



CriticalControl Solutions Corp.
Management, Discussion & Analysis
September 30, 2011

This discussion and analysis of financial condition and results of operations of CriticalControl Solutions Corp. is prepared as at November 14, 2011, and should be read in conjunction with the unaudited condensed consolidated interim financial statements of CriticalControl Solutions Corp. and the notes thereto for the three and nine months ended September 30, 2011 and with the audited consolidated financial statements of CriticalControl Solutions Corp. and the notes thereto for the year ended December 31, 2010.

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

QUARTERLY HIGHLIGHTS

Revenue

- Revenue increased 6% to \$12,392 in Q3 2011 from \$11,669 in Q3 2010. Year-to-date revenue decreased 1% from \$37,507 in 2010 to \$37,156 in 2011.
- Revenue from the Service Bureau Operations increased by 13%, from \$4,321 in Q3 2010 to \$4,891 in Q3 2011. Year-to-date revenue increased by 11% from \$14,245 in 2010 to \$15,854 in 2011. The revenue increase is reflective of a gradual recovery from recessionary pressures in 2010 and strategic penetration of certain key government and national clients.
- Revenue from the Canadian Energy Services business decreased by 1% from \$2,695 in Q3 2010 to \$2,660 in Q3 2011. Year-to-date revenue increased by 1% from \$8,344 in 2010 to \$8,411 in 2011.
- Revenue from the US Energy Services business increased by 4% to \$4,841 in Q3 2011 from \$4,653 in Q3 2010. Year-to-date revenue decreased by 14% from \$14,918 in 2010 to \$12,891 in 2011. The year-to-date revenue decrease relates primarily to a decline in non-recurring fabrication and assembly of gas measurement and related equipment.

Gross margin ⁽¹⁾ percentage

- Gross margin percentage decreased to 35.0% in Q3 2011 from 36.4% in Q3 2010. Year-to-date margin percentage decreased to 35.9% in 2011 from 37.9% in 2010.
- Service Bureau Operations gross margin percentage increased to 28.8% in Q3 2011 from 27.0% in Q3 2010 (30.8% year-to-date in 2011 from 27.9% in 2010).
- Energy Services gross margin percentage decreased to 39.1% in Q3 2011 from 41.8% in Q3 2010 (39.7% year-to-date in 2011 from 44.0% in 2010).

Selling and administrative expenses

- Selling and administrative expenses increased 18% from \$3,068 in Q3 2010 to \$3,613 in Q3 2011. Year-to-date selling and administrative expenses increased 7% from \$10,041 in 2010 to \$10,754 in 2011.
- Year-to-date selling and administrative expenses for the Service Bureau Operations decreased by 10% from 2010 to 2011 primarily due to reduced costs related to streamlining operations of companies acquired in 2009.
- Year-to-date selling and administrative expenses for the Energy Services business increased by 21% primarily related to the acquisition of TSM, and new sales, marketing, operations and finance positions in the US and Canada.
- Year-to-date selling and administrative expenses for Corporate increased by 16%, which was primarily attributable to the changeover to IFRS, actual audit fees in excess of the estimate accrued in 2010 and new corporate management positions.

Earnings

- Net earnings in Q3 2011 decreased 53% when compared to 2010 to \$277 and decreased 52% year-to-date to \$1,018.
- Earnings before income tax in Q3 2011 decreased 53% when compared to 2010 to \$343 and decreased 49% year-to-date to \$1,395. Interest and unwinding of discounts of \$139 (year-to-date, \$381) and depreciation and amortization of \$613 (year-to-date, \$1,764) were charged to earnings during the quarter.

Cash flow and balance sheet

- Net cash from operations increased by 49% from \$692 in Q3 2010 to \$1,030 in Q3 2011. Year-to-date amounts increased by 22% from \$1,029 in 2010 to \$1,310 in 2011.
- Total long-term debt (inclusive of current portion) decreased by \$524 or 6% from September 30, 2010 to September 30, 2011, despite an additional \$1,331 of debt incurred related to 2010 and 2011 acquisitions.

Implementation of ProChart in US

- The Corporation successfully completed its implementation of ProChart software to its Ohio branch customers. The implementation will provide the company with an opportunity to achieve synergies and cost savings in its chart reading operations.

US facility expansion complete

- The Corporation recently completed its fabrication facility expansion in Pennsylvania. The facility will cater to the assembly of larger fabrication units to service the increasing non-conventional drilling segment and will help to achieve higher margins than would otherwise be achieved by outsourcing the fabrication work.

⁽¹⁾ See Non-IFRS Measures section on page 2.

NON-IFRS MEASURES

Throughout this document, reference is made to “gross margin” and “working capital”, which are both non-IFRS measures. Management believes that gross margin, defined as revenue less cost of revenue, is a useful supplemental measure of operations. Management believes that working capital, defined as current assets less current liabilities, is an indicator of the Corporation’s liquidity and its ability to meet its current obligations. Readers are cautioned that these non-IFRS measures may not be comparable to similar measures used by other companies. Readers are also cautioned not to view these non-IFRS financial measures as an alternative to financial measures calculated in accordance with International Financial Reporting Standards (“IFRSs”).

CORRECTION OF 2010 INVENTORY ERROR

As a result of the Corporation’s ongoing efforts to improve processes and controls relating to the management of inventory at its US fabrication facilities, the Corporation identified an error in the carrying value of inventory that originated in its 2010 consolidated financial statements. The accounting error is attributable to incorrect costing and incorrect relieving of inventory as fabricated measurement assemblies were sold. The total inventory overstatement at December 31, 2010 was \$1,651. Further details regarding the financial impact of correcting the error is disclosed in note 11 to the September 30, 2011 condensed consolidated interim financial statements.

In 2011, the Corporation has strengthened its inventory management processes through the hiring of more experienced personnel and the implementation of improved internal controls.

This error has been corrected retrospectively in the September 30, 2011 condensed consolidated interim financial statements with restatement of the 2010 comparative figures. Comparative information included throughout this document has also been restated to reflect the correction of this error.

This restatement only impacts the Corporation’s 2010 US fabrication results. It does not affect its strategic recurring income streams, nor does it impact 2011 financial performance, cash flow or the ability of the Corporation to continue to meet its financial obligations.

SELECTED QUARTERLY INFORMATION

	Three months ended September 30, 2011	Three months ended September 30, 2010 ⁽²⁾
Revenue	12,392	11,669
Gross margin ⁽¹⁾	4,337	4,242
Earnings before income tax	343	726
Net earnings	277	595
Net earnings per share – basic	0.01	0.01
Finance costs	70	158
Current assets	15,954	14,312
Current liabilities	11,537	9,572
Working capital ⁽¹⁾	4,417	4,740
Total assets	44,510	38,811
Total long-term debt (includes current portion)	8,057	8,581
Total equity	24,635	20,391

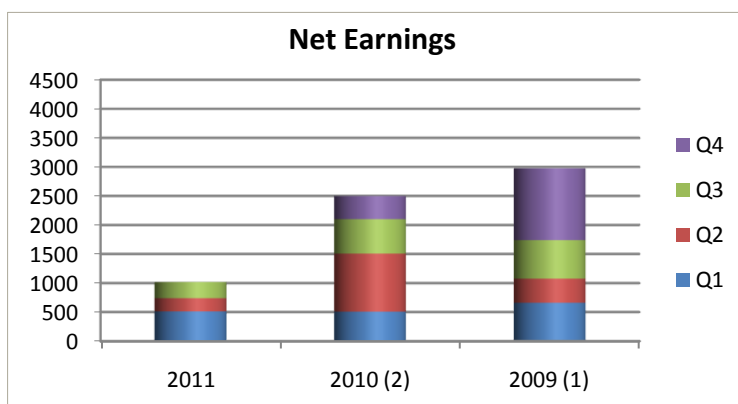
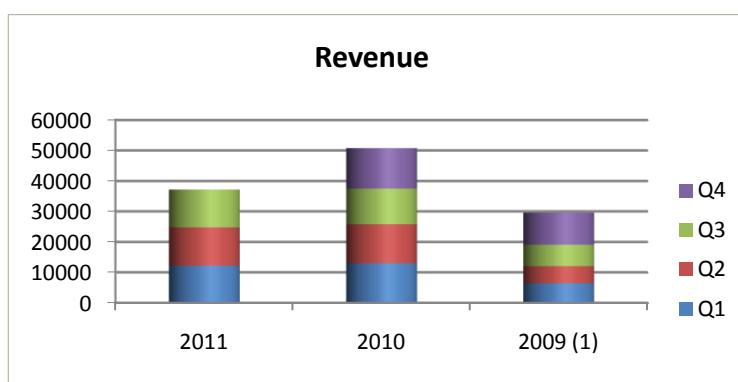
⁽¹⁾ See Non-IFRS Measures section above.

⁽²⁾ Restated – see Correction of 2010 Inventory Error above.

SUMMARY OF QUARTERLY RESULTS

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

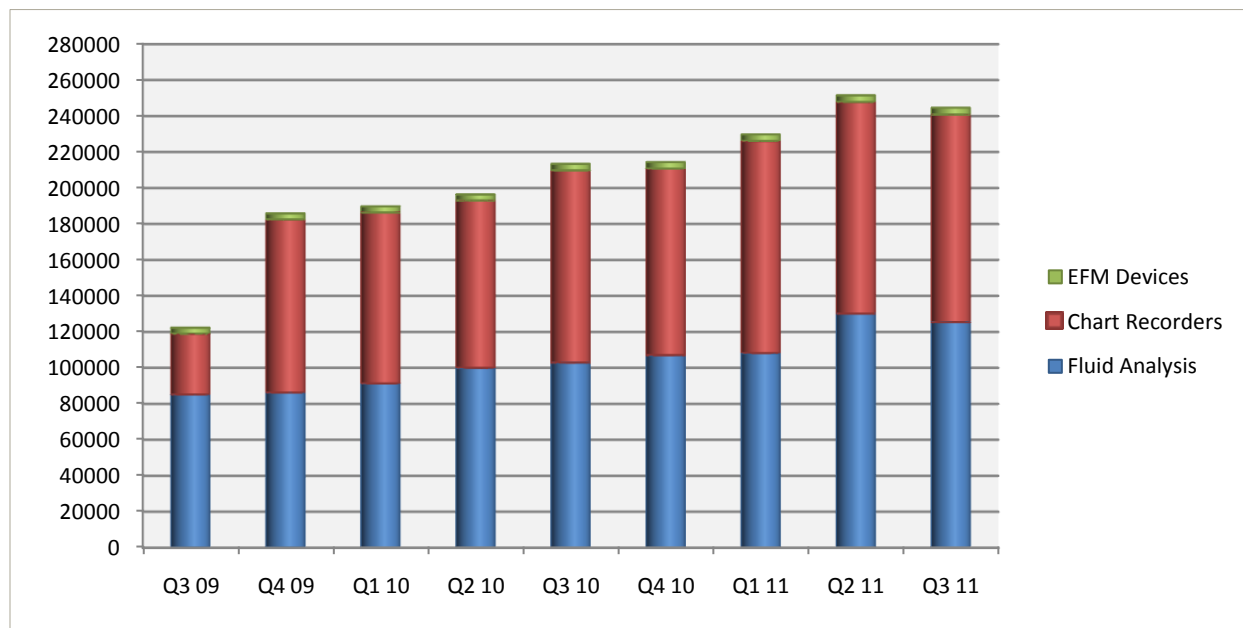
	Two Year Summary By Quarter							
	2011			2010				2009 ⁽¹⁾
	Q3	Q2	Q1	Q4 ⁽²⁾	Q3 ⁽²⁾	Q2 ⁽²⁾	Q1	Q4
Revenue	12,392	12,543	12,221	13,214	11,669	12,796	13,042	10,512
Earnings (loss) before income tax	343	345	707	(1,046)	726	1,299	711	1,082
Net earnings	277	227	514	398	595	996	510	1,233
Net earnings per share - basic	0.01	0.00	0.01	0.01	0.01	0.02	0.01	0.03



⁽¹⁾ The 2009 financial information was prepared in accordance with previous Canadian GAAP and has not been restated to comply with IFRSs.

⁽²⁾ Restated – see Correction of 2010 Inventory Error on page 2.

Serviced Measurement Points



CORPORATE PROFILE

CriticalControl Solutions Corp. (the "Corporation" or "CriticalControl") delivers outsourced solutions for information intensive and document intensive transactional processes. Through the implementation of technology, workflow and economies of scale the Corporation is able to provide highly secure control over sensitive information and processes in a cost effective manner.

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 who are primarily in the government, health care, financial and retail industries. Services include:

1. Provision of data entry and imaging services to capture paper or microfilmed documents electronically;
2. Provision of technology solutions and hosted repositories to manage captured electronic information efficiently;
3. Outsourcing of business processes in their entirety; and
4. Imaging equipment sales and service.

Energy Services

The Corporation's Energy Services business provides the following services to its upstream and midstream oil and gas clients:

1. Efficient capture and control of natural gas production and composition data from the field regardless of instrumentation;
2. Risk assessment and regulatory compliance capability through the management of natural gas production data, pipeline data and related documentation;
3. Provision of public and proprietary industry data sets to enable qualitative analysis and decision making;
4. Gas measurement field services inclusive of natural gas meter installation, calibration and monitoring to the Corporation's customer base primarily in the North Eastern US; and
5. Fabrication and assembly of gas measurement and related equipment to the Corporation's customer base primarily in the North Eastern US.

RESULTS OF OPERATIONS

Revenue

	Three Months Ended, September 30			Nine Months Ended, September 30		
	2011	2010	Change	2011	2010	Change
Revenue						
Service Bureau Operations	4,891	4,321	13%	15,854	14,245	11%
Energy Services						
Canadian	2,660	2,695	-1%	8,411	8,344	1%
US	4,841	4,653	4%	12,891	14,918	-14%
	12,392	11,669	6%	37,156	37,507	-1%

Service Bureau Operations

Service Bureau Operations revenue compared to 2010 increased by \$570 for the three months ended September 30, 2011 and by \$1,609 year-to-date. This increase is reflective of a gradual recovery from recessionary pressures in 2010 and strategic penetration of certain key government and national clients.

Energy Services

Third quarter revenue from the Canadian Energy Services business decreased by \$33 when compared to 2010 (year-to-date increased by \$68). The general decline in expenditures by gas producers in Canada due to prevailing low commodity prices and shut in wells was offset by an increase in the penetration of the Corporation's solutions in the market, including an increase of \$197 for the quarter and \$713 year-to-date from the acquisition of Visible Data Group in October 2010.

Changes in revenue from the Corporation's US Energy Services business are summarized below:

	US Energy Services Revenue	
	Q3	Year-to-Date
September 30, 2010 total US revenue	4,653	14,919
Acquisition of TSM (November 2010)	439	1,469
Acquisition of GMI (April 2011)	139	290
Impact of US exchange rate	(264)	(857)
Decline in revenue	(126)	(2,930)
September 30, 2011 total US revenue	4,841	12,891

The decline in revenue is primarily related to non-recurring fabrication and assembly of gas measurement and related equipment. The following table summarizes this revenue.

	Q3		Year-to-Date	
	2011	2010	2011	2010
US fabrication, assembly and equipment revenue	2,922	3,213	7,379	10,720
Percentage of US revenue	60%	69%	57%	72%

In 2010, a substantial portion of the fabrication, assembly and equipment revenue was related to conventional wells traditionally drilled by the Corporation's client base. Many of these conventional wells used traditional dry flow meters (chart recorders), the bulk of which were provided by the Corporation on a refurbished basis.

During 2010, several new producers entered into the Marcellus region and drilling shifted from conventional wells to the exploration and development of shale plays. The demand on existing infrastructure and available resources resulted in an approximate 35% decline in conventional wells (non-Marcellus shale) in the first nine months of 2011 compared to the same period in 2010. As a result, revenue from the Corporation's fabrication business fell sharply in the first half of 2011 due to the shift in demand from conventional gas measurement infrastructure to more complex gas measurement infrastructure used to measure shale gas. Overall drilling activity in the region also appears to be down by approximately 5% when compared with the same period in 2010. Please see "Outlook and Guidance" for management's plan on addressing this shift.

Although US fabrication, assembly and equipment revenue has declined in relation to 2010, the trending from Q1 to Q3 of 2011 is promising, as indicated in the table below. A portion of the increase from Q1 2011 to Q2 2011 can be attributed to seasonality.

	Q3 2011	Q2 2011	Q1 2011
US fabrication, assembly and equipment revenue	2,922	2,495	1,962
Percent increase from previous quarter	17%	27%	

Recurring revenue from the Corporation's US Energy Services business increased in comparison to 2010 as summarized in the following table.

	US Recurring Revenue	
	Q3	Year-to-Date
September 30, 2010 recurring US revenue	1,440	4,199
Acquisition of TSM (November 2010)	344	1,170
Acquisition of GMI (April 2011)	139	290
Impact of US exchange rate	(82)	(241)
Increase in recurring revenue	78	94
September 30, 2011 recurring US revenue	1,919	5,512

The increase in US recurring revenue when added to the impact of the TSM and GMI acquisitions resulted in a net increase of \$479 for the quarter (year-to-date, \$1,313) when compared to 2010.

Cost of Revenue and Gross Margin ⁽¹⁾

	Three months ended September 30			Nine months ended September 30		
	2011	2010 ⁽²⁾	Change	2011	2010 ⁽²⁾	Change
Cost of Revenue						
Service Bureau Operations	3,484	3,153	10.5%	10,971	10,269	6.8%
Energy Services	4,571	4,274	6.9%	12,852	13,035	-1.4%
	8,055	7,427	8.5%	23,823	23,304	2.2%
Gross margin ⁽¹⁾						
Service Bureau Operations	1,407	1,168	20.5%	4,883	3,976	22.8%
Energy Services	2,930	3,074	-4.7%	8,450	10,227	-17.4%
	4,337	4,242	2.2%	13,333	14,203	-6.1%
Gross margin ⁽¹⁾ percentage						
Service Bureau Operations	28.8%	27.0%	1.8%	30.8%	27.9%	2.9%
Energy Services	39.1%	41.8%	-2.7%	39.7%	44.0%	-4.3%
	35.0%	36.4%	-1.4%	35.9%	37.9%	-2.0%

⁽¹⁾ See Non-IFRS Measures section on page 2.

⁽²⁾ Restated – see Correction of 2010 Inventory Error on page 2.

Service Bureau Operations

Gross margin in the Corporation's Service Bureau Operations improved for the three months and nine months ended September 30, 2011 compared to the same periods in 2010. The increase is primarily related to the improved economies of scale from increased revenue.

Energy Services

	Three months ended September 30			Nine months ended September 30		
	2011	2010 ⁽²⁾	Change	2011	2010 ⁽²⁾	Change
Canadian Energy Services - gross margins	66.6%	65.8%	0.8%	63.1%	64.8%	-1.7%
US Energy Services - gross margins	24.0%	28.0%	-4.0%	24.4%	32.3%	-7.9%
	39.1%	41.8%	-2.7%	39.7%	44.0%	-4.3%

⁽²⁾ Restated – see Correction of 2010 Inventory Error on page 2.

High margins in the Canadian Energy Services business were offset by lower margins in the US, where field services and the sale and installation of gas measurement meters and related equipment have a significant impact. The Canadian Energy Services business does not engage in these sales and service activities but rather focuses on other high margin recurring revenue streams. These streams are the first three set out in the Corporate Profile section of this document under Energy Services.

Gross margins for the Canadian Energy Services business improved this quarter but remain slightly lower year-to-date compared to 2010, primarily due to a reduction in high margin recurring chart revenue and an increase in lower margin hardware revenue (year-to-date hardware revenue is 8.2% of total revenue vs. 6.8% for the same period in 2010).

In the US, management is transitioning its business in response to the shift from predominantly conventional drilling in 2010 to drilling associated with development of the Marcellus shale formation. This transition consists of ramping up field service capability and the Corporation's fabrication facility in Pennsylvania.

Revenue from the Corporation's fabrication business fell sharply in the first half of 2011 due to the shift in demand from conventional gas measurement infrastructure to more complex infrastructure used to measure shale gas. Whereas the Corporation was able to sustain higher margins in 2010 due the economies of scale in the fabrication of conventional infrastructure, these economies of scale need to be rebuilt for the infrastructure currently in demand. Prior to completion of the Corporation's facility expansion and ramp-up in capability, the Corporation was meeting demand for complex gas measurement infrastructure primarily by outsourcing the fabrication of larger pieces of equipment.

Operating Expenses

	Service Bureau							
	Operations		Energy Services		Corporate		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Three months ended September 30								
Selling & administrative expenses	1,157	1,207	1,315	1,015	1,141	846	3,613	3,068
Research and development expenses	-	-	311	290	-	-	311	290
Finance costs	2	-	-	-	68	158	70	158
	1,159	1,207	1,626	1,305	1,209	1,004	3,994	3,516

	Service Bureau							
	Operations		Energy Services		Corporate		Total	
	2011	2010	2011	2010	2011	2010	2011	2010
Nine months ended September 30								
Selling & administrative expenses	3,735	4,131	3,642	3,009	3,377	2,901	10,754	10,041
Research and development expenses	-	-	925	920	-	-	925	920
Finance costs	12	-	2	-	386	506	400	506
Other operating costs	(120)	-	-	-	(21)	-	(141)	-
	3,627	4,131	4,569	3,929	3,742	3,407	11,938	11,467

Selling and Administrative Expenses

Selling and administrative expenses in the Service Bureau Operations decreased by \$50 for the quarter and are \$396 lower on a year-to-date basis in relation to 2010. These costs savings were realized from streamlining the operations of the companies acquired in 2009.

A significant portion of the increased selling and administrative expenses attributed to Energy Services for the quarter and year-to-date relate to the acquisition of TSM and the additional costs associated with the office in Ohio. These costs amounted to approximately \$112 for the quarter and \$332 year-to-date. There were also increased costs related to new sales and marketing positions in Calgary, new operations and finance positions in the US, and website upgrades.

Corporate selling and administrative expenses were \$295 higher for the quarter in relation to 2010, with increased costs related to corporate management salaries, controls documentation, infrastructure and audit. The \$476 increase in year-to-date costs is also impacted by costs in the first quarter related to the changeover to IFRSs and to actual audit fees in excess of the estimate accrued in 2010.

Research and Development Expenses

The Corporation continued its research and development initiatives to increase functionality that its Energy Services clients derive from the Corporation's consolidated production data repository, ProStream. The Corporation's research and development expenses were consistent for the three months and nine months ended September 30, 2011 when compared to the same periods in 2010.

Finance Costs

	Three months ended Sep 30		Nine months ended Sep 30	
	2011	2010	2011	2010
Interest and bank charges	142	123	365	402
Net foreign exchange loss	(102)	8	(56)	(152)
Unwind of discounts	30	26	91	84
Impairment loss on accounts receivable	-	1	-	172
	70	158	400	506

The interest costs in 2010 and 2011 are consistent with the debt levels of the Corporation.

The exchange gain for the three and nine months ended September 30, 2011 is linked primarily to intercompany advances of a current nature between the Corporation and its US operations and the impact of the September 2011 spike in value of the US dollar in relation to the Canadian dollar.

The unwind of discounts is comprised of imputed interest on discounted liabilities and is consistent from 2010 to 2011.

The impairment loss for the nine months ended September 30, 2010 included a charge of \$168 related to a contractual relationship entered into by an acquired company prior to the acquisition date.

Other Operating Costs

	Three months ended Sep 30		Nine months ended Sep 30	
	2011	2010	2011	2010
Reduction in estimated onerous lease obligation	-	-	(120)	-
Loss (gain) on disposal of property & equipment	-	-	(21)	-
	-	-	(141)	-

As part of the second quarter financial reporting process, management reviewed the provisions for onerous leases and determined that a reduction was appropriate, resulting in a \$120 income inclusion. The Corporation has finalized a sublease arrangement on terms that are more favourable than expected when the original estimate was made for the onerous lease obligation.

Depreciation and Amortization

	Three months ended Sep 30		Nine months ended Sep 30	
	2011	2010	2011	2010
Depreciation of property & equipment	219	209	623	588
Amortization of intangible assets	394	468	1,141	1,413
	613	677	1,764	2,001

Depreciation of property & equipment for the quarter and year-to-date in relation to 2010 is consistent with the existing asset base.

The decrease in amortization of intangible assets for the quarter and year-to-date when compared to 2010 is attributable primarily to the following:

- Software that was fully amortized by the end of 2010 was not amortized in 2011.
- Intangible assets acquired through business combinations that were amortized based on preliminary purchase price allocations in 2010 were subsequently adjusted downwards.

The impact of these amortization reductions in 2011 was most significant in the first quarter and more than offset the increased amortization related to acquisitions in 2010 and 2011.

Depreciation and amortization has been allocated to the following functional expenses:

	Three months ended Sep 30		Nine months ended Sep 30	
	2011	2010	2011	2010
Cost of revenue	147	96	444	369
Selling and administrative expenses	466	581	1,320	1,632
	613	677	1,764	2,001

Other comprehensive loss/income

	Three months ended Sep 30		Nine months ended Sep 30	
	2011	2010	2011	2010
Other comprehensive income (loss) related to foreign currency translation adjustments	408	(278)	284	(321)

The 2011 foreign currency gain on translation of the Corporation's US operations is attributable to the September 2011 spike in the value of the US dollar in relation to the Canadian dollar and is linked to the Corporation's net investment in the US operations.

OPERATING CASH FLOWS, LIQUIDITY AND CAPITAL RESOURCES

The following table illustrates how the various components of operating cash flow impact net cash flows.

	Three months ended Sep 30		Nine months ended Sep 30	
	2011	2010 ⁽²⁾	2011	2010 ⁽²⁾
Net earnings	277	595	1,018	2,101
Adjustments				
Non-cash amounts (excluding income tax and interest)	588	632	1,634	1,865
Income tax	66	(108)	(149)	(420)
Interest	25	(30)	90	84
Change in non cash working capital ⁽¹⁾	74	(397)	(1,283)	(2,601)
Net cash from operating activities	1,030	692	1,310	1,029

⁽¹⁾ See Non-IFRS Measures section on page 2.

⁽²⁾ Restated – see Correction of 2010 Inventory Error on page 2.

Working capital⁽¹⁾ at September 30, 2011 was \$4,417 compared to \$4,740 at September 30, 2010, a decrease of \$323. The decrease in working capital is broken down as follows:

	2011	2010 ⁽²⁾	Increase (decrease) in working capital
Cash	943	1,191	(248)
Accounts receivable	9,242	7,791	1,451
Unbilled revenue	738	297	441
Inventory	3,570	3,118	452
Prepaid expenses	1,461	1,915	(454)
	15,954	14,312	1,642
Operating line of credit	1,430	1,250	(180)
Accounts payable and accrued liabilities	5,206	3,235	(1,971)
Provisions	23	-	(23)
Unearned revenue	1,927	1,805	(122)
Current portion of long-term debt	2,770	3,122	352
Current portion of deferred lease inducement	181	160	(21)
	11,537	9,572	(1,965)
Working capital	4,417	4,740	(323)

⁽¹⁾ See Non-IFRS Measures section on page 2.

⁽²⁾ Restated – see Correction of 2010 Inventory Error on page 2.

The following table shows the Corporation's financial liabilities/commitments and due dates as of September 30, 2011, inclusive of operating leases:

	2011	2012	2013	2014	2015	Beyond 2015	Total
Operating line of credit	1,430	-	-	-	-	-	1,430
Accounts payable and accrued liabilities	5,206	-	-	-	-	-	5,206
Provisions	5	22	147	136	195	209	714
Long term debt (before discounting)	403	4,310	2,010	1,593	-	-	8,316
Commitments	310	1,191	1,150	1,081	670	1,070	5,472
Total	7,354	5,523	3,307	2,810	865	1,279	21,138

As a means to optimizing security, the Corporation is considering alternatives for refinancing US\$2,625 of the promissory note issued in relation to the acquisition of Gas Analytical Service, Inc. The Corporation arranged term financing with its bank as an interim step in July 2011 to fund the US\$1,125 payment due on August 1, 2011. The term loan is repayable in 12 equal monthly installments starting on August 31, 2011. The US\$2,625 being considered for refinancing on a term basis is due in 2012.

Management anticipates that its current level of cash flow from operations and balance sheet will be sufficient to meet its existing obligations, but intends 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.

At September 30, 2011, the Corporation had \$943 of cash on hand and access to \$911 of its operating facility to fund its ongoing working capital requirements for 2011. 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 this financing would be dependent upon the Corporation's ability to access the capital markets.

FINANCIAL INSTRUMENTS

Fair Value

As at September 30, 2011, the estimated fair values of cash, accounts receivable, operating line of credit, long-term debt, accounts payable and accrued liabilities, and provisions approximated their carrying values.

Credit and Concentration Risk

For the quarter ended September 30, 2011 the Corporation derived approximately 13% (2010 – 13%) of its total revenue from the Government of Alberta. As at September 30, 2011, 8% (2010 – 11%) 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 the credit worthiness 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 expense of 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 an approximate impact on net earnings of \$4 for the quarter ended September 30, 2011. The Corporation does not currently hold any financial instruments to mitigate its interest rate risk. Most of the Corporation's long term debt bears interest at fixed rates, so the impact of interest rate changes is not significant.

Foreign Exchange Rate Risk

The Corporation has a significant US subsidiary. Future fluctuations in exchange rates will have an effect on the Corporation's business operations and cash flow. The Corporation does not currently undertake any exchange rate hedging activities.

A change of 100 basis points in the exchange rate would have had an approximate impact on net earnings of \$18 and other comprehensive income of \$52, for a total of \$70 for the quarter ended September 30, 2011. The Corporation does not currently hold any financial instruments to mitigate foreign exchange rate 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.

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 recurring revenue attributable to business process outsourcing versus non-recurring hardware and fabrication, 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 in recent 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, financial condition and liquidity.

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 favorable 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 outsourced business processes that are intrinsically tied to the Corporation's proprietary software and other intellectual property. The Corporation generally enters into confidentiality agreements with clients 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 may attempt 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 and the US. 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, liquidity 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, financial condition and liquidity.

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 also has commitments in relation to operating leases as disclosed in the Operating Cash Flows, Liquidity and Capital Resources section. In accordance with IFRS, these obligations are not included in the Corporation's balance sheet. 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 quarter ended September 30, 2011, the Corporation leased its offices in Stonewood, West Virginia and Indiana, Pennsylvania from an officer of the Corporation. The amount paid was \$39 (2010 - \$50) and was recorded as rent expense. Both leases expire in October 2014.

SUMMARY OF SHARE CAPITAL

Issued and Outstanding

Common shares	Number	Amount
Balance December 31, 2010 and September 30 and November 14, 2011	51,235,012	\$28,973

Options	Number	Weighted-average exercise price
Outstanding December 31, 2010	10,000	\$0.60
Outstanding September 30 and November 14, 2011	-	-

Deferred Annual Bonus and Share Purchase Plan Shares	Number	Amount
Outstanding December 31, 2010	549,413	\$226
Outstanding September 30 and November 14, 2011	699,413	\$317
Vested September 30 and November 14, 2011	549,413	\$226

DISCLOSURE CONTROLS & PROCEDURES AND INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for designing disclosure controls and internal controls over financial reporting ("ICFR"), as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"). Management has designed such internal controls 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 IFRSs.

Management has concluded that the Corporation's ICFR are not effective due to the material weaknesses described below.

- 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.

- Systems for internal control for businesses acquired in the US have been implemented and are now being refined. Management is in the process of refining the design of internal control over financial reporting to ensure the Corporation's standards are maintained.
- In-house expertise to deal with complex taxation, technical accounting and non-routine transactions is not always sufficient. To mitigate this weakness, the Corporation engages external accounting firms and consultants to assist in advising on the reporting treatment of such transactions.

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

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 climate 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 effect of the economy and the price of oil and gas 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 Services client base; and
- Management's assumptions regarding the sustainability of recurring revenue streams and the Corporation's expected continuing profitability in 2011.

The Corporation's Service Bureau Operations expanded in 2011 through strategic penetration of certain key government and national clients. Further expansion is dependent upon the continued success of the Corporation's strategy and continued strengthening of the general economy. Although management is optimistic in this regard, it will continue to be vigilant in its integration efforts to consolidate acquired operations in order to remain competitive and profitable.

During 2010, several new producers entered into the North Eastern US market and drilling shifted from conventional wells to the exploration and development of shale plays. The demand on existing infrastructure and available resources resulted in a marked decline in conventional wells in 2011 over 2010.

Management is transitioning its business in response to the shift away from conventional drilling to drilling associated with the development of the Marcellus shale formation. This transition consists of ramping up field service capability and the Corporation's fabrication facility in Pennsylvania.

In the first half of 2011, revenue from the Corporation's fabrication business fell sharply due to the shift in demand from conventional gas measurement infrastructure to more complex gas measurement infrastructure used to measure shale gas. The Corporation has been meeting the demand for complex gas measurement infrastructure by outsourcing the fabrication of larger pieces of equipment. As the Corporation ramps up its capability to fabricate gas measurement infrastructure for non conventional wells, management expects a steady increase in gross margins throughout 2012. The increase in gross margins is dependent upon the ability to successfully generate economies of scale for the type of gas measurement infrastructure required for the measurement of shale gas, the success of which cannot be assured.

Although the Corporation acquired GMI in April 2011, the office of GMI was not consolidated until Q3 2011. A larger portion of the associated cost synergies are expected to be realized Q4 of 2011.

Management is confident that its US Energy Services business will increase profitability in 2012 for the following reasons:

- increasing fabrication revenue from quarter to quarter in 2011, including a 17% incremental increase from Q2 to Q3;
- increased margins resulting from the ability to fabricate more assemblies internally due to the expansion of the Corporation's facilities in Pennsylvania;
- expansion of the Corporation's core business into other parts of Pennsylvania;
- benefits of consolidation of the GMI acquisition; and
- benefits of converting the Corporation's US gas chart integration clients onto ProChart and ProStream in Q4 2011 and Q1 2012.

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 US. It is expected that 33% to 38% of the Corporation's 2011 revenue will be generated from the US.

While management expects its profitability from US operations to increase, margins will continue to be impacted due to the increasingly competitive nature of the business.

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 and provide value added analytic tools for 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.

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.

ACCOUNTING POLICIES AND ESTIMATES

The Corporation's March 31, 2011 condensed consolidated interim financial statements ("interim financial statements") were the first IFRS interim financial statements prepared for part of the period covered by the first IFRS annual financial statements. Accordingly, they include certain disclosures that are not repeated in the September 30, 2011 interim financial statements. Reference to the March 31, 2011 interim financial statements are included in this section and in the September 30, 2011 interim financial statements.

Critical Accounting Estimates

Information regarding the use of estimates and judgments is disclosed in Note 2(d) to the September 30, 2011 interim financial statements and note 2(d) to the March 31, 2011 interim financial statements.

Changes in Accounting Policies

The September 30, 2011 interim financial statements have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting*. These are the Corporation's third IFRS interim financial statements prepared for part of the period covered by the first IFRS annual financial statements, and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. The September 30, 2011 interim financial statements do not include all of the information required for full annual financial statements.

Information about the significant accounting policies adopted under IFRSs is presented in Note 3 to the March 31, 2011 interim financial statements.

Information about first-time adoption exemptions applied is presented in Note 2(e) to the March 31, 2011 interim financial statements.

An explanation of how the transition to IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in Note 13 to the September 30, 2011 interim financial statements and Note 11 to the March 31, 2011 interim financial statements. These notes include certain reconciliations of equity, net earnings, and total comprehensive income for comparative periods and the date of transition as reported under Canadian GAAP to those reported under IFRSs. Certain of the reconciliations provided in note 11 to the March 31, 2011 interim financial statements have been restated in note 13 to the September 30, 2011 interim financial statements to reflect the correction of the 2010 inventory error. Further details are provided in Correction of 2010 Inventory Error on page 2.

Information about new IFRSs and interpretations not adopted is provided in Note 3 to the September 30, 2011 interim financial statements.

Other Impacts of IFRS Adoption

The Corporation has assessed the impact of IFRSs on its internal controls over financial reporting and disclosure controls as follows:

- With regard to processes and controls to meet ongoing accounting requirements under IFRSs, no material changes were identified.
- With regard to processes and controls to deal specifically with the transition from Canadian GAAP to IFRSs (e.g., preparation of position papers, preparation of opening transition balance sheet, restatement of Canadian GAAP numbers for comparative purposes, preparation of 2011 template disclosures, etc.), the Corporation applied its existing control framework to the changeover process. All accounting policies and transitional financial position impacts were subject to review by senior management and the Audit Committee of the Board of Directors.

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

The Corporation continues to assess the impact of IFRSs on financial covenants, contracts and key ratios, but has not identified anything significant to date.

The Corporation also continues to review the impact of IFRSs on compensation arrangements, but nothing significant has been identified to date.

The transition project did not have a significant impact on the Corporation's information systems for the convergence periods. The Corporation does not expect significant changes in the post-convergence periods.

The post-implementation phase will involve continuous monitoring of changes to IFRSs in future periods. The Corporation has noted that the standard setting body that determines IFRSs has significant ongoing projects that could impact the accounting policies implemented by the Corporation under IFRSs.

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Officers

George Watson	Chairman of the Board
Alykhan Mamdani	President and Chief Executive Officer
Brenton Lawther	Chief Operating Officer
Bruce Byford	Chief Financial Officer
Hashu Remtulla	Vice President and Corporate Controller
Nizar Huddani	Vice President, Service Bureau Operations
Steve Sly	Vice President, Operations (Eastern USA)
Jason MacVicar	Vice President, Sales & Marketing

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