

# CRITICALCONTROL SOLUTIONS CORP.

## Management Discussion and Analysis

For the Year Ended December 31, 2007

*The following discussion and analysis provides a review of the operating results, financial position and liquidity risk affecting the financial results of CriticalControl Solutions Corp. for the year ended December 31, 2007. This report should be read in conjunction with the Corporation's December 31, 2007 audited consolidated financial statements and accompanying notes presented in accordance with Canadian generally accepted accounting principles ("GAAP").*

*This Management Discussion and Analysis is prepared as of April 28, 2008 and contains certain forward-looking statements that involve risks and uncertainties, such as statements of the Corporation's plans, objectives, strategies, expectations and intentions. The words "may", "would", "could", "will", "intend", "plan", "anticipate", "believe", "estimate", "expect", and similar expressions, as they relate to the Corporation, or its management, are intended to identify such forward-looking statements. Many factors could cause the Corporation's actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by such forward-looking statements, including those factors discussed below and in filings made by the Corporation with Canadian securities regulatory authorities. Should one or more of the risks or uncertainties materialize, or should assumptions underlying the forward-looking statements prove incorrect, actual results may vary materially from those described herein as intended, planned, anticipated, believed, estimated or expected. The Corporation does not intend, and does not assume any obligation, to update these forward-looking statements, except as required by law.*

**All financial information is presented in thousands of Canadian dollars, except share data.**

## OVERVIEW

### Corporate Profile

CriticalControl Solutions Corp. (the "Corporation" or "CriticalControl") enables its clients to increase operational performance through the better control of critical business information. Through the balance of practicality, innovation and technology, we empower our clients with everything from strategies and tools, to outsourced solutions to manage information, wherever and in whatever form that information exists.

### Corporate Developments

Significant developments in 2007:

- The Corporation evaluated the performance and future strategic potential of its PipeWorks and Calgary based IMS business units and divested these operations during the year. The Calgary based IMS business, which conducted imaging and microfilm services for upstream oil and gas companies, was sold to a third party in August 2007 for cash proceeds of \$165. The PipeWorks business unit, which comprised of the Corporation's liquid leak detection and pipeline operational software, was sold to a third party in September 2007 for cash proceeds of \$550. Pursuant to the CICA recommendation Section 3475, "Disposal of Long-lived Assets and Discontinued Operations," the assets have been classified as assets held for sale on the consolidated Balance Sheet as of December 31, 2007 while the revenues and expenses of the business units have been netted and reported as income (loss) from discontinued business on the Consolidated Statements of Operations, Comprehensive Income and Deficit. Accordingly, the results of the PipeWorks and IMS business units and the financial position have been segregated and presented separately as discontinued operations in the consolidated financial statements.
- In 2007 the Corporation undertook an in depth review of its business identifying the portions of its business which provided the greatest opportunity for growth and profit. As a result of this review, the Corporation divested certain portions of its business, which in turn enabled the Corporation to streamline its overhead. Pursuant to this exercise, the Corporation incurred restructuring charges of \$102 during the year. These charges related to professional and legal fees associated with the restructuring plan, employee severance and other related charges.
- In 2007, the Corporation repaid its Series A and Series B debentures with Wellington Financial. The Series A debenture, in the original amount of \$2,700 on was repaid in part in 2006 and was fully retired with a lump sum payment of \$1,700 on August 20, 2007 from cash on hand. The Series B debenture in the original amount of \$4,250 was repaid between September 19 and December 21, 2007 through a combination of the proceeds from the sale of PipeWorks, strong operating cash flow, and a drawdown of the Corporation's new facilities with Comerica Bank in the amount of \$2,322.

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- On December 21, 2007 the Corporation closed a traditional banking facility with Comerica Bank consisting of up to a \$3.5 million revolving line of credit to support the Company's working capital requirements and a \$1.5 million term loan facility that the Company used to refinance its existing debt. The revolving line of credit bears an interest rate of bank prime plus 0.50%. The term loan facility bears an interest rate of bank prime plus 1.00%.
- On October 10, 2007, the Corporation was awarded a one year contract for outsourced document control services for an Alberta-based Health Care provider through a competitive bid process. The agreement also included an option for two, one year extensions to the newly signed contract. Prior to this award, the Corporation was providing similar services to the client under a contract awarded in 2004. Based on historic and projected volume, the Company expects revenue from the contract to exceed \$1 million for the initial year, an increase of over 30% from the previous agreement.
- On August 16, 2007 the Corporation's Government Business in Edmonton, Alberta, entered into a new 10 year lease effective September 1, 2007, at the then current market rates in the Harley Court building. The Corporation recorded a cash inducement of \$1,155 paid to it under this agreement as a long term liability and will recognize such inducement as a reduction in rent over the term of the lease.
- On April 2, 2007, the Corporation announced that it had been awarded a renewed three-year contract for an expanded set of imaging, analysis and information control services with a Canadian provincial government. Based on existing volumes, the contract is expected to generate revenues in excess of \$2.4-million annually for the initial three-year term and allows the client to extend the contract up to three successive, two-year periods. Given the expanded services covered by the agreement, management expects the value of the contract to grow in size each year.
- On March 1, 2007, the Corporation completed the acquisition of Idein Technologies Ltd. ("Idein"). Based in Calgary, Alberta, Idein's primary business was providing access to and control of electronic flow measurement and other devices at the well site. The control of field devices is an essential component of CriticalControl's plan to consolidate its various applications into a system of integrated management of energy production data. As consideration, CriticalControl paid \$255 in cash and issued 1,133,333 shares of CriticalControl to the vendors. The acquisition, which was immediately accretive to the company, was expected to add more than \$500 in annualized revenue.
- 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 acquisition of RDA in April, 2006. This component of the purchase price has been recognized as an additional cost of the purchase price and allocated to customer relationships and contracts on the Corporation's balance sheet.
- On February 14, 2007, the Corporation announced that it had been engaged to provide \$1.18 million of services to a Western Canadian Province and certain US municipalities related to the control of property tax and revenue information. All revenue was expected to be recognized in 2007 however only \$450 comprising of revenue from the Western Canadian Province materialized. The balance expected from new deployments for specific US municipalities were stalled for circumstances outside the control of the Corporation. Given the dramatic decline in the US Dollar compared to the Canadian dollar in 2007, the Corporation opted to cancel these contracts due to the delay rather than pursue them.

**Selected Annual Information**

	Year ended December 31, 2007	Year ended December 31, 2006	Year ended December 31, 2005
Revenue	23,085	21,762	20,087
Gross Margin <sup>(4)</sup>	10,969	9,932	8,387
Income from Continuing Operations	117	282	(905)
Loss from Discontinued Operations	(999)	(555)	(421)
Net Income / (Loss)	(882)	(273)	(1,326)
Net Income / (Loss) per share – basic and diluted	(0.007)	(0.002)	(0.010)
Amortization of property & equipment	987	1,024	902
Amortization of customer relationships & contracts	527	471	525
Interest	975	1,428	1,516
EBITDA from Continuing Operations <sup>(1)(3)</sup>	2,606	3,205	1,972
EBITDA from Discontinued Operations <sup>(1)(3)</sup>	(926)	(423)	(355)
Current Assets	5,045	8,528	9,206
Current Liabilities	3,861	5,983	6,609
Working capital <sup>(2)(3)</sup>	1,184	2,545	2,597
Total assets	17,819	22,174	22,229
Total long-term debt (includes current portion)	1,500	5,737	6,769
Total equity	11,698	12,134	11,716

(1) EBITDA, defined as earnings before interest, taxes, depreciation and amortization, is a non-GAAP measure and may not be comparable to similar measures used by other companies. Management believes that EBITDA is a key performance indicator of the operational performance of the Corporation's business and its ability to increase profitability through growth.

(2) Working capital, defined as current assets less current liabilities, is a non-GAAP measure and may not be comparable to similar measures used by other companies. Management believes that working capital is an indicator of the Corporation's liquidity and its ability to meet its current obligations.

(3) Readers are cautioned not to view this non-GAAP financial measures as an alternative to financial measures calculated in accordance with GAAP.

(4) Gross margin is a non-GAAP measurement that management believes is a useful supplement measure of operations.

The Corporation continued the trend to execute on its plan to consolidate technologies and services offerings critical to both the Government and Energy Sectors and to enhance the Corporation's implementation ability. During 2007 the company divested the Calgary based PipeWorks and IMS business units. Revenue from continued operations in 2007 was \$23,085 compared to \$21,762, an increase of \$1,323 or 6%.

Gross margins improved at a healthy rate of 10% to \$10,969 in 2007 from \$9,932 in 2006 as a result of the Corporation streamlining operations.

The Corporation recorded income from Continued Operations of \$117 in 2007 compared to income of \$282 in 2006 however, prior to a restructuring charge of \$102, the Corporation posted net income from continued operations of \$219, a decrease of \$63 from the same period last year. After taking into account losses from discontinued operations the Corporation recorded a net loss of \$882 for 2007 compared to a net loss of \$273 for 2006.

Working Capital decreased to \$1,184 at December 31, 2007 from \$2,545 at December 31, 2006 due to the repayment of the Corporation's long term debt with Wellington Financial, offset in part from positive cash flow from operations. The Corporation retired the \$1.7 million debenture due in August, 2007 and the \$4.25 million debenture due in January, 2008 partially from cash on hand and replaced the balance with a more conventional debt facility.

**Summary of Quarterly Results**

The following table presents certain financial information on a consolidated basis for the last eight quarters. The financial information included herein for the quarters have been restated to reflect the discontinued operations and reclassification of Revenue to eliminate reference to "Other Revenue", which given the Corporation's continued focus on the Government and Energy verticals, is no longer material.

## MANAGEMENT DISCUSSION AND ANALYSIS

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	Two Year Summary By Quarter							
	Years ended December 31,							
	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue - Continuing Operations	5,490	5,709	5,528	6,358	5,436	5,167	5,253	5,906
Revenue - Discontinued Operations	-	443	707	939	1,103	897	853	987
Net Income (loss) - Continuing Operations	(196)	27	144	142	(204)	(140)	186	440
Net Income (loss) - Discontinued Operations	(47)	(340)	(378)	(234)	229	(52)	(389)	(343)
Net income (loss)	(243)	(313)	(234)	(92)	25	(192)	(203)	97
EBITDA <sup>(1)</sup> - Continuing Operations	580	651	770	790	576	550	951	1,191
EBITDA <sup>(1)</sup>	555	311	390	591	776	531	595	880
Net income/(loss) per share	-	-	-	-	-	-	-	-

<sup>(1)</sup> EBITDA, defined as earnings before interest, taxes, depreciation and amortization, does not have any standardized meaning prescribed by GAAP, and may not be comparable to similar measures used by other companies. Management believes that EBITDA is a key performance indicator of the operational performance of the Corporation's business and its ability to increase profitability through growth.

Revenues in every quarter of 2007 were higher compared to the corresponding quarter in 2006 vindicating the Corporation's strategy to consolidate technologies and service offerings to both the Government and Energy sectors.

### RESULTS OF OPERATIONS

#### Comparison of the three and twelve months ended December 31, 2007 and 2006

The financial information included herein for the quarters have been restated to reflect certain discontinued operations and reclassification of Revenue to eliminate reference to "Other Revenue", which given the Corporation's continued focus on the Government and Energy verticals, is no longer material.

	Three months ended December 31,			Year ended December 31,		
	2007	2006	Change	2007	2006	Change
<b>Revenue</b>						
Government	3,019	2,794	8%	12,520	11,645	8%
Energy	2,471	2,584	(4%)	10,565	9,708	9%
Corporate & Other	-	58	-	-	409	-
	5,490	5,436	1%	23,085	21,762	6%

#### Revenue

During the past 3 years, management of the Corporation has identified key areas of strategic growth and rationalized its efforts to execute its business plan by consolidating technologies and service offerings critical to both the Government and Energy sectors. As the Corporation's business continued to mature in 2007, management continued phasing out operations outside its areas of strategic focus. During 2007, the Corporation continued to execute on its plan to consolidate technologies and service offerings to increase profitability.

Total revenue increased to \$23,085 for the year ended December 31, 2007 from \$21,762 for 2006 – an increase of \$1,323 or 6%. Revenue was \$5,490 in Q4 of 2007, an increase of 1% compared to \$5,436 in Q4 2006. During Q4, strength in revenue from the government sector offset the revenue decrease in the energy sector attributed to a reduction in the number of electronic flow measurement devices sold in the period, which is a direct result of reduced drilling activity in the Western Canadian Sedimentary Basin in 2007 compared to 2006.

#### Government

The Corporation's Government business comprises of outsourcing, professional services and an imaging service bureau. During 2007, the Corporation saw a sharp decline in the demand for its real property solutions aimed at municipalities. As most of this revenue was derived in US dollars and the US dollar fell sharply against the Canadian dollar during this period, the Corporation repositioned its professional services group away from Real Property

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Solutions and into Enterprise Content Management Solutions in Alberta resulting in a 2.8% decrease in revenue in the professional services group. Growth of over 22% in the Corporations imaging service bureau enabled the Corporation's Government business to post a modest 8% increase in overall revenue.

On April 1, 2007, the Corporation's contract with a Western Canadian Province was, subsequent to a public tender, awarded again to the Corporation for a new three year period. The new contract, like the previous contract, enables any ministry of the province to award imaging, analysis and information control services work to the Corporation, without a new tender process. Unlike the previous contract, the new contract expands the scope of services offered to include Enterprise Content Management Solutions. This new contract has played a significant role in the strong increase of revenue from the Corporation's Imaging Service Bureau and was instrumental in the Government sector revenue increasing by 8% to \$3019 during Q4 2007 from \$2,794 booked during Q4 2006, despite the decrease of revenue of \$308 from Real Property Solutions. This contract was also instrumental in the 8% pace of growth observed in the yearly revenue which increased from \$11,645 in 2006 to \$12,520 in 2007, an increase of \$861, despite the decrease of revenue of \$669 from Real Property Solutions.

### Energy

Growth in the Corporation's continuing operations in the Energy sector is dependent in large part on gas exploration and drilling activity in the Western Canadian Sedimentary Basin, which has reduced significantly during the year as a result of low natural gas prices and industry cost escalations. As a result, yearly revenue from the Energy sector increased by only \$857 or 9% from \$9,708 in 2006 to \$10,565 in 2007.

Revenue from the sale of gas meters and related hardware fell by \$1,553 or 50% from \$3,082 in 2006 to \$1,529 in 2007. The sale of gas meters and related hardware is a necessary component in the activation of the Corporation's web-SCADA application, NetFlow, however, the Corporation made a strategic decision to not provide installation and support services in-house and as such, contracts third parties to source, build and implement the necessary devices and communication equipment. In order to remain competitive, the markup for the sourcing and installation of the devices and communication equipment to the Corporation is 10% or less. Consequently, notwithstanding a significant decrease in sales, profitability continued to increase in 2007 over 2006.

The decline in the sale of gas meters and related hardware was offset by strong growth in service and recurring revenue streams consisting of gas chart reading services (an increase of \$475), NetFlow subscriptions (an increase of \$1,088) and ProTrend implementation and subscriptions (an increase of \$517). An increase in miscellaneous data management revenue accounted for the remaining \$330.

Fourth quarter revenue in the Energy sector declined by \$113 or 4% from \$2,584 in Q4 2006 to \$2,471 in Q4 2007. The sale of gas meters and related hardware fell by 70% or \$490, offset by NetFlow services revenue increasing by 10% or \$56, an increase in Chart reading services revenue of \$212, ProTrend services revenue \$43, and miscellaneous data management revenue accounting for the remaining \$66.

### Cost of Revenue and Gross Margin

	Three months ended December 31,			Year ended December 31,		
	2007	2006	Change	2007	2006	Change
Cost of revenue						
Government	1,778	1,696	5%	7,451	6,671	12%
Energy	966	1,284	(25%)	4,665	4,988	(6%)
Corporate & Other	-	44	-	-	171	
	2,744	3,024	(9%)	12,116	11,830	2%
Gross margin <sup>(1)</sup>						
Government	1,241	1,098	13%	5,069	4,974	2%
Energy	1,505	1,300	16%	5,900	4,720	25%
Corporate & Other	-	14	-	-	238	
	2,746	2,412	14%	10,969	9,932	10%
Gross margin percentage <sup>(1)</sup>						
Government	41%	39%	2%	40%	42%	(2%)
Energy	61%	50%	11%	56%	49%	7%
	50%	44%	6%	48%	46%	2%

<sup>(1)</sup> Gross margin is a non-GAAP measurement that management believes is a useful supplemental measure of operations.

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Gross margin, defined as revenue less cost of revenue, increased by 10% from \$9,932 in 2006 to \$10,969 in 2007. As a percentage of revenue, overall gross margin improved slightly to 47% in 2007 from 46% in 2006.

### Government

Cost of revenue for the Corporation's offering in the government sector increased by 12% on a yearly and 5% on a quarterly basis, due to the increased costs associated with a higher revenue base and stronger labor cost pressures observed in Alberta. The Gross Margin Percentage associated with the Corporation's professional services group within its Government sector fell dramatically in 2007 over 2006 due to the rapid decline of revenue associated with the Corporation's real property solutions group. However, this decrease was offset by the Corporation's imaging service bureau which was able to take advantage of the economies of scale gained from the increase in business within the group. Accordingly, gross margin increased only moderately by 2% from \$4,974 in 2006 to \$5,069 in 2007 as the cost of revenue outpaced revenue increases.

Given the current backlog of imaging projects and the Corporation's Primary Outsourcing Contract renewed to March 2011, Management believes that this level of gross margin percentage is sustainable.

### Energy

In an effort to contain labour cost increases, the Corporation improved its software and technology to refine its gas chart reading processes during 2006 and early 2007. This undertaking has enabled the Corporation to reduce its exposure to the labour market in Calgary and contain the portion of the cost of revenue attributed to labour. Although the revenue for the year increased, cost of revenue for the Corporation's offering in the Energy Sector decreased 6% on a yearly basis (from \$4,988 in 2006 to \$4,665 in 2007), thereby significantly improving the gross margin by 25% from \$4,720 in 2006 to \$5,900 in 2007.

The refinement of the Corporation's Chart Reading processes had the largest impact in Q4, where cost of revenue decreased significantly by 25% from \$1,284 in Q4 2006 to \$966 in Q4 2007. Margins grew by 16% from \$1,300 in Q4 2006 to \$1,505 in Q4 2007 even as quarterly revenue decreased due to industry weakness.

The Corporation continues to improve its technology and processes related to the delivery of information from gas charts through increased R&D and management anticipates further improvement in the labour component of the cost of revenue in Q1 of 2008.

As the Corporation's recurring revenue stream continues to steadily grow, margins will continue to improve due to economies of scale. Notwithstanding the forgoing, an increase in the demand for the Corporation's NetFlow monitoring business from any gas drilling activity will drive increased sales of lower margin third party electronic gas meters and related equipment, which will reduce overall margins. However, in the end this growth will fuel the continued steady, strong growth of a recurring, higher margin revenue stream.

### Operating Expenses

	Government		Energy		Corporate & Other		Total	
For the Year Ended December 31,	2007	2006	2007	2006	2007	2006	2007	2006
Selling & administrative expenses	2,542	1,103	2,508	1,263	2,278	4,103	7,328	6,469
Research and development expenses	-	-	908	205	-	-	908	205
Amortization of property & equipment	287	174	692	485	8	365	987	1,024
Amortization of customer contracts	212	211	315	260	-	-	527	471
Interest, contract losses & other expenses	-	-	-	-	1,102	1,481	1,102	1,481
	3,041	1,488	4,423	2,213	3,388	5,949	10,852	9,650

### Selling and Administrative Expenses

Management's increased focus in cross selling its services amongst its existing client base and the Corporation's drive to better market and sell its products in the oil patch during 2007, resulted in selling and administrative expenses increasing by 13% to \$7,328 in 2007 from \$6,469 in 2006.

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In 2007, Management undertook an exercise to better serve the sales and administrative needs of each of its operating divisions and as such, redistributed resources to functionalize sales and administrative tasks divisionally rather than corporately where appropriate. Accordingly, selling and administrative expenses attributed to Corporate and Other decreased by \$1,825 or 44.5% from 2006 to 2007 and selling and administrative expenses attributed to the Energy and Government divisions increased by \$1,245 (98.6%) and \$1,439 (130.5%) respectively.

The overall increase of \$849 or 13% between 2006 and 2007 is due in part to increased salary and leasing costs associated with general industry conditions and management's increased focus on marketing and cross selling its related measurement solutions to gas producers. In addition, the Corporation's selling and administrative costs increased in the Energy division due to the acquisition of ProTrend in August 2006 and Idein Technology in March 2007. The increased level of support and infrastructure required to accommodate the expansion of the recurring revenue portion of the Corporation's NetFlow business also contributed to the increase in selling and administrative costs related to the Energy division.

The largest component of selling and administrative expenses is salaries, which management is addressing by eliminating duplicate positions from earlier acquisitions and reductions being made to streamline administrative functions. Management expects selling and administrative costs to moderately increase in Q1 2008, but will decrease as a percentage of total revenue.

### Research and Development

The Corporation has commenced a project to integrate the databases associated with its different applications in the Energy sector. This project will consolidate its various databases into a single repository to significantly reduce duplicate data for the Corporation's customer base, which management anticipates will streamline productivity for both the Corporation's and its client's businesses. Accordingly, the Corporation has recorded \$908 of research and development in 2007, a 343% increase from \$205 in 2006.

Management anticipates completion of this first phase of its development plan in Q1 2008, at which time the Corporation will evaluate the benefits of further development initiatives. The current initiative has already yielded positive results which have contributed to the Corporation's reduced Cost of Revenue in 2007, with additional benefits expected in Q1 2008 and beyond.

### Amortization

Amortization of property and equipment decreased by 3.6% from 2006 to 2007, while amortization of customer contracts increased by 11.9% from 2006 to 2007. The reduced property and equipment amortization is due primarily to the reductions in asset base from discontinued operations, while the increase in customer contract is due to acquisitions made in the Energy sector.

### Interest, Contract Losses and Other Expenses

Interest, contract losses and other expenses (including restructuring charges) decreased in 2007 to \$1,102 from \$1,481 in 2006 primarily due to Corporation's success in retiring its debt with Wellington Financial.

### Net Loss

The Corporation's net loss for the year ended December 31, 2007 was \$882 compared to the loss of \$273 in 2006. The increase was primarily due to the losses from discontinued operations.

### Liquidity and Capital Resources

The Corporation recorded a decrease in cash of \$93 from continuing operations and an increase in cash of \$501 from discontinued operations for the twelve months ended December 31, 2007 compared to decreases of \$1,107 and \$674 respectively for the same period in 2006.

Cash flow generated from continuing operating activities, including proceeds from lease inducements amounting to \$1,155, for the twelve months ended December 31, 2007 was \$4,273 compared to \$1,454 for the same period in 2006 mostly due from the collection of accounts receivable.

Cash flow generated from discontinued operating activities for the twelve months ended December 31, 2007 amounted to \$501 compared to (\$674) for the same period in 2006 as a result of the wind down and subsequent sale of the Corporation's PipeWorks and IMS business units.

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Cash flow used in financing activities was \$4,067 for the twelve months ended December 31, 2007 compared to cash flow used of \$611 for the same period in 2006. Financing activities included repayment of \$5.96 million of the Corporation's long-term debt and \$550 of the operating line of credit. Proceeds from the new term loan facility amounted to \$1,500 and \$823 was drawn on the revolving line of credit.

Cash flow used in investing activities for the twelve months ended December 31, 2007 was \$299 compared to \$1,950 for the same period in 2006. \$339 was used by the Corporation for the purchase of capital assets, and \$200 was placed in short term investment to secure the letters of credit issued for government contracts, while the acquisition activities amounted to \$394 net of cash acquired. Cash proceeds from the sale of the discontinued business units of PipeWorks and IMS amounted to \$634.

The Corporation's working capital position changed significantly from a surplus of \$2,545 at December 31, 2006 to a surplus of \$1,184 as at December 31, 2007 primarily due to the repayment of long-term debt to Wellington Financial.

Management expects continued improvement in cash flow in 2008 from all parts of the business. Management also anticipates that the agreement with Comerica Bank and continued cash from operating activities will fund working capital required for growth during 2008.

### FINANCIAL INSTRUMENTS

#### Fair Value

As at December 31, 2007, the estimated fair values of cash, accounts receivable, operating line of credit, long term debt and accounts payable approximated their carrying values.

#### Credit and Concentration Risk

For the year ended December 31, 2007 the Corporation derived approximately 43% (2006 – 34%) of its total revenue from the Government of Alberta. As at December 31, 2007, 33% (2006 – 21.2%) of accounts receivable pertained to this customer.

#### Foreign Currency Risk

Foreign currency risk is the risk to the Corporation's results of operations that arises from fluctuations in foreign currency exchange rates. The Corporation conducts transactions in Canadian dollars, and US Dollars. In 2007, approximately \$501 of revenue was generated in U.S. dollars most of which was from the Real Property Services component of the business, and which currently does not have any ongoing contracts. The Corporation has not entered into foreign exchange contracts to hedge against gains or losses from foreign currency fluctuations.

### BUSINESS RISKS

#### Management of Growth

The Corporation has in the past experienced significant growth in its business, including an expansion in the Corporation's staff and customer base and the expansion of its product and service offerings. Such growth placed and will continue to place, a significant strain on the Corporation's management and operations. The Corporation's ability to manage growth effectively in the future will require it to further develop and improve its operational, financial and other internal systems, and to hire, and manage employees. If the Corporation is unable to manage its growth effectively, the Corporation's business, results of operations, liquidity and financial condition could be materially and adversely affected.

#### Fluctuation in Quarterly Results

Quarterly revenue and operating results may fluctuate as a result of a variety of factors, including demand for the Corporation's products and services, the proportion of revenue attributable to proprietary software licensing and implementation versus service revenue, the introduction of new products and product enhancements by the Corporation or its competitors, changes in the Corporation's pricing policies or those of its competitors, currency exchange rate fluctuations, or the fixed nature of a significant portion of the Corporation's operating expenses, particularly salaries and leasing costs.

### Historical Operating Losses

The Corporation has experienced substantial operating losses in each of the past four fiscal years. Its success will depend in large part upon its ability to generate sufficient revenue to achieve annual profitability and to maintain existing and to develop new customer relationships.

### Dependence on Management and Key Employees

The Corporation's success will depend, to a very significant extent, on the performance and continued services of its senior management and certain other key employees, the loss of any of whom could have a material adverse effect upon the Corporation. In addition, the Corporation has hired a number of key managers within the past four years and may continue to expand its management team in the future. The Corporation believes that its future success will also depend in large part upon its ability to attract and retain highly skilled technical, managerial and marketing personnel. Competition for such personnel is intense and the Corporation has experienced difficulties in recruiting qualified personnel and may continue to experience such difficulties in the future. There can be no assurance that the Corporation will be successful in attracting and retaining the personnel it requires to continue to maintain and expand its business. The Corporation has key person life insurance on its President and CEO.

### Risks Related to Acquisitions

The Corporation may, in the future, further expand its operations or product offerings through the acquisition of additional businesses, products or technologies. There can be no assurances that the Corporation will be able to identify, acquire or profitably manage additional businesses without substantial expenses, delays or other operational or financial problems. Furthermore, acquisitions also entail numerous risks, including: difficulties in assimilating acquired operations, products and personnel; unanticipated costs, events and legal liabilities; diversion of management's attention from other business concerns; adverse effects on existing business relationships with suppliers and customers; risks of entering markets in which the Corporation has limited or no prior experience; and potential loss of key employees from either the Corporation's pre-existing business or the acquired organization. Some or all of these risks could have a material adverse effect on the Corporation's business, results of operations and financial condition.

In addition, there can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income. Acquisitions could also use a substantial portion of the Corporation's available cash; may result in the Corporation incurring substantial debt, which may not be available on favourable terms and may adversely affect the liquidity of the Corporation's stock; may result in the Corporation assuming contingent liabilities and taking substantial charges in connection with the impairment of goodwill and amortization of other intangible assets; and may result in the issuance of equity securities that would dilute existing shareholders. The failure of the Corporation to manage its acquisition strategy successfully could have a material adverse effect on the Corporation's business, results of operations, liquidity and financial condition.

### Protection of Intellectual Property

The Corporation relies primarily on a combination of copyright, trademark and trade secrets laws, confidentiality procedures and contractual provisions to protect its proprietary rights. Substantial portions of the Corporation's sales are derived from the licensing of the Corporation's products. The Corporation generally enters into confidentiality agreements with its other licensees and employees. Despite the Corporation's efforts to protect its proprietary rights, unauthorized parties may attempt to copy and may succeed in copying aspects of the Corporation's products or to obtain and use information that the Corporation regards as proprietary. Furthermore, there can be no assurance that others will not independently develop products similar to those of the Corporation. In addition, the laws of some foreign countries do not protect the Corporation's proprietary rights to as great an extent as do the laws of Canada or the United States. There can be no assurance that the Corporation's competitors will not independently develop similar technology or that the Corporation's means of protecting its proprietary rights will be adequate, and consequently the Corporation's business, results of operations, liquidity and financial condition could be materially adversely affected.

The Corporation is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Corporation with respect to current or future products. Defense of such claims, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays or require the Corporation to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Corporation or at all, either of which could have a material adverse effect upon the Corporation's business, results of operations, liquidity and financial condition.

## RISKS RELATED TO THE INDUSTRY

### Intense Competition

The markets for the Corporation's products and services are intensely competitive and rapidly changing and a number of companies offer products and services similar to the Corporation's products and services and target the same customers as the Corporation. The Corporation believes its ability to compete depends upon many factors within and outside its control, including the timely development and introduction of new products and services, product enhancements, product functionality, performance, price, reliability, customer service and support, sales and marketing efforts, and introduction of new products and services by competitors.

Many of the Corporation's competitors and potential competitors are substantially larger than the Corporation and have greater name recognition, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources than the Corporation. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products than the Corporation.

As competition increases, the prices that the Corporation charges for its products and services may decline. If the Corporation is not able to compete successfully, the Corporation's business, financial condition and operating results could be materially adversely affected.

### Rapid Technological Change

The markets for the Corporation's products are characterized by rapid technological advances, evolving industry standards, changes in end-user requirements and frequent new product introductions and enhancements. The Corporation's future success will depend upon its ability to enhance its current products, and to develop and introduce new products that keep pace with technological developments, respond to evolving end-user requirements and achieve market acceptance.

The development of such new products or enhanced versions of existing products entails significant technological risks. There can be no assurance that the Corporation will be successful in marketing its existing products or be successful in developing or marketing new products or product enhancements, any of which could have a material adverse effect on the Corporation's business, results of operations and financial condition.

### Off-Balance Sheet Financing

The Corporation has undrawn letters of credit totaling \$200 with its bank that have been provided to customers as a performance guarantee. The Corporation has no other off-balance sheet financing arrangements.

### Transactions with Related Parties

The Corporation had no transactions with related parties in 2007.

## SUMMARY OF SHARE CAPITAL

### Issued and Outstanding

Common Shares	Number	Amount
Balance, December 31, 2006	129,443,816	23,537
Issued on exercise of stock options (2007)	1,075,966	189
Issued on acquisition of Idein Technologies	1,133,333	255
Proceeds from employee trust shares		13
Balance, December 31, 2007	131,653,115	23,994
Issued on exercise of stock options (2008)	1,429,000	143
Balance April 28, 2008	133,082,115	24,137

<b>Stock Options</b>	<b>Number of options</b>	<b>Weighted-average exercise price</b>
Outstanding, December 31, 2006	4,019,600	\$0.12
Granted	0	\$0.00
Exercised	1,075,966	\$0.10
Cancelled	450,334	\$0.11
Outstanding, December 31, 2007	2,493,300	\$0.12
Exercisable, December 31, 2007	2,291,292	\$0.11
Exercised	1,429,000	\$0.10
Cancelled	130,668	\$0.20
<b>Outstanding April 28, 2008</b>	<b>898,299</b>	<b>\$0.14</b>
<b>Exercisable, April 28, 2008</b>	<b>825,631</b>	<b>\$0.14</b>

**Deferred Annual Bonus and Share Purchase Plan Shares**

	<b>Deferred Common Shares</b>	<b>Amount</b>
Outstanding, December 31, 2006	181,035	\$52
Issued	294,446	\$53
<b>Outstanding, December 31, 2007</b>	<b>475,481</b>	<b>\$105</b>
Issued in 2008	89,425	\$10
<b>Outstanding, April 28, 2008</b>	<b>564,906</b>	<b>\$115</b>

**Warrants and Special Warrants**

	<b>Number of warrants</b>	<b>Weighted-average exercise price</b>
Outstanding, December 31, 2006	25,092,910	\$0.23
Expired	11,111,280	\$0.33
<b>Outstanding, December 31, 2007</b>	<b>13,981,630</b>	<b>\$0.15</b>
Expired	0	\$0.00
<b>Outstanding, April 28, 2008</b>	<b>13,981,630</b>	<b>\$0.15</b>

**INTERNAL CONTROL OVER FINANCIAL REPORTING**

Realizing early in 2006 that the process of evaluating the effectiveness of internal control over financial reporting (“ICFR”) would be a significant undertaking, the Corporation formed a team to plan and implement efficiently the activities that would be required to support the additional certifications and disclosures relating to ICFR. This team has effectively applied a top-down, risk-based approach to assess the design of ICFR and has laid a solid foundation for assessing the operating effectiveness of ICFR.

The Corporation continues to leverage the compliance momentum developed in the design phase during 2006, and jump-started the evaluation of operating effectiveness of ICFR in 2007, to identify early on and remediate any control weaknesses.

The Corporation strongly believes that the benefit from a strengthened system of internal controls will not only be a reduced exposure to financial reporting risks and fraud, but more importantly, an opportunity to drive value-added benefits through business process improvements, however, due to limited resources and number of staff, it is not feasible to achieve complete segregation of duties among its staff. This creates a risk that inaccurate recording of amounts could be made and not corrected on a timely basis. The result is that the Company is highly reliant on the

performance of mitigating procedures and management oversight during its financial close process in order to ensure the financial statements present fairly in all material respects.

Further, due to limited resources and number of staff, the Corporation does not have the optimum complement of personnel with all of the technical accounting and tax knowledge to address all complex and non-routine transactions that may arise necessitating the hiring of external accounting firms and consultants to assist in advising on the reporting treatment of such transactions.

During the fourth quarter of 2007, internal controls were not fully documented over all processes, creating the risk that such activities are not performed consistently. The Corporation will complete the documentation over all significant financial reporting activities in fiscal 2008, subject to the availability of appropriate resources. Management believes the documentation of internal controls is sufficient to provide reasonable assurance material errors in financial reporting and disclosures will be detected and prevented.

### OUTLOOK & GUIDANCE

During 2007, Management evaluated its business and its client's respective industries to develop a new three year plan with an objective of serving its client's long term functional and strategic requirements. As the Corporation matures, management's objectives are to develop and offer business services and solutions, which, by their very nature, become inextricably linked to the client's business processes. In light of this refinement of the Corporation's strategy, management made the decision to divest portions of its business which could not form part of this solution. The divestiture of these portions of the business was completed in Q4 2007 and the corresponding reduction in cost became apparent during Q1 2008.

On April 3, 2008 the Company announced that it had reduced its debt by a further \$1.07 million during the first quarter of 2008. From a financial perspective, the Corporation turned the corner to profitability during 2007 posting positive net income prior to discontinued operations. As discontinued operations have been eliminated in 2008, management anticipates generating positive income from operations in 2008.

Cash flow generated from operations continued to improve throughout 2007 enabling the Corporation to significantly reduce its overall debt. By eliminating excess leverage through debt repayment, the Corporation was able to substantially reduce its cost of debt from an effective rate of over 24% (inclusive of the financial cost of the issuance of warrants associated with this type of debt) down to bank prime plus 1% for its term debt and bank prime plus 0.5% for its operating line. The reduced rate of interest combined with the Corporation's rapid debt repayment will decrease interest costs on the Corporation's remaining debt by over \$850 in 2008.

From a business perspective, the Corporation's Government sector business performed well in 2007 despite revenue from the Corporation's Real Property Solutions group falling from \$315 in Q1, 2007 to \$125 in Q4 2007. Given the decline in the US dollar, management no longer intends on pursuing this line of business, which was primarily generated from US municipalities. Growth in 2008 will continue to be derived from the Corporation's information control outsourcing and information control service bureau which generated a 10% increase in revenue during 2007. Strategically, management intends on expanding its scope of services within these two initiatives with a view of expanding these core services to other Western Canadian Provinces. Growth in 2008 and 2009 is expected to exceed that of 2007, being derived primarily from continued organic growth combined with additional capabilities within core information control services. Growth from increasing the Corporation's presence geographically is expected to commence being realized in 2010.

With respect to the Corporation's Energy Sector business, Management's decision to divest operations which could not be integrated into its core service offering to gas producers would seem contrarian at first blush given the state of the industry. Historically, exploration activity in the Western Canadian Sedimentary Basin has been cyclic, largely dependent upon the price of natural gas. Management is of the view that the current depressed state of drilling activity will continue through 2008, with an industry recovery becoming apparent in the first half of 2009.

Management's three year plan for the Corporation's Energy Sector business is to establish the Corporation as an integrated partner in capturing field data. In 2007, the Corporation increased spending on research and development by \$703, going from \$205 in 2006 to \$908 in 2007. The benefit of this activity was evident in Q4 2007 where cost of sales was reduced by 25% from Q3, 2007 to Q4, 2007. This amounted to savings of \$319 over a single quarter. Management anticipates that this reduced cost of sales is sustainable into 2008.

Management intends on continuing its research and development project to complete the formation of a multi functional repository for production data. Management anticipates that all its current volumetric and composition data from its various service offerings will feed into this new repository by the end of 2008. Management believes that by

## MANAGEMENT DISCUSSION AND ANALYSIS

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having a single repository with full audit trail capabilities, the Corporation's clients will benefit twofold. First, by having all volumetric and composition data in one place, duplication and repeated administrative tasks will be reduced, decreasing time and cost for the producer. Second, Management believes that it will be in a strong position to provide value added services on a cost effective basis which producers currently desire but are not willing to pay the high cost associated with purchasing and integrating new software, such as volumetric validation and editing. Management believes that the completion of this effort will be a key factor in making its services more valuable to its client base, which, in turn, will increase revenue in 2009 and beyond.

Despite a severe downturn in the industry, the Corporation's strategy on recurring revenue enabled it to increase revenue in 2007 over 2006. Approximately 88% of the Corporation's revenue in the Energy business is recurring in nature. As such, during this period of downturn, the Corporation has invested in its service offerings to become both more competitive and cost effective, positioning it in the ideal situation for increased activity in the industry. Adjusting for the increase in research and development in 2007 over 2006, the Corporation's profitability in its energy business increased by 29%.

During 2008, Management anticipates moderate growth in the Corporation's Energy business with a strong increase in earnings from the Corporation's continued expenditure on research and development. Stronger organic growth in revenue will be tied to a pickup in exploration activity in the Western Canadian Sedimentary Basin, which management expects to occur in the first half of 2009.

Services Provided to Active Measurement Points at the end of each Quarter	2007				2006			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Chart Recorders – Measurement (meters)	31,001	30,038	29,273	29,849	32,065	32,625	33,309	32,199
Electronic Flow Measurement Devices - Measurement and Control	2,300	2,269	2,224	2,210	2,013	1,831	1,494	597
Fluid Composition Management - Total Analyses	60,240	53,619	49,006	40,564	34,006	29,448	-	-

The 9% drop in Chart Recorders serviced in the first half of 2007 from Q4 2006 is not indicative of the growth in the Corporation's chart reading business. The decline reflects reduced meter testing due to business cycles and exemptions from measurement obtained by certain of the Corporation's clients for low producing wells. CriticalControl has secured additional clients for its chart reading business during Q2 which resulted in a 2.6% recovery in Q3 2007, a 3.2% recovery in Q4 2007 and steady increases are expected during 2008.

By the end of December 2007, ProTrend provided services for over 27 clients totaling over 60,000 fluid meters of these measurement points currently in the ProTrend database, approximately 6,000 are also serviced by CriticalControl for gas measurement and/or well site control purposes. This presents an opportunity to cross sell the Corporation's expanded services within both client bases, and combined with an aggressive strategy to increase value added services from a measurement point perspective is a key component of the Corporation's growth plan. Management's efforts in this regard started with the acquisition of Idein Technologies in March 2007 and will continue through 2008, resulting in increased gross margin as a percentage of revenue.

### OTHER

#### Accounting Policies

The company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

Effective January 1, 2007, the Corporation has adopted the new accounting standards, 1506 - Accounting Changes, 1530 - Comprehensive Income, 3855 - Financial Instruments – Recognition and Measurement, and 3865 - Hedges as issued by CICA and applicable to interim and annual financial statements beginning on or after October 31, 2006. Based on the assessment and categorization of its financial instruments, the Corporation did not recognize any comprehensive income (loss) or accumulate other comprehensive income

The remainder of the Corporation's accounting policies remains unchanged in 2007.

### Future Accounting Policies

The CICA has issued standards 1535 - Capital Disclosures, 3031- Inventories, 3862 – Financial Instruments – Disclosures, and 3863 Financial Instruments - Presentation, which were adopted by the Corporation effective January 1, 2008 and standard 3064 – Goodwill and Intangible Assets which will be adopted effective January 1, 2009. The Corporation does not expect the adoption of these standards will have any material impact on its consolidated financial statements.

International Financial Reporting Standards (IFRS). In 2006 the Accounting Standards Board (“AcSB”) published a new strategic plan that will significantly affect financial reporting requirements in Canada. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over a five year transition period with adoption required effective January 1, 2011. While the Corporation has begun adoption of IFRS for 2011, the financial impact of the transition to IFRS cannot be reasonably estimated at this time.

Additional information relating to the Corporation is available on SEDAR at [www.sedar.com](http://www.sedar.com).

# CRITICAL CONTROL SOLUTIONS CORP.

## Management Discussion and Analysis

For the Year Ended December 31, 2007

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George Watson  
Alykhan Mamdani  
John Kendall  
Thomas Ulrich  
William Hammett  
Robert McClinton

### Officers:

George Watson	Executive Chairman
Alykhan Mamdani	President and Chief Executive Officer
Hashu Remtulla	Vice President and Chief Financial Officer
Willis Groshong	Executive Vice President Edmonton Region
Brenton Lawther	Vice President, Upstream Technologies
Eric Olsen	Vice President Edmonton Operations