# Critical Control Energy Services Corp.

# Q3 2015

## Condensed Consolidated Interim Financial Statements

**September 30, 2015**

Critical Control provides solutions for the collection, control and analysis of measurement and operational data related to oil and gas wells across North America. We provide services to capture the data, cloud-based software to visualize and manage it and the business intelligence to make quicker and more informed operational decisions.

# Critical Control Energy Services Corp.

## Q3 2015 Condensed Consolidated Interim Financial Statements

September 30, 2015

NOTICE OF NO AUDITOR REVIEW OF CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

The accompanying unaudited condensed consolidated interim financial statements of the Corporation have been prepared by and are the responsibility of the Corporation's management.

The Corporation's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed consolidated interim financial statements.

# Condensed Consolidated Interim Statement of Financial Position

**As at September 30, 2015 (unaudited)**
**(In thousands of Canadian dollars, except share and per share data)**

| | Note | September 30, 2015 | December 31, 2014 |
|---|---|---|---|
| **Assets** | | | |
| Current assets: | | | |
| Cash and cash equivalents | | 2,285 | 1,805 |
| Accounts receivable | | 10,716 | 9,095 |
| Unbilled revenue | | 324 | 347 |
| Inventory | | 3,318 | 3,779 |
| Prepaid expenses | | 796 | 1,591 |
| Assets held for sale | 4 | 932 | - |
| Total current assets | | 18,371 | 16,617 |
| Tax credits recoverable | | 668 | 605 |
| Deposits | | 104 | 129 |
| Deferred income taxes | | 4,231 | 2,082 |
| Property and equipment | | 4,100 | 2,956 |
| Intangible assets and goodwill | | 20,053 | 20,546 |
| **TOTAL ASSETS** | | 47,527 | 42,935 |
| **Liabilities and Shareholders' Equity** | | | |
| Current liabilities: | | | |
| Bank indebtedness | 6 | 5,277 | 2,631 |
| Accounts payable and accrued liabilities | | 6,768 | 5,013 |
| Deferred revenue | | 847 | 2,072 |
| Provisions | 5 | 703 | 563 |
| Current portion of long-term debt | 6 | 5,339 | 1,143 |
| Current portion of deferred lease inducements | | 35 | 199 |
| Total current liabilities | | 18,969 | 11,621 |
| Provisions | 5 | 276 | 255 |
| Long term debt | 6 | - | 2,312 |
| Deferred lease inducements | | 95 | 185 |
| Deferred income taxes | | 890 | 554 |
| **TOTAL LIABILITIES** | | 20,230 | 14,927 |
| **Shareholders' Equity** | | | |
| Share capital | | 31,626 | 31,463 |
| Contributed surplus | | 1,623 | 1,590 |
| Accumulated other comprehensive income | | 2,479 | 634 |
| Deficit | | (8,431) | (5,679) |
| Total shareholders' equity | | 27,297 | 28,008 |
| **TOTAL LIABILITIES and SHAREHOLDERS' EQUITY** | | 47,527 | 42,935 |

(See Notes to the Condensed Consolidated Interim Financial Statements)

## Condensed Consolidated Interim Statement of Earnings

**For the three and nine month periods ended September 30 (unaudited)**
**(In thousands of Canadian dollars, except share and per share data)**

| | Note | Three months 2015 | Three months 2014 | Nine months 2015 | Nine months 2014 |
|---|---|---|---|---|---|
| | | | (Restated - See Note 9) | | (Restated - See Note 9) |
| **Continuing operations** | | | | | |
| Revenue | | 10,300 | 10,400 | 30,526 | 26,431 |
| Cost of revenue | | 7,775 | 6,670 | 21,145 | 17,099 |
| | | 2,525 | 3,730 | 9,381 | 9,332 |
| **Expenses** | | | | | |
| Selling and administrative | | 3,123 | 2,947 | 10,003 | 8,504 |
| Research and development | | 277 | 398 | 974 | 965 |
| Finance (income) | 8 | 948 | (143) | 810 | 94 |
| Other expenses | 9 | 1,769 | - | 2,464 | 93 |
| | | 6,117 | 3,202 | 14,251 | 9,656 |
| (Loss) earnings before income taxes | | (3,592) | 528 | (4,870) | (324) |
| Income taxes (recovery) | | (1,359) | 156 | (1,626) | 39 |
| Net (loss) earinings from continuing operations | | (2,233) | 372 | (3,244) | (363) |
| **Discontinued operations** | | | | | |
| Net earnings (loss) from discontinued operations | 10 | (211) | (153) | 492 | 302 |
| Net loss (earnings) | | (2,444) | 219 | (2,752) | (61) |
| **Other comprehensive income** | | | | | |
| Foreign currency translation adjustments, net of tax [1] | | 869 | 300 | 1,845 | 310 |
| **Comprehensive (loss) income** | | (1,575) | 519 | (907) | 249 |
| **Earnings per share** | | | | | |
| Net loss (earnings) | | | | | |
| Basic and diluted | 10 | (0.04) | - | (0.05) | - |
| Discontinued operations | | | | | |
| Basic and diluted | 10 | - | - | 0.01 | 0.01 |
| Continuing operations | | | | | |
| Basic and diluted | 10 | (0.04) | 0.01 | (0.06) | (0.01) |

[1] To be reclassified to earnings or loss if there is a disposition of foreign operation

(See Notes to the Condensed Consolidated Interim Financial Statements)

# Condensed Consolidated Interim Statement of Changes in Equity

**For the nine months ended September 30 (unaudited)**
**(In thousands of Canadian dollars, except share and per share data)**

**Nine months ended September 30, 2015**

| | Note | Share Capital | Contributed Surplus | Deficit | Cumulative translation account | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2015 | | 31,463 | 1,590 | (5,679) | 634 | 28,008 |
| Comprehensive income | | - | - | (2,752) | 1,845 | (907) |
| Employee share purchase plan proceeds, net of refunds | | - | (35) | - | - | (35) |
| Shares issued from treasury for deferred common shares | | 140 | (140) | - | - | - |
| Shares issued from treasury under employee share purchase plan | | 23 | (23) | - | - | - |
| Share-based payments | | - | 231 | - | - | 231 |
| Balance at September 30, 2015 | | 31,626 | 1,623 | (8,431) | 2,479 | 27,297 |

**Nine months ended September 30, 2014**

| | Note | Share Capital | Contributed Surplus | Deficit | Cumulative translation account | Total |
|---|---|---|---|---|---|---|
| Balance at January 1, 2014 | | 29,047 | 1,093 | (4,456) | 79 | 25,763 |
| Comprehensive income (loss) | | - | - | (61) | 310 | 249 |
| Private placement proceeds | | 2,820 | 180 | - | - | 3,000 |
| Employee share purchase plan proceeds | | - | 107 | - | - | 107 |
| Share issue costs, net of $66 income tax benefit | | (230) | - | - | - | (230) |
| Shares purchased under normal course issuer bid | 6 | (246) | 39 | - | - | (207) |
| Share-based payments | | 59 | 94 | - | - | 153 |
| Balance at September 30, 2014 | | 31,450 | 1,513 | (4,517) | 389 | 28,835 |

## Condensed Consolidated Interim Statement of Cash Flows

**For the nine months ended September 30 (unaudited)**
**(In thousands of Canadian dollars, except share and per share data)**

| | Note | 2015 | 2014 |
|---|---|---|---|
| **Cash flows provided by (used in)** | | | |
| **Operating activities** | | | |
| Net loss (earnings) | | (2,752) | (61) |
| Adjustments for: | | | |
| Depreciation and amortization | | 2,111 | 2,042 |
| Foreign exchange | | (765) | (290) |
| Gain on disposal of property and equipment | | - | (16) |
| Gain on sale of discontinued operations, net of tax | 10 | (1,442) | - |
| Gain on acquisition | 3 | (762) | - |
| Finance costs | | 354 | 359 |
| Income taxes | | (1,074) | 74 |
| Other | | 231 | 113 |
| Income taxes - paid | | (55) | (43) |
| Income taxes - recovery | | 72 | - |
| Interest - paid | | (328) | (205) |
| Funds (used in) provided by operations | | (4,410) | 1,973 |
| Change in non-cash working capital | | 1,637 | (3,528) |
| | | (2,773) | (1,555) |
| **Investing activities** | | | |
| Purchase of measurement services net assets | | (1,973) | - |
| Purchase of property and equipment | | (506) | (454) |
| Purchase of software | | (81) | (24) |
| Proceeds from sale of discontinued operations, net of $67 selling costs | 10 | 3,507 | - |
| Proceeds on sale of property and equipment | | - | 47 |
| Additions to product development costs | | (731) | (424) |
| Deferred lease inducements | | 85 | - |
| | | 301 | (855) |
| **Financing activities** | | | |
| Proceeds from private placement | | - | 3,000 |
| Proceeds from employee share purchase plan, net of refunds | | (22) | 107 |
| Proceeds from bank indebtedness | | 4,481 | - |
| Repayment of bank indebtedness | | (2,551) | - |
| Proceeds from long-term debt | | 2,679 | 957 |
| Repayment of long-term debt | | (1,214) | (1,095) |
| Share issue and financing costs | | - | (307) |
| Shares purchased under normal course issuer bid | | - | (207) |
| | | 3,373 | 2,455 |
| Effect of translation of foreign currency cash | | (421) | 15 |
| Net increase in cash | | 480 | 60 |
| Cash and cash equivalents, beginning of period | | 1,805 | 434 |
| Cash and cash equivalents, end of period | | 2,285 | 494 |

(See Notes to the Condensed Consolidated Interim Financial Statements)

## 1. Structure of the Corporation

### Organization

Critical Control Energy Services Corp. (the "Corporation" or "Critical Control") is incorporated in Alberta and domiciled in Canada. The registered address of the Corporation is 2800, 715 – 5 Avenue SW, Calgary, Alberta T2P 2X6. Critical Control is a publicly-traded company listed on the Toronto Stock Exchange ("TSX") under symbol "CCZ".

The Corporation changed its name from "CriticalControl Solutions Corp." to "Critical Control Energy Services Corp." effective June 23, 2015.

These condensed consolidated interim financial statements ("interim financial statements") should be read in conjunction with the Corporation's consolidated financial statements for the year ended December 31, 2014, which are available upon request from the Corporation's head office at Suite 800, 140 – 10th Avenue SE, Calgary, Alberta, Canada T2G 0R1, at www.criticalcontrolenergy.com or at www.sedar.com.

### Operations

Critical Control operates in Canada and the United States, providing solutions for the collection, control and analysis of measurement and operational data related to oil and gas wells across North America. The Corporation provides services to capture the data, cloud-based software to visualize and manage it and the business intelligence to make quicker and more informed operational decisions.

## 2. Basis of preparation

(a) Statement of compliance:

These are condensed consolidated interim financial statements ("interim financial statements") prepared in accordance with International Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements. These interim financial statements were prepared using International Accounting Standards ("IAS") 34 – *Interim Financial Reporting* as at September 30, 2015. These interim financial statements were authorized for issuance by the Board of Directors as of November 16, 2015.

The interim financial statements were prepared by management and follow the same accounting policies and methods as the audited consolidated financial statements for the year-ended December 31, 2014. The interim financial statements do not contain all of the disclosures required for annual financial statements. As a result, the interim financial statements should be read in conjunction with the Corporation's previous annual consolidated financial statements for the year-ended December 31, 2014, prepared in accordance with IFRS as issued by the IASB.

These interim financial statements have been prepared on a going concern basis, which presumes the Corporation will continue normal operations for the foreseeable future. As set out in note 6, the Corporation was not in compliance with the Debt to EBITDA covenant in its credit agreement (the "Agreement") with its lender.

The lender has waived the covenants breach as at September 30, 2015. As the Debt to EBITDA covenant is measured quarterly within forty-five days after the quarter end in accordance with the Agreement, it will be measured again at December 31, 2015 by February 14, 2016. The Corporation and its lender are currently in discussion to amend the Agreement and the covenants contained therein to avoid any future breaches. Based on the discussions with the lenders to date, the Corporation expects to successfully negotiate an acceptable amendment to the Agreement prior to December 31, 2015.

The Corporation has prepared forecasts for the remainder of 2015 and 2016 and, assuming the successful negotiation of amendments to the Agreement, expects that the loan covenants will be in compliance by the end of the second quarter of 2016. However, should the Corporation's forecast not materialize as planned, the Corporation may require further waivers from its lender or replacement financing from another source to continue as a going concern.

(b) Basis of measurement:

The interim financial statements have been prepared on the historical cost basis except as specifically noted within these notes to the interim financial statements.

**(In thousands of Canadian dollars, except share and per share data)**

(c) Functional and presentation currency:

The interim financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

(d) Use of estimates and judgments:

The preparation of the interim financial statements require management to make judgements and estimates that affect the reported amounts of assets, liabilities, income and expenses. Judgements and estimates are continually evaluated and are based on historical experience and expectations of future events. While judgements and estimates used by the Corporation are believed to be reasonable under current circumstances, actual results could differ.

The key sources of estimation uncertainty are the same as those applied in the December 31, 2014 audited consolidated financial statements. The areas involving a high degree of judgement and areas where assumptions and estimates are significant to the financial statements have been disclosed in Note 3 to the Corporation's December 31, 2014 audited consolidated financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

**3. Measurement services acquisition**

Effective April 1, 2015, the Corporation acquired, through Gas Analytical Services, Inc. certain assets of a company based in Dallas, Texas relating to the interpretation of gas charts, the provision of gas and liquids analysis, and the provision of measurement related field services ("Measurement Services Acquisition"). The purchase price of US $2.0 million was paid 80% on first closing with the remainder payable on the second closing of December 15, 2015 or such earlier date agreed to.

The acquisition has been accounted for using the acquisition method under IFRS 3, and the results of operations have been included in the condensed consolidated interim statements of earnings and comprehensive income from the date of acquisition.

| | |
|---|---|
| **Bargain purchase gain** | |
| Total consideration | 2,466 |
| Less fair value of net assets acquired | 3,228 |
| Gain on acquisition | 762 |
| **Provision** | |
| Onerous leases | (598) |

The allocation described above are preliminary and subject to change upon final determination of the fair values of the net assets acquired.

The net assets acquired have been allocated to US Energy Services. Revenue generated from the net assets since the date of acquisition is US$3.5 million. Earnings before income tax contributed from the net assets in 2015 is US$0.1 million.

The gain on acquisition is attributed mainly to the onerous leases that were acquired as part of the acquisition related to three office leases in areas that the Corporation does not currently plan to utilize due to underdeveloped market opportunities in the area. These onerous leases were added to the provisions in the second quarter of 2015.

The Corporation incurred acquisition related costs in 2015 of $0.1 million related to external legal fees and due diligence costs. These costs have been included in selling and administrative expenses.

**4. Assets held for sale**

The land and buildings acquired in the Measurement services acquisition are being held for sale. The Corporation has executed an agreement with a purchaser on September 9, 2015 and the purchaser has tendered a deposit into escrow. The transaction is expected to close in fourth quarter of 2015. An independent member of the board of directors of the Corporation has disclosed that they have an interest in the purchaser.

**(In thousands of Canadian dollars, except share and per share data)**

## 5. Provisions

| | Onerous Lease | Onerous Contract | Total |
|---|---|---|---|
| Balance at January 1, 2015 | 618 | 200 | 818 |
| Provisions used during the period | (418) | - | (418) |
| Change in estimate | 268 | (100) | 168 |
| Provisions acquired related to measurement services acquisition | 598 | - | 598 |
| Provision disposed of in discontinued operations | (225) | - | (225) |
| Effect of movement in exchange rates | 38 | - | 38 |
| Balance at September 30, 2015 | 879 | 100 | 979 |
| Less current portion | 603 | 100 | 703 |
| Long-term portion | 276 | - | 276 |

The onerous lease provision relates to discontinued operations, specifically excess space in Edmonton, Alberta that is expected to be subleased at rates lower than those being paid under the lease agreement with the landlord, which expires August 31, 2017. The onerous lease provision at January 1, 2015 was based on 12,188 square feet of excess space. In the second quarter of 2015, a portion of the onerous lease provision related to 5,000 square feet of excess space which was reallocated to disposal of discontinued operations, reducing the total to 7,188 square feet.

In the second quarter of 2015, as part of the Measurement Service Acquisition, Critical Control assumed responsibility for three onerous leases located in Carlsbad, New Mexico, Elk City, Oklahoma, and Muncy, Pennsylvania. The Corporation does not currently plan to utilize the leased locations due to underdeveloped market opportunities.

The net obligation of the onerous leases has been estimated based on sublease agreements expected to be in place. The provision is based on management's best estimate of the sublease rates that will be negotiated, the timing and the discount rates.

The onerous contract provision relates to a significant ProMonitor Schematics implementation project in the Canadian Energy Services segment. The provision is reviewed and reassessed on a periodic basis by management. In the first quarter of 2015, it was determined that a reduction of $0.1 million was appropriate based on revised estimates of costs to complete and future revenue to be recognized.

## 6. Long-term debt

| | Note | Sept 30, 2015 | December 31, 2014 |
|---|---|---|---|
| Demand term loans | b | 2,679 | - |
| Secured bank term loans | c | 2,359 | 2,523 |
| Secured finance contracts | | 254 | 351 |
| Finance lease liabilities | | 47 | 581 |
| | | 5,339 | 3,455 |
| Current portion | | 5,339 | 1,143 |
| Long-term portion | | - | 2,312 |

During the nine months ended September 30, 2015, items of property and equipment costing $Nil (2014: $0.5 million) were acquired by way of finance contracts or finance leases and have been excluded from the statement of cash flows.

On September 30, 2015, the Corporation entered into a revised Credit Facility Agreement with its lender. Significant details of the new facility are summarized below.

(a) A revolving demand operating credit up to $10.0 million to support working capital requirements in Canada and the US. This credit facility is available as follows:

- Canadian dollar loans bearing interest at prime plus 1.5% per annum;
- Canadian dollar Banker's Acceptances with terms up to six months and stamping fees calculated at 3% per annum;
- US dollar loans bearing interest at US Base Rate plus 1.5% per annum; and
- US dollar LIBOR loans with terms up to six months bearing interest at applicable LIBOR Rate plus 3% per annum.

**(In thousands of Canadian dollars, except share and per share data)**

The demand operating credit is limited by standard margining of trade receivables and inventories, reduced by priority claims and other adjustments. As at September 30, 2015, the margining limit was estimated to be $8.3 million (December 31, 2014: $7.1 million), leaving $3.1 million (December 31, 2014: $4.5 million) of the operating credit available for future working capital needs. Access to this is limited by the impact of debt levels on financial covenants.

(b) A demand term loan of US $2.0 million to fund the Measurement Acquisition. Although this is a demand facility, monthly repayment terms over three years for each draw have been established. Interest is also payable monthly, calculated at the same rates as the US dollar demand operating credit.

(c) A committed term loan of US $1.8 million to fund repayment of the Corporation's previous bank term loan and unsecured promissory note. This committed term loan matures on October 31, 2016. Interest is also payable monthly, calculated at the same rates as the US dollar demand operating credit.

The new credit facility is secured by the following:

- A general security agreement creating a first-priority security interest in all present and future undertaking and personal property of the Corporation; and
- Upstream guarantees from all material subsidiaries of the Corporation, secured by general security agreements and UCC filings as considered appropriate.

The credit facility and related operating and term loans require adherence to certain financial covenants. As at September 30, 2015, the Corporation was not in compliance with its financial covenants. Although the lender has provided a waiver for the breach of covenants to the Corporation subsequent to September 30, 2015, the $2.5 million which would otherwise have been considered long-term, has been classified as current. The Corporation is in discussions with the lender to either extend the waiver for a longer period of time or amend the financial covenants to reflect the charges taken by the Corporation and its longer term impact to profitability and to avoid future breaches.

## 7. Share capital and contributed surplus

**Normal course issuer bid**

On August 13, 2013, the Corporation received regulatory approval from the TSX to carry out a normal course issuer bid ("NCIB"). The Corporation was authorized to purchase, through the facilities of the TSX, up to 3,858,000 issued and outstanding common shares. In accordance with TSX rules, a maximum daily purchase of 8,805 common shares was established. The common shares that the Corporation has purchased pursuant to the NCIB have been cancelled, and the NCIB expired on August 15, 2014. Transactions are summarized as follows:

| | Nine months ended September 30, | |
|---|---|---|
| | **2015** | **2014** |
| Number of common shares purchased under NCIB, beginning of year | - | 461,000 |
| Number of common shares purchased under NCIB during the period | - | 438,500 |
| Number of common shares purchased under NCIB, end of period | - | 899,500 |
| | | |
| Amount deducted from share capital during the period, based on average book value per share | - | 246 |
| Amount paid to purchase common shares during the period | - | 207 |
| Amount added to contributed surplus during the period | - | 39 |

**(In thousands of Canadian dollars, except share and per share data)**

## 8. Finance (income)

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | | (Restated - See Note 9) | | (Restated - See Note 9) |
| Interest on bank indebtedness | 66 | 23 | 113 | 76 |
| Interest on long-term debt | 35 | 56 | 133 | 176 |
| Bank charges | 34 | 41 | 93 | 114 |
| Foreign exchange | (415) | (268) | (783) | (289) |
| Accounts receivable impairment | 1,217 | - | 1,241 | 11 |
| Other | 11 | 5 | 13 | 6 |
| | 948 | (143) | 810 | 94 |

In the third quarter of 2015, upon review of the increased risk of insolvency in the industry and the amounts due from the Corporation's specific clients, the Corporation has selected to increase its allowance on doubtful accounts by $1.2 million.

## 9. Other expenses

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| | | (Restated - See Note 9) | | (Restated - See Note 9) |
| Termination costs | 1,350 | - | 2,057 | 49 |
| Gain (loss) on disposal of property and equipment | - | - | - | (6) |
| Provisions on onerous leases | - | - | 598 | - |
| Gain on acquisition | - | - | (762) | - |
| Cost of acquisition | 7 | - | 159 | - |
| Inventory write down | 399 | - | 399 | - |
| Other non-recurring expense | 13 | - | 13 | 50 |
| | 1,769 | - | 2,464 | 93 |

During the fourth quarter of 2014, management commenced the execution of a plan to streamline operations. In relation to this restructuring, the Corporation incurred or accrued termination costs totaling $2.1 million in 2015.

Due to the downturn in the exploration market, management has reevaluated its inventory and has increased its allowance for obsolescence by $0.4 million.

## 10. Discontinued operations

On March 12, 2015, the Corporation announced the sale of a portion of its Service Bureau Operations, specifically the operations based in Quebec, Ontario and Manitoba, for gross proceeds of $1.0 million under an asset sale. On March 27, 2015, the Corporation announced closing of the sale of another component of its Service Bureau Operations, specifically the operations consisting of reselling imaging equipment, preventative maintenance contracts and third party document imaging software, for gross proceeds of $1.7 million. On May 4, 2015, the Corporation announced the sale of the final component of its Service Bureau Operations, specifically the operations based in Edmonton, Alberta, for gross proceeds of $1.3 million, $0.4 million of which is due six months from closing. Under the terms of the three asset purchase agreements, all accounts receivable, liabilities and certain other working capital associated with the businesses prior to the sale were retained by the Corporation, other than a portion of the Corporation's onerous lease obligation that was assumed by the purchaser and certain assets that are recoverable from the purchaser.

**(In thousands of Canadian dollars, except share and per share data)**

Through a series of transactions in March and May of 2015, Critical Control sold its Service Bureau Operations segment. Management committed to a plan to sell this segment before March 31, 2015, following a strategic decision to place greater focus on the Corporation's key competencies – being the Energy Services businesses in Canada and the US. The Service Bureau Operations segment was not previously classified as held-for-sale or as discontinued operations, but has been classified as such in these interim financial statements. The comparative condensed consolidated interim statement of earnings for the three and nine months ended September 30, 2014 and related disclosures have been restated to present the discontinued operations separately from continuing operations.

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| **Earnings from discontinued operations, net of tax** | | | | |
| Revenue | - | 3,567 | 3,280 | 11,920 |
| Expenses | 185 | 3,730 | 3,678 | 11,583 |
| (Loss) earnings from operations, before income taxes | (185) | (163) | (398) | 337 |
| Income taxes | - | 10 | 189 | (35) |
| Net (loss) earnings from operations | (185) | (153) | (209) | 302 |
| Gain on sale of discontinued operations | (26) | - | 1,442 | - |
| Income tax on gain on sale of discontinued operations | - | - | (741) | - |
| Earnings (loss), net of tax | (211) | (153) | 492 | 302 |

The gain on sale of discontinued operations includes a goodwill impairment loss of $0.3 million. The Corporation is in the process of finalizing the allocation of sale proceeds for income tax purposes, and as such the income tax provision related to the gain on sale of discontinued operations may change.

A significant amount of goodwill in relation to the Service Bureau Operations has no tax basis. In accordance with IFRS, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. This explains the higher effective tax rate related to the gain on sale of discontinued operations.

The gain on sale of discontinued operations was determined as follows:

| | |
|---|---|
| Proceeds of sale | 3,507 |
| Net assets and liabilities sold: | |
| Property and equipment | 784 |
| Intangible assets and goodwill | 1,733 |
| Provisions | (225) |
| Deferred lease inducement | (227) |
| Net assets and liabilities | 2,065 |
| Gain on sale of discontinued operations | 1,442 |

| | Nine months ended September 30, | |
|---|---|---|
| | **2015** | **2014** |
| **Cash flows from (used in) discontinued operations** | | |
| Operating activities | (358) | (733) |
| Investing activities | 3,508 | (78) |
| Net cash flow | 3,150 | (811) |

**(In thousands of Canadian dollars, except share and per share data)**

## 11. Earnings per share

The following information was used for the net earnings (loss) per share calculations:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2015** | **2014** | **2015** | **2014** |
| Weighted average number of shares outstanding: | | | | |
| Basic | 57,875,131 | 57,431,979 | 57,641,048 | 53,500,160 |
| Diluted | 57,875,131 | 58,397,108 | 57,641,048 | 53,500,160 |
| Diluted - discontinued operations | 57,875,131 | 57,431,979 | 58,418,772 | 54,322,263 |
| Diluted - continuing operations | 57,875,131 | 58,397,108 | 57,641,048 | 53,500,160 |

The following potential common shares were excluded from the weighted average number of common shares outstanding (diluted - continuing operations) for the three and nine months ended September 30, 2015 because they were antidilutive:

- 1,926,635 deferred common shares;
- 228,311 shares reserved under the Employee Share Purchase Plan.

The following potential common shares were excluded from the weighted average number of common shares outstanding (diluted, other than continuing operations) for the three and nine months ended September 30, 2015 because they were antidilutive:

- 700,000 deferred common shares.

## 12. Operating segments

Critical Control has two reportable segments, as described below, which are the Corporation's strategic business units. The strategic business units offer some differing services, and one of them operates in the US with the other in Canada. The reportable segments are managed separately because of the unique characteristics and requirements of each business.

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

- Field Data Capture: gas chart integration and reporting; real-time SCADA information; and cost-efficient data validation.
- Regulatory Compliance and Risk Management: integrated pipeline and asset profiles management; intelligent fluid analysis management; and streamlined, auditable meter calibration.
- Production and Financial Accounting: production accounting; financial and joint interest accounting; capital projects management; land and contracts management; production asset management; and facility processing contract management.

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

- Field Data Capture: gas chart integration and reporting; real-time SCADA information; and cost-efficient data validation.
- Gas measurement field services, inclusive of natural gas meter installation, calibration and monitoring.
- Fabrication, assembly and sale of gas measurement and related equipment.
- Gas and liquid analysis.

All public company costs, interest, unrealized foreign exchange and other expenses not directly attributed to the two operating segments are included in Corporate.

In assessing performance of the segments and the allocation of resources to the segments, executive management evaluates gross margin and earnings (loss) before tax directly attributable to each segment. All of the Corporation's identifiable assets are located in Canada and the US.

**(In thousands of Canadian dollars, except share and per share data)**

The following presents the results of Critical Control's operating segments:

| | Canadian Energy Services | | US Energy Services | | Corporate | | Discontinued Operations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Three months ended September 30,** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| | | | | | | | | (Restated - See Note 9) | | (Restated - See Note 9) |
| Revenue | 3,400 | 3,378 | 6,900 | 7,022 | - | - | - | - | 10,300 | 10,400 |
| Cost of revenue | 1,765 | 1,601 | 6,010 | 5,069 | - | - | - | - | 7,775 | 6,670 |
| | 1,635 | 1,777 | 890 | 1,953 | - | - | - | - | 2,525 | 3,730 |
| Expenses | | | | | | | | | | |
| Selling and administrative | 767 | 829 | 1,472 | 943 | 884 | 1,175 | - | - | 3,123 | 2,947 |
| Research and development | 216 | 254 | 61 | 144 | - | - | - | - | 277 | 398 |
| Finance costs | 423 | 4 | 805 | - | (280) | (147) | - | - | 948 | (143) |
| Other operating | 148 | - | 1,488 | - | 133 | - | - | - | 1,769 | - |
| | 1,554 | 1,087 | 3,826 | 1,087 | 737 | 1,028 | - | - | 6,117 | 3,202 |
| Earnings (loss) before income tax | 81 | 690 | (2,936) | 866 | (737) | (1,028) | - | - | (3,592) | 528 |

| | Canadian Energy Services | | US Energy Services | | Corporate | | Discontinued Operations | | Total | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Nine months ended September 30,** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** | **2015** | **2014** |
| | | | | | | | | (Restated - See Note 9) | | (Restated - See Note 9) |
| Revenue | 10,489 | 9,881 | 20,037 | 16,550 | - | - | - | - | 30,526 | 26,431 |
| Cost of revenue | 5,180 | 5,126 | 15,965 | 11,973 | - | - | - | - | 21,145 | 17,099 |
| | 5,309 | 4,755 | 4,072 | 4,577 | - | - | - | - | 9,381 | 9,332 |
| Expenses | | | | | | | | | | |
| Selling and administrative | 2,366 | 2,355 | 3,920 | 2,795 | 3,717 | 3,354 | - | - | 10,003 | 8,504 |
| Research and development | 809 | 662 | 165 | 303 | - | - | - | - | 974 | 965 |
| Finance costs | 426 | 9 | 826 | 8 | (442) | 77 | - | - | 810 | 94 |
| Other operating | 148 | 46 | 1,477 | (6) | 839 | 53 | - | - | 2,464 | 93 |
| | 3,749 | 3,072 | 6,388 | 3,100 | 4,114 | 3,484 | - | - | 14,251 | 9,656 |
| Earnings (loss) before income tax | 1,560 | 1,683 | (2,316) | 1,477 | (4,114) | (3,484) | - | - | (4,870) | (324) |
| Segment assets | 14,041 | 12,457 | 28,992 | 20,234 | 1,291 | 872 | 3,203 | 8,851 | 47,527 | 42,414 |

## 13. Contingencies, subsequent events and other matters

Bell Mobility ("BELL"), the Corporation's roaming partner, is in the process of shutting down their CDMA EVDO network in parts of British Columbia and Alberta. It is expected that the Corporation will continue to receive wireless service on BELL's 1xRTT CDMA network until at least January 1, 2017. Approximately 474 modems using the CDMA network have been replaced to-date, and management estimates that an additional 675 currently active on NetFlow use the CDMA network. The replacement cost for the remaining 561 modems and antennas is estimated to be $0.3 million in total, and the replacement of these is being planned over the next twelve months. It is expected that the cost of hardware replacements will be recovered through reduced monthly charges from BELL and increased monthly charges to NetFlow customers.

## 14. Comparative figures

Certain comparative figures have been reclassified to conform to the financial statement presentation adopted in the current period.