CriticalControl Solutions Corp.

Q1 2015

Condensed Consolidated Interim Financial statements

March 31, 2015

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.

CRITICAL CONTROL

CriticalControl Solutions Corp.

Q1 2015 Condensed Consolidated Interim Financial Statements

March 31, 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 March 31, 2015 (unaudited)
(In thousands of Canadian dollars, except share and per share data)

	Note	March 31, 2015	December 31, 2014
Assets			
Current assets:			
Cash and cash held in trust		3,238	1,805
Trade and other receivables		9,034	9,095
Unbilled revenue		178	347
Inventories		3,695	3,779
Prepaid expenses		696	1,591
Assets held for sale	3	1,944	-
Total current assets		18,785	16,617
Tax credits recoverable		605	605
Deposits		109	129
Deferred tax assets		1,272	2,082
Property and equipment		2,240	2,956
Intangible assets and goodwill		19,227	20,546
TOTAL ASSETS		42,238	42,935
Liabilities and Shareholders' Equity			
Current liabilities:			
Trade and other payables		4,928	5,013
Provisions	4	321	563
Unearned revenue		1,160	2,072
Current portion of loans and borrowings	5	3,241	3,774
Current portion of deferred lease inducements		71	199
Liabilities held for sale	3	428	-
Total current liabilities		10,149	11,621
Provisions	4	134	255
Deferred lease inducements		37	185
Deferred tax liabilities		601	554
Loans and borrowings	5	2,048	2,312
TOTAL LIABILITIES		12,969	14,927
Shareholders' Equity			
Share capital	6	31,466	31,463
Contributed surplus	6	1,661	1,590
Deficit		(5,090)	(5,679)
Accumulated other comprehensive income		1,232	634
Total shareholders' equity		29,269	28,008
TOTAL LIABILITIES and SHAREHOLDERS' EQUITY		42,238	42,935

Subsequent events (Notes 3, 9 and 13(b))

The notes on pages 6 to 12 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Earnings

For the three months ended March 31 (unaudited)
(In thousands of Canadian dollars, except share and per share data)

	Note	2015	2014
Continuing operations			(Restated - See Note 9)
Revenue		9,479	7,532
Cost of revenue		6,220	5,022
		3,259	2,510
Expenses:			
Selling and administrative		3,258	2,697
Research and development		448	273
Finance (income)	7	(310)	(72)
Other operating	8	4	74
		3,400	2,972
Loss before income tax		(141)	(462)
Income tax recovery		(11)	(91)
Net loss from continuing operations		(130)	(371)
Discontinued operations			
Earnings from discontinued operations, net of tax	9	719	201
Net earnings (loss)		589	(170)
Net earnings (loss) per share			
Basic	10	0.01	0.00
Diluted	10	0.01	0.00
Earnings per share - discontinued operations			
Basic	10	0.01	0.00
Diluted	10	0.01	0.00
Net loss per share - continuing operations			
Basic	10	0.00	(0.01)
Diluted	10	0.00	(0.01)

The notes on pages 6 to 12 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Comprehensive Income

For the three ended March 31 (unaudited)
(In thousands of Canadian dollars, except share and per share data)

	2015	2014
Net earnings (loss)	589	(170)
Other comprehensive income:		
Foreign currency translation adjustments, net of tax, to be reclassified to earnings or loss if there is a disposition of the foreign operation	598	186
Comprehensive income	1,187	16

The notes on pages 6 to 12 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Changes in Equity

For the three months ended March 31 (unaudited)
(In thousands of Canadian dollars, except share and per share data)

Three months ended March 31, 2015

	Note	Share Capital	Contributed Surplus	Deficit	Cumulative translation account	Total
Balance January 1, 2015		31,463	1,590	(5,679)	634	28,008
Comprehensive income		-	-	589	598	1,187
Employee share purchase plan proceeds	6	-	6	-	-	6
Shares issued from treasury under employee share purchase plan		3	(3)	-	-	-
Share-based payments		-	68	-	-	68
Balance March 31, 2015		31,466	1,661	(5,090)	1,232	29,269

Three months ended March 31, 2014

	Note	Share Capital	Contributed Surplus	Deficit	Cumulative translation account	Total
Balance January 1, 2014		29,047	1,093	(4,456)	79	25,763
Comprehensive income (loss)		-	-	(170)	186	16
Shares purchased under normal course issuer bid	6	(162)	23	-	-	(139)
Share-based payments		-	9	-	-	9
Balance March 31, 2014		28,885	1,125	(4,626)	265	25,649

The notes on pages 6 to 12 are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statement of Cash Flows

For the three months ended March 31 (unaudited)
(In thousands of Canadian dollars, except share and per share data)

	Note	2015	2014
Cash flows from (used in) operating activities:			
Net earnings (loss)		589	(170)
Adjustments for:			
Depreciation of property and equipment		211	196
Amortization of intangible assets		380	480
Amortization of deferred lease inducements		(49)	(48)
Income tax expense (recovery)		(16)	(68)
Share-based payments		73	9
Net additions to provisions	4	(42)	-
Gain on disposal of property and equipment		-	(10)
Gain on sale of discontinued operations, net of tax	9	(732)	-
Interest expense at amortized cost	7	69	82
Unwinding of discounts on provisions		-	3
Unrealized foreign exchange gain		(463)	(200)
		20	274
Change in non-cash working capital:	11	307	(41)
Cash generated from operating activities		327	233
Interest paid		(62)	(65)
Income tax paid		(2)	(10)
		263	158
Cash flows from (used in) financing activities:			
Proceeds from employee share purchase plan	6	6	-
Proceeds from loans and borrowings		-	602
Repayment of loans and borrowings		(1,184)	(418)
Shares purchased under normal course issuer bid	6	-	(139)
Change in non-cash working capital		(18)	(20)
		(1,196)	25
Cash flows from (used in) investing activities:			
Purchase of property and equipment	5	(141)	(106)
Purchase of software		(10)	(17)
Proceeds from sale of discontinued operations, net of $59 selling costs	3	2,641	
Proceeds on sale of property and equipment		-	21
Additions to product development costs		(175)	(201)
Change in non-cash working capital		(8)	(46)
		2,307	(349)
Effect of exchange rate fluctuations on cash		59	9
Net increase (decrease) in cash		1,433	(157)
Cash, beginning of period		1,805	434
Cash, end of period		3,238	277

The notes on pages 6 to 12 are an integral part of these condensed consolidated interim financial statements.

1. Reporting entity

CriticalControl Solutions Corp. (the “Corporation” or “CriticalControl”) provides 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.

CriticalControl is a company domiciled in Canada and incorporated in Alberta. The address of the Corporation’s registered office is Suite 2800, 715 – 5 Avenue SW, Calgary, Alberta T2P 2X6. The Corporation is a publicly-traded company listed on the Toronto Stock Exchange (“TSX”) under symbol “CCZ”. The condensed consolidated interim financial statements (“interim financial statements”) of the Corporation as at and for the three months ended March 31, 2015 comprise the Corporation and its subsidiaries (together referred to as “Group” and each individually as “Group Entity”). The Corporation operates in Canada and the United States.

These 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 - 10 Avenue SE, Calgary, Alberta, Canada T2G 0R1, at www.criticalcontrol.com or at www.sedar.com.

2. Basis of preparation

(a) Statement of compliance:

The interim financial statements were prepared using the same accounting policies and methods of computation as those used in the Corporation’s December 31, 2014 audited consolidated financial statements. The interim financial statements have been prepared in accordance with IAS 34 *Interim Financial Reporting* and do not include all of the information required for full annual financial statements. The interim financial statements were authorized for issue by the Board of Directors on May 11, 2015.

(b) Basis of measurement:

The interim financial statements have been prepared on the historical cost basis.

(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 in conformity with IAS 34 requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue and expenses. Actual results may differ from these estimates. In preparing the interim financial statements, the significant judgments made by management applying the Group’s accounting policies and 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 judgment 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 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. Disposal of group held for sale

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, $400 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)

As at March 31, 2015, management was committed to their plan to sell the Service Bureau Operations based in Edmonton, Alberta. Accordingly, certain assets and liabilities associated with these operations are presented as a disposal group held for sale. As at March 31, 2015, the disposal group comprised assets of $1,944 less liabilities of $428 detailed as follows:

Inventories	6
Prepaid expenses	211
Deposits	20
Property and equipment	196
Software	7
Goodwill (net of $346 impairment loss)	1,504
Provisions	(225)
Deferred lease inducements	(203)
Net assets held for sale	1,516

An impairment loss of $346 writing down the carrying amount of the disposal group to its fair value less costs to sell has been netted with the gain on sale of discontinued operations (see Note 9).

4. Provisions

	Onerous Lease	Onerous Contract	Total
Balance at January 1, 2015	618	200	818
Provisions used during the period	(96)	-	(96)
Change in estimate	58	(100)	(42)
Reallocated to liabilities held for sale	(225)	-	(225)
Balance at March 31, 2015	355	100	455
Less current portion	221	100	321
Long-term portion	134	-	134

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 Q1 of 2015, the onerous lease provision related to 5,000 square feet of excess space was reallocated to liabilities held for sale, reducing the total to 7,188 square feet. The net obligation 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 was reviewed at March 31, 2015, and it was determined that a reduction of $100 was appropriate based on revised estimates of costs to complete and future revenue to be recognized.

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

5. Loans and borrowings

	March 31, 2015	December 31, 2014
Current liabilities		
Secured bank term loans	708	658
Secured finance contracts	166	169
Finance lease liabilities	95	316
Secured bank facility	2,272	2,631
	3,241	3,774
Non-current liabilities		
Secured bank term loans	1,879	1,865
Secured finance contracts	161	182
Finance lease liabilities	8	265
	2,048	2,312

During the three months ended March 31, 2015, items of property and equipment costing $Nil (2014: $365) were acquired by way of finance contracts or finance leases and have been excluded from the statement of cash flows.

The bank facility and related term loans require adherence to certain financial covenants, including a maximum Debt to EBITDA ratio of 2.75 and a minimum Adjusted Debt Service ratio of 1.25. As at March 31, 2015, the Corporation is in compliance with its financial covenants.

6. 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:

	Three months ended March 31	
	2015	2014
Number of common shares purchased under NCIB, beginning of year	-	461,000
Number of common shares purchased under NCIB during the period	-	289,500
Number of common shares purchased under NCIB, end of period	-	750,500
Amount deducted from share capital during the period, based on average book value per share	-	162
Amount paid to purchase common shares during the period	-	139
Amount added to contributed surplus during the period	-	23

Employee Share Purchase Plan

Each participant in the ESPP is permitted to contribute a portion of his or her salary to the ESPP. The Corporation issues the purchased shares from treasury upon the earlier of a written request from the participant and the one year anniversary of the end of the month in which the contribution was made.

In addition to the purchased shares, the Corporation matches the participant's contribution, to an annual maximum of the lesser of $5,000 and 5% of the participant’s annual base salary. The matched shares are subject to a one-year vesting period and are issued from treasury two years from the end of the month in which the contribution was made.

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

Proceeds from purchased shares are credited to contributed surplus and totalled $6 in Q1 2015. Proceeds from purchased shares are transferred to share capital when the shares are issued from treasury. In Q1 2015, $3 was transferred from contributed surplus to share capital in relation to shares issued from treasury. The measurement date fair value of the matched shares in Q1 2015 was also $6 and is being expensed, along with amounts from previous years, over the one year vesting period with an offsetting credit to contributed surplus. The amount credited to contributed surplus will be transferred to share capital when the matched shares are issued from treasury.

As at March 31, 2015, 249,219 shares were reserved for issuance in relation to purchased shares. No amounts were reserved for issuance in relation to matched shares.

7. Finance costs

	Three months ended March 31	
	2015	**2014**
		(Restated - See Note 9)
Interest expense on financial liabilities measured at amortized cost	69	82
Net foreign exchange gain	(434)	(193)
Bank charges	33	38
Accounts receivable impairment	21	-
Other	1	1
	(310)	(72)

8. Other operating expenses

	Three months ended March 31	
	2015	**2014**
		(Restated - See Note 9)
Termination benefits	4	34
Gain on disposal of property and equipment	-	(10)
Other non-recurring expense	-	50
	4	74

9. Discontinued operations

Through a series of transactions in March and May of 2015, the Group sold its Service Bureau Operations segment (see Note 3). Management committed to a plan to sell this segment before March 31, 2015, following a strategic decision to place greater focus on the Group'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 months ended March 31, 2014 and related disclosures have been restated to present the discontinued operations separately from continuing operations.

	Three months ended March 31	
	2015	**2014**
Earnings from discontinued operations, net of tax		
Revenue	2,827	4,128
Expenses	2,845	3,904
(Loss) earnings from operations, before tax	(18)	224
Income tax recovery (expense)	5	(23)
Net (loss) earnings from operations	(13)	201
Gain on sale of discontinued operations	1,456	-
Income tax on gain on sale of discontinued operations	(724)	-
Earnings, net of tax	719	201

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

The gain on sale of discontinued operations includes an impairment loss of $346 writing down the carrying amount of the disposal group held for sale as disclosed in Note 3.

The Corporation is in the process of finalizing the allocation of sales 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 following assets and liabilities were applied against the proceeds in calculating the gain on sale of discontinued operations:

	2015
Property and equipment	588
Software	7
Goodwill	219
Deferred lease inducement	(24)
Net assets and liabilities	790

The assets and liabilities included in the disposal group held for sale (See Note 3) will also be applied against proceeds recognized in the quarter ended June 30, 2015.

	Three months ended March 31	
	2015	**2014**
Cash flows from (used in) discontinued operations		
Operating activities	(357)	(26)
Investing activities	2,686	(16)
Net cash flow	2,329	(42)

10. Net earnings (loss) per share

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

	Three months ended March 31	
	2015	**2014**
Weighted average number of shares outstanding:		
Basic	57,499,518	51,624,845
Diluted	58,448,150	51,624,845
Diluted - discontinued operations	58,448,150	52,337,273
Diluted - continuing operations	57,499,518	51,624,845

The following potential common shares were excluded from the weighted average number of common shares outstanding (diluted - continuing operations) for the three months ended March 31, 2015 because they were antidilutive:

- 849,413 deferred common shares;
- 249,219 shares reserved under the Employee Share Purchase Plan;
- 125,000 common shares to be issued from treasury on September 27, 2016; and
- 3,000,000 Warrants to purchase common shares at $0.70 per share.

The following potential common shares were excluded from the weighted average number of common shares outstanding (diluted, other than continuing operations) for the three months ended March 31, 2015 because they were antidilutive:

- 150,000 deferred common shares;
- 125,000 common shares to be issued from treasury on September 27, 2016; and
- 3,000,000 Warrants to purchase common shares at $0.70 per share.

849,413 deferred common shares were excluded from the weighted average number of common shares outstanding (diluted, other than discontinued operations) for the three months ended March 31, 2014 because they were antidilutive.

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

11. Change in non-cash operating working capital

	Note	2015	2014
Trade and other receivables		427	513
Unbilled revenue		169	(159)
Inventories		377	(379)
Prepaid expenses		690	(188)
Trade and other payables		(348)	394
Provisions used during the period	4	(96)	(9)
Unearned revenue		(912)	(213)
		307	(41)

12. Operating segments

The Group has two reportable segments, as described below, which are the Group'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. All of 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 U.S.

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

	Canadian Energy Services		US Energy Services		Corporate		Discontinued operations		Total	
Three months ended March 31	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
								(Restated - See Note 9)		(Restated - See Note 9)
Revenue	3,516	3,186	5,963	4,346	-	-	-	-	9,479	7,532
Cost of revenue	1,617	1,813	4,603	3,209	-	-	-	-	6,220	5,022
	1,899	1,373	1,360	1,137	-	-	-	-	3,259	2,510
Expenses										
Selling and administrative	779	753	1,054	935	1,425	1,009	-	-	3,258	2,697
Research and development	397	216	51	57	-	-	-	-	448	273
Finance costs	-	8	21	-	(331)	(80)	-	-	(310)	(72)
Other operating	3	34	1	(10)	-	50	-	-	4	74
	1,179	1,011	1,127	982	1,094	979	-	-	3,400	2,972
Earnings (loss) before income tax	720	362	233	155	(1,094)	(979)	-	-	(141)	(462)
Segment assets	12,274	11,851	21,150	17,374	2,578	683	6,236	9,485	42,238	39,393

13. Contingencies, subsequent events and other matters

(a) 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 362 modems using the CDMA network have been replaced to date, and management estimates that an additional 820 currently active on NetFlow use the CDMA network. The replacement cost for the remaining 820 modems and antennas is estimated to be $410 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.

(b) On April 1, 2015, the Corporation announced that it had 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 (the “Measurement Services Acquisition”). The purchase price of US$2.0 million was paid 80% on closing with the remainder payable on December 15, 2015. The purchase will be accounted for using the acquisition method under IFRS 3, and the results of operations will be included in the consolidated statements of earnings and comprehensive income from the date of acquisition. The Corporation is currently in the process of determining the purchase price allocation to the fair value of the net assets to be acquired. The net assets of the Measurement Services Acquisition will be allocated to the US Energy cash generating unit. External legal fees incurred to March 31, 2015 in relation to the acquisition totaled $10. These costs have been included in selling and administrative expenses in the condensed consolidated interim statement of earnings.

14. Comparative figures

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