

Management Discussion and Analysis

For the Year Ended December 31, 2006

The following discussion and analysis provides a review of the operating results, financial position and liquidity risk affecting the financial results of CriticalControl Solutions Corp. for the year ended December 31, 2006. This report should be read in conjunction with the Corporation's December 31, 2006 audited 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 April 10, 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 were the significant developments in 2006:

- In March 2006, the Corporation announced that it had been awarded a five-year contract for outsourced imaging, analysis and information control services with a Canadian Provincial Government client (the "Primary Outsourcing Contract"). The contract represents revenue of \$17.25 million for the initial five year term and allows the client to extend the contract twice for up to three years on the first occasion and for up to two years on the second occasion.
- On April 28, 2006, the Corporation acquired the Remote Data Acquisition Network (the "RDA Network") from Crimtech Services Ltd. ("Crimtech"). The RDA Network, similar to CriticalControl's proprietary NetFlow service, offers oil and gas producers a web enabled, hosted service to acquire production and related data directly from the well site combined with functionality to control electronic well site devices remotely from any desktop connected to the internet ("NetFlow"). The purchase price consists of \$495 in cash and 189,655 shares of the Corporation as well as a deferred payment of \$250 payable upon meeting certain performance criteria. On March 26, 2007, this deferred payment was settled in full for \$135.
- On June 15, 2006 the Corporation adopted a Deferred Annual Bonus and Share Purchase Plan ("DSP"). 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"). 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.
- On June 30, 2006, the Corporation announced that it had extended repayment of its Series A Debentures in the amount of \$2.7 million due August 20, 2006 such that \$1.7 Million shall be due on August 20, 2007 and repayment of its Series B Debentures in the amount of \$4.25 million due March 31, 2007 has been extended to January 3, 2008. As consideration the Corporation paid Wellington a 1% extension fee and replaced warrants



previously granted to Wellington to purchase 4.25 million shares at \$0.35 per share prior to March 31, 2009 with special warrants to purchase 4.25 million shares at \$0.22 per share prior to January 3, 2010. The result of this amendment will save the Corporation \$35 per month non-cash interest expense related to the accretion of the debt discount commencing September, 2006 as the overall increase in expense is now spread over a longer timeframe.

- On August 9, 2006, CriticalControl acquired 100% of the outstanding shares of ProTrend Software Inc. ("ProTrend") for \$1,156 in cash and shares of CriticalControl. \$775 of the purchase price was paid in cash and 1,843,318 shares of CriticalControl were issued to the vendors. Transaction costs of \$40 were paid with respect to the acquisition, and there was an additional \$41 working capital adjustment. An additional \$108 in cash will be payable over 3 years based upon meeting certain performance criteria. The primary component of CriticalControl's offering to its gas producer client base is gas measurement and well site monitoring and control services. ProTrend provides software to effectively manage gas and liquid analyses ("Fluid Analyses") for the same client base, increasing CriticalControl's value proposition.

Selected Annual Information

	Year ended December 31, 2006	Year ended December 31, 2005	Year ended December 31, 2004
Revenue	\$ 25,602	\$ 20,087	\$13,421
Net loss	(273)	(1,326)	(2,551)
Net loss per share – basic and diluted	(0.00)	(0.01)	(0.03)
Amortization of property & equipment	1,156	902	1,444
Amortization of customer relationships & contracts	471	525	637
Interest	1,428	1,516	471
EBITDA ⁽¹⁾⁽³⁾	2,782	1,617	1
Current Assets	8,528	9,206	5,212
Current Liabilities	5,983	6,609	3,272
Working capital ⁽²⁾⁽³⁾	2,545	2,597	1,940
Total assets	22,174	22,229	9,502
Total long-term debt (includes current portion)	5,737	6,769	3,237
Total equity	12,134	11,716	3,599

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

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

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

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. As a result of this strategy, revenues increased from \$20,087 in 2005 to \$25,602, an increase of \$5,515 or 27% in 2006 due to organic growth, the imaging contract renewal with a Canadian Provincial Government and revenue generated by acquisitions of Deines Imaging, RDA Network and ProTrend.

The Corporation recorded a loss of \$273 compared to a loss of \$1,326 for 2005. The reduction in loss was due primarily to an increase in gross margin of \$3,060 whereas operating expenses increased by only \$2,007.

Working capital decreased marginally from \$2,597 at December 31, 2005 to \$2,545 at December 31, 2006.

Summary of Quarterly Results

Two Year Summary By Quarter								
Years ended December 31,								
	2006				2005			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Revenue	6,539	6,064	6,106	6,893	5,998	5,258	5,261	3,570
Net income (loss)	25	(192)	(203)	97	(140)	(467)	94	(813)
EBITDA ⁽²⁾	776	531	595	880	675 ⁽¹⁾	361	776	(195)
Net income/(loss) per share	0.00	(0.00)	(0.00)	0.00	(0.00)	(0.00)	0.00	(0.01)

(1) Includes a \$125 write-down of goodwill and a provision of \$245 for contract losses.

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

Revenues in every quarter of 2006 were higher compared to the corresponding quarter in 2005 indicating the Corporation's strategy to consolidate technologies and service offerings to both the Government and Energy sectors.

RESULTS OF OPERATIONS

Comparison of the year ended December 31, 2006 and 2005

Revenue

During 2006, the Corporation continued to execute on its plan to consolidate technologies and service offerings critical to both the Government and Energy sectors and to enhance the Corporation's implementation ability to increase profitability. All public company costs, interest and other expenses not directly attributed to the Government and Energy operating segments are included in Corporate and Other. Revenue attributed to Corporate and Other includes revenue from consulting and other services outside the Government and Energy sectors.

	Year ended December 31,		
	2006	2005	Change
Revenue:			
Government	\$11,645	\$9,247	25.9%
Energy	13,081	9,005	45.3%
Other	876	1,835	(52.3%)
	\$25,602	\$20,087	27.5%

Total revenue increased to \$25,602 for the year ended December 31, 2006 from \$20,087 for 2005 – an increase of \$5,515 or 27.5%. The acquisition of RDA Network in April 2006 and ProTrend in August 2006 contributed additional revenue of \$893 for the year ended December 31, 2006 when compared to 2005.

During the past 3 years, management of the Corporation has identified key areas of strategic growth and rationalized its efforts to execute its business plan by consolidating technologies and service offerings critical to both the Government and Energy sectors. As the Corporation's business continued to mature in 2006, Management continued phasing out operations outside its areas of strategic focus. As such, revenues from outside of the Government and Energy sectors decreased by 52%, while revenues from the Government and Energy sector increased 26% and 45% respectively.

Government

Revenue from the Government sector increased from \$9,247 in 2005 to \$11,645 in 2006. Increased revenue of \$2,398 was attributed to:



- Revenues from the Primary Outsourcing Contract increased by \$772 resulting from increased volumes and higher rates attributed to the renewal.
- \$1,906 was attributed to organic growth, primarily due to an increase in the imaging and document control services provided to various ministries of a Canadian Provincial Government.
- Growth in the Corporation's Enterprise Content Management (ECM) offering increased by \$406, primarily due to leveraged sales from imaging and document control services provided by the Service Bureau.
- The above growth was offset in part by a reduction of \$686 which was attributed to the Corporation's real property solutions group servicing municipalities across North America. This reduction was primarily caused by projects in the sales funnel being terminated or postponed due to the primary provider of computer assisted mass appraisal software used by the Corporation, Novalis, filing for protection from creditors under the Bankruptcy Act, of Canada.

Energy

Revenue from the Energy sector increased from \$9,005 in 2005 to \$13,081 in 2006. Increased revenue of \$4,076 was attributed to:

- Hardware revenues increased by \$2,419 resulting primarily from the growth in the Corporation's web SCADA application, NetFlow. Certain of the Corporation's clients prefer to contract the Corporation to provide the electronic flow measurement devices on which the Corporation's NetFlow service is offered, thereby resulting in increased hardware revenue.
- BMP chart reading service revenues increased by \$1,199, most of which is attributed to the fact that only 9 months of revenue was incorporated in 2005, due to the acquisitions being completed as of April 1, 2005.
- Revenue from the Corporation's NetFlow web-SCADA application increased by \$1,290. \$672 of this increase was the result of the acquisition of the RDA Network on April 28, 2006, with the remaining \$618 resulting from organic growth.
- \$221 of the increase resulted from the acquisition of ProTrend Software Inc. on August 09, 2006.
- During 2006 Management of the Corporation refined its business model related to professional services in Calgary by reducing reliance on general consulting and forming an imaging service bureau geared towards the imaging of production related data for the oil patch. As a result of this shift, revenue from this portion of the Corporation's operations decreased by \$127. This shift has begun to bear fruit in the fourth quarter and it is anticipated that the Imaging Service Bureau for Energy's revenues will increase steadily in 2007 and beyond.
- In 2006 the Corporation terminated its business associated with EzyOps, an asset management application resulting in reduced revenue of \$355. The termination of this business line was due to Management's decision to focus its investment in its production data applications.
- Revenue associated with the Corporation's PipeWorks product decreased by \$567, resulting primarily from the primary focus of the Corporation's marketing efforts shifting to upstream operations.
- On a quarter over quarter basis, revenue from both the NetFlow Network and ProTrend increased steadily since their acquisition and Management expects this trend to fuel the Corporation's growth in 2007.
- Revenue from U.S. customers was \$1,083 for the year ended December 31, 2006 compared to \$1,500 for the year ended December 31, 2005. The decrease is due to the completion of several contracts for the implementation of PipeWorks.
- Customers outside of Canada and the U.S. accounted for revenue of \$131 for the year ended December 31, 2006 compared to \$558 for 2005.

Cost of Revenue and Gross Margin

	Year ended December 31,		
	2006	2005	Change
Cost of revenue:			
Government	\$ 6,671	\$ 5,303	25.8%
Energy	7,061	5,045	40.0%
Other	423	1,352	(68.7%)
	\$14,155	\$11,700	21.0%
Gross margin: ⁽¹⁾			
Government	4,974	3,944	26.1%
Energy	6,020	3,960	52.0%
Other	453	483	(6.2%)
	\$11,447	\$ 8,387	36.5%
Gross margin percentage: ⁽¹⁾			
Government	42.7%	42.7%	0%
Energy	46.0%	44.0%	2%
Other	51.7%	26.3%	25.4%
	44.7%	41.8%	2.9%

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

In 2006, the cost of revenue increased by 21% and gross margin, defined as revenue less cost of revenue, increased by 36.5% as a result of the acquisitions and related increase in revenue. As a percentage of revenue, gross margin improved to 44.7% in 2006 from 41.8% in 2005.

Government

Cost of revenue for the Corporation's offering in the Government Sector increased due to the increased costs associated with a higher revenue base and stronger labor cost pressures observed in Alberta. Cost of revenue kept pace with revenue, with both increasing by 26% from 2005 to 2006. The economies of scale gained in the Corporation's imaging and document control offering helped in maintaining gross margins at 2005 levels in spite of increased cost pressures.

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

Energy

Cost of revenue for the Corporation's offering in the Energy Sector increased due to the increased costs associated with a higher revenue base. The Cost of Revenue increased by 40% from 2005 to 2006, while the revenue increased by 45%. However, gross margins improved significantly by 52% from 2005 to 2006 primarily due to operational improvement of the business and the Corporation's drive towards sustainable recurring revenue.

A primary objective of the Corporation in 2007 is to continue the growth associated with its ScanGas, NetFlow, and ProTrend businesses. NetFlow enables gas producers to electronically gather gas volume information from the wellsite and using the same software, to control various electronic devices at the wellsite. ProTrend provides software to effectively manage gas and liquid analyses for the same measurement points, increasing CriticalControl's value proposition to the clients. The Corporation offers this service based on a monthly fee for each device connected to the Corporation's network of devices. The purchase and installation of the devices and necessary communication equipment is a capital cost to the gas producer. In many cases, the gas producer contracts the Corporation to source and install such equipment as a necessary condition of contracting the Corporation for its NetFlow monthly service.

The Corporation has made a strategic decision to not provide such installation and support services and as such, contracts third parties to source, build and implement the necessary devices and communication equipment. In order to remain competitive, the markup for the sourcing and installation of the devices and communication equipment to the Corporation



is 20% or less. As such, these sales resulted in revenue of \$3,082 and cost of revenue of \$2,493. Excluding this portion of the Corporation's business from its results, revenues from the Energy Sector would amount to \$9,999 and cost of revenue would come in at \$4,568, resulting in a gross margin of \$5,431 or 54%.

Given the demand for the Corporation's NetFlow and ProTrend services, Management expects a low margin business, associated with third party hardware sales required for initial installation, to continue moderately in 2007, but such sales will fuel the steady, strong growth of a recurring, higher margin revenue stream.

Operating Expenses

For the Year Ended December 31,	Government		Energy		Corporate & Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
Selling & administrative expenses	1,103	793	2,506	1,308	4,103	3,550	7,712	5,651
Research and development expenses	-	-	900	847	-	-	900	847
Amortization of property & equipment	174	295	617	607	365	-	1,156	902
Amortization of customer contracts	211	153	260	372	-	-	471	525
Interest, contract losses & other expenses	-	-	-	-	1,481	1,788	1,481	1,788
	1,488	\$1,241	4,283	\$3,134	5,949	\$5,338	11,720	\$9,713

Selling and Administrative Expenses

Selling and administrative expenses increased by 36.5% to \$7,712 in 2006 compared to 2005. As with the cost of revenue, the largest component of selling and administrative expenses is salaries, which amounted to \$4,636 in 2006 compared to \$3,818 in 2005 – an increase of 21.4% primarily resulting from acquisitions and organic growth. In 2006 various reductions were made to streamline administrative functions and eliminate duplicate positions resulting from these acquisitions. Management expects that administrative salaries will increase in 2007 because a full year of costs for the 2006 acquisitions will be incurred, but will decrease as a percentage of total revenue. Management expects selling expenses to increase in 2007 due to an increased focus in cross selling its services amongst its existing client base and the Corporation's drive to better market and sell its products in the oil patch in general.

Research and Development

As the Corporation's proprietary products matured from development to commercialization, the Corporation has ceased capitalizing expenses related to continued development of their products. The Corporation intends to continue investment in its proprietary technologies; however, research and development as a percentage of overall revenue is expected to decline in 2007.

Amortization

Amortization of property and equipment increased by 28.2% from 2005 to 2006, while amortization of customer relationships & contracts decreased by 10.3% from 2005 to 2006. The reduction is due primarily to the completion of amortization of certain software and contracts associated with earlier acquisitions made by the Corporation in the Government sector.

Interest, Contract Losses and Other Expenses

Interest, contract losses and other expenses decreased in 2006 to \$1,481 from \$1,788 in 2005 primarily due to a renewed financing agreement with Wellington Financial. The non-cash interest expense will be fully accreted by December 2007. The Corporation's total debt of \$5,950 can be repaid without penalty at any time, but is due in August 2007 (\$1,700) and January 2008 (\$4,250). Management anticipates being able to reduce overall debt coverage costs as the debt becomes payable.

Net Loss

The Corporation's net loss for the year ended December 31, 2006 was \$273, an improvement of \$1,053 over the 2005 loss of \$1,326. The reduction in loss was due primarily to an increase in gross margin of \$3,060 whereas operating expenses increased by only \$2,007.

Liquidity and Capital Resources

The Corporation recorded a decrease in cash of \$1,781 in 2006 compared to an increase in cash in 2005 of \$1,581. Cash in the period was used primarily for the reduction of debt, the acquisition of the RDA Network and Protrend and the increased working capital needs of a growing business.

Cash flow used in operating activities amounted to \$859 in 2006 compared to (\$13) in 2005. Increases in non-cash working capital balances resulting from the Corporation's growth were financed by cash flow from operating activities and proceeds of \$550 from an operating line of credit.

Cash flow used in financing activities was (\$613) for 2006 primarily as a result of a reduction of overall debt compared to cash flow from financing activities of \$7,673 for 2005.

The Corporation's working capital position at December 31, 2006 was a surplus of \$2,545 compared to a surplus of \$2,597 at December 31, 2005, as a result of the Corporation's growth and the related financing activities, noted above.

Management anticipates continued cash from operating activities to fund working capital for growth during 2007. Any significant acquisitions will be financed through additional private placements of debt or equity. Management expects continued improvement in cash flow in 2007 from all parts of the business.

FOURTH QUARTER RESULTS

	For the Three Months Ended		
	December 31,		
	2006	2005	Change
Revenue:			
Government	\$2,794	\$2,924	(4.4%)
Energy	3,570	2,730	30.8%
Other	175	344	(49.1%)
	\$6,539	\$5,998	9.0%

Revenue was \$6,539 in Q4 of 2006, an increase of 9% compared to \$5,998 in Q4 2005 and an increase of 7.8% compared to Q3 of 2006. Strength in revenue from the energy sector more than offset the decreases in other sectors.

On a segmented basis, revenue decreased by \$130 in Q4 2006 compared to Q4 2005 in the Government business primarily due to a decreased workload in the Corporation's Government Imaging Service Bureau. This decrease in volume was due to uncertainty surrounding the Corporation's contract with a Provincial Government, enabling the Corporation to offer imaging work to such Government's ministries on a standing offer basis. The uncertainty was caused by the contract being put out to tender in Q4, 2006. On April 2, 2007, the Corporation announced that it was again awarded the contract for a period of 3 years, with increased rates and a broader range of services available under the standing offer.

Revenue from the Energy business increased by \$840 in Q4 2006 compared to Q4 2005 due primarily to organic growth and the acquisitions of RDA Networks and ProTrend.



Gross margin in Q4 of 2006 was \$2,931 compared to a gross margin of \$2,823 in Q4 2005 and \$2,663 in Q3 2006. The Corporation generated a net gain of \$25 in Q4 of 2006 versus a net loss of \$140 in Q4 2005 and a net loss of \$192 in Q3 of 2006. The improvements in Q4 of 2006 were due to organic and seasonal growth in the Energy and Government businesses and the acquisitions of RDA Network and Protrend in 2006.

FINANCIAL INSTRUMENTS

Fair Value

As at December 31, 2006, the estimated fair values of cash and cash equivalents, accounts receivable, operating line of credit 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 year ended December 31, 2006 the Corporation derived approximately 34% (2005 – 25.4%) of its total revenue from the Government of Alberta. As at December 31 2006, 21.2% (2005 – 20.4%) 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, U.S. dollars and Euros. In 2006, approximately \$1,214 of revenue was generated in U.S. dollars and Euros. The Corporation has not entered into foreign exchange contracts to hedge against gains or losses from foreign currency fluctuations.

SUBSEQUENT EVENTS

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.

On March 1, 2007, the Corporation announced that it has 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 wellsite. 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 data. As consideration, CriticalControl paid \$225 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 agreed to settle the deferred payment that was payable upon meeting certain performance criteria to Crimtech for \$135. This component of the purchase price will be recognized as an additional cost of the purchase being assigned to customer relationships and contracts.

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-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.

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 and Euros. 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 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 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 \$150 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 2006.

SUMMARY OF SHARE CAPITAL

Issued and Outstanding

	Number	Amount
Common shares:		
Balance, December 31, 2005	126,121,271	\$22,986
Issued on exercise of stock options	215,659	38
Issued on exercise of warrants	1,073,913	158
Issued on acquisition of RDA	189,655	55
Issued on acquisition of Protrend	1,843,318	300
Balance, December 31, 2006	129,443,816	\$23,537
Issued on exercise of stock options	45,666	5
Issued on acquisition of Idein Technologies	1,133,333	255
Balance April 10, 2007	130,622,815	\$23,797

Stock Options

	Number of options	Weighted-average exercise price
Outstanding, December 31, 2005	5,166,433	\$0.15
Granted	145,000	\$0.21
Exercised	(215,659)	\$0.10
Cancelled	(1,076,174)	\$0.30
Outstanding, December 31, 2006	4,019,600	\$0.12
Exercisable, December 31, 2006	3,306,765	\$0.11
Exercised	45,666	0.10
Outstanding April 10, 2007	3,973,934	\$0.12
Exercisable, April 10, 2007	3,261,099	\$0.11

Deferred Annual Bonus and share purchase plan shares

	Deferred common shares	Amount
Outstanding, December 31, 2005	0	\$0
Issued	181,035	52
Outstanding, December 31, 2006	181,035	\$52

Warrants and Special Warrants

	Number of warrants	Weighted-average exercise price
Outstanding, December 31, 2005	27,166,823	\$0.27
Exercised	(1,073,913)	\$0.11
Expired	(1,000,000)	\$0.90
Outstanding, December 31, 2006	25,092,910	\$0.23
Expired	2,000,000	\$0.40
Outstanding, April 10, 2007	23,092,910	\$0.22

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 will leverage the compliance momentum developed in the design phase, and plans to jumpstart 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.

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 the trend to execute on its plan to consolidate technologies and service offerings critical to both the Government and Energy sectors. The results for the fourth quarter of 2006 are indicative of the success of this strategy.

In March 2006, the Company announced the renewal of its relationship with a major government client, ensuring an annual \$3,450 in recurring revenue into 2011. This contract combined with the continued expansion of imaging services to provincial government clients has resulted in an even stronger recurring revenue base from the Company's government offering for at least the next 8 quarters.

Growth in 2007 in the Government sector will be dampened due to the cost of labour and the resulting impact on gross margins. Notwithstanding the foregoing, management anticipates 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 improving in 2008 once labour cost increases can be reflected into the Corporation's longer term contracts.

Growth in overall gross margin, and ultimately growth in net income in 2007 will be ultimately derived from the execution of the Corporation's business plan for its offering to its upstream oil and gas clients ("Upstream Strategy"). Management



anticipates that the Corporation's Upstream 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 Upstream Strategy concentrates on the areas of the Company capable of long term recurring profitability. The acquisition of the RDA Network in April 2006, and of ProTrend Software in August 2006 is proof of this commitment. With these acquisitions, management believes the Corporation has developed a market leadership position in gas measurement serving over 250 clients in the upstream energy industry. 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, and value-added services to manage fluid analysis data and to enable well revenue accounting through the Corporation's proprietary ProTrend application. The following metrics reflect our market leadership position in the gas measurement arena.

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

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.

In December, 2006, ProTrend provided services for over 39,000 measurement points to 18 clients. Of the over 39,000 measurement points on the ProTrend database, approximately 5,800 are 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 will continue in 2007, resulting in increased gross margin as a percentage of revenue.

The Corporation is executing a two-fold strategy designed to fuel growth into 2007: 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"). The company's accounting policies remained unchanged in 2006.

Future Accounting Policy Changes

The CICA has issued standards 1530 Comprehensive Income, 3855 Financial Instruments – Recognition and Measurement, and 3865 Hedges, which are applicable to interim and annual financial statements beginning on or after October 31, 2006. Based on the Company's assessment and categorization of its financial instruments, no impact is expected upon adoption of these sections.

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



CRITICALCONTROL SOLUTIONS CORP.



Management Discussion and Analysis

For the Year Ended December 31, 2006

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Alykhan Mamdani	President and Chief Financial Officer
Hashu Remtulla	Vice President and Corporate Controller
Willis Groshong	Executive Vice President, Edmonton Region
Jack Ladick	Vice President, Information Management Solutions
Tim Walker	Vice President, Business Development, Government Services
Brenton Lawther	Vice President, Upstream Technologies
Bob Gray	Vice President, Business Development, Energy Solutions