

# CRITICALCONTROL SOLUTIONS CORP.

## Management Discussion and Analysis

For the Quarter Ended September 30, 2008

*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 three months ended September 30, 2008. This report should be read in conjunction with the Corporation's December 31, 2007 audited consolidated financial statements and the September 30, 2008 interim 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 November 3, 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

The following summarizes significant developments of the Corporation which transpired during the nine months ended September 30, 2008:

- The Corporation completed its normal close issuer bid which commenced on May 16, 2008. Pursuant to the normal course issuer bid, the Corporation acquired and cancelled the maximum allowable shares under the bid, totaling 6,654,000 common shares.
- On July 2, 2008 the Corporation acquired a web-based Supervisory Control and Data Acquisition (SCADA) business called SCADANet from Matrikon Inc. for \$800,000 in cash. This acquisition is expected to add over 500 metering points to the Corporation's web-SCADA monitoring application, NetFlow and is expected to generate \$500,000 of annual recurring revenue.
- Net income improved to \$2,438 for the nine months ended September 30, 2008 compared to net income from continued operations of \$155 for the same period in 2007. Net income improved to \$1,232 for the third quarter of 2008 compared to net income from continued operations of \$27 for the same period in 2007.
- Gross margin as a percentage of revenue increased to 54% for the nine months ended September 30, 2008 compared to 47% in the same period in 2007. Gross margin improved to 55% in the third quarter of 2008 compared to 48% in the same period in 2007.
- Revenue improved to \$18,947 for the nine months ended September 30, 2008 compared to \$17,595 in the same period in 2007. This increase in revenue was despite a \$409 drop in electronic flow measurement hardware and related equipment in the first quarter of 2008, due to a slowdown in Canadian exploration activity in the gas sector for the period. Revenue for the third quarter of 2008 improved to \$6,699 compared to \$5,709 in the same period last year.

**Selected Quarterly Information**

	Three Months ended September 30, 2008	Three Months ended September 30, 2007
Revenue	6,699	5,709
Gross Margin <sup>(1)(3)</sup>	3,700	2,727
Income from Continuing Operations	1,232	27
Loss from Discontinued Operations	-	(340)
Net Income / (Loss)	1,232	(313)
Net Income / (Loss) per share – basic and diluted	0.010	(0.002)
Interest	22	239
Current Assets	5,498	5,905
Current Liabilities	3,300	5,990
Working capital <sup>(2)(3)</sup>	2,198	(85)
Total assets	18,308	19,250
Total long-term debt (includes current portion)	1,000	3,198
Total equity	13,417	11,909

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

<sup>(2)</sup> 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.

<sup>(3)</sup> Readers are cautioned not to view these non-GAAP financial measures as an alternative to financial measures calculated in accordance with GAAP.

**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 discontinued operations and year-end adjustments.

**Two Year Summary by Quarter - Years Ended December 31,**

	2008			2007			2006	
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue - Continuing Operations	6,699	6,253	5,995	5,490	5,709	5,528	6,358	5,436
Revenue - Discontinued Operations	-	-	-	-	443	707	939	1,103
Net Income (loss)-Continuing Operations	1,232	702	504	(35)	27	27	97	(204)
Net Income (loss)-Discontinued Operations	-	-	-	(209)	(340)	(262)	(188)	229
Net income (loss)	1,232	702	504	(244)	(313)	(235)	(91)	25
Net income/(loss) per share	0.010	0.005	0.004	(0.000)	(0.002)	(0.002)	(0.001)	0.000

**RESULTS OF OPERATIONS**

**Comparison of the three and nine months ended September 30, 2008 and 2007**

*The financial information included herein for the quarters have been restated to reflect certain discontinued operations.*

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	Change	2008	2007	Change
<b>Revenue</b>						
Government	\$3,703	2,909	27%	\$10,678	9,502	12%
Energy	2,996	2,800	7%	8,269	8,094	2%
	6,699	5,709	17%	18,947	17,596	8%

**Revenue**

As the Corporation's business continued to mature in 2007, management continued phasing out operations outside its areas of strategic focus. During 2008, the Corporation continued to execute on its plan to consolidate technologies and service offerings to increase profitability.

**Government**

Steady revenue growth from the government sector was led by increased demand for the Corporation's Imaging Service Bureau which resulted in imaging revenue growing at a healthy pace of 20% to \$7,561 in the nine months ended September 30, 2008 compared to \$6,318 in the same period last year. New pricing for the Corporation's long term government contract also came into effect aiding the revenue growth of the sector. This growth was partially offset by strategic measures undertaken by management which resulted in a decrease in the sale of third party imaging equipment and a decline in real property solutions consulting for US municipalities. The end result was a strong increase in revenue, gross margin and bottom line profitability for the sector.

**Energy**

Fluctuations in quarterly performance tend to occur as a result of variations in industry drilling activity related to natural gas. Management devised a strategy to focus on higher margin recurring revenue instead of the cyclical sale of third party electronic flow measurement devices and related equipment associated to the Corporation's web-SCADA application.

Recurring revenue from the Corporation's Measurement Operations offering (which includes recurring revenue from the Corporation's gas chart integration business based on ScanGas and its fluid analysis management application, (ProTrend) increased at a healthy pace of 12% in the third quarter of 2008 compared to 2007.

The Corporation's web-SCADA application, Netflow, saw its third quarter 2008 overall revenue reduce slightly by 2% to \$1,183 compared to \$1,206 in 2007. While hardware sales during the quarter decreased by 13%, recurring revenue during the quarter increased by 12%. The newly acquired SCADANet customers contributed revenue of \$127 during the three months ended September 30, 2008.

**Cost of Revenue and Gross Margin**

	Three months ended September 30,			Nine months ended September 30,		
	2008	2007	Change	2008	2007	Change
<b>Cost of Revenue:</b>						
Government	\$2,001	\$1,691	18%	\$5,830	\$5,673	3%
Energy	999	1,292	(23%)	2,893	3,700	(22%)
	\$3,000	\$2,983	1%	\$8,723	\$9,373	(7%)
<b>Gross Margin: <sup>(1)</sup></b>						
Government	\$ 1,702	\$1,218	40%	\$4,848	\$3,829	27%
Energy	\$1,997	\$1,508	32%	\$5,376	\$4,394	22%
	\$3,699	\$2,726	36%	\$10,224	\$8,223	24%
<b>Gross Margin Percentage: <sup>(1)</sup></b>						
Government	46%	42%	10%	45%	40%	13%
Energy	67%	54%	24%	65%	54%	20%
	55%	48%	15%	54%	47%	15%

<sup>(1)</sup> Gross margin and Gross margin percentage are non-GAAP measurements that management believes is useful as supplemental measure of operations.

**Government**

Cost of revenue for the Corporation's offering in the government sector increased in line with revenue. On a year to date basis, cost of revenue is up by 3% in 2008 over 2007 compared to a 12% increase in revenue.

The results of management's focus on taking advantage of economies of scale in the Corporation's Imaging Service Bureau and shifting focus to its core offerings has resulted in significantly improved gross margins both for the quarter and a year to date basis.

**Energy**

Cost of revenue for the Corporation's offering in the energy sector continued to drop in the third quarter of 2008 due to the Corporation's investment in technology that has resulted in marked improvement in its gas chart reading processes and software. As a result, costs have continued to decrease while revenue has increased resulting in record gross margins throughout the year.

**Operating Expenses**

Three months ended September 30,	Government		Energy		Corporate & Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Selling & administrative expenses	672	599	594	616	609	491	1,875	1,706
Research and development expenses	-	-	155	259	-	-	155	259
Amortization of property & equipment	56	63	215	193	2	2	273	258
Amortization of customer contracts	53	53	93	74	-	-	146	127
Gain on sale of property and equipment	-	-	-	-	(9)	-	(9)	-
Interest, contract losses & other expenses	-	-	-	-	28	350	28	350
	781	715	1,057	1,142	630	843	2,468	2,700

Nine months ended September 30,	Government		Energy		Corporate & Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Selling & administrative expenses	2,341	1,835	1,958	2,007	1,805	1,559	6,104	5,401
Research and development expenses	-	-	507	651	-	-	507	651
Amortization of property & equipment	173	186	553	528	4	6	730	720
Amortization of customer contracts	159	159	258	211	-	-	417	370
Gain on sale of property and equipment	-	-	-	-	(55)	-	(55)	-
Interest, contract losses & other expenses	-	-	-	-	83	926	83	926
	2,673	2,180	3,276	3,397	1,837	2,491	7,786	8,068

### Selling and Administrative Expenses

Selling and administrative expenses attributed to the Corporation's government sector climbed by 12% in the third quarter of 2008 and climbed by 28% on a year to date basis compared to the same periods last year due primarily to the Corporation's expanded new office space in Edmonton housing its Imaging Service Bureau facility.

Increased labour cost impacted selling and administrative expenses in the Corporation's government sector business and Corporate overhead, but were contained in the Corporation's energy sector business due to reduced associated management requirements in the business.

Charges related to previous M&A and divestiture activity impacted corporate overhead selling and administrative expenses in the third quarter of 2008 in the amount of \$102.

### Research and Development

The Corporation has undertaken a development project, ProStream, to integrate the databases associated with its different applications in the energy sector, all costs of which are expensed in the period in which they are incurred. ProStream is built to answer the industry's need to contain administrative costs, increase data integrity and leverage essential production data to empower our clients to make informed decisions related to their operations. CriticalControl's proprietary applications and services will feed the ProStream database, providing it with production and related data from over 100,000 distinct measurement points, creating Canada's largest source repository of production data. This activity moved out of a major development phase and into testing during the third quarter, reducing the requirement of extensive external resources resulting in a decline in research and development costs in the third quarter of 2008 compared to the previous year.

### Interest, Contract Losses and Other Expenses

Interest costs fell substantially, primarily due to the Corporation's success in retiring its debt with Wellington Financial and closing a traditional banking facility with Comerica Bank. Savings in interest were due to significantly reduced debt and lower borrowing costs.

### Net Income

The Corporation's net income increased substantially in the third quarter and on a year to date basis as the Corporation has been successful at increasing its revenue, taking advantage of economies of scale to maintain cost of revenue and containing operating expenses. As a result, net income for the three months ended September 30, 2008 was \$1,205 higher than the same period in 2007.

### Liquidity and Capital Resources

Cash flow generated from operating activities before changes in non-cash working capital for the three months ended September 30, 2008 amounted to \$1,605 compared to \$507 for the same period in 2007. For the nine months ended September 30, 2008 cash flow generated from operating activities before changes in non-cash working capital amounted to \$3,584 compared to \$1,597 for the same period in 2007. The increases were primarily due to the Corporation becoming profitable.

However, cash flow from operating activities after changes in non-cash working capital marginally decreased for the three months ended September 30, 2008 and remained unchanged for the nine months ended September 30, 2008 due to the Corporation freeing up working capital tied to its discontinued operations resulting in strong cash flow during the third quarter of 2007.

## **FINANCIAL INSTRUMENTS**

### **Fair Value**

As at September 30, 2008, 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 nine months ended September 30, 2008 the Corporation derived approximately 56% (2007 – 41%) of its total revenue from the Government of Alberta. As at September 30, 2008, 33% (2007 – 28%) of accounts receivable pertained to this customer.

## **SUBSEQUENT EVENT**

On October 1, 2008 the Corporation acquired the business and assets of Western Corrosion Technologies (“WCT”) for \$525,000. The acquired business of WCT includes a service to assist gas producers in mapping their gas wells and the system of interconnected pipelines that connect them to a gas plant. The assets include PipeWatch, a Web-based tool which assists these producers to view the resulting schematics through a geographic-information-system-based map. The acquisition will be immediately accretive and increases the value provided to customers for each meter, which is the basis of the management’s strategy to drive growth in 2009 and beyond. The acquisition of WCT’s assets is expected to add over \$1 Million in revenue to CriticalControl in 2009.

## **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 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, and 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 favorable 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. 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 solutions 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 solutions, and to develop and introduce new solutions that keep pace with technological developments, respond to evolving end-user requirements and achieve market acceptance.

The development of such new solutions or enhanced versions of existing solutions entails significant technological risks. There can be no assurance that the Corporation will be successful in marketing its existing solutions or be successful in developing or marketing new solutions 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 2008.

### **SUMMARY OF SHARE CAPITAL**

Effective May 7, 2008, the Corporation received regulatory approval for a Normal Course Issuer Bid (the "Bid") from the TSX Venture Exchange to purchase for cancellation, from time to time as the Corporation considers advisable, up to 6,654,105 common shares or 5% of the 133,082,115 shares outstanding. The Bid commenced on May 16, 2008 and was scheduled to expire on May 15, 2009.

During the period ended September 30, 2008, the Corporation completed the Bid and acquired for cancellation 6,654,000 shares at an average cost per share of \$0.159.

### **Issued and Outstanding**

<b>Common shares</b>	<b>Number</b>	<b>Amount</b>
Balance, December 31, 2007	131,653,115	23,995
Issued on exercise of stock options	1,476,667	265
Issued on exercise of warrants	274,232	25
Shares repurchased and cancelled	(6,654,000)	(1,055)
Balance, September 30 & November 3, 2008	126,750,014	23,230

<b>Options</b>	<b>Number</b>	<b>Weighted-average exercise price</b>
Outstanding, December 31, 2007	2,493,300	\$0.12
Granted	-	0.00
Exercised	1,476,667	0.10
Cancelled	181,834	0.20
Outstanding, September 30 & November 3, 2008	834,799	0.14

<b>Deferred Annual Bonus &amp; Share Purchase Plan Shares</b>	<b>Number</b>	<b>Amount</b>
Outstanding, December 31, 2007	475,481	105
Issued in 2008	1,616,088	178
Outstanding September 30 & November 3, 2008	2,091,569	283

<b>Warrants &amp; Special Warrants</b>	<b>Number</b>	<b>Weighted-average exercise price</b>
Outstanding December 31, 2007	13,981,630	\$0.15
Granted	-	-
Cancelled	(653,051)	
Exercised	(274,232)	\$0.12
Outstanding, September 30 & November 3, 2008	13,054,347	\$0.15

**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.

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**

Growth in 2008 from the Corporation’s government sector business will continue to be derived from the Corporation’s information control outsourcing and information control service bureau which continues to generate strong revenue and bottom line growth. 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 our core information control services. Growth from increasing the Corporation’s presence geographically is expected to commence being realized in 2010.

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 2008, the Corporation has invested a total of \$507 in addition to the \$908 invested in 2007. 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 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.

With the recent acquisition of the business and certain assets of Western Corrosion Technologies, Management expects steady revenue growth and profitability to continue in its energy business over the course of 2008.

Stronger organic growth in revenue will be tied to a pickup in exploration activity in the Western Canadian Sedimentary Basin, which management originally anticipated to occur in the first half of 2009. Given the lack of liquidity in the capital markets and the current global economic crisis, Management expects capital expenditures in 2009 to be curtailed for the immediate future. As such, Management does not expect a pickup in exploration activity in the Western Canadian Sedimentary Basin until at least mid 2010.

	2008			2007				2006
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Services Provided to Active Measurement Points at the end of each Quarter								
Chart Recorders – Measurement (meters)	30,205	30,304	31,087	31,001	30,038	29,273	29,849	32,065
Electronic Flow Measurement Devices - Measurement and Control	3076	2,475	2,411	2,300	2,269	2,224	2,210	2,013
Fluid Composition Management - Total Analyses	81,393	80,764	67,029	60,240	53,619	49,006	40,564	34,006

Strong growth in Electronic Flow Measurement Devices monitored was due to approximately 500 meters being added from the acquisition of SCADANet on July 1, 2008. Reduced growth in the number of active meters added for Fluid Composition Management reflects 4,500 non active meters deleted from the system due to the Corporation's change in pricing from an annual license fee to per meter pricing. This pricing change has resulted in inactive meters being removed from the system by the Corporation's historic customers as they are transitioned to new pricing.

**OTHER**

**Accounting Policies**

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

Effective January 1, 2008, the corporation has adopted the new accounting standards as issued by CICA, 1535 - Capital Disclosures, 3031- Inventories, 3862 – Financial Instruments – Disclosures, and 3863 Financial Instruments – Presentation. The adoption of these standards did not have a material impact on the consolidated financial statements.

The remainder of the Corporation's accounting policies remains unchanged so far in 2008.

**Future Accounting Policies**

The CICA standard 3064 – Goodwill and Intangible Assets will be adopted effective January 1, 2009. The Corporation does not expect 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.

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

# CRITICALCONTROL SOLUTIONS CORP.

## Management Discussion and Analysis

For the Period Ended September 30, 2008

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### Directors:

Dennis Nerland  
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