CRITICAL CONTROL | CriticalControl Solutions Corp.

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CRITICALCONTROL ANNOUNCES 2014 YEAR END FINANCIAL RESULTS

CALGARY, ALBERTA, March 18, 2015 – CriticalControl Solutions Corp. (TSX: CCZ) today reported its financial results for the year ended December 31, 2014.

"In 2014, we invested to bring ProMonitor to market in Canada and our core products to market in the US," said Alykhan Mamdani, President and CEO of CriticalContol. "In 2015, we will focus on the expansion of our core products by deploying our US software investment over a larger geographic area in the United States through our recently announced acquisition."

Annual 2014 highlights

Revenue

- Total revenue was $50.9 million in 2014 compared to $45.8 million in 2013, representing an increase of $5.1 million or 11.2%.
- Revenue from Canadian Energy Services was $13.3 million in 2014 compared to $12.6 million in 2013, representing an increase of $0.7 million or 5.7%. Recurring revenue increased by $0.4 million and non-recurring revenue increased by $0.3 million.
- Revenue from the US Energy Services business increased by $4.2 million or 23.8%, from $17.8 million in 2013 to $22.0 million in 2014. Excluding the positive impact of foreign exchange, a $0.5 million decrease in recurring revenue was offset by a $3.5 million increase in non-recurring revenue from fabrication, assembly and equipment.
- Revenue from the Corporation’s Service Bureau Operations increased by $0.2 million or 1.5%, from $15.3 million in 2013 to $15.5 million in 2014.

Gross margin percentage

- Gross margin percentage for the Corporation was 32.4% in 2014 compared to 36.7% in 2013.
- Canadian Energy Services gross margin percentage decreased from 55.3% in 2013 to 49.0% in 2014. The decrease is primarily attributable to negative margins associated with the rapid expansion and training related to ProMonitor in order to implement a large strategic ProMonitor project.
- US Energy Services gross margin percentage decreased from 30.0% in 2013 to 27.1% in 2014. Improvements in margins from economies of scale associated with US fabrication, assembly and equipment were more than offset by costs associated with the implementation of ProChart, costs associated with the creation of a centralized processing centre for gas charts and reduced economies of scale in relation to lower field and lab services revenue.
- Service Bureau Operations gross margin percentage decreased from 29.3% in 2013 to 25.7% in 2014, which is primarily attributable to reduced revenue from significant high margin contracts, poor margins on another significant contract and renegotiated pricing for reseller agreements.

Selling and administrative expenses

- Selling and administrative expenses for the Corporation increased by $0.7 million from $14.9 million in 2013 to $15.6 million in 2014. More than $0.2 million of the increase can be attributed to the impact of the weaker Canadian dollar in relation to the US dollar, and $0.2 million is attributable to an impairment charge for product development. Increased administrative salary costs in relation to January 1, 2014 raises and new corporate positions were partially offset by net savings in other areas.

Other expenses

- Research and development expenses increased by $0.1 million in 2014 compared to 2013, but when the impact of amounts capitalized and SR&ED tax credits is considered, expenditures increased by $0.2 million.
- Finance costs in 2014 decreased by $0.3 million compared to 2013. The decrease is attributable to a favorable swing in unrealized foreign exchange, and to a lesser degree lower interest associated with decreased debt levels and lower bad debt expense in relation to 2013.
- Other operating expenses in 2014 increased by $0.9 million compared to 2013, which is primarily attributable to restructuring charges and expenses, most of which relate to assets the Corporation is strategically reviewing or has sold subsequent to the end of 2014.

Earnings and net earnings

- Loss before income tax for 2014 was $1.5 million compared to earnings of $0.3 million for 2013. The results for 2014 and 2013 include certain amounts that impact the comparability between years. When the impact of these amounts is excluded from the results, the 2014 adjusted loss before income tax is $0.1 million compared to adjusted earnings before income tax of $0.1 million in 2013.
- Net loss for 2014 was $1.2 million compared to net earnings of $0.2 million for 2013.

Cash flow and working capital

- Working capital increased by $2.7 million from $2.3 million at December 31, 2013 to $5.0 million at December 31, 2014. The key drivers of the increase were private placement net proceeds of $2.7 million in 2014 and the refinancing of an unsecured promissory note, resulting in a lower current portion in relation thereto.
- Annual net cash from operating activities decreased by $3.8 million from $4.0 million in 2013 to $0.2 million in 2014. The impact of income tax refunds in 2013 and income tax payments in 2014 accounted for $1.2 million of the annual decrease, investment in working capital for growth accounted for $1.4 million, and the remaining decrease is primarily attributable to termination costs in relation to restructuring and expenses incurred in relation to the loss on a significant ProMonitor project.

Outlook and forward looking statements

In light of the rapid decline in the price of oil commencing in Q4 2014, and the resulting reduced oil and gas exploration expected in 2015, CriticalControl has modified its short-term strategy with a view to reduce risk, increase focus and position the Corporation to capitalize on the eventual rebound in oil prices. While management is confident of an eventual rebound in investment in oil and gas, the timing of the rebound remains uncertain.

In a press release dated March 2, 2015, CriticalControl announced that it is reviewing strategic alternatives with respect to its non-energy services business, which comprised 30.6% of the Corporation's revenue in 2014. This business segment consists of three components: The Equipment Business (consisting of reselling imaging equipment, preventative maintenance contracts and third party document imaging software); Eastern Canada Conversion (consisting of document imaging and data entry services in Quebec, Ontario and Winnipeg); and Western Canada Conversion (consisting of document imaging, data entry and business process outsourcing services in Alberta). The Corporation divested the Eastern Canada Conversion business for $1 million on March 12, 2015.

On March 16, 2015, the Corporation entered into a final agreement to sell the Equipment Business for $1.7 million, which is expected to close later in March 2015. The Corporation continues to evaluate strategic alternatives related to its Western Canada Conversion business, which it intends to complete by the end of May 2015. Notwithstanding that final documentation has been signed to divest the Equipment Business, closing is subject to certain customary conditions, the meeting of which cannot be completely guaranteed. The Corporation's expectation that it will complete the review of the Western Canada Conversion business may change as it investigates alternatives and, based on this information, the Corporation may choose to terminate the process earlier or later than originally contemplated.

The core focus of the Corporation in the future will be its energy services business. Management expects capital expenditures by oil and gas companies in 2015 to be very low. Accordingly, the Corporation's software development initiative for the development of a field data capture solution will be put on hold. The Corporation's focus will be to increase penetration of its core software solutions (ProChart, NetFlow and ProTrend) into the Canadian and US markets, and the continued penetration of its emerging ProMonitor modules in Canada. The acquisition of the services division of Legacy Measurement Solutions, Inc. ("Legacy"), which is expected to close on or about April 1, 2015, provides increased geographic exposure for the Corporation to penetrate its core software in the United States. Notwithstanding that an asset purchase agreement has been executed to acquire the services division of Legacy, closing is subject to certain customary conditions, the meeting of which cannot be completely guaranteed.

The Corporation launched its combined electronic fluid measurement meter and NetFlow software solution on a single price rental or leasing model in Canada and the United States in late 2014. Management is optimistic that this combined software and hardware solution will resonate with the needs of gas producers in this uncertain market. Although early response to the solution has been positive, it is too early in the sales process to predict the impact of this solution to the Corporation's future growth. Management expects that a decline in the Corporation's revenue from the sale of measurement related fabrication equipment in the United States due to reduced exploration will be offset by increased penetration of the Corporation's software into the Corporation's US and Canadian client base, which will grow with the closing of the acquisition of the Legacy assets.

About CriticalControl

CriticalControl 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.

For further information

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