

CriticalControl Solutions Corp. (CCZ - TSX)



Recent Price: **\$0.43** Recommendation: **BUY**
 Target Price: **\$0.85** Potential Upside: **98%**

“One stop shop” for Gas measurement and reporting

Event

Initiating coverage of CriticalControl Solutions Corp.

Highlights

- CriticalControl Solutions Corp. operates in two markets, government services and energy services. Government services represented 55% of revenues and energy services represented 45% in FY2008. The company provides data management solutions to government and energy sector clients.
- CriticalControl represents a key infrastructure services play in the oil & gas industry as it is embedded into their clients operations. The company plays a key role in enabling its energy clients to manage daily operations and create monthly revenue, royalty, and regulatory statements. It has over 300 clients in the energy measurement and reporting market. Its ScanGas product is currently deployed in over 60% of all gas wells in Canada.
- CriticalControl has exclusive long-term data management contracts with the Government of Alberta that gives it great revenue visibility. The company initially offered imaging services and has since diversified into other record keeping areas such as registration services and enterprise content management solutions.
- Over the last five years, CriticalControl has achieved a compound annual growth rate of 23% in revenues (75% recurring). The company reported FCF of \$4.3 million with Net income of \$3.4 million for FY2008.
- CriticalControl reported record revenues of \$26.0 million for FY 2008, which represents YOY growth of about 13%. In Q1 '09 it reported revenues of \$6.5 million, a growth of 7.5% over Q1 '08. We forecast revenues of \$27.3 million for FY 2009 for a 5% growth over FY 2008.
- CriticalControl's top management are seasoned managers with over two decades of experience in the energy measurement industry.
- **CriticalControl currently trades at 4X P/E our 2010 forecast compared to a multiple of 9X for its direct comparables. We believe the stock represents a tremendous buying opportunity as the company has strong cash flows and forward revenue visibility.**



Source: www.bigcharts.com

52-Week Range	\$0.21 - \$0.61
Basic Shares O/S	41.87 million
Fully Diluted Shares O/S	41.87 million
Market Capitalization	\$18.0 million
Fiscal Year End	Dec 31
Net Cash (Mar. 31/08)	\$0.9 million

Stock Ownership	Shares (mm)	% Total
Institutional	0.00 mm	0.0%
Management	14.48 mm	34.6%
Public Float	<u>27.39 mm</u>	<u>65.4%</u>
Total	41.87 mm	100%

FY	2008A	2009E	2010E
Revenue	\$25.99	\$27.28	\$28.65
EBITDA	\$5,107	\$5,253	\$5,268
EV/EBITDA	4	4	4
EPS	\$0.08	\$0.08	\$0.08
P/E	6	6	5
FCF	\$4,384	\$4,509	\$4,550

All figures in CAD dollars, unless otherwise stated

CriticalControl Solutions Corp. operates in two markets, government services and energy services. The company provides solutions to manage mission-critical information to government and energy sector clients primarily in Canada. It has exclusive contracts with the Alberta Government and has a market share of 60% in gas chart volume reporting, with over 300 customers and over 100,000 meter measurement points.

Please refer to Important Disclosures on page 15

May 19, 2009

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Recommendation

We are initiating coverage of CriticalControl with a **BUY recommendation** and a 12-month target price of \$0.85.

COMPANY OVERVIEW

CriticalControl Systems Corporation (“CCZ”) was founded in 2000 and is headquartered in Calgary, Alberta.

The company provides solutions to manage mission-critical information to government and energy sector clients primarily in Canada. CriticalControl Solutions Corp. operates in two markets, government services and energy services. Government services with gross margins of 46% represents 55% of revenues and energy services with over 60% gross margin represented 45% in FY2008. It offers NetFlow, a Web-enabled supervisory control and data acquisition (SCADA) software system that allows clients to monitor and manage remote production and processing sites; ScanGas that is a software system, which utilizes color recognition to digitally interpret chart data for fluid volume calculations; and ProTrend, a Web-enabled tool that simplifies fluid analysis management, while improving the accuracy and integrity of fluid compositions used in measurement and product allocation systems. The company’s products and services allow clients to manage all of their critical production measurement data with a single suite of products. It offers computer assisted mass appraisal software for real property solutions, as well as document management, records management, and invoice management solutions for government clients.

Over the last year, CriticalControl, strengthened by large customer wins, has become a profitable company with improved gross margins and higher cash flows. CriticalControl has been able to maintain a steady pace of revenue growth, from \$9.2 million in 2003 to \$26 million in 2008, a compound annual growth rate (“CAGR”) of 23%. During the same period, it has turned around from a loss of \$1.6 million to a profit of \$3.4 million. From a continuing operations standpoint the company has been profitable for the last three fiscal years.

REASONS TO OWN CRITICALCONTROL

Long-term contracts with customers give it revenue visibility

CriticalControl has good revenue visibility as it has long-term contracts with the Alberta government that run until 2011 with the option to increase it by another four years in two-year increments. Although, its energy contracts are not long-term contracts, in conversation with their clients we think that CriticalControl’s key products such as ScanGas, Netflow and Protrend have limited competition from small fragmented players in Western Canada. The company is establishing a strong brand following with its customers. We think the company will benefit from an upside in gas prices, as higher gas prices would result in more gas wells coming online that translates to higher revenues for CriticalControl.

One stop shop

We think that CriticalControl offers a one-stop shop for all regulatory and reporting needs related to measurement of gas produced. It provides these services over a web interface that provides centralised access to all employees. Another element that separates CriticalControl from its competition is that their products and services are vendor agnostic, which enables easier integration with existing technology at minimal capital cost. This is a significant differentiator from their competitors, who tend to specialise in one particular service or at best in a host of services bundled together with no common architecture.

Sticky customers

CriticalControl’s products are integrated into the customers operations, which gives the company intimate knowledge about their customers evolving needs. It enables the firm to proactively scope for other revenue opportunities with their customers. Each customer win is “sticky” as it takes about six to eight months to win a customer and this creates barriers to entry if an existing relationship is working well. In conversations with customers, we realised that CriticalControl offers real value at extremely competitive prices. Also, familiarity and comfort with one software system leads to high barriers for any competition.

Vendor agnostic software enables quick integration with low capex

Each customer win is “sticky”

Strong Management

CriticalControl has an experienced management team that understands their target markets. Experienced management is especially important for a small company such as CriticalControl. The effects of strong management can be seen in the steady growth that CriticalControl has seen over the last few years, and most importantly, it has improved profitability over the last three years of its existence. CriticalControl's key executives bring over 20 years of insight into the oil and gas industry. Some of the key executives are part of the committee that decides on gas measuring techniques and regulations, which gives them insight into the market going forward.

Strong balance sheet and free cash flow

CriticalControl has a strong revenue model and is a cash flow positive company. For the year 2008 the company had a free cash flow of \$4.3 million. We think that in the next few years the company will rapidly improve its cash balance as it experiences operating leverage and growth. The company has paid off all of its long-term debt in Q1'09 and is debt free. The company currently trades at less than 3X our FCF estimates for FY 2009. We think that CriticalControl has transformed itself, with customer wins over the last year, into a real cash flow generator. Most importantly, since CriticalControl's business is not capital intensive its revenue model is extremely scalable and allows for flexibility in tough and good times.

PRODUCT & MARKETS

CriticalControl sells its services and products in two distinct segments one is government and the other being energy services. The government services represent about 55% of sales and the remainder 45% is from the energy services segment. As a result of more customer wins and increased integration into their existing clients operations, we think that over the next few years the energy division will form a bigger share of total revenues.

Government

CriticalControl's products and services enable the Alberta government to manage data more effectively. The government contracts give CriticalControl a relatively predictable level of revenues. The government business is handed out in exclusive contracts and provides for a stable source of cash flows. The company initially started its business with the government by offering imaging services and gradually diversifying into other record keeping business' within the Alberta government. Every year the government is involved in the generation of millions of documents and registrations relating to items such as birth, health, motor vehicles and land titles. CriticalControl enables the government and individuals to effectively manage their information by making it easily accessible to multiple users. CriticalControl currently has an exclusive contract with the Alberta government for various services such as imaging and registration services. We believe that over the long term CriticalControl will be able to expand its government services into other provinces and municipalities within Western Canada.

Long term contracts with Alberta government makes for steady cash flows

The government services can be categorized under three functionalities related to imaging, registration and enterprise content management services.

Imaging (50% of government revenues)

CriticalControl's imaging services enables the government to convert paper documents into electronic images, which are then made easily accessible to all government employees. This addresses a need for simultaneous access by multiple users over the web, thus enabling easy retrieval and search of data and reducing the need for keeping photo copies. In conversations with government contractors we understand that each year the Alberta government allocates a certain dollar amount for imaging services, which in the past has been growing steadily. It is our understanding that the government has already transitioned electronic imaging for most departments. However, there is a whole sea of documents, from the last 50 years, that need to be scanned and put into the electronic database. By a conservative estimate, at the current pace, it would take about ten years to get all the important

documents such as Birth, Death and Land title deeds online. CriticalControl's key selling point is that it offers imaging services in electronic and microfilm format. CriticalControl's customers told us there is no other firm with similar capacity that offers both the services at such a reasonable price. CriticalControl has an exclusive long term contract with the province for imaging services that expires in 2011. In all likelihood it will be extended till 2015.

Registration (29% of government revenues)

CriticalControl's product is designed to help the government improve their services by enabling easy to use registration services. It can be accessed at client locations for hard copy forms or through CriticalControl's offices for electronic formats. It enables registration services for Land titles, important statistics (birth, death, and marriage), motor vehicles, corporate services and common services. This service basically screens forms submitted and ensure that submissions comply with all the rules and regulations of the government. It also provides for client requested distribution of these certificates/deeds. We view this segment a great source of stable cash flow as it is related to all aspects of economic growth such as demographic changes, motor vehicle ownership, and land ownership. However, given the current macro economic situation in Alberta we think that over the next two years the growth might not be as robust as it was in previous years. As a comparison this business model is similar to Teranet, which was recently acquired by OMERS. The key difference between Teranet and CriticalControl is that Teranet owns and operates the entire infrastructure whereas CriticalControl gets paid by the government on a per transaction basis.

Enterprise content management (20% of government revenues)

CriticalControl offers professional consulting services to enable the efficient use of document management software such as Opentext LiveLink, EMC Documentum and ApplicationXtender. In order to install and implement these systems the government has to contract the job to the software providers. These software professionals are expensive, thirty- forty thousand dollars for few a days of work. Also, they are not easily available, which leads to delays. Hiring CriticalControl is more time and cost effective (half the price) as the firm operates in Alberta and can be made easily available at short notice, plus they don't involve other expenses such as hotel rooms, plane tickets and other expenses as the professionals are based locally. Currently, the firm does not have any long term contracts with the Alberta government. Our discussions with government contractors lead us to believe that CriticalControl has a real chance of winning contracts over the next year, as the firm is already assisting in some of the projects. According to government contractors, we think that this segment could easily become the largest part of CriticalControl's government revenues and amount to more than 20% of their total government business.

Energy Product offerings

The energy segment represents about 45% of CriticalControl's revenues and in our view holds the key for long term growth at CriticalControl. Their proprietary product portfolio enables gas producers to manage their producing assets and assist with efficient regulatory reporting. The firm has over 250 clients and counts amongst its customers, big name producers such as Canadian Natural Resources, Devon Canada Corp and Penn West Energy. Its products revolve around oil & gas producers, who in turn rely on accurate data provided by CriticalControl's products, to enable financial reporting and management of their field assets.

The company addresses the energy market through three functionalities

- 1) Measurement operations- ScanGas
- 2) Measurement solutions - Protrend and Pipewatch
- 3) WebSCADA solutions - Netflow and Prostream is their fully integrated solution.

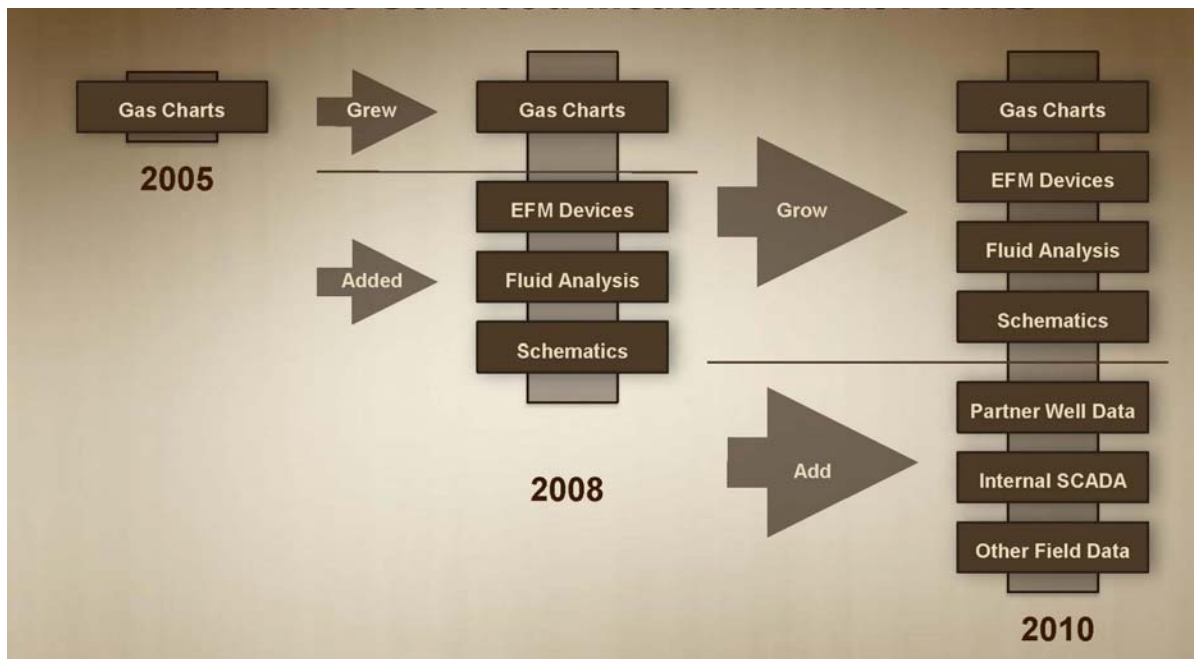


Figure 1: Schematics of CriticalControl's energy offerings and future strategies (Source: Company Presentation)

ScanGas (47% of energy revenues)

ScanGas is CriticalControl's gas chart integration product that it enables gas producers to account accurately for the amount of gas produced. One of the key issues relating to gas production is mainly related to the measurement of gas and the physical properties of gas. Gas is measured in volume, which is extremely sensitive to temperature and pressure. It is important to understand how a gas well is operated and the technology used to account for the production. In order to accurately account for revenue generated from a well it is critical that volume and composition metrics be taken continually throughout the day to account for any changes in temperature or pressure. There are currently two ways to measure this output either through an electronic flow meter and or a traditional paper chart meter. A traditional meter plots a graph on a circular chart recorder using different color inks to show volume and composition measurements throughout the day. Before ScanGas was introduced charts were manually inputted onto a spreadsheet for analysis and interpretation. ScanGas scans and analyzes paper charts through their proprietary software that uses color recognition technology to account accurately for gas volumes, to enable production accounting and royalty calculation. Since all the charts are electronically scanned with the information populated onto a central database, it enables easy access for all users and also reduces the risk of manual errors in chart interpretation. Most of the scanning is done remotely, thus reducing time taken to retrieve information, the turn around time is around 24-48 hours as opposed to 7days in the manual process. The success of this product can be inferred from its wide scale adoption by the industry. Over 60% of gas charts generated in Canada from dry flow gas meters use ScanGas for integration, regulatory reporting and historical archiving purposes.

Over 60% of gas charts generated from dry gas wells in Canada use ScanGas

The biggest threat to this business comes from electronic flow meters, however they require significant capital expenditure to bring them online and currently require manual retrieval of data from the gas wells.

Protrend (11% of energy revenues)

Regulatory reporting requires that oil & gas producers regularly analyze fluid samples to accurately account for revenue and royalty calculations. To achieve this requirement companies have to conduct fluid analysis through independent laboratories, who forward the data back to the companies for reporting purposes. Prior to the existence of ProTrend companies would manually collect all the data from all the labs and manually input it into a database. This process was tedious and involved keeping track of large amounts of paper.

Protrend simplifies and shortens time taken for fluid sampling

ProTrend offers a web based single repository that enables firms to simplify their sampling process. ProTrend allows companies to electronically retrieve information from any third party lab and validate the data against their set criteria. All this is done as soon as the information is uploaded from the third party's laboratory database, thus allowing for time, cost savings and removal of keying errors. It also enables firms to schedule sampling thereby making it easy to manage and track different wells. Since the software is vendor neutral CriticalControl is able to seamlessly connect with all third party labs electronically and allow for easy retrieval of analysis over the web.

Pipewatch (<4% of energy revenues)

Pipewatch provides an over all map system of all the pipeline assets of an energy company. It gives a regularly updated database that shows pipeline history and topographical features. It allows oil & gas firms to accurately assess the fitness of their pipeline and to take necessary action. In a nutshell it is a risk assessment tool that enables firms to optimally allocate resources to maintain critical parts of its pipeline infrastructure. The product provides information such as flow rates and corrosion assessments based on historical data or against performance metrics. All this information is critical in identifying problems and maintaining an efficient operation. Our conversations with clients lead us believe that CriticalControl's products provide the best value for money. They face competition from smaller firms, whose products are only marginally superior (provide more non-essential information) but are twice the price and so would negate any proposed benefits.

Netflow (38% of energy revenues)

Netflow is a web based Supervisory Control and Data Acquisition ("SCADA") system that enables oil & gas producers to remotely monitor and control their on field operations. Utilization of this software system allows firms to get real time information of their producing assets and respond accordingly to changing information. Netflow allows users to update oil/gas flow configuration, check for problems, adjust flow and manage alarms. Another benefit is that Netflow is vendor neutral this features allows for the integration of different types of hardware and software into one simple system. Netflow allows producers to allocate resources optimally and direct operator visits to well sites.

Prostream

Prostream is a fully integrated solution that enables CriticalControl's energy customers to efficiently perform all the functions that are required by regulatory authorities such as reporting and measurement. At the same time it also incorporates risk assessment features relating to asset management such as pipe lines and producing wells. It proposes a one stop system to encompass all the functions that are required by an oil & gas producer.

ProStream is a corporate solution that transcends various important functions in an energy company: field operators, measurement specialists, production engineers, reservoir engineers, production accountants and financial accountants.

COMPETITION

Fragmented competition improves probability to win contracts

In the government segment, CriticalControl faces competition from a widely fragmented list of suppliers that in our view, based on discussions with government contractors, do not offer same level of service and expertise as CriticalControl.

On the energy side, it faces competition mainly from Zedi solutions. However, it is our understanding that to implement Zedi's solutions a company would require extensive capital expenditures to bring all producing gas wells online as most wells currently use analog devices and Zedi's products require electronic flow meters. Recently, Zedi bought OAS, a gas chart interpretation firm, to add to their gas chart reporting capabilities. However, OAS still uses manual interpretation that leads to slower return times. Another reason, why we prefer CriticalControl to Zedi is that CriticalControl's software solutions are vendor neutral and it offers a fully integrated web based solution that can communicate with different hardware and software systems that are already in place. In effect, CriticalControl's products offer faster integration at a much lower cost.

INVESTMENT RISKS

CriticalControl faces investment risk in the form of liquidity risk, as insiders hold about 35% of total outstanding shares. The company may see some slower growth in the near future due to macro economic conditions in Alberta (fewer registrations translate to lower revenues). However, we have already accounted for the dip in government revenues over the next two years. The current macro environment may delay the capital expenditure plans of its customers. We believe that CriticalControl's strong balance sheet and strong product portfolio will enable it to work around any slowdown in customer wins.

VALUATION

Discounted Cash Flow

Based on a ten-year DCF model (See Appendix I for DCF Valuation) we arrive at a valuation of \$0.91 per share on a fully diluted basis. CriticalControl's revenues are forecast to grow at 5% for FY 2009. We have used, in our view, a very conservative flat growth rate of 5% throughout the life of the firm.

**Twelve
month target
price of \$0.85
with a "Buy"
Rating**

DCF Assumptions

- We have arrived at a discount rate by using the WACC method, with cost of equity at 16% and cost of debt at 8% and terminal growth rate of 5%.
- We have assumed that the energy services will grow at a faster pace when compared to government services.
- We assume capital expenses will grow at a slower pace compared to revenue.

Cost of Capital

	13%	14%	15%	16%	17%	18%	19%
2%	0.90	0.87	0.85	0.83	0.82	0.80	0.79
3%	0.93	0.90	0.87	0.85	0.83	0.82	0.80
Terminal Growth Rate 4%	0.97	0.94	0.90	0.88	0.86	0.84	0.82
5%	1.03	0.98	0.94	0.91	0.88	0.86	0.84
6%	1.09	1.03	0.98	0.94	0.91	0.88	0.86
7%	1.18	1.10	1.04	0.99	0.95	0.91	0.89
8%	1.31	1.19	1.10	1.04	0.99	0.95	0.92

Table 1: Sensitivity Analysis based on different assumptions for Terminal Growth Rate and Discount Rate

EV/EBITDA Valuation

We have arrived at a valuation of \$0.75, using a multiple of 8X our EBITDA forecast for 2010 with 16% discount rate. Our \$0.85 target price is average of the two valuation methods used. (See Appendix II for Comparables)

	Discount Rate						
	13%	14%	15%	16%	17%	18%	19%
5	0.49	0.49	0.48	0.47	0.46	0.46	0.45
6	0.59	0.58	0.57	0.56	0.56	0.55	0.54
7	0.69	0.68	0.67	0.66	0.65	0.64	0.63
EV/EBITDA 8	0.79	0.77	0.76	0.75	0.74	0.73	0.72
9	0.88	0.87	0.86	0.84	0.83	0.82	0.81
10	0.98	0.97	0.95	0.94	0.92	0.91	0.90
11	1.08	1.06	1.05	1.03	1.01	1.00	0.98

Table 2: Sensitivity Analysis based on different assumptions for EV/EBITDA and Discount Rate

CONCLUSION & RECOMMENDATION

CriticalControl is currently trading at lower multiples relative to its peers. We believe a higher multiple is warranted given its stronger fundamentals and growth potential. The current share price represents a good buying opportunity based on growth potential and market opportunity.

We are initiating coverage of CriticalControl with a **BUY recommendation** and a 12-month target price of \$0.85.

Management

Alykhan Mamdani **President and CEO**

Mr. Mamdani was appointed as Chief Executive Officer of the Corporation in September 2007. He has been the President of the Corporation since December 2003. He was also the Chief Financial Officer from July 2002 to September, 2007. Mr. Mamdani also served as the President and Chief Executive Officer of the Corporation from September 2001 to July 2002 and as the Chief Financial Officer of the Corporation from May 15, 2001 to August 29, 2001. Mr. Mamdani is a director on the boards of RepeatSeat Ltd. and First Gold Exploration Inc. Mr. Mamdani is also the President and Chief Executive Officer of the Softech Group, a company he founded in 1997 that manages a number of private technology investments. From June 1999 to August 2003, Mr. Mamdani was the President, Chief Executive Officer, Chief Financial Officer and a Director of Intermedia Capital Corp., which became Savanna Energy Services Corp. (TSE: SVY) through a reverse takeover. Mr. Mamdani has a Bachelor of Mathematics from the University of Waterloo, a Bachelor of Laws from the University of Western Ontario, and a Master of Laws in corporate law and finance from Widener University in Wilmington, Delaware. Mr. Mamdani is a member of the Law Society of Alberta and the New York Bar and is also a member of the Certified Management Accountants of Alberta.

Brenton Lawther **Chief Operating Officer**

After receiving a degree from Devry in 1985, Brenton joined BMP Energy Systems (acquired by CriticalControl in 2005) as a computer operator. Brenton authored much of the software used by BMP for the integration of gas charts in his early days with the organization and over the years picked up significant business knowledge. Showing an aptitude for business, Brenton held the post of Vice President of Corporate Development at BMP when it was acquired by CriticalControl. Brenton has been instrumental in forming the Corporation's energy business strategy as Vice President of Upstream Solutions and was promoted to Chief Operating Officer in 2008.

Hashu Remtulla, CMA **Chief Financial Officer**

Hashu received his CMA designation in 1992 and provided accounting services to various ventures in Calgary from 1992 to 2002 when he joined CriticalControl as a financial controller. In 2005 Hashu was promoted to Vice President and in 2007 became Chief Financial Officer.

Andy Levstik, P.Eng. **VP, Product Development**

Andy graduated from the University of Calgary with a Bachelor of Science in Engineering in 1987 and joined Datap Systems Inc. in 1993 as a Manager of Technical Services working with SCADA systems. Datap was acquired by TCEnet Inc., which was later acquired by CriticalControl. Andy has held several senior positions within the organization in the past 15 years including Director of Technology and Director of Infrastructure and Communications.

Willis Groshong **Executive Vice President, Edmonton Region**

Willis graduated with a degree in Business Administration in Regina, SK in 1976 and soon thereafter formed GDS & Associates, primarily an IT services company which expanded across Western Canada. After the purchase of the IT services component of GDS by CGI in 2003, Willis went on to manage the operations of a subsidiary of GDS, Valcura which provided real property appraisal software to municipalities. Valcura was purchased by CriticalControl in 2004 and Willis joined CriticalControl as Vice President of Consulting Services. He later took over management of CriticalControl's government operations in 2006.

Eric Olsen **Vice President, Operations, Edmonton Region**

Eric graduated with a Bachelor of Communications in 1989 and joined Imaging Solutions as a Business Manager in 1997. Imaging Solutions was purchased by CriticalControl in 2001 and Eric continued to expand his business knowledge, becoming the Director of Service Bureau Operations in 2005. Through organic growth, Eric tripled the output of the service bureau within 2 years and was promoted to his current role in 2008.

APPENDIX I: DCF VALUATION

PV of FCFF during high growth phase =	\$ 23,460
PV of Terminal Value =	\$ 13,366
Value of Operating Assets of the firm =	\$ 36,825
Value of Cash & Non-operating assets=	\$ 1,127
Value of Firm =	\$ 37,952
- Value of Outstanding Debt =	\$ -
Value of Equity in Common Stock =	\$ 37,952
Value of Equity per share =	\$ 0.91

Cost of Capital Calculations											
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Term. Year
Tax Rate	0.00%	0.00%	0.00%	2.97%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%	30.00%
Debt Ratio	6.09%	6.09%	6.09%	6.09%	6.09%	6.09%	4.87%	4.57%	4.06%	3.04%	0.00%
Cost of Equity	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%	16.00%
Cost of Debt	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%	12.00%
After-tax cost of debt	12.00%	12.00%	12.00%	11.64%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%	8.40%
Cost of Capital	15.76%	15.76%	15.76%	15.73%	15.54%	15.54%	15.63%	15.65%	15.69%	15.77%	16.00%
FCFF											
Revenue Growth Rate	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%	5%
Revenues	\$27,284	\$28,648	\$30,081	\$31,585	\$33,164	\$34,822	\$36,564	\$38,392	\$40,311	\$42,327	\$44,443
EBIT	\$3,692	\$3,491	\$3,948	\$4,343	\$4,698	\$5,030	\$5,349	\$5,664	\$5,980	\$6,303	\$6,666
Net Income	\$3,501	\$3,491	\$3,831	\$3,040	\$3,289	\$3,521	\$3,744	\$3,965	\$4,186	\$4,412	\$4,667
- Reinvestment	-\$1,008	-\$1,058	-\$1,111	-\$1,167	-\$1,225	-\$1,287	-\$1,351	-\$1,418	-\$1,494	-\$1,574	-\$1,657
FCFF	\$4,509	\$4,550	\$4,942	\$4,207	\$4,514	\$4,807	\$5,095	\$5,383	\$5,680	\$5,985	\$6,323
Terminal Value											\$ 57,486
Present Value Calculations											
Cumulative WACC	1.158	1.340	1.551	1.792	2.070	2.394	2.768	3.203	3.708	4.301	
Present Value of FCFF	\$ 3,896	\$ 3,396	\$ 3,187	\$ 2,348	\$ 2,181	\$ 2,008	\$ 1,841	\$ 1,681	\$ 1,532	\$ 1,392	
Present Value of Terminal Value											\$ 13,366

Source: Toll Cross Securities Inc.

APENDIX II: COMPARABLE ANALYSIS

(In millions, except per share data)

Ticker	Name	Trading Data		Total Revenue			Diluted ADJ. EPS				PE				TEV/EBITDA				Price
		Stock Price	Market Cap	TEV	FY	LTM	FY	LTM	CY2009	CY2010	FY	LTM	CY2009	CY2010	FY	LTM	CY2009	CY2010	BV
SMALL CAP ENERGY SERVICE STOCKS																			
TSX:TEC	Technicoil Corp.	0.38	28	49	62	62	-0.05	-0.05	0.06	-0.06	NA	NA	6.33	NA	3.17	3.17	3.05	10.37	0.38
TSX:FES	Flint Energy Services Ltd.	7.95	367	676	2,311	2,311	-7.53	-7.53	1.31	0.66	NA	NA	6.05	12.12	3.49	3.49	3.54	5.22	0.76
TSX:ISC	IROC Energy Services Corp.	0.70	31	61	65	65	0.09	0.09	0.00	0.00	7.79	7.79	NA	NA	3.81	3.81	NA	5.33	0.48
TSX:SVY	Savanna Energy Services Corp.	6.05	357	531	460	405	-4.74	-5.12	0.76	0.04	NA	NA	7.92	159.21	4.88	6.91	4.46	10.20	0.50
TSX:NIOA	North American Energy Partners Inc.	5.08	183	408	990	1,121	1.08	0.64	1.38	0.48	4.71	7.90	3.69	10.67	3.09	2.39	2.91	4.72	0.00
TSXV:ENQ	Enquest Energy Services Corp.	0.75	5	74	104	130	-0.04	-0.13	0.00	0.00	NA	NA	NA	NA	5.61	4.68	NA	NA	0.23
TSX:TEC	Technicoil Corp.	0.38	28	49	62	62	-0.05	-0.05	0.06	-0.06	NA	NA	6.33	NA	3.17	3.17	3.05	10.37	0.38
TSXV:ZED	Zedj, Inc.	0.55	52	52	46	46	0.02	0.02	0.02	0.02	23.89	23.89	27.50	23.91	11.43	11.43	6.88	6.96	1.19
Median							-0.05	-0.05	0.06	0.01	7.79	7.90	6.33	18.02	3.65	3.65	3.29	6.96	0.43
Mean							-1.40	-1.51	0.45	0.13	12.13	13.19	9.64	51.48	4.83	4.88	3.98	7.59	0.49
TSX:CCZ	CriticalControl Solutions Corp.	0.43	18	17.73	25.99	25.99	0.08	0.08	0.08	0.08	5.52	5.52	5.51	5.17	3.47	3.47	2.69	2.54	1.26

Source: Capital IQ and Toll Cross Securities

APENDIX III: Consolidated Balance Sheet

<i>(Expressed in thousands CAD Dollars)</i>	December 31, 2007	December 31, 2008	March 31, 2009
ASSETS			
Current Assets			
Cash and cash equivalents	566	1,127	871
Restricted Cash	200	-	
Accounts receivable	3,440	4,338	4,290
Unbilled revenue	337	258	198
Inventory	105	136	179
Prepaid expenses and other	397	469	583
Total Current Assets	5,045	6,328	6,121
Deferred costs	91	59	59
Property & equipment	2,653	2,328	2,214
Customer relationships & contracts	3,920	4,521	4,368
Goodwill	6,110	6,203	6,203
Total Assets	17,819	19,439	18,965
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current Liabilities			
Operating line of credit	823	-	-
Accounts payable & accrued liabilities	1,896	2,431	1,647
Unearned revenue	432	753	1,288
Current portion of long term debt	550	600	-
Current portion of deferred lease inducement	160	160	160
Total Current Liabilities	3,861	3,944	3,095
Long term warranty liability	-	-	-
Deferred Lease inducement	1,310	1,150	1,110
Long term debt	950	250	
Total Liabilities	6,121	5,344	4,205
Shareholders' Equity			
Share Capital	23,995	22,921	22,966
Contributed Surplus	1,697	1,724	1,684
Deficit	(13,994)	(10,550)	(9,890)
Total Stockholders' Equity	11,698	14,095	14,760
Total Liabilities and Stockholders' Equity	17,819	19,439	18,965

Source: Company Reports

APENDIX IV: Income Statement

(Expressed in thousands of CAD Dollars)

	Dec. 31, 2008 FY 2008	Mar. 31, '09 Q1 F2009	Jun. 30, '09 (E)Q2 F2009	Sept. 30, '09 (E)Q3 F2009	Dec. 31, '09 (E)Q4 F2009	Dec. 31, 2009 (E)FY 2009	Dec. 31, 2010 (E)FY 2010
Government	\$ 14,201	\$ 3,366	\$ 3,523	\$ 3,523	\$ 3,523	\$ 13,935	\$ 14,353
Energy	\$ 11,784	\$ 3,079	\$ 3,031	\$ 3,394	\$ 3,982	\$ 13,349	\$ 14,295
Total Revenue	\$ 25,985	\$ 6,445	\$ 6,554	\$ 6,917	\$ 7,505	\$ 27,284	\$ 28,648
Government	\$ 7,670	\$ 2,033	\$ 1,867	\$ 1,867	\$ 1,867	\$ 7,635	\$ 7,894
Energy	\$ 4,271	\$ 1,123	\$ 1,152	\$ 1,290	\$ 1,513	\$ 5,078	\$ 5,432
Total Cost of Revenue	\$ 11,941	\$ 3,156	\$ 3,019	\$ 3,157	\$ 3,380	\$ 12,712	\$ 13,326
Government Gross Margin	\$ 6,531	\$ 1,333	\$ 1,656	\$ 1,656	\$ 1,656	\$ 6,300	\$ 6,459
Energy Gross Margin	\$ 7,513	\$ 1,956	\$ 1,879	\$ 2,104	\$ 2,469	\$ 8,271	\$ 8,863
Total Gross Margin	\$ 14,044	\$ 3,289	\$ 3,535	\$ 3,760	\$ 4,125	\$ 14,572	\$ 15,322
Government Gross Margin%	46.0%	39.6%	47.0%	47.0%	47.0%	45.2%	45.0%
Energy Gross Margin%	63.8%	63.5%	62.0%	62.0%	62.0%	62.0%	62.0%
Total Gross Margin %	54.0%	51.0%	53.9%	54.4%	55.0%	53.4%	53.5%
Operating Expenses							
Sales & administrative	\$ 8,272	\$ 2,063	\$ 2,097	\$ 2,213	\$ 2,402	\$ 8,775	\$ 9,168
Research & Development	\$ 665	\$ 163	\$ 197	\$ 208	\$ 225	\$ 792	\$ 859
Amortization of property & equipment	\$ 1,021	\$ 249	\$ 262	\$ 277	\$ 300	\$ 1,088	\$ 1,146
Amortization of customer relationships & contracts	\$ 570	\$ 153	\$ 144	\$ 152	\$ 165	\$ 614	\$ 630
Total Operating Expenses	\$ 10,528	\$ 2,628	\$ 2,700	\$ 2,850	\$ 3,092	\$ 11,270	\$ 11,803
Income (Loss) from Operations	\$ 3,516	\$ 661	\$ 835	\$ 910	\$ 1,033	\$ 3,302	\$ 3,519
<i>Operating Margin %</i>	13.53%	10.26%	12.74%	13.16%	13.76%	12.10%	12.28%
Other (Income) Expenses							
Foreign Exchange (gain) loss	\$ 42	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Interest Expense (Income)	\$ 85	\$ 1	\$ -	\$ -	\$ -	\$ 1	\$ -
Loss on Disposal of Capital Assets (gain)	\$ (55)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Restructuring charge	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Income(Loss) from continuing operations	\$ 3,444	\$ 660	\$ 835	\$ 910	\$ 1,033	\$ 3,301	\$ 3,519
Loss from discontinued operations							
Net Income (Loss) Before Tax (EBT)	\$ 3,444	\$ 660	\$ 835	\$ 910	\$ 1,033	\$ 3,301	\$ 3,519
Income Tax	\$ -						
	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Net Income (Loss)	\$ 3,444	\$ 660	\$ 835	\$ 910	\$ 1,033	\$ 3,301	\$ 3,519
<i>Net Margin %</i>	13.3%	10.2%	12.7%	13.2%	13.8%	12.1%	12.3%
Net Earning (Loss) per share - Fully Diluted	\$ 0.08	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.02	\$ 0.08	\$ 0.08
Weighted Average Common Shares Outstanding							
Basic	43,274	41,603	41,603	41,603	41,603	41,603	41,603
Diluted	44,242	42,300	42,300	42,300	42,300	42,300	42,300
Margin Analysis/ Assumptions							
Government Revenue growth	13.4%	-0.9%	-1.5%	-4.9%	0.0%	-1.9%	3.0%
Energy Revenue growth	11.5%	18.6%	13.3%	13.3%	13.3%	13.3%	7.1%
Total Revenue Growth (YOY)	12.6%	7.5%	4.8%	3.3%	6.6%	5.0%	5.0%
Total Gross Margin %	54.0%	51.0%	53.9%	54.4%	55.0%	53.4%	53.5%
Sales & administrative	31.8%	32.0%	32.0%	32.0%	32.0%	32.2%	32.0%
Research & Development	2.6%	2.5%	3.0%	3.0%	3.0%	2.9%	3.0%
Amortization of property & equipment	3.9%	3.9%	4.0%	4.0%	4.0%	4.0%	4.0%
Amortization of customer relationships & contracts	2.2%	2.4%	2.2%	2.2%	2.2%	2.3%	2.2%
Operating Margin	13.5%	10.3%	12.7%	13.2%	13.8%	12.1%	12.3%
Net Margin %	13.3%	10.2%	12.7%	13.2%	13.8%	12.1%	12.3%

Source: Company Reports and Toll Cross Securities Inc.

APENDIX V: Cash Flow Statement

	FY 2007A	FY 2008A	FY 2009E	FY 2010E
Cash flows from operating activities:				
Net income (loss)	117	3,444	3,301	3,519
Items not affecting cash:				
Amortization of property and equipment	987	1,021	1,088	1,146
Amortization of customer relationships & contacts	527	570	614	630
Rent Reduction	-	(160)	(160)	-
Deferred share purchase plan	53	165	-	-
Loss /(gain) in sale of property & equipment	-	(55)	-	-
Stock based compensation	17	(4)	-	-
Non-Cash interest	223	-	-	-
Amortization of deferred financing costs	133	-	-	-
Changes in non-cash working capital items	1,101	(64)	(67)	(71)
Cash flows from operating activities:	3,158	4,917	4,776	5,225
Increase(decrease) in cash from discontinued operations	501			
Cash flows from financing activities:				
Repurchase shares for cancellation	-	(1,378)	-	-
Shares issued for cash	121	157	-	-
Deferred share purchase plan	-	13	-	-
Proceeds from operating line of credit	823	-	-	-
Repayment of operating line of credit	(550)	(823)	-	-
Proceeds from long term debt	1,500	-	-	-
Repayment of long term debt	(5,961)	(650)	(850)	-
Proceeds from lease inducement	1,115	-	-	-
Cash flows from financing activities:	(2,952)	(2,681)	(850)	-
Cash flows from investing activities:				
Acquisition of businesses, net of cash acquired	(394)	(1,373)	-	-
Proceeds (to)/ from short term investments	(200)	200	-	-
Purchase of property & equipment	(339)	(587)	(616)	(647)
Proceeds from sale of property & equipment	-	85	-	-
Proceeds from sale of discontinued operations	634	-	-	-
Cash flows from investing activities:	(299)	(1,675)	(616)	(647)
Net increase (decrease) in cash and cash equivalents	408	561	3,310	4,577
Cash and cash equivalents at beginning of period	158	566	1,127	4,437
Cash and cash equivalents at end of period	566	1,127	4,437	9,014
Free Cash Flow	3,320	4,330	4,160	4,577

Source: Company Reports and Toll Cross Securities

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