated value of the debenture from the proceeds of the financing.

Pursuant to the terms of the debenture agreement, the Corporation is required to:

- (i) maintain, for the fiscal quarters ended June 30, 2005 and September 30, 2005, (A) a four-quarter trailing EBITDA of not less than \$600 and (B) a four-quarter trailing EBITDA, less any capitalized software development expenses and less any funds used for capital expenditures (in each case over such trailing four quarters), of not less than \$300; and
- (ii) maintain, for the fiscal quarter ended December 31, 2005 and for every fiscal quarter thereafter, (A) a four-quarter trailing EBITDA of \$1,500 and (B) a four-quarter trailing EBITDA, less any capitalized software development expenses and less any funds used for capital expenditures (in each case over such trailing four quarters), of not less than \$1,100.

The Corporation met these covenants for the fiscal quarter ended March 31, 2006.

The proceeds of the debenture were used to fund the acquisition of BMP Energy Systems Ltd.

4. Share capital:

- (a) Authorized:

Unlimited common shares without nominal or par value.

- (b) Issued and outstanding:

	Number	Amount
Common shares:		
Balance, December 31, 2005	126,121,271	\$ 22,987
Issued on exercise of stock options	22,666	4
Issued on exercise of warrants	530,000	80
<b>Balance, March 31, 2006</b>	<b>126,673,937</b>	<b>\$ 23,071</b>

Notes to Consolidated Financial Statements

Three months ended March 31,  
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(c) Contributed surplus:

Balance, December 31, 2005	\$ 1,568
Stock-based compensation expense	21
Reclassification to share capital for stock options exercised	(2)
Reclassification to share capital for warrants exercised	(24)
<b>Balance, March 31, 2006</b>	<b>\$ 1,563</b>

(d) Stock option plan:

As at March 31, 2006, the Corporation had 5,045,434 stock options outstanding with exercise prices ranging from \$0.10 to \$0.50 per share, expiring June 15, 2006 to December 17, 2009. The following table summarizes stock option transactions:

	Number of options	Weighted-average exercise price
Outstanding, December 31, 2005	5,166,433	\$0.15
Granted	-	-
Cancelled	(98,333)	0.13
Exercised	(22,666)	0.10
<b>Outstanding, March 31, 2006</b>	<b>5,045,434</b>	<b>\$0.15</b>
<b>Exercisable, March 31, 2006</b>	<b>3,158,729</b>	<b>\$0.17</b>

The Corporation has the following stock options outstanding:

Exercise price	Number outstanding at March 31, 2006	Weighted-average remaining contractual life (years)	Number exercisable at March 31, 2006
\$0.10	3,352,434	2.1	2,252,063
\$0.11	50,000	3.2	16,666
\$0.12	425,000	3.7	-
\$0.17	2,000	2.4	-
\$0.20	93,000	3.7	-
\$0.24	40,000	3.9	-
\$0.25	193,000	4.0	-
\$0.30	560,000	0.2	560,000
\$0.40	315,000	0.3	315,000
\$0.50	15,000	1.0	15,000
<b>Outstanding, March 31, 2006</b>	<b>5,045,434</b>	<b>2.0</b>	<b>3,158,729</b>

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:

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Three months ended March 31,  
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	March 31, 2006	March 31, 2005
Stock-based compensation expense	\$ 20	\$ 28
Dividend yield	0.0%	0.0%
Expected volatility	170%	155%
Risk-free interest rate	3.3%	3.5%
Expected life	4 years	4 years
Weighted average grant date fair value	\$0.11	\$0.11

(e) Warrants:

As at March 31, 2006, the Corporation has 12,655,193 warrants and 13,981,630 Special Warrants outstanding to acquire common shares with exercise prices ranging from \$0.115 to \$0.90 per share, expiring July 2, 2006 to March 31, 2009, as follows:

Exercise price	Number outstanding at March 31, 2006	Weighted-average remaining contractual life (years)
\$0.115	10,275,543	3.5
\$0.25	1,111,280	1.4
\$0.33	8,000,000	1.4
\$0.35	4,250,000	3.3
\$0.40	2,000,000	1.3
\$0.90	1,000,000	0.5
Outstanding, March 31, 2006	26,636,823	2.2

The following table summarizes warrant transactions:

	Number of warrants	Weighted-average exercise price
Outstanding, December 31, 2005	27,166,823	\$ 0.27
Exercised	(530,000)	0.11
Outstanding, March 31, 2006	26,636,823	\$ 0.27

(f) Loss per share:

The calculation of net income per share is based on the weighted average number of common shares outstanding for the three months ended March 31, 2006 of 126,500,414 (three months ended March 31, 2005 – 87,947,974). Diluted amounts are calculated taking into consideration the potential conversions and the exercise of options and warrants. Such conversions and exercises of options and warrants are anti-dilutive and have been excluded from the calculation of diluted net income per share.

5. Subsequent events:

On April 28, 2006, the Corporation acquired the Remote Data Acquisition (“RDA”) Network from Crimtech Services Ltd. (“Crimtech”). The RDA Network, similar to CriticalControl’s Proprietary Solutions, offers oil and gas producers a web enabled, hosted service to acquire production and related data directly from the wellsite combined with functionality to control electronic wellsite devices remotely from any desktop connected to the internet. The purchase price consisted of \$495 in cash and 189,655 shares of the Corporation as well as a deferred payment of \$250 payable upon meeting certain performance criteria.