

CRITICALCONTROL SOLUTIONS CORP.

Management Discussion and Analysis

For the Quarter Ended March 31, 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 March 31, 2008. 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 May 12, 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 were the significant developments:

- 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 and shifted its focus from others. As a result of this exercise and management's execution of its growth strategy the Corporation achieved a Net Income of \$504 for Q1 2008.
- Gross margin as a percentage of revenue increased to 52% in the quarter from 43% in the same quarter last year. Margins increased to 64% from 50% and to 43% from 38% from the Corporation's Energy and Government business respectively in the quarter compared to the same quarter last year.
- The Corporation reduced its debt by a further \$1.07 million during the first quarter of 2008. At the end of the first quarter, total long term debt was \$1,250, compared to \$5,785 for the same period of 2007.

Selected Quarterly Information

	Three Months ended March 31, 2008	Three Months ended March 31, 2007
Revenue	5,995	6,358
Gross Margin ⁽¹⁾⁽³⁾	3,116	2,754
Income from Continuing Operations	504	97
Loss from Discontinued Operations	-	(188)
Net Income / (Loss)	504	(91)
Net Income / (Loss) per share – basic and diluted	0.004	(0.001)
Interest	32	293
Current Assets	5,078	8,403
Current Liabilities	3,290	9,860
Working capital ⁽²⁾⁽³⁾	1,788	(1,457)
Total assets	17,569	22,219
Total long-term debt (includes current portion)	1,250	5,785
Total equity	12,358	12,325

(1) Gross margin is a non-GAAP measurement that management believes 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 these non-GAAP financial measures as an alternative to financial measures calculated in accordance with GAAP.

In 2008, 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 and growth. During 2007 the company divested the Calgary based PipeWorks and IMS business units which helped streamline overhead costs. While revenues for the three months ended March 31, 2008 decreased by 6% to \$5,995 from \$6,358 for the same period in 2007, gross margins for the three months ended March 31, 2008 increased by 13% to \$3,116 from \$2,754 for the same period in 2007.

The Corporation recorded income from continuing operations of \$504 for the three months ended March 31, 2008 compared to income of \$97, and a net loss of \$91 after taking into account loss from discontinued operations, for the same period in 2007 vindicating the Corporation's focus and plans.

Working Capital increased to \$1,788 at March 31, 2008 from (\$1,457) at March 31, 2007. The increase was after the additional debt pay down of \$1.07 million and primarily due to positive cash flow from operations.

Summary of Quarterly Results

The following table presents certain financial information on a consolidated basis for the last eight fiscal quarters. The financial information included herein for the quarters have been restated to reflect the discontinued operations.

	Two Year Summary By Quarter							
	2008		2007				2006	
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Revenue - Continuing Operations	5,995	5,490	5,709	5,528	6,358	5,436	5,167	5,253
Revenue - Discontinued Operations	-	-	443	707	939	1,103	897	853
Net Income (loss) - Continuing Operations	504	(196)	27	144	97	(204)	(140)	186
Net Income (loss) - Discontinued Operations	-	(47)	(340)	(378)	(188)	229	(52)	(389)
Net income (loss)	504	(243)	(313)	(234)	(91)	25	(192)	(203)
Net income/(loss) per share	-	-	-	-	-	-	-	-

RESULTS OF OPERATIONS

Comparison of the three months ended March 31, 2008 and 2007

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

	Three months ended March 31,		
	2008	2007	Change
Revenue			
Government	3,398	3,521	(3%)
Energy	2,597	2,837	(8%)
	5,995	6,358	(6%)

Revenue

As the Corporation's business continued to mature in 2007, management continued phasing out operations outside its areas of strategic focus to increase profitability.

Government

Revenue from the Government sector for the three months ended March 31, 2008 decreased by \$123 or 3% to \$3,398 from \$3,521 for the same period in 2007. This decline was due to a \$270 decrease in the sale of third party imaging equipment and a planned \$196 decline in real property solutions for US municipalities which management is reducing its exposure to due to the current prevailing exchange rate.

Revenue from the Corporation's Imaging Service Bureau grew at a record pace of 54%, growing to \$1,798 in the quarter from \$1,168 in the same period last year.

Energy

Revenue from the Energy sector for the three months ended March 31, 2008 decreased by \$240 or 8% to \$2,597 from \$2,837 for the same period 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. The decline in gas exploration activity translated to a \$464 decline in the sale of gas meters and related hardware in Q1 2008 compared to Q1 2007. This decline was offset by a \$56 increase in recurring subscription revenue for the three months ended March 31, 2008 compared to the same period in 2007.

The Corporation's ScanGas Chart Reading services and ProTrend fluid analysis services had increased revenue of \$83 (6%) and \$41 (77%) respectively for the three months ended March 31, 2008 compared to the same period in 2007.

Cost of Revenue and Gross Margin

Three months ended March 31,			
	2008	2007	Change
Cost of revenue:			
Government	1,939	2,179	(11%)
Energy	940	1,425	(34%)
	<u>2,879</u>	<u>3,604</u>	<u>(20%)</u>
Gross margin: ⁽¹⁾			
Government	1,459	1,342	9%
Energy	1,657	1,412	17%
	<u>3,116</u>	<u>2,754</u>	<u>13%</u>
Gross margin percentage: ⁽¹⁾			
Government	43%	38%	13%
Energy	64%	50%	28%
	<u>52%</u>	<u>43%</u>	<u>20%</u>

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

Gross margin, defined as revenue less cost of revenue, increased by 13% from \$2,754 in Q1 2007 to \$3,116 in Q1 2008. As a percentage of revenue, overall gross margin improved by 9% to 52% in Q1 2008 from 43% in Q1 2007.

Government

Cost of revenue for the Corporation's offering in the Government sector decreased by 11% for the three months ended March 31, 2008 as compared to the same period in 2007 primarily due to the change in the nature of the revenue from lower margin to higher margin.

Gross margins in the Government sector increased by 9% for the three months ended March 31, 2008 as compared to the same period in 2007. Although the Corporation faces upward pressure on labor costs, economies of scale gained by the Corporation's imaging service bureau provided higher margin.

Gross margin as a percentage of revenue increased to 43% in Q1 2008 from 38% in Q1 2007. Given the current backlog of imaging projects and the Corporation's primary outsourcing contract secured to March 2011, Management believes that this level of gross margin percentage is sustainable.

Energy

Although the revenue for the three months ended March 31, 2008 decreased by 8% compared to the same period in 2007, the cost of revenue for the three months ended March 31, 2008 decreased by 34% compared to the same period in 2007.

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.

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

For the three months Ended March 31,	Government		Energy		Corporate & Other		Total	
	2008	2007	2008	2007	2008	2007	2008	2007
Selling & administrative expenses	818	670	705	686	522	567	2,045	1,923
Research and development expenses	-	-	172	84	-	-	172	84
Amortization of property & equipment	56	57	165	198	2	18	223	273
Amortization of customer contracts	53	53	83	30	-	-	136	83
Interest, contract losses & other	-	-	-	-	36	294	36	294
	927	780	1,125	998	560	879	2,612	2,657

Selling and Administrative Expenses

Selling and administrative expenses increased in the quarter over the previous year due to increased labour cost, increased leasing costs in the current real estate environment in Alberta and the Corporation's drive to better market and sell its products in both the Government and Energy sectors.

Research and Development

The Corporation is integrating 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 \$172 of research and development in Q1 2008, a 105% increase from \$84 in Q1 2007.

The current initiative has already yielded positive results which have contributed to the Corporation's reduced Cost of Revenue in Q1 2008.

Amortization

Amortization of property and equipment decreased by 18% from Q1 2007 to Q1 2008, while amortization of customer contracts increased by 64% from Q1 2007 to Q1 2008. The reduced property and equipment amortization is due primarily to the reductions in asset base from our 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 Q1 2008 to \$36 from \$294 in Q1 2007 primarily due to Corporation's success in retiring its debt with Wellington Financial.

Net Income

The Corporation's net income for the three months ended March 31, 2008 was \$504 compared to the income from continuing operations of \$97 and a net loss of \$91, after taking into account loss from discontinued operations for the same period in 2007. The increase was primarily due to the success of the Corporation's strategic growth focus that resulted in discontinued operations of non-performing units in 2007.

Liquidity and Capital Resources

The Corporation recorded an increase in cash of \$72 for the three months ended March 31, 2008 compared to increase of \$866 for the same period in 2007. The decrease was primarily due to the pay down of the operating line of credit and long term debt of \$1,070.

Cash flow generated from operating activities for the three months ended March 31, 2008 was \$899 compared to \$1,421 for the same period in 2007.

Cash flow used in financing activities was \$920 for the three months ended March 31, 2008 compared to cash flow used of \$543 for the same period in 2007. Financing activities included repayment of \$250 of the Corporation's long-

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term debt and \$823 of the operating line of credit. Proceeds from the exercise of employee stock options and deferred share purchase plan amounted to \$153 in the quarter.

Cash flow from investing activities for the three months ended March 31, 2008 was \$93 compared to \$509 for the same period in 2007. \$108 was used by the Corporation for the purchase of capital assets

The Corporation's working capital position changed significantly to a surplus of \$1,788 at March 31, 2008 from a deficit of \$1,457 as at March 31, 2007.

Management expects continued improvement in cash flow in 2008 from all parts of the business. Management also anticipates that the agreement with Comerica Bank, consisting of up to \$3.5 million revolving line of credit at an interest rate of bank prime plus 0.50% and a \$1.5 million term loan facility at an interest rate of bank prime plus 1.00%, and continued cash from operating activities will fund working capital for growth during 2008.

FINANCIAL INSTRUMENTS

Fair Value

As at March 31, 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 three months ended March 31, 2008 the Corporation derived approximately 43% (2007 – 32%) of its total revenue from the Government of Alberta. As at March 31, 2008, approximately 33% (2007 – 32%) of accounts receivable pertained to this customer.

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, industry business cycles, the proportion of revenue attributable to third party hardware sales 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.

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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 2008.

SUMMARY OF SHARE CAPITAL

Issued and Outstanding

Common shares	Number	Amount
Balance, December 31, 2007	131,653,115	\$23,995
Issued on exercise of stock options	1,429,000	257
Balance, March 31, 2008 and May 12,	133,082,115	24,252

Options	Number	weighted-average exercise price
Outstanding, December 31, 2007	2,493,300	\$0.12
Granted	-	0.00
Exercised	1,429,000	0.10
Cancelled	130,668	0.20
Outstanding, March 31, 2008 & May 12,	933,632	0.15
Exercisable, March 31, 2008 & May 12,	860,964	\$0.14

Deferred common shares	Number	Amount
Outstanding, December 31, 2007	475,481	\$105
Issued	89,425	\$10
Outstanding, March 31, 2008	564,906	\$115
Issued	1,496,591	\$120
Outstanding, May 12, 2008	2,061,497	\$235

As an additional performance incentive measure, the Corporation adopted a Deferred Annual Bonus and Share Purchase Plan (“DSP”) in 2006. The DSP enables employees to elect to receive up to 10% of their annual base salary and up to 100% of any annual bonus to which they become entitled in the form of Deferred Common Shares (“DCS”). The DCS are issued in lieu of cash and as such, the amount of cash that the DCS is issued in lieu of is expensed.

Each DCS may be redeemed by the holder for one common share of the Corporation for no additional payment on the death or termination of the holder’s service to the Corporation. Up to 3,000,000 DCS may be issued under the Plan, but in no event shall the total number of DCS, combined with the number of outstanding stock options issued pursuant to the Corporation’s stock option plan, exceed 10% of the outstanding shares of the Corporation

Warrants and Special Warrants

	Number of warrants	Weighted-average exercise price
Outstanding, December 31, 2007	13,981,630	\$0.15
Expired	0	0.00
Outstanding, March 31, 2008 and May 12, 2008	13,981,630	\$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

During 2007, Management evaluated its business and its clients' respective industries to develop a new three year plan with an objective of serving its clients' 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.

Cash flow generated from operations continued to improve in Q1 2008 enabling the Corporation to continue to reduce its overall debt. In 2007, 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.

Growth in 2008 will continue to be derived from the Corporation's information control outsourcing offering and information control service bureau, the latter of which generated a 54% increase in revenue in the quarter compared to the same period in 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 be 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.

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 and a further \$172 in Q1 2008. The benefit of this activity was evident in Q1 2008 where cost of sales was reduced by 34% from Q1, 2007 to Q1, 2008. 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 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.

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.

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Services Provided to Active Measurement Points at the end of each Quarter	2008		2007			2006		
	Q1	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Chart Recorders – Measurement (meters)	31,087	31,001	30,038	29,273	29,849	32,065	32,625	33,309
Electronic Flow Measurement Devices - Measurement and Control	2,411	2,300	2,269	2,224	2,210	2,013	1,831	1,494
Fluid Composition Management - Total Analyses	67,029	60,240	53,619	49,006	40,564	34,006	29,448	-

By the end of March 2008, ProTrend provided services for over 30 clients totaling over 67,000 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, 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 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. The Corporation is still in the process of understanding the financial impact of the transition to IFRS, which cannot be reasonably estimated at this time.

Additional information relating to the Corporation is available on SEDAR at www.sedar.com.

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Management Discussion and Analysis

For the Year Ended December 31, 2007

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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