

## Management Discussion and Analysis

For the Quarter Ended September 30, 2006

*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 and nine months ended September 30, 2006. This report should be read in conjunction with the Corporation's December 31, 2005 audited consolidated financial statements and the September 30, 2006 unaudited interim consolidated financial statements and accompanying notes presented in accordance with Canadian generally accepted accounting principles ("GAAP"), as well as the Corporation's December 31, 2005 MD&A.*

*This Management Discussion and Analysis is prepared as of November 20, 2006 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. We base our estimates on historical experience, current trends and various other assumptions that are believed to be reasonable under the circumstances, however 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 the nine months ended September 30, 2006:

- 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. In addition \$108 will be payable over 3 years based upon 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 measurement points, increasing CriticalControl's value proposition to its clients.
- 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 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.
- 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 major government client. 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.

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. Revenue increased by 15% (\$806) in Q3 of 2006 from Q3 of 2005, due primarily to the acquisitions of Netflow (July 2005), Deines Imaging (November 2005) ("Deines"), the RDA Network (May 2006) and ProTrend (August 2006).

The Corporation recorded a net loss of \$192 for Q3 of 2006 compared to a net loss of \$467 for Q3 of 2005. \$202 of the \$275 improvement in earnings was due to the fluctuation in the exchange rate between the Canadian and US dollar and the reduction of costs due to the extension of the long-term debt.

### Summary of Quarterly Results

Two Year Summary By Quarter								
Years ended December 31,								
	2006				2005			2004
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Revenue	6,064	6,106	6,893	5,998	5,258	5,261	3,570	3,780
Net income (loss)	(192)	(203)	97	(140)	(467)	95	(813)	(1,808)
EBITDA <sup>(3)</sup>	531	595	880	675 <sup>(1)</sup>	351	776	(195)	(466) <sup>(2)</sup>
Income (loss) per share	0.00	0.00	0.00	0.00	0.00	0.00	(0.01)	(0.02)

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

<sup>(2)</sup> Included a provision of \$652 for contract losses.

<sup>(3)</sup> EBITDA, defined as earnings before interest, taxes, depreciation and amortization, does not have any standardized meaning prescribed by GAAP, and may not be comparable to similar measures used by other companies. Management believes that EBITDA is a key performance indicator of the operational performance as it approximates cash generated from operations before capital expenditures, change in working capital and other non operating items.

Revenue increases in Q3 of 2006 from Q3 of 2005 resulted from both organic growth and the acquisition of Deines adding revenue of \$423, the RDA Network adding revenue of \$247, and ProTrend adding \$90 in Q3 of 2006.

### RESULTS OF OPERATIONS

#### Comparison of the three months ended September 30, 2006 and 2005

#### Revenue

During 2005, the Corporation undertook a review of its operations to focus on identifying key areas of potential growth to increase profitability. The key segments identified were Government and Energy. All

public company costs, interest and other expenses not directly attributed to the two 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.

	Three months ended September 30,		
	2006	2005	Change
<b>Revenue:</b>			
Government	\$2,595	\$2,180	19%
Energy	3,282	2,492	32%
Other	187	586	(68%)
	<b>\$6,064</b>	<b>\$5,258</b>	<b>15%</b>

Total revenue increased to \$6,064 for the three months ended September 30, 2006 from \$5,258 for the same period in 2005 – an increase of \$806 or 15%. The acquisition of Deines, the RDA Network and ProTrend in August 2006 contributed additional revenue of \$760 for the three month period ended September 30, 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. As the Corporation’s business matured and took shape in 2005, management commenced phasing out operations outside its areas of strategic focus. As such, revenues from outside the Government and Energy sectors decreased by 68%, while revenues from the Government and Energy sectors increased 19% and 32%, respectively.

**Government**

Revenue from the Government sector increased by \$415, from \$2,180 for the three months ended September 2005 to \$2,595 for the same period in 2006. Increased revenue was attributed to:

- \$219 was attributed to the acquisition of Deines Imaging on October 31, 2005.
- The remaining \$196 or 8% of the Government revenue for the three months ended September 30, 2006 resulted from organic growth, primarily due to an increase in the imaging and document control services provided to various ministries of the Government of Alberta.

On a sequential quarterly basis, revenue dropped \$354 from Q2 to Q3 2006 primarily due to the seasonal slowdown in government business.

**Energy**

Revenue from the Energy sector increased by \$790, increasing from \$2,492 for the three months ended September 2005 to \$3,282 for the same period in 2006. Increased revenue from organic growth and acquisitions was attributed to:

- \$50 of the increase resulted from growth in the Corporation’s proprietary ScanGas solution, which facilitates the digital capture and electronic handling of gas measurement charts and gas measurement data.
- \$765 of the increase resulted from growth in Netflow, including, in part, an increase due to the acquisition of the RDA Network in May 2006. This increase also includes \$388, which was a result of the sale of field devices and related equipment required to integrate into the Netflow architecture.
- \$87 was attributed to the acquisition of Deines.

- \$90 of the increase resulted from the acquisition of ProTrend.
- On a quarter over quarter basis, revenues from both BMP Energy and Netflow increased steadily since their acquisition and management expects this trend to continue to fuel the Corporation's growth in 2006.
- Growth from the acquisitions of ProTrend and Deines plus organic growth from ScanGas, Netflow and the consulting & third party hardware / software sales of \$28 was tempered by reduced revenue of \$230 from consulting and the Corporation's proprietary pipeline operations applications ("PipeWorks"). Management is currently concentrating its efforts in developing a new component to the PipeWorks Suite designed to reduce power consumption in a pipeline. The Corporation has secured its first sale of this new component, called PipeOptimizer in Q3 of 2006 for delivery in 2007.
- Revenue from US customers was \$226 for the three months ended September 30, 2006 compared to \$388 for the same period ended September 30, 2005. The decrease is due to the completion of several contracts for implementation of PipeWorks.

On a sequential quarterly basis, the \$336 increase in the Energy Sector from Q2 2006 was related to an increase in hardware sales of electronic flow measurement devices, along with an increase in recurring revenue from the Corporation's ScanGas application and the acquisition of ProTrend.

**Cost of Revenue and Gross Margin**

	Three months ended		
	September 30,		
	2006	2005	Change
<b>Cost of revenue:</b>			
Government	\$1,558	\$ 1,202	30%
Energy	1,750	1,510	16%
Other	93	320	(71%)
	\$3,401	\$3,032	12%
<b>Gross margin: <sup>(1)</sup></b>			
Government	1,037	978	6%
Energy	1,532	982	56%
Other	94	266	(65%)
	\$2,663	\$2,226	20%
<b>Gross margin percentage: <sup>(1)</sup></b>			
Government	40%	45%	(5%)
Energy	47%	39%	8%
Other	50%	45%	5%
	44%	42%	2%

<sup>(1)</sup> Gross margin, defined as revenue less direct cost of revenue, and gross margin percentage do not have any standardized meaning prescribed by GAAP, and may not be comparable to similar measures used by other companies. Management believes that Gross Margin is a key performance indicator of the operational performance of the Corporation's business and its ability to increase profitability through growth.

For the three months ended September 30, 2006, the cost of revenue increased by 12% and gross margin, defined as revenue less cost of revenue, increased by 20% as a result of the acquisitions and related increase in revenue. As a percentage of revenue, gross margin improved to 44% in 2006 from 42% for the same period 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. Cost of Revenue increased by 30% from the three months ended September 2005 to the three months ended September 30, 2006, while revenue increased by 19%. Most of the increase in cost was related to the wages due to the economic growth and labor shortages that Alberta is experiencing.

**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. Cost of Revenue increased by 16% from the three months ended September 2005 to the three months ended September 30, 2006, while revenue increased by 32% mostly due to the nature of the recurring revenue from NetFlow and RDA devices.

A primary objective of the Corporation in 2006 is to continue the growth associated with its Netflow business, which 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. The addition of RDA enhanced this objective and doubled the number of devices on the network. 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 10% or less. Consequently, these third party hardware sales resulted in revenue of \$691 and cost of revenue of \$555 for the three months ended September 30, 2006. Excluding this non-strategic portion of the Corporation's business from its results, revenues from the Energy Sector would amount to \$2,591 and Cost of Revenue would come in at \$1,195, resulting in a gross margin of \$1,396 or 54%.

Given the demand for the Corporation's Netflow service, management expects the low margin business, associated with third party hardware sales required for initial installation, to grow substantially in 2006, but such sales will fuel the steady, strong growth of a recurring, higher margin revenue stream.

**Operating Expenses**

	Government		Energy		Corporate & Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>For the three months ended September 30,</b>								
Selling & Administrative Expenses	211	119	796	390	882	1,091	1,889	1,600
Research and Development	-	-	228	257	-	-	228	257
Amortization of Property & Equipment	44	44	110	154	141	111	295	309
Amortization of Customer Relationships & Contracts	53	77	72	6	-	-	125	83
Interest, Contract Losses & Other Expenses	-	-	-	-	318	444	318	444
	\$308	\$240	\$1,206	\$807	\$1,341	\$1,646	\$2,855	\$2,693

### **Selling and Administrative Expenses**

Selling and administrative expenses increased by 18% to \$1,889 for the three months ended September 30, 2006 compared to the three months ended September 2005. As with the cost of revenue, the largest component of selling and administrative expenses is salaries, which amounted to \$1,290 for the three months ended September 30, 2006 compared to \$ 1,005 for the same period in 2005 – an increase of 28% primarily resulting from acquisitions and organic growth. In 2006 various reductions continue to be made to streamline administrative functions and eliminate duplicate positions resulting from these acquisitions.

Unprecedented economic growth in Alberta generally and in Calgary, Alberta specifically, has led to increased labour and overhead costs. Although labour costs affecting gross margin have been offset through the Corporation's investment in its technologies, the negative affect of increased costs will continue to impact Selling and Administrative Expenses.

### **Research and Development**

With the Corporation's proprietary products having matured from development to commercialization, the Corporation's costs related to continued development of its products are expensed. Although, the research and development for the expansion of the Corporation's PipeWorks Suite into new functionality such as scheduling and power optimization continued, costs decreased from \$257 for the three months ended September 2005 to \$228 for the same period in 2006. Notwithstanding the foregoing, the Corporation has set out an aggressive development plan for its gas measurement group and as such, overall research and development costs are expected to increase. The Corporation intends to continue investment in its proprietary technologies at a growing rate in 2007.

### **Amortization**

Amortization of property and equipment decreased from \$309 for the three months ended September 2005 to \$295 for the same period in 2006. Amortization of customer relationships & contracts increased from \$83 for the three months ended September 2005 to \$125 for the same period in 2006 primarily due to amortization of the customer relationships & contracts from new acquisitions. Contracts associated with earlier acquisitions made by the Corporation in the Government sector have been fully amortized.

Total amortization increased in the Corporation's Energy business by 14%. The overall increase was due to the amortization of certain customer contracts related to the acquisition of RDA and ProTrend offset by a reduction in the amortization of property and equipment due to the decrease in the size of the pool of software related to the acquisition of TCENet Inc. in 2003. Total amortization related to the Energy business is expected to increase as the Corporation continues to build its business in the sector through acquisitions.

### **Interest, Contract Losses and Other Expenses**

Debt service costs decreased for the three months ended September 30, 2006 to \$318 from \$444 for the same period in 2005 due to the amendment and extension of the debenture payment and subsequent reduction of the monthly non-cash interest expense related to the warrants issued in conjunction with the financing. \$91 (or 29%) of the Q3 interest expense was non-cash interest compared with \$205 (or 46%) for the comparable period in 2005. 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 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 three months ended September 30, 2006 was \$192, an improvement of \$275 over the net loss of \$467 for the three months ended September 2005. The overall gross margin improved by \$437, while expenses increased only by \$162.

## RESULTS OF OPERATIONS

Comparison of the Nine months ended September 30, 2006 and 2005

### Revenue

	Nine months ended September 30,		Change
	2006	2005	
<b>Revenue:</b>			
Government	\$8,851	\$6,246	42%
Energy	9,511	6,301	51%
Other	701	1,542	(55%)
	\$19,063	\$14,089	35%

Total revenue increased to \$19,063 for the nine months ended September 30, 2006 from \$14,089 for the same period in 2005 – an increase of \$4,974 or 35%. The acquisition of BMP in March 2005, Netflow in July 2005, Deines in November 2005, RDA in May 2006 and ProTrend in August 2006 contributed additional revenue of \$5,468 for the nine month period ended September 30, 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. As the Corporation's business matured and took shape in 2005, management commenced phasing out operations outside its areas of strategic focus. As such, revenues from outside the Government and Energy sectors decreased by 55%, while revenues from the Government and Energy sector increased 42% and 51%, respectively.

### Government

Revenue from the Government sector increased by \$2,605, from \$6,246 for the nine months ended September 2005 to \$8,851 for the same period in 2006. Increased revenue was attributed to:

- \$806 was attributed to the acquisition of Deines Imaging on October 31, 2005.
- The remaining \$1,799 or 20% of the Government Revenue for the nine months ended September 30, 2006 resulted from organic growth, primarily due to an increase in the imaging and document control services provided to various ministries of the Government of Alberta.

### Energy

Revenue from the Energy sector increased by \$3,210, increasing from \$6,301 for the nine months ended September 2005 to \$9,511 for the same period in 2006. Increased revenue was attributed to:

- \$1,352 of the increase resulted from the acquisition of BMP Energy on March 31, 2005.
- \$2,564 of the increase resulted from the acquisition of Netflow on July 1, 2005 of which \$2,092 was from hardware sales.

- \$274 was attributed to the acquisition of Deines Imaging on October 31, 2005.
- \$382 was attributed to the acquisition of RDA in May 2006.
- \$90 of the increase resulted from the acquisition of ProTrend on August 1, 2006.
- Growth from the acquisitions of BMP, Netflow, Deines, Protrend and RDA and increased revenue from the consulting & third party hardware / software sales of \$64 was tempered by reduced revenue of \$1,516 from consulting and the Corporation's proprietary pipeline operations applications ("PipeWorks").
- Revenue from US customers was \$633 for the nine months ended September 30, 2006 compared to \$1,235 for the same period ended September 30, 2005. The decrease is due to the completion of several contracts for implementation of PipeWorks.

**Cost of Revenue and Gross Margin**

	Nine months ended		
	September 30,		
	2006	2005	Change
<b>Cost of revenue:</b>			
Government	\$4,974	\$3,926	27%
Energy	5,241	3,690	42%
Other	332	909	(63%)
	\$10,547	\$8,525	24%
<b>Gross margin: <sup>(1)</sup></b>			
Government	3,877	2,320	67%
Energy	4,270	2,611	64%
Other	369	633	(42%)
	\$8,516	\$5,564	53%
<b>Gross margin percentage: <sup>(1)</sup></b>			
Government	44%	37%	7%
Energy	45%	41%	4%
Other	53%	41%	12%
	45%	40%	5%

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

For the nine months ended September 30, 2006, the cost of revenue increased by 24% and gross margin, defined as revenue less cost of revenue, increased by 53% as a result of the acquisitions and related increase in revenue. As a percentage of revenue, gross margin improved to 45% in 2006 from 40% for the same period 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. However, cost of revenue increased by 27% from the nine months ended September 2005 to the nine months ended September 30, 2006, while revenue increased by 42%. This difference is associated with economies of scale gained in the Corporation's imaging and document control offering and has resulted in significantly improved gross margins.

**Energy**

Cost of Revenue for the Corporation's offering in the Energy Sector increased by 42% from the nine months ended September 2005 to the nine months ended September 30, 2006 while revenue increased by 51% mostly due to the nature of the recurring revenue from NetFlow and RDA devices.

A primary objective of the Corporation in 2006 is to continue the growth associated with its Netflow business, which enables gas producers to electronically gather gas volume information from the well site and using the same software, to control various electronic devices at the well site. The addition of RDA enhanced this objective and doubled the number of devices on the network. 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 10% or less. Consequently, these third party hardware sales resulted in Revenue of \$2,395 and Cost of Revenue of \$1,988 for the nine months ended September 30, 2006. Excluding this non-strategic portion of the Corporation's business from its results, Revenues from the Energy Sector would amount to \$7,116 and Cost of Revenue would come in at \$3,253, resulting in a gross margin of \$3,863 or 54%.

Given the demand for the Corporation's Netflow service, management expects the low margin business, associated with third party hardware sales required for initial installation, to grow substantially in 2006, but such sales will fuel the steady, strong growth of a recurring, higher margin revenue stream.

**Operating Expenses**

	Government		Energy		Corporate & Other		Total	
	2006	2005	2006	2005	2006	2005	2006	2005
<b>For the nine months ended September 30,</b>								
Selling & Administrative Expenses	836	249	1,984	770	2,852	3,013	5,672	4,032
Research and Development	-	-	686	677	-	-	686	677
Amortization of Property & Equipment	130	126	498	347	198	158	826	631
Amortization of Customer Relationships & Contracts	141	369	206	66	-	-	347	435
Interest, Contract Losses & Other Expenses	-	-	-	-	1,283	975	1,283	975
	<b>\$1,107</b>	<b>\$744</b>	<b>\$3,374</b>	<b>\$1,860</b>	<b>\$4,333</b>	<b>\$4,146</b>	<b>\$8,814</b>	<b>\$6,750</b>

**Selling and Administrative Expenses**

Selling and administrative expenses increased by 41% to \$5,672 for the nine months ended September 30, 2006 compared to the nine months ended September 2005. As with the cost of revenue, the largest component of selling and administrative expenses is salaries, which amounted to \$3,627 for the nine months ended September 30, 2006 compared to \$2,345 for the same period in 2005 – an increase of 55% primarily resulting from acquisitions and organic growth. In 2006 various reductions continue to be made to streamline administrative functions and eliminate duplicate positions resulting from these acquisitions.

## Research and Development

With the Corporation's proprietary products having matured from development to commercialization, the Corporation's costs related to continued development of its products are expensed. As such, the research and development costs for the expansion of the Corporation's PipeWorks Suite into new functionality such as scheduling and power optimization increased marginally from \$677 for the nine months ended September 2005 to \$686 for the same period in 2006. The Corporation intends to continue investment in its proprietary technologies at a similar rate, however, research and development as a percentage of overall revenue is expected to decline in 2007.

## Amortization

Amortization of property and equipment increased from \$631 for the nine months ended September 2005 to \$826 for the same period in 2006. The increase was mostly due to more property and equipment from acquisitions. Amortization of customer relationships & contracts decreased from \$435 for the nine months ended September 2005 to \$347 for the same period in 2006. The reduction is due primarily to the completion of amortization of certain contracts associated with earlier acquisitions made by the Corporation in the Government sector.

Total amortization increased in the Corporation's Energy business by 71%. The overall increase was due to the amortization of certain customer contracts related to the acquisition of BMP Energy and Netflow offset by a reduction in the amortization of property and equipment due to the decrease in the size of the pool of software related to the acquisition of TCENet Inc. in 2003. Total amortization related to the Energy business is expected to increase as the Corporation continues to build its business in the sector through acquisitions.

## Interest, Contract Losses and Other Expenses

Debt service costs increased for the nine months ended September 30, 2006 due to the full nine months of interest expense in relation to the debt incurred by the Corporation to fund the Corporation's acquisition of BMP Energy in April 2005 versus only five months of expense in 2005. Interest expense increased from \$1,028 for the first nine months in 2005 to \$1,132 for the first nine months in 2006, or 10%. \$484 (or 43%) of the interest expense was non-cash related to warrants issued in conjunction with the financing compared with \$508 (or 49%) for the comparable period in 2005. The reduction is from the amendment and extension of the debenture payment and subsequent reduction of the monthly expense. 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 nine months ended September 30, 2006 was \$298, an improvement of \$888 over the loss of \$1,186 for the nine months ended September 2005. The overall gross margin improved by \$2,952 whereas expenses increased by only \$2,064.

## Liquidity and Capital Resources

The Corporation recorded a decrease in cash of \$1,364 for the nine months ended September 30, 2006 compared to an increase of \$2,941 for the same period in 2005.

Cash flow from operating activities for the nine months ended September, 2006 amounted to \$485 compared to cash flow usage of \$7 for the same period in 2005. Cash flows used in financing activities were \$191 for the nine months ended September 30, 2006 compared to cash flows of \$7,917 from financing activities for the same period in 2005. In March 2005, the Corporation closed a private placement of a

debenture with a principal amount of \$4,250, the net proceeds of which were used to fund the acquisition of BMP Energy. The Corporation's operating and term loans was reduced by \$1,233 for the nine months ended September 30, 2006 compared to \$382 for the same period ended in 2005.

Cash used in investing activities for the nine months ended September 30, 2006 was \$1,658 and \$4,969 for the same period in 2005. \$388 was used to acquire capital assets while \$1,270 was used for the RDA and ProTrend acquisitions. For the period ended September 2005, \$4,461 was related to acquisitions, while cash used to acquire capital assets was \$508.

Working Capital decreased from \$2,597 at December 31, 2005 to \$2,242 at September 30, 2006 mostly due to the acquisitions of RDA and ProTrend during 2006.

As the Corporation increases its sales and marketing efforts in its combined upstream offering in the Energy sector, management expects to require more working capital to ensure adequate resources and inventory are available to meet the expected demand for the Corporations solutions.

## **FINANCIAL INSTRUMENTS**

### **Fair value**

As at September 30, 2006, 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 nine months ended September 30, 2006 the Corporation derived approximately 34% (2005 - 29%) of its total revenue from the Government of Alberta. As at September 30, 2006, 19% (2005 - 24%) 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. For the nine months ended September 30, 2006, approximately \$749 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.

## **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.

**Access to Labour**

The strong economy in Alberta generally has resulted in the reduction of available labour resources to fill many vacancies. This has resulted in a significant increase in costs and competition for resources. A continued increase in costs would directly affect the Corporation's competitive position and ability to perform services.

**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 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 interests. 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 or 2005.

## SUMMARY OF SHARE CAPITAL

### Issued and Outstanding

	Number of Common shares	Amount
Balance, December 31, 2005	126,121,271	\$22,987
Issued on exercise of stock options	209,659	37
Issued on exercise of warrants	645,500	97
Issued on acquisition of RDA	189,655	55
Balance, June 30, 2006	127,166,085	\$23,176
Issued on exercise of options	6,000	1
Issued on exercise of warrants	428,413	61
Issued on acquisition of ProTrend	1,843,318	300
Balance, September 30, 2006	129,443,816	\$23,538

### Stock Options

	Number of options	Weighted-average exercise price
Outstanding, December 31, 2005	5,166,433	\$0.15
Granted	12,500	0.29
Exercised	(209,659)	0.10
Cancelled	(803,674)	0.28
Outstanding, June 30, 2006	4,165,600	\$0.13
Exercisable, June 30, 2006	3,266,069	\$0.13
Granted in Q3-2006	132,500	0.21
Exercised in Q3-2006	6,000	0.10
Outstanding, September 30, 2006	4,292,100	\$0.13
Exercisable, September 30, 2006	3,330,069	\$0.13

### Warrants and Special Warrants

	Number of warrants	Weighted-average exercise price
Outstanding, December 31, 2005	27,166,823	\$0.27
Exercised	(645,500)	0.11
Expired	(1,000,000)	0.90
Outstanding, June 30, 2006	25,521,323	\$0.23
Exercised	(428,413)	0.11
Outstanding, September 30, 2006	25,092,910	\$0.23

## OUTLOOK & GUIDANCE

The Corporation's net loss for the three months ended September 30, 2006 was \$192, an improvement of \$275 over the net loss of \$467 for the three months ended September 2005. An increase of \$806 (15.3%) in overall Revenue for the Quarter compared to the same quarter last year resulted in an increased Gross Margin of \$437 (19.6%). The positive impact to the Corporation's net loss in the Quarter was dampened by increased Selling and Administrative Expenses of \$189 (11.8%) compared to the same quarter last year. During the Quarter, the Corporation reduced its cost of borrowing by \$139 (32.6%) compared to the same quarter last year, by extending its facilities with Wellington Financial

The labour market in Alberta continued to negatively impact the Corporation's Cost of Revenue, and its Selling and Administrative Expenses for the three months ended September 30, 2006. However, the negative effect on Gross Margin was offset by an ongoing effort to increase productivity through the implementation of technology. 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.

Due to the longer nature of the Corporation's contracts in the Government sector and the high correlation between labour cost and revenue derived from the Government sector, management anticipates continued pressure in maintaining gross margins in its Government business in 2007. Management anticipates gross margins improving in 2008 once labour cost increases can be reflected into the Corporation's longer term contracts.

Given the fiscally cyclic nature of the Corporation's business in both Government and Energy, management anticipates fourth quarter 2006 performance to be in line with the first quarter, which is traditionally the Corporation's strongest. 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.

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"), the growth of which is not materially impacted by the cost of labour in Alberta. 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 May 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
Chart Recorders - Measurement	32,199	33,309	32,625
Electronic Flow Measurement Devices - Measurement and Control	597	1,494	1,831
Fluid Analysis – Composition Management			35,464

The acquisition of the RDA Network in May 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 September, 2006, ProTrend provided services for over 35,000 measurement points to 16 clients. Of the over 35,000 measurement points on the ProTrend database, approximately 5,000 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 2006 and 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.

**OTHER**

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

# CRITICALCONTROL SOLUTIONS CORP.



## Management Discussion and Analysis

For the Period Ended September 30, 2006

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William Hammett  
Robert McClinton

### Officers:

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