

Management Discussion and Analysis

For the Quarter Ended June 30, 2007

The following discussion and analysis provides a review of the operating results, financial position and liquidity risk affecting the unaudited interim financial results of CriticalControl Solutions Corp. for the three months ended June 30, 2007. This report should be read in conjunction with the Corporation's December 31, 2006 audited consolidated financial statements and the June 30, 2007 interim consolidated financial statements and accompanying notes presented in accordance with Canadian generally accepted accounting principals ("GAAP").

This Management Discussion and Analysis is prepared as of August 22, 2007 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") is a technology company that enables its clients with better access to their critical business operational information. CriticalControl's proprietary products are technologies to allow faster access to and better control of the information required to operate the critical business operations of government and energy sector clients.

Corporate Developments

The following summarizes significant developments of the Corporation which transpired during the six months ended June 30, 2007:

- In an effort to maximize sustainable profitability, the Corporation evaluated the performance and future strategic potential of its PipeWorks and Calgary based IMS business units and, during the first six months of 2007, committed to a process of divesting these operations. 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 comprises of the Corporation's liquid leak detection and pipeline operational software, is anticipated to be sold in 2007. 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 June 30, 2007 while the revenues and expenses of the business 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.
- On April 2, 2007, the Corporation announced that it has 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 current 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 is 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 is expected to be immediately accretive to the company, is 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 has 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 revenues are expected to be recognized in 2007. The \$1.18 million is comprised of a \$575 support, maintenance and enhancement agreement with a Western Canadian Province for a system implemented by CriticalControl in the past and new deployments for specific US municipalities valued at US\$525.

Selected Quarterly Information

The financial information included herein for the three months ended June 30, 2006 have been restated to reflect the discontinued operations and the reclassification of Corporate and other revenue.

	Three Months ended June 30, 2007	Three Months ended June 30, 2006
Revenue	\$ 5,528	\$ 5,253
Gross Margin	2,990	2,475
Income from Continuing operations	144	186
Loss from discontinued operations	(378)	(389)
Net Income / (Loss)	(234)	(203)
Net Income / (Loss) per share – basic and diluted	0.00	0.00
EBITDA (from continuing operations) ⁽¹⁾⁽³⁾	768	951
EBITDA (from discontinued operations)	(378)	(356)
Working capital ⁽²⁾⁽³⁾	(1,826)	4,541
Total assets	21,101	21,859
Total long-term debt (includes current portion)	5,842	6,772
Total equity	12,135	11,872

(1) 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.

(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 measure as an alternative to financial measures calculated in accordance with GAAP.

The Corporation continued the trend to execute on its plan to consolidate technologies and services offerings critical to both the Government and Energy sectors. In the first six months of 2007, the Corporation evaluated the performance and future strategic potential of its PipeWorks and Calgary based IMS business units and committed to a process of divesting these operations. The IMS business unit was sold to a third party for gross proceeds of \$165 in August 2007 and Management anticipates divesting PipeWorks prior to the end of 2007. Revenue from Continuing Operations increased by 5% or \$275 in Q2 of 2007 from Q2 of 2006.

The Corporation recorded Income from Continued Operations of \$144 in Q2 2007 compared to \$186 in Q2 2006, which amounted to a net loss of \$234 for Q2 of 2007 compared to a net loss of \$203 for Q2 of 2006 after taking into account

losses from discontinued operations. Notwithstanding an increase in revenue and increased overall gross margin, earnings declined due to increased general and administrative expenses related to labour and office rents.

Working Capital decreased to (\$1,494) at June 30, 2007 from \$4,541 at June 30, 2006 due to the Corporation's long term debt coming due within the next twelve months, offset in part from positive cash flow from operations. The Corporation retired the \$1.7 million debenture due in August, 2007 from cash on hand and Management anticipates that it will pay down a portion of the remaining \$4.25 million debenture currently due in January, 2008 from cash flow and replace the remainder 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.

Two Year Summary By Quarter								
Years Ended December 31,								
	2007		2006				2005	
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue – continuing operations	5,528	6,358	5,393	5,167	5,253	5,906	4,653	4,052
Revenue – discontinued operations	707	939	1,146	897	853	987	1,345	1,206
Net income (loss) - continuing operations	144	142	(207)	(140)	186	440	(1)	(188)
Net income (loss)	(234)	(92)	25	(192)	(203)	97	(140)	(467)
EBITDA ⁽¹⁾ – continuing operations	768	790	576	550	951	1,191	815	597
EBITDA ⁽¹⁾	390	591	776	531	595	880	675 ⁽¹⁾	361
Income (loss) per share	(0.00)	(0.00)	0.00	(0.00)	(0.00)	0.00	0.00	0.00

⁽¹⁾ 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.

RESULTS OF OPERATIONS

Comparison of the three and six months ended June 30, 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.

Revenue

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
Revenue:						
Government	\$3,071	\$2,949	4%	\$ 6,592	\$ 6,256	5%
Energy	2,457	2,304	7%	5,294	4,903	8%
	\$5,528	\$5,253	5%	11,886	11,159	7%

Government

Strong growth from the award of a renewed three-year contract for an expanded set of imaging, analysis and information control services with a Western Canadian Province as of April 1, 2007 was substantially tempered by a spending freeze imposed in Alberta due to a change in the Premier, Provincial Cabinet and various deputy ministers. This freeze was lifted in August 2007 and management expects revenue growth to recover in Q4 2007.

Energy

Low natural gas prices combined with industry cost escalation has resulted in significantly reduced gas exploration activity. Growth in the Corporation's continuing operations in the Energy sector is dependant in large part on drilling activity, which resulted in modest revenue growth of \$153 or 7% in the quarter and \$391 or 8% on a year to date basis compared to the previous year.

Reduced drilling activity resulted in a sharp decline in the sale of gas meters and related hardware, attributing revenue of \$153 in Q2 2007 compared to \$647 in Q2 2006 (a decline of \$494). On a year to date basis, revenue dropped from \$868 in 2007 compared to \$1,704 in 2006, a decline of 49%.

This decline was offset by strong growth in service and recurring revenue streams of 40% or \$633 (increasing from \$1,574 in Q2 2006 to \$2,207 in Q2 2007). On a year to date basis, service and recurring revenue increased 42% or \$1,257 over the first 6 months of 2006. This significant increase was a result of price increases, the acquisition of ProTrend in August 2006 and the increased number of well site devices monitored by the Corporation's NetFlow software.

On a quarter over quarter basis, service and recurring revenue from the Energy sector has increased steadily, supporting management's strategic positioning. Management expects this trend to continue to fuel the Corporation's growth in 2007 and beyond.

Cost of Revenue and Gross Margin

The financial information included herein for the three months ended June 30, 2006 has been restated to reflect the discontinued operations

	Three months ended June 30,			Six months ended June 30,		
	2007	2006	Change	2007	2006	Change
Cost of revenue						
Government	\$ 1,803	\$ 1,641	10%	\$ 3,982	\$ 3,416	17%
Energy	983	1,137	(14%)	2,408	2,504	(4%)
	\$ 2,786	\$ 2,778	0%	\$ 6,390	\$ 5,920	8%
Gross margin ⁽¹⁾						
Government	1,268	1,308	(3%)	2,610	2,840	(8%)
Energy	1,474	1,167	26%	2,886	2,399	20%
	\$ 2,742	\$ 2,475	11%	\$ 5,496	5,239	5%
Gross margin percentage ⁽¹⁾						
Government	42%	44%	(5%)	40%	45%	(13%)
Energy	60%	51%	18%	55%	50%	10%
	50%	47%	6%	46%	47%	(1%)

⁽¹⁾ Gross margin and gross margin percentage are non-GAAP measures that management believes are useful supplemental measures of operations.

Government

Cost of Revenue for the Corporation's offering in the Government Sector increased by 10% for the three months ended June 30, 2007 and 17% on a year to date basis compared to the same period in 2006 primarily due to cost pressure related to the Alberta labour market. Resulting Gross Margin fell from 44% in Q2 2006 to 42% in Q2 2007. Cost of labour pressures resulted in increased labour cost in Q4 2006 which translated into gross margins in Q1 2007 of only 38%. The quarter over quarter increase to 42% in Q2 2007 was a result of the Corporation increasing its rates to match increases in labour cost. Management anticipates that price increases during 2007 will offset any further gross margin erosion.

Energy

Cost of Revenue for the Corporation's offering in the Energy Sector decreased by 14% while revenue increased by 7% for the three months ended June 30, 2007 compared to the same period in 2006. 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 contained the portion of Cost of Revenue directly attributed to labour. 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 Cost of Revenue related to this expenditure in Q4 2007 and Q1 2008.

As the nature of Revenue from the Energy sector shifted from the sale of gas meters and related hardware (declining by \$494 from Q2 2006 to Q2 2007) to service and recurring revenue (increasing by \$633 from Q2 2006 to Q2 2007), the Corporation has effectively replaced lower margin revenue with higher margin revenue resulting in a gross margin increase over and above the reduction in the labour component of Cost of Revenue.

The combined nature of the above factors improved margins over the course of the year and, as such, margins improved by 10% on a year to date basis going to 55% from 50% in the same period in 2006. The full benefit of these factors resulted in a 60% margin in Q2 2007. 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, this growth will, in the end, fuel the continued steady, strong growth of a recurring, higher margin revenue stream.

Operating Expenses (from continued Operations)

	Government		Energy		Corporate		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
For the three months ended June 30,								
Selling & Administrative Expenses	\$ 566	585	590	392	501	428	1,657	1,405
Research and Development	-	-	308	59	-	-	308	59
Amortization of Property & Equipment	66	44	100	165	56	29	222	238
Amortization of customer relationships & contracts	53	36	74	80	-	-	127	116
Interest & Other Expenses	-	-	-	-	284	471	284	471
	685	665	1,072	769	840	855	2,598	2,289

	Government		Energy		Corporate		Total	
	2007	2006	2007	2006	2007	2006	2007	2006
For the six months ended June 30,								
Selling & Administrative Expenses	1,236	1,195	1,231	812	1,068	957	3,535	2,964
Research and Development	-	-	392	59	-	-	392	59
Amortization of Property & Equipment	123	86	265	322	74	57	462	465
Amortization of customer relationships & contracts	106	88	137	134	-	-	243	222
Interest & Other Expenses	-	-	-	-	578	903	578	903
	1,465	1,369	2,025	1,327	1,720	1,917	5,210	4,613

Selling and Administrative Expenses

Selling and administrative expenses increased by 18% in Q2 and 19% on a year to date basis compared to the same periods in 2006. Although selling and Administrative expenses remained fairly constant in the Government sector, the overall increase was due to substantial increases in the Energy Sector of 51% for the quarter and 52% on a year to date basis from 2006. This increase is attributed to the addition of ProTrend which was acquired in August 2006 and the increased level of support and infrastructure required to accommodate the expansion of the Corporation's Netflow business and related recurring revenue stream.

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 \$308 of Research and Development in Q2, a 422% increase from Q2 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 the first half of 2007, with additional benefits being realized in Q4 2007 and Q1 2008.

Interest and Other Expenses

Debt service costs decreased during Q2 and on a year to date basis compared to the same periods in 2006 as the Corporation extended the term of its financing agreements with its lender with more favourable terms on June 30, 2006.

Liquidity and Capital Resources

The Corporation recorded an increase in cash of \$38 from continuing operations and \$281 from discontinued operations for the six months ended June 2007 compared to decreases of \$316 and \$237 respectively for the same period in 2006.

Cash flow generated from continuing operating activities for the six months ended June 30, 2007 amounted to \$1,210 compared to \$541 for the same period in 2006 despite \$392 of increased expenditures in Research and Development and increased Selling and Administrative Expenses of \$419 in the Corporation's Energy Sector business over the same period. Cash flow generated from discontinued operating activities for the six months ended June 30, 2007 amounted to \$281 compared to negative cash flow of \$237 for the same period in 2006 resulting from the wind down of the Corporation's PipeWorks business in preparation for proposed sale.

The repayment of the Corporation's operating line of credit in Q1 2007 resulted in cash flow from financing activities of \$(507) for the six months ended June 30, 2007 compared to cash flows of (\$62) for the same period in 2006.

Cash used in investing activities for the six months ended June 30, 2007 was \$665 compared to \$795 for the same period in 2006. \$255 was used by the Corporations for the purchase of capital assets while the remaining expenditure was the result of the acquisition of Idein Technologies in March, 2007.

The Corporation's working capital position changed from a surplus of \$4,541 at June 30, 2006 to a deficit of \$1,494 as at June 30, 2007, as a result of the Corporation's debt of \$5,842 coming current. \$1,697 of the debt was paid on August 20, 2007, with the remainder of \$4,145 being due on January 3, 2008. Management anticipates that the Corporation will repay a portion of this debt from cash flow by the end of 2007, with the remainder, which is due on January 3, 2008, being repaid through a new, more conventional, debt facility.

FINANCIAL INSTRUMENTS

Fair value

As at June 30, 2007, the estimated fair values of cash and cash equivalents, accounts receivable, and accounts payable approximated their carrying values. The estimated fair value of the long-term debt is not practicably determinable.

Credit and Concentration Risk

For the six months ended June 30, 2007 the Corporation derived approximately 41% (2006 - 31%) of its total revenue from the Government of Alberta. As at June 30, 2007, 20% (2006 - 17%) 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 U.S. dollars. For the three months ended June 30, 2007, approximately \$211 of revenue was generated in U.S. dollars. The Corporation has not entered into foreign exchange contracts to hedge against gains or losses from foreign currency fluctuations.

SUBSEQUENT EVENTS

The Corporation entered into a new 10 year lease for the premises occupied by the Corporation's Government Business in Edmonton, Alberta on August 16, 2007 at current market rates in the building. The Corporation will record a cash inducement of \$1,200 paid to it under the agreement as a long term liability and recognize such inducement as a reduction in rent over the term of the lease.

On August 20, 2007, the Corporation repaid its debenture with Wellington Financial in the amount of \$1,700 from cash on hand.

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.

Exchange Rate Fluctuation

A portion of the Corporation's sales are in U.S. dollars. Future fluctuations in the exchange rates could continue to have an effect on the Corporation's business and results of operations. In particular, a further decline in the value of the United States dollar relative to the Canadian dollar could have a material adverse effect on the Corporation's results of operations and cash flows. The Corporation does not currently undertake any exchange rate hedging activities.

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 three 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 three 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 certain members of the management team.

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.

Limited Financial Resources

The Corporation believes that it will have sufficient cash to meet the Corporation's requirements for the next twelve months. The Corporation has limited financial resources and may require additional equity or debt financing in the future. There can be no assurance that the Corporation will be able to obtain on satisfactory terms, or at all, the additional financing required to compete successfully. Failure to obtain such financing could result in the delay or abandonment of some or all of the Corporation's business plans, which could have a material adverse effect on its 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 or 2006.

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, and has initiated the evaluation of operating effectiveness of ICFR in 2007 to identify early on and remediate any control weaknesses. There were no changes to the company's ICFR that have materially affected, or are reasonable likely to materially affect, the company's ICFR in the second quarter of 2007.

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. The company conducts regular reviews to identify weaknesses in its ICFR and to ensure that an environment of continuous improvement becomes part of the organization's culture.

SUMMARY OF SHARE CAPITAL

Issued and Outstanding

	Number	Amount
Common shares:		
Balance, December 31, 2006	129,443,816	\$ 23,537
Issued on exercise of stock options	406,966	71
Issued on acquisition of Idein Technology	1,133,333	255
Decrease in note receivable from Employee Trust	-	13
Balance, June 30, 2007	130,984,115	\$ 23,876
Issued on exercise of stock options	245,000	25
Issued on exercise of warrants	-	-
Balance, August 22, 2007	131,254,115	\$ 23,901

Stock Options

	Number of options	Weighted-average exercise price
Outstanding, December 31, 2006	4,019,600	\$0.12
Granted	-	-
Cancelled	(93,334)	0.10
Exercised	(406,966)	0.10
Outstanding, June 30, 2007	3,519,300	\$0.12
Exercisable, June 30, 2007	3,167,467	\$0.11
Granted	-	-
Exercised	245,000	0.10
Outstanding, August 22, 2007	3,274,300	\$0.12
Exercisable, August 22, 2007	2,922,467	\$0.11

Deferred Common Shares

	Deferred common shares	Amount
Outstanding, December 31, 2006	181,035	\$52
Issued	294,446	53
Outstanding, June 30, 2007	475,481	\$105
Issued	-	-
Outstanding, August 22, 2007	475,481	\$ 105

Warrants and Special Warrants

	Number of warrants	Weighted-average exercise price
Outstanding, December 31, 2006	25,092,910	\$0.23
Exercised	-	-
Expired	(11,111,280)	\$0.33
Outstanding, June 30, 2007	13,981,630	\$0.15
Exercised	-	-
Expired	-	-
Outstanding, August 22, 2007	13,981,630	\$ 0.15

OUTLOOK & GUIDANCE

During the past four years, management completed the formation of the basis of its go forward business strategy in both the government and energy sectors. In 2006, management continued its focus on executing the strategy and key acquisitions were made with a view to providing more services to the existing client base and maximizing long-term profitability. The results for the fourth quarter of 2006 and first half of 2007 are indicative of the success of the start of this transition. Management intends to continue its drive to obtain operational efficiencies and to aggressively pursue identified areas of strategic growth to achieve increased gross margin as a percentage of revenue for the remainder of 2007 and 2008.

Growth in early 2007 in the Government sector was dampened due to the cost of labour and the resulting impact on gross margins. In Q2 of 2007, gross margins improved as these costs were passed onto the Corporation's customers. Management anticipates continued organic growth in its Government business to offset a reduced gross margin such that the contribution from the Government business will remain as strong in 2007 as it was in 2006. Management anticipates gross margins to continue improving in 2008 once labour cost increases can be reflected into the Corporation's longer term contracts.

Continued growth in overall gross margin, and ultimately growth in net income will be ultimately derived from the execution of the Corporation's business plan for its offering to its energy clients ("Energy Strategy"). Management anticipates that the Corporation's Energy Strategy will continue to fuel overall organic growth in the Corporation's business in 2007 in line with 2006, and as such, will lead to improved cash flow and profitability.

The Corporation's Energy Strategy concentrates on the areas of the Company capable of long term recurring profitability. The Corporation's measurement services now include gas chart integration through its proprietary ScanGas application, gas well monitoring and control through the Corporation's proprietary NetFlow Network, value added services to manage fluid analysis data through the Corporation's proprietary ProTrend application and services that provide 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 the Corporation's plan to consolidate its various applications into a system of integrated management of energy data.

The following metrics reflect our market leadership position in the gas measurement arena.

	2007			2006		
	Q2	Q1	Q4	Q3	Q2	Q1
Services Provided to Active Measurement Points at the end of each Quarter						
Chart Recorders – Measurement (meters)	29,273	29,849	32,065	32,625	33,309	32,199
Electronic Flow Measurement Devices - Measurement and Control	2,224	2,158	2,013	1,831	1,494	597
Fluid Analysis – Composition Management	53,818	44,874	39,589	35,464	NA	NA

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 is expected to be reflected in growth during the remainder of 2007.

The acquisition of the RDA Network in April 2006 increased the number of measurement points being serviced, whereas the acquisition of ProTrend Software in August 2006 increased both the number of measurement points being serviced and provided additional value added services which could be provided to each measurement point.

By the end of June 2007, ProTrend provided services for over 18 clients totaling over 53,000 fluid analyses. Of these measurement points currently in the ProTrend database, approximately 5,800 are also serviced by CriticalControl for gas measurement and or well site control purposes. This presents an opportunity to cross sell CriticalControl'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 2007, resulting in increased gross margin as a percentage of revenue.

The Corporation is executing a two-fold strategy designed to fuel growth for the remainder of 2007 and 2008: increase the number of measurement points being serviced; and to provide value added services to increase the net revenue derived from each measurement point.

Management expects the labour market in Alberta to continue to pressure costs, and as such, management continues to invest in technology and processes to ensure business continuity and cost control. In 2007 management intends to continue its drive to obtain operational efficiencies and to aggressively pursue our identified areas of strategic growth.

OTHER

Accounting Policies

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

In Q1 the Corporation has adopted the new accounting standards, 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 remain unchanged in 2007.

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

CRITICALCONTROL SOLUTIONS CORP.



Management Discussion and Analysis

For the Period Ended June 30, 2007

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Willis Groshong	Executive Vice President, Edmonton Region
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