



**CriticalControl Solutions Corp.**  
**Management, Discussion & Analysis**  
**June 30, 2010**

*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 period ended June 30, 2010 prepared as of August 4, 2010. This report should be read in conjunction with the Corporation's December 31, 2009 audited consolidated financial statements and accompanying notes presented in accordance with Canadian generally accepted accounting principles ("GAAP").*

***All financial information is presented in thousands of Canadian dollars, except share data.***

## CORPORATE DEVELOPMENTS

Revenue increased by 128% to \$12,796 for three months and by 114% to \$25,838 for the six months ended June 30, 2010 compared to \$5,616 and \$12,062 respectively for the same period in 2009.

Revenue from the Corporation's Service Bureau Operations increased by 74% for the three months and 62% for the six months ended June 30, 2010 due to the Corporation's acquisitions in Manitoba and Ontario completed in the last half of 2009.

Revenue associated with the Corporation's Energy Services business increased by 180% for the three months and 169% for the six months ended June 30, 2010 as a result of the Corporation's expansion into the United States through the acquisition of GAS Analytical Service, Inc. ("GAS") completed in Q3 2009.

Income before tax increased by 182% to \$1,318 for three months and by 80% to \$2,029 for the six months ended June 30, 2010 compared to \$466 and \$1,126 respectively for the same period in 2009.

Net income increased by 113% to \$996 for three months and by 34% to \$1,506 for the six months ended June 30, 2010 compared to \$466 and \$1,126 respectively for the same period in 2009. The Corporation's results for the quarter included amortization costs of \$645 (\$400 in Q2, 2009) interest of \$179 (\$nil in Q2, 2009) and taxes from the Corporation's profitable US operations of \$322 (\$nil in Q2 2009).

On May 1, 2010, the Corporation acquired 100% of the outstanding shares of QM4 Engineering Ltd. ("QM4") for \$500 cash. Additional contingent consideration totaling a maximum of \$3,000 will be payable over the next 5 years upon meeting certain revenue growth criteria. The purchase price was financed by a term loan from the Corporation's bank at prime plus 1.55%, repayable on December 31, 2010. QM4 is a provider of advanced algorithms which analyze natural gas production and composition information together with spatial data to determine areas of risk for production flow degradation and corrosion in complex gathering systems.

On June 30, 2010, the Corporation closed a non brokered private placement for gross proceeds of \$2,340 and issued 3.9 million shares at \$0.60 per share to three institutional shareholders. The third party brokerage fees and other costs amounted to \$140.

## SELECTED QUARTERLY INFORMATION

	Three months ended June 30, 2010	Three months ended June 30, 2009
Revenue	12,796	5,617
Gross Margin <sup>(2)(3)</sup>	5,701	2,984
Income before tax	1,318	466
Net Income	996	466
Net Income per share – basic	0.03	0.01
Interest	179	-
Current Assets	15,009	5,582
Current Liabilities	9,770	2,233
Working capital <sup>(1)(2)</sup>	5,239	3,349
Total assets	40,980	18,059
Total long-term debt (excluding current portion)	6,919	-
Total equity	21,297	14,756

<sup>(1)</sup> Working capital, defined as current assets less current liabilities, is a non-GAAP measure and may not be comparable to similar measures used by other companies. Management believes that working capital is an indicator of the Corporation's liquidity and its ability to meet its current obligations.

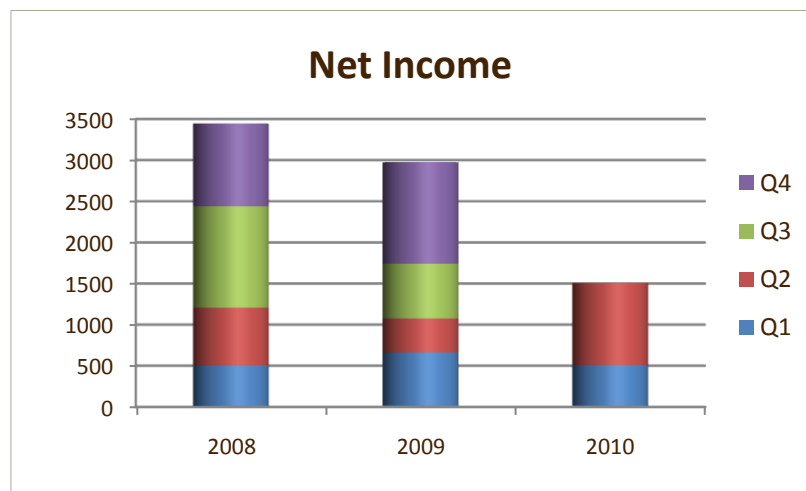
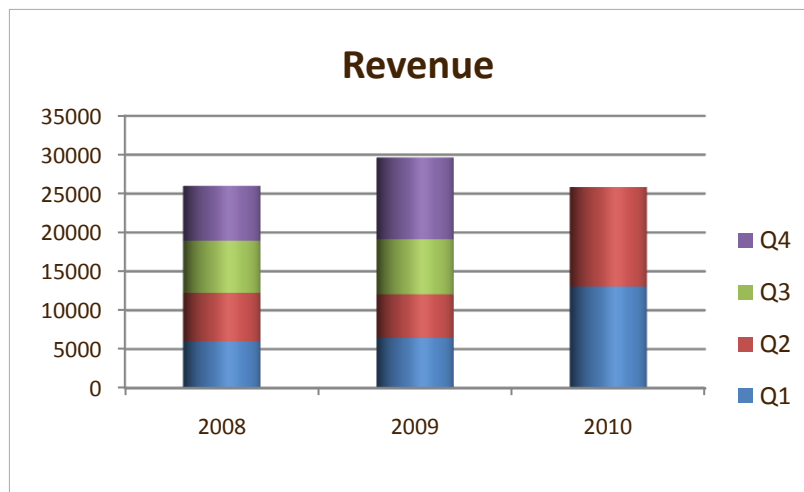
<sup>(2)</sup> Readers are cautioned not to view this non-GAAP financial measure as an alternative to financial measures calculated in accordance with GAAP.

<sup>(3)</sup> Gross margin is a non-GAAP measurement that management believes is a useful supplemental measure of operations.

## SUMMARY OF QUARTERLY RESULTS

The following table presents certain financial information on a consolidated basis for the last eight quarters.

	Years ended December 31,							
	2010		2009			2008		
	Q2	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Revenue	12,796	13,042	10,511	7,057	5,617	6,445	7,037	6,699
Income before tax	1,318	711	1,082	665	466	660	1,006	1,232
Net Income	996	510	1,233	665	466	660	1,006	1,232
Net income per share	0.03	0.01	0.03	0.02	0.01	0.02	0.02	0.03



## CORPORATE PROFILE

CriticalControl Solutions Corp. (the “Corporation” or “CriticalControl”) enables its clients to increase operational performance through the better control of critical business information. Integrating technology with labour intensive processes of imaging and data entry, CriticalControl empowers its clients to increase their competitiveness, reduce operating expenses and improve margins.

### Service Bureau Operations

The Corporation’s Service Bureau Operations include the implementation of technology and provision of outsourced solutions to streamline information intensive business functions of its clients primarily in the Government, Health Care, Financial and Retail industries. Services include:

1. Development of a strategic plan to determine how information must be managed within an organization and how the information is required to be accessed and integrated into the workflow of such organization. This process typically results in an information management plan, the evaluation of a document management system and the need to develop a records management solution;
2. Professional services to implement a document management or records management solution;
3. Conversion of information from an existing form to a form required under the information management plan. This entails the possible conversion of large scale repositories from paper or microfilm to digital media and/or microfilm as required, or day forward conversion for the integration of all new information from communication or business into an information management system;
4. Outsourcing of business processes in their entirety; and
5. Imaging equipment sales and service.

### Energy Services

The Corporation’s Energy Services comprises of service bureau operations of a specialized integrated solution for its upstream and midstream oil and gas clients, including management tools and services to manage daily operations including critical production measurement data and a suite of products and integrated services, comprising of:

1. Volumetric data management – with advanced digital gas chart integration and a proprietary comprehensive webSCADA application capable of capturing and managing electronic data from any digital source at the well site, the Corporation’s suite of tools provide a single repository for volumetric data regardless of the technology implemented at a well site.
2. Fluid composition management – integrating upstream and midstream systems with data directly from any measurement laboratory, the Corporation provides an industry standard method of managing composition of fluids from a well and having a validated single source repository for this data for any department or partner requiring composition data.
3. Schematic and document repository - this offering includes capture, validation and cleanup of a client’s data related to plants and facilities. This includes services to map how each well is connected in a client’s gathering pipeline system using the Corporation’s proprietary applications.
4. Equipment – this offering includes the sale, assembly and installation of third party orifice measurement devices and related equipment to the Corporation’s customer base primarily in the North Eastern United States.

## RESULTS OF OPERATIONS

### Revenue

	Three Months Ended, June 30			Six Months Ended June 30		
	2010	2009	Change	2010	2009	Change
Revenue						
Service Bureau Operations	4,835	2,776	74%	9,924	6,142	62%
Energy Services	7,961	2,841	180%	15,914	5,920	169%
	12,796	5,617	128%	25,838	12,062	114%

#### Service Bureau Operations

Revenue for the Corporation's Alberta based service bureau decreased by \$756 for the three months ended June 30, 2010 and by \$2,044 for the six months corresponding period in 2009. The reduction is attributed to a decrease in spending in capital projects and long term projects not being pursued due to government budgetary restrictions. The decline was offset by the Corporation's aggressive expansion into other Canadian Provinces resulting in offsetting revenue of \$2,814 for the three months and \$5,825 for the six months ended June 30, 2010 from the acquisitions of BPOMS and Southport.

#### Energy Services

Growth in the Corporation's Energy Services business is, in part, dependent on variations in industry drilling activity related to the price of natural gas. The Corporation's Energy business had a \$5,120 (180%) growth for the three months and \$9,995 (169%) for the six months ended June 2010 when compared to the same periods in 2009. The growth in revenue was due primarily to revenue of \$5,268 for the three months and \$10,266 for the six months from the acquisition of GAS.

### Cost of Revenue and Gross Margin

	Three Months Ended June 30			Six Months Ended June 30		
	2010	2009	Change	2010	2009	Change
<b>Cost of Revenue</b>						
Service Bureau Operations	3,114	1,665	87%	6,630	3,698	79%
Energy Services	3,981	968	311%	8,006	2,091	283%
	7,094	2,633	169%	14,636	5,789	153%
<b>Gross margin <sup>(1)</sup></b>						
Service Bureau Operations	1,721	1,111	55%	3,293	2,444	35%
Energy Services	3,980	1,873	113%	7,909	3,829	107%
	5,701	2,984	91%	11,202	6,273	79%
<b>Gross margin percentage <sup>(1)</sup></b>						
Service Bureau Operations	36%	40%	(10)%	33%	40%	(18)%
Energy Services	50%	66%	(24)%	50%	65%	(23)%
	45%	53%	(15)%	43%	52%	(17)%

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

#### Service Bureau Operations

Gross margin in the Corporation's Service Bureau Operations for the three months and the six months ended June 30, 2010 compared to the same periods in 2009, declined despite an increase in revenue. As the Corporation executed on its aggressive growth strategy to offset reduced revenue in Alberta with new revenue streams from outside Alberta, historic benefits of economies of scale were lost. Additionally, the Corporation's acquisition of BPOM's business included sales of third party imaging equipment, the gross margin of which as a percentage of revenue was lower than the Corporation's historic operations.

## Energy Services

Gross margin as a percentage of revenue in the Corporation's Canadian Energy Services business continued to increase to 70% for the three months and 69% for the six months ended June 30, 2010 from 66% and 65% for the comparative periods in 2009. This increase was offset by the Corporation's newly acquired United States based operations, GAS, with lower historic gross margins of 40% for the three months and 39% for the six months ended June 30, 2010, due to the more competitive margins associated with the sale and installation of gas measurement meters and related equipment.

## Operating Expenses

	Service Bureau Operations		Energy Services		Corporate		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
<b>For the three months ended June 30,</b>								
Selling & administrative expenses	1,417	763	817	638	1159	552	3,393	1,953
Research and development expenses		-	328	174	-	-	328	174
Amortization of property & equipment	108	60	176	192	22	1	306	253
Amortization of customer relationships & contracts	171	53	168	94	-	-	339	147
Interest and other expenses	-	-	-	-	18	(9)	18	(9)
	1,696	876	1,488	1,098	1,199	544	4,383	2,518

	Service Bureau Operations		Energy Services		Corporate		Total	
	2010	2009	2010	2009	2010	2009	2010	2009
<b>For the six months ended June 30,</b>								
Selling & administrative expenses	2,960	1,508	1,850	1,357	2268	1,151	7,077	4,016
Research and development expenses	-	-	631	337	-	-	631	337
Amortization of property & equipment	220	119	415	381	24	2	658	502
Amortization of customer relationships & contracts	342	106	324	194	-	-	666	300
Interest and other expenses	-	-	-	-	140	(8)	140	(8)
	3,522	1,733	3,219	2,269	2,431	1,145	9,172	5,147

### Selling and Administrative Expenses

Selling and administrative expenses attributed to the Corporation's historic service bureau business declined by \$147 (19%) for the three months and \$218 (14%) for the six months ended June 30, 2010 compared to the same period last year due to general streamlining of expenses, offset by additional selling and administrative costs of \$1,340 for the three months and \$3,008 for the six months incurred by the addition of offices in Winnipeg and Toronto associated with the acquisition of BPOMS and Southport. The Corporation's ongoing process of reviewing and streamlining overhead costs of the acquired companies continued as part of the integration of the business units within the current administrative structure and has resulted in charges of \$118 in Q2 2010 (\$331 on a year to date basis).

Selling and administrative expenses attributed to the Corporation's historic Canadian energy business declined by \$182 (29%) for the three months and \$386 (28%) for the six months ended June 30, 2010 compared to the same period last year due to general streamlining of expenses, offset by additional selling and administrative costs of \$361 for the three months and \$880 for the six months, incurred by the addition of offices in Stonewood, WV and Indiana, PA associated with the acquisition of GAS.

Selling and administrative expenses attributed to Corporate overhead increased by \$616 for the three months and \$ 1,131 for the six months ended June 30, 2010 compared to the same period last year. The increase is attributed to general administrative expenses related to the acquired companies and costs related to the changeover to International Financial Reporting Standard ("IFRS") from GAAP, required for publically traded corporations. Also included is a onetime allowance from Q1 2010, of \$169 towards the Corporation's accounts receivable associated with a contractual relationship entered into by BPOMS prior to the Corporation's acquisition of BPOMS, the payment for which remains uncertain.

### Research and Development

The Corporation continued with its research and development initiatives to increase the functionality its Energy Services clients can derive from the Corporation's consolidated production data repository, ProStream. The Corporation increased

its research and development expenses by 88% for the three months and six months ended June 30, 2010 compared to the same periods in 2009 due to the launch of ProStream in Canada and the continued development of ProStream to handle the Corporation's US customers.

### Interest and Other Expenses

The Corporation's interest expense consisted of the following.

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Operating lines	29	-	56	6
Promissory note	91	-	186	-
Accretion of long term debt	58	-	58	-
Term loan	1	-	1	-
	179	-	301	6

### Net Income

	Three Months Ended June 30		Six Months Ended June 30	
	2010	2009	2010	2009
Income before income tax	1,318	466	2,147	1,126
Income Tax	322	-	523	-
Net income	996	466	1,624	1,126

The Corporation's results for the three months ended June 30, 2010 included amortization costs of \$645 (\$400 in Q2 2009) interest of \$179 (\$nil in Q2 2009) and taxes from the Corporation's profitable US operations of \$322 (\$nil in Q2 2009). The results for the six months ended June 30, 2010 included amortization costs of \$1,324 (\$805 in 2009), interest of \$301 (\$6 in 2009) and taxes from the Corporation's profitable US operations of \$523 (\$nil in 2009).

## LIQUIDITY AND CAPITAL RESOURCES

Working capital at June 30, 2010 was \$5,239 compared \$3,349 for the same period in 2009, an increase of \$1,890 (56%). The increase is attributed to \$1,289 from cash generated from operations and \$2,200 proceeds from a private placement offset by an additional \$1599 of the Corporation's long term debt becoming reclassified as current debt as it comes due within the next 12 months.

The following table shows the Corporation's financial liabilities inclusive of operating leases:

	2010	2011	2012	Beyond 2012
Operating line of credit	89	-	-	-
Accounts payable and accrued	4,334	-	-	-
Long term debt	1,993	2,417	2,729	2,989
Commitments	763	1,435	1,149	4,069
Total	7,179	3,852	3,878	7,058

Management anticipates that its current level of cash flow from operations is sufficient to meet its obligations, but expects to regularly review its level of capital resources and adjust spending accordingly. This review will consider factors such as the current economic environment, changes in demand for the Corporation's services and profitability of the Corporation's operations, any of which may materially affect the Corporation's ability to meet its obligations.

On July 30, 2009, the Corporation replaced its \$3,500 revolving operating facility with a \$5,000 revolving operating facility with a Canadian Chartered Bank. Pursuant to a US\$9,000 promissory note issued in relation to the acquisition of GAS, the Corporation has agreed with the vendor not to increase the Corporation's operating line above \$5,000 until a total of US\$3,000 has been repaid on the promissory note due to the vendor.

At June 30, 2010, the Corporation had \$631 of cash on hand and access to the remainder of its \$5,000 operating facility, subject to standard margining of accounts receivable and the outstanding letters of credit, to fund its ongoing working capital requirements for 2010. In the event of a negative material change in the Corporation's ongoing business or cash requirements to fund potential acquisitions, further financing may be necessary, the success of which will be dependent upon the Corporation's ability to access the capital markets.

## FINANCIAL INSTRUMENTS

### Fair Value

As at June 30, 2010, the estimated fair values of cash, accounts receivables, operating line of credit, long term debt, accounts payable and accrued liabilities approximated their carrying values. The stated value of the long term debt approximates its fair value at June 30, 2010.

### Credit and Concentration Risk

For the three months ended June 30, 2010 the Corporation derived approximately 12% (2009 – 44%) of its total revenue from the Government of Alberta. As at June 30, 2010, 7% (2009 – 37%) of accounts receivable pertained to this customer. Losses under other trade accounts receivable have been historically insignificant. The credit worthiness of new customers is subject to review by management and that of existing customers is monitored.

### Interest Rate Risk

The Corporation's objective in managing interest rate risk is to monitor expected volatility in interest rates while also minimizing financing expense levels. Interest rate risk mainly arises from fluctuations of interest rates and the impact on the return earned on cash and the expense on floating rate debt. On an ongoing basis, management monitors changes in short-term rates and considers long-term forecasts to assess potential cash flow impacts to the Corporation. A change of 100 basis points in the market interest rate would have had for the three months ended June 30, 2010 an approximate impact on net earnings of \$45(\$nil -2009). The Corporation does not currently hold any financial instruments to mitigate its interest risk.

## 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, 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, as well as 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 and long term debt are in U.S. dollars. Future fluctuations in the exchange rates could have a material effect on the Corporation's business and results of operations. 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.

## **Dependence on Management and Key Employees**

The Corporation's continued success will depend, to a very significant extent, on the performance and continued services of its senior management and certain other key employees, the loss of any of whom could have a material adverse effect upon the Corporation. In addition, the Corporation has hired a number of key managers within the past four years and may continue to expand its management team in the future. The Corporation believes that its future success will also depend in large part upon its ability to attract and retain highly skilled technical, managerial and marketing personnel. Competition for such personnel is intense and the Corporation has experienced difficulties in recruiting qualified personnel and may continue to experience such difficulties in the future. There can be no assurance that the Corporation will be successful in attracting and retaining the personnel it requires to continue to maintain and expand its business. The Corporation has key person life insurance on its President and CEO.

## **Risks Related to Acquisitions**

The Corporation may, in the future, further expand its operations or product offerings through the acquisition of additional businesses, products or technologies. There can be no assurances that the Corporation will be able to identify, acquire or profitably manage additional businesses without substantial expenses, delays or other operational or financial problems. Furthermore, acquisitions also entail numerous risks, including: difficulties in assimilating acquired operations, products and personnel; unanticipated costs, events and legal liabilities; diversion of management's attention from other business concerns; adverse effects on existing business relationships with suppliers and customers; risks of entering markets in which the Corporation has limited or no prior experience; and potential loss of key employees from either the Corporation's pre-existing business or the acquired organization. Some or all of these risks could have a material adverse effect on the Corporation's business, results of operations and financial condition.

In addition, there can be no assurance that acquired businesses, products or technologies, if any, will achieve anticipated revenues and income. Acquisitions could also use a substantial portion of the Corporation's available cash; may result in the Corporation incurring substantial debt, which may not be available on favourable terms and may adversely affect the liquidity of the Corporation's stock; may result in the Corporation assuming contingent liabilities and taking substantial charges in connection with the impairment of goodwill and amortization of other intangible assets; and may result in the issuance of equity securities that would dilute existing shareholders. The failure of the Corporation to manage its acquisition strategy successfully could have a material adverse effect on the Corporation's business, results of operations, liquidity and financial condition.

## **Protection of Intellectual Property**

The Corporation relies primarily on a combination of copyright, trademark and trade secrets laws, confidentiality procedures and contractual provisions to protect its proprietary rights. Substantial portions of the Corporation's sales are derived from the licensing of the Corporation's products. The Corporation generally enters into confidentiality agreements with its other licensees and employees. Despite the Corporation's efforts to protect its proprietary rights, unauthorized parties may attempt to copy and may succeed in copying aspects of the Corporation's products or to obtain and use information that the Corporation regards as proprietary. Furthermore, there can be no assurance that others will not independently develop products similar to those of the Corporation. In addition, the laws of some foreign countries do not protect the Corporation's proprietary rights to as great an extent as do the laws of Canada or the United States. There can be no assurance that the Corporation's competitors will not independently develop similar technology or that the Corporation's means of protecting its proprietary rights will be adequate, and consequently the Corporation's business, results of operations, liquidity and financial condition could be materially adversely affected.

The Corporation is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Corporation with respect to current or future products. Defense of such claims, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays or require the Corporation to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Corporation or at all, either of which could have a material adverse effect upon the Corporation's business, results of operations, liquidity and financial condition.

## RISKS RELATED TO THE INDUSTRY

### Intense Competition

The markets for the Corporation's products and services are intensely competitive and rapidly changing and a number of companies offer products and services similar to the Corporation's products and services and target the same customers as the Corporation. The Corporation believes its ability to compete depends upon many factors within and outside its control, including the timely development and introduction of new products and services, product enhancements, product functionality, performance, price, reliability, customer service and support, sales and marketing efforts, and introduction of new products and services by competitors.

Many of the Corporation's competitors and potential competitors are substantially larger than the Corporation and have greater name recognition, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution and other resources than the Corporation. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or to devote greater resources to the development, promotion and sale of their products than the Corporation.

As competition increases, the prices that the Corporation charges for its products and services may decline. If the Corporation is not able to compete successfully, the Corporation's business, financial condition and operating results could be materially adversely affected.

### Rapid Technological Change

The markets for the Corporation's products are characterized by rapid technological advances, evolving industry standards, changes in end-user requirements and frequent new product introductions and enhancements. The Corporation's future success will depend upon its ability to enhance its current products, and to develop and introduce new products that keep pace with technological developments, respond to evolving end-user requirements and achieve market acceptance.

The development of such new products or enhanced versions of existing products entails significant technological risks. There can be no assurance that the Corporation will be successful in marketing its existing products or be successful in developing or marketing new products or product enhancements, any of which could have a material adverse effect on the Corporation's business, results of operations and financial condition.

## OFF-BALANCE SHEET FINANCING

The Corporation has undrawn letters of credit totaling \$200 with its bank that have been provided to customers as a performance guarantee. The Corporation has no other off-balance sheet financing arrangements.

## TRANSACTIONS WITH RELATED PARTIES

Related party transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

During the six months ended June 30, 2010, the Corporation leased its offices in Stonewood, WV and Indiana, PA from an officer of the Corporation. The amount paid was \$99, and was recorded as rent expense. The Corporation has an ongoing five year lease for both of the offices.

## SUMMARY OF SHARE CAPITAL

### Issued and Outstanding

Common shares	Number	Amount
Balance, December 31, 2009	42,216,782	24,110
Issued on exercise of stock options	69,998	49
Issued on redemption of deferred shares	147,776	57
Issued on private placement	3,900,000	2,200
Balance, June 30 and August 4, 2010	46,334,556	26,416

Options	Number	Weighted-average exercise price
Outstanding, December 31, 2009	139,327	\$0.54
Exercised (2010)	(69,998)	\$0.42
Forfeited (2010)	(6,666)	\$0.36
Outstanding, March 31, 2010	62,663	\$0.72
Forfeited (2010)	(50,997)	\$0.75
Outstanding, June 30, 2010	11,666	\$0.60
Forfeited (2010)	(1,666)	\$0.60
Outstanding, August 4, 2010	10,000	\$0.60

Deferred Annual Bonus and Share Purchase Plan Shares	Number	Amount
Outstanding, December 31, 2009	697,189	283
Issued 2010	-	-
Redeemed 2010	(147,776)	(57)
Outstanding, June 30 and August 4, 2010	549,413	226

## INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for designing disclosure controls and internal controls over financial reporting, as defined in the National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"). Management has designed such internal control over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other filings in accordance with Canadian GAAP.

In assessing the Corporation's disclosure controls and procedures (DC&P), management concluded that disclosure controls are not effective due to the material weakness in the Corporation's internal control over financial reporting (ICFR).

Management also concluded that the Corporation's ICFR are not effective due to the material weaknesses described below. The material weaknesses did not result in any adjustments to the Corporation's financial statements for the period ended June 30, 2010.

- Due to limited resources and number of staff, it is not feasible to achieve complete segregation of duties amongst its staff. This creates a risk that inaccurate recording of amounts could be made and not corrected on a timely basis. The result is that the Corporation is highly reliant on the performance of mitigating procedures and management oversight during its financial close process in order to ensure the financial statements present fairly in all material respects.
- Systems for internal control have not been fully implemented for businesses acquired by the Corporation in 2009. Management is in the process of reviewing the design of internal control over financial reporting and implementing the systems for internal control for these new acquisitions.
- In-house expertise to deal with complex taxation, technical accounting and non-routine transactions is not sufficient. To mitigate this weakness, the Corporation engages external accounting firms and consultants to assist in advising on the reporting treatment of such transactions.

Management believes the documentation of internal controls is sufficient to provide reasonable assurance material errors in financial reporting and disclosures will be detected and prevented.

## OUTLOOK & GUIDANCE

This Outlook and Guidance contains forward-looking statements which the Corporation does not intend, and does not assume any obligation, to update, except as required by law. The forward looking information and statements include:

- The current economic and financial crisis and its effect on the Corporation's client base business;
- The price of natural gas and its effect on capital spending and operating budgets of the Corporation's client base;
- The economic environment and its effect on the Corporation's government clients' expenditure plans;
- The demand for value added services that provide additional cost reduction or production optimization for the Corporation's Energy client base; and
- Management's assumptions regarding the sustainability of recurring revenue streams and the Corporation's expected continuing profitability in 2010.

The economic downturn materially affected the Corporation's client base during 2009 and early 2010. Given the current levels of expenditure by government departments and government budgets for 2010 and 2011, management believes that spending by the Corporation's government clients in Alberta will likely remain curtailed for the foreseeable future. Accordingly, management anticipates revenue from such clients to continue to remain at reduced levels at least for the remainder of 2010.

Although the Corporation has been able to diversify its government business outside of Alberta and outside the purely government sector, the Government of Alberta remains the Corporation's largest customer. Management anticipates that in order to organically grow, the Corporation will need to continue its expansion outside of Alberta and to tailor its offering to more specific business solutions. Accordingly, management anticipates continuing its investment in technology and processes to deliver national scope solutions cost effectively. Management believes that by streamlining and integrating key strengths from operations in Edmonton, Winnipeg and Toronto as part of each solution, the Corporation will be able to better service its client base. This investment is expected to continue to impact the Corporation's earnings during 2010, but is expected to increase the Corporation's cash flow from operations in 2011 through resulting organic growth. Management's success will be dependent upon a general improvement in the economy outside of Alberta and management's success in the integration of its acquired businesses and further identifying, securing and profitably supplying services to clients other than the Government of Alberta. Even if management is successful in its execution of its strategy, management will be unable to attain the historic gross margin it had achieved in the past, which was due to economies of scale associated with its Government of Alberta focus.

During the first half of 2010, the Corporation has experienced growth in its business in the North Eastern United States due to increased exploration activity in the Appalachian Basin. This increased activity is a result of recent exploration of shale gas in the Marcellus Formation. Management is of the opinion that activity in the Appalachian region has increased due to the economic advantages of gas production in an area with close proximity to the high demand gas markets along the East Coast of the United States. Gas production from the Marcellus Shale has not yet proven to be economically viable and as such, time will indicate the viability of continued exploration activity in this area. In the event gas production from the Marcellus Shale is not proven to be economically viable, the Corporation's current growth in the region will not be sustained.

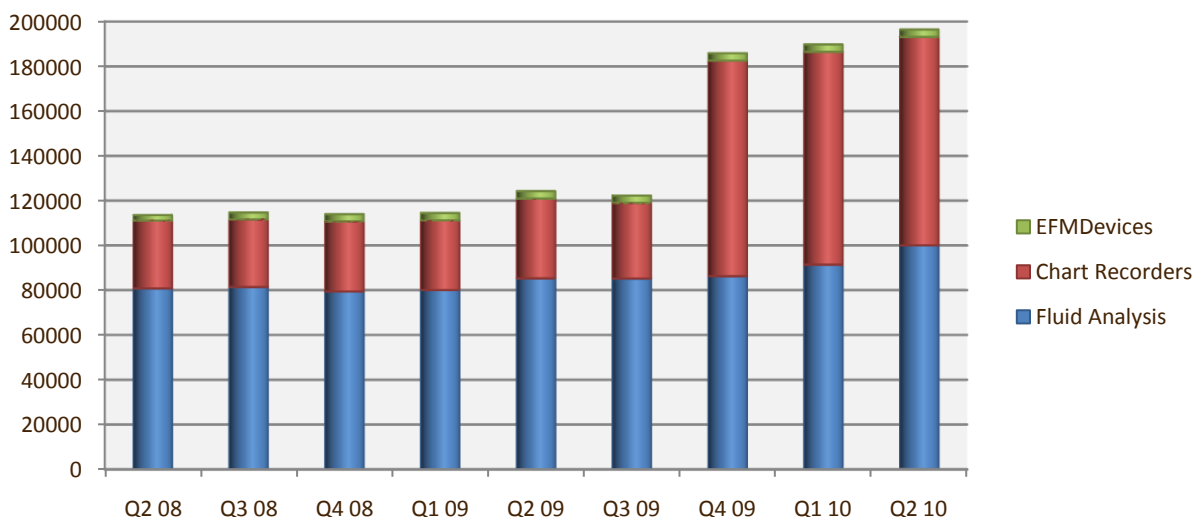
The Corporation's gas measurement business in the Western Canadian Sedimentary Basin is subject to strong competitive forces in a mature basin, where new exploration has been limited over the past number of quarters. Management believes that its ongoing research and development will keep it competitive in the gas measurement business, but given current market conditions, continued revenue growth will be limited. Accordingly, management has diversified its business to take advantage of its market position to provide value added analytic tools to attain new areas of revenue growth. Success of management's plan will be dependent upon acceptance of the Corporation's revenue model for these new analytic tools, which is an added cost to gas producers skeptical of increased costs.

If the Corporation is successful in its organic expansion efforts, management expects a steady improvement in cash flow from operations and net income during 2011. Achievement of the Corporation's objectives are based on a number of assumptions including the general economic environment, management's ability to continue to streamline general and administrative expenses from acquired companies, and continued gas exploration and development activity in the north eastern United States. 32% to 35% of the Corporation's 2010 revenue is expected to be generated from the U.S.

The Corporation's ongoing process of reviewing and streamlining overhead costs of its Service Bureau Operations acquired in 2009 continued as part of the integration of the business units within the current administrative structure and has resulted in charges of \$118 in Q2 2010 (\$331 on a year to date basis). Management anticipates continuing its exercise of integrating duplicate activities in order to optimize cost structures and accordingly will continue to incur costs in this regard during the remainder of 2010.

A deterioration of the economic climate or the prevalence of uncertainty for a lengthy period of time may materially affect management's outlook, in which case management's profitability targets will become dependent upon the Corporation's ability to further expand its core offering and market reach—both organically and through acquisition, which may require a longer timeframe to achieve.

### Serviced Measurement Points



## OTHER

### Use of Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant areas requiring the use of estimates are the useful lives and impairment of customer relationships & contracts and the impairment of goodwill. Actual results could differ from these estimates.

### Accounting Policies

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

On January 1, 2010, the Corporation early adopted the three new accounting standards issued in January 2009: Section 1582, "Business Combinations", Section 1601, "Consolidated Financial Statements" and Section 1602, "Non-Controlling Interests". Section 1582 replaces Section 1581 and establishes standards for the accounting for a business combination. It provides the Canadian equivalent to IFRS 3, "Business Combinations". Sections 1601 and 1602 together replace Section 1600, "Consolidated Financial Statements". Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements. It is equivalent to the corresponding provisions of IAS-27, "Consolidated and Separate Financial Statements". The adoption of these standards did not have a material impact on the interim consolidated financial statements.

The remainder of the Corporation's accounting policies remain applicable.

## Future Accounting Policies

In February 2008, CICA Accounting Standards Board (“AcSB”) confirmed the changeover to International Financial Reporting Standard (“IFRS”) from Canadian GAAP will be required for publically traded corporations for interim and annual financial statements effective fiscal years beginning on or after January 1, 2011 with comparative data also reported under IFRS. As of January 1, 2010, the Corporation will be required to prepare financial information in accordance with Canadian GAAP and IFRS in order to have comparative financial statements on full implementation of IFRS in 2011.

The project team which consists of senior levels of the Corporation’s management has been set up and regular reporting has been provided by the project team to executive management and the Audit Committee of the Board of Directors.

The transition to IFRS consists of three phases: diagnostic, design and implementation.

Earlier in 2009, the Corporation commenced with the diagnostic phase of its IFRS transition project which has now been completed. The diagnostic phase included initial and detailed assessment to identify key areas of difference between Canadian GAAP and IFRS and the potential effects of IFRS to accounting and reporting processes, information systems, business processes and external disclosures. This assessment was to provide insight as to the most significant areas of difference applicable to the Corporation.

The four most significant areas IFRS could potentially impact the Corporation were identified as follows:

- Revenue
- PP&E
- Customer relationships & contracts
- Goodwill and business combinations

The Corporation has commenced the second phase of the transition with researching and preparing position papers. The position papers will review all significant Canadian GAAP/IFRS differences and recommend the accounting policies, implementation choices/issues and first-time adoption considerations across all standards that may impact the financial statements. At this point, initial drafts of the significant position papers have been prepared, but some still require technical review and management review. In addition, some of the position papers have been forwarded to our auditors for comments. The position papers document conclusions regarding the recognition, measurement and disclosure issues and will be focused on providing conclusions and recommendations to address each relevant Canadian GAAP/IFRS difference identified.

At this time, the impact of IFRS on the Corporation’s financial position and results of operations is not reasonably determinable or estimable. However, the following can be reported:

Tentative accounting policy/transition decisions made:

The Company does not plan to apply the deemed cost exemption on transition for property and equipment and customer relationships and contracts.

- The Company plans to use the cost model (versus the revaluation model) on an ongoing basis under IFRS for property and equipment and customer relationships and contracts.
- The Company has early adopted CICA 1582 *Business Combinations*, Section 1601 *Consolidated Financial Statements* and Section 1602 *Non-Controlling Interests* to minimize any IFRS adjustments to comparative figures.
- The Company plans to apply the IFRS 1 exemption allowing application of IFRS 3 *Business Combinations* from the date of transition versus full retrospective application.
- The Company plans to apply the IFRS 1 exemption for equity-settled and cash-settled share based payment transactions, which is expected to result in no transition adjustments for share based payment transactions.
- The Company plans to apply the IFRS 1 exemption for borrowing costs, which is expected to result in no transition adjustments for capitalization of borrowing costs.

The Corporation is also assessing the impact of IFRS on its internal controls over financial reporting and disclosure controls. These impacts fall under one of two categories:

- changes required to processes and controls to deal with ongoing IFRS requirements; and
- changes required to deal specifically with the transition from Canadian GAAP to IFRS (e.g., changes to controls and processes related to preparation of position papers, preparation of opening balance sheet, restatement of Canadian GAAP numbers for comparative purposes, preparation of 2011 template disclosures, etc.).

With regard to the implementation phase, the first step will be the preparation of an opening balance sheet under IFRS at the transition date of January 1, 2010. It is expected that this will be completed by October, 2010. This will be followed by:

- restatement of the 2010 quarterly consolidated Canadian GAAP interim financial statement amounts to IFRS (to be used as comparatives in 2011);
- drafting of template disclosures for 2011 quarterly and annual consolidated IFRS financial statements; and
- restatement of the 2010 annual consolidated Canadian GAAP financial statement amounts to IFRS (to be used as comparatives in 2011).

The implementation phase will culminate with the preparation of the 2011 quarterly and annual consolidated IFRS financial statements and MD&A disclosures.

The Corporation is committed to the education and training component of the IFRS conversion. It has started, and will continue to invest in employee training, and a third party professional firm has also been engaged to assist with the IFRS conversion project.

The Corporation will continue to monitor any changes to IFRS, assess the impact of adopting IFRS, and will update its MD&A disclosures quarterly to report on the progress of its IFRS implementation.

## Head Office

1100, 840 – 7<sup>th</sup> Avenue SW  
Calgary, Alberta  
T2P 3G2

403.705.7500 (telephone)  
403.705.7555 (facsimile)

[www.criticalcontrol.com](http://www.criticalcontrol.com)

## Directors

George Watson

Dennis Nerland

Alykhan Mamdani

Thomas Ulrich

William Hammett

Murray Smith

Gary Bentham

## Officers

George Watson

Executive Chairman

Alykhan Mamdani

President and Chief Executive Officer

Hashu Remtulla

Vice President and Chief Financial Officer

Brenton Lawther

Chief Operating Officer

Andy Levstik

Vice President, Corporate Services

Eric Olsen

Vice President, Operations (Edmonton)

Terry Burns

Vice President, Operations (Manitoba)

Raymond South

Vice President, Operations (Ontario)

Steve Sly

Vice President, Operations (Eastern U.S.A.)

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