Management's Report

The consolidated financial statements have been prepared by management in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board ("IASB"). Financial statements will also include certain amounts based on estimates and judgments.

Management has determined such amounts on a reasonable basis to ensure that the consolidated financial statements are presented fairly in all material respects. All information in this report is the responsibility of management.

Management has established systems of internal control, including disclosure controls and procedures, which are designed to provide reasonable assurance that financial and non-financial information that is disclosed is timely, complete, relevant and accurate. These systems of internal control also serve to safeguard the Corporation's assets.

The Board of Directors is responsible for the corporate governance of the Corporation, including reviewing and approving the consolidated financial statements. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee of the Board of Directors, composed of independent directors, meets with management and the external auditors to satisfy itself that each is properly discharging its responsibilities, and to review the consolidated financial statements and management discussion & analysis. The Audit Committee reports its findings to the Board of Directors for its approval of such statements for issuance to the shareholders.

The consolidated financial statements have been audited by KPMG LLP, the independent external auditors, in accordance with Canadian generally accepted auditing standards on behalf of the shareholders. The auditors' report outlines the scope of their examination and sets forth their opinion.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
As at December 31,

($ thousands)	Note	2015	2014
Assets			
Current assets			
Cash and cash equivalents		**815**	1,805
Accounts receivable	3	**11,598**	9,095
Unbilled revenue		**182**	347
Inventory	4	**3,179**	3,779
Prepaid expenses		**362**	1,591
		16,136	16,617
Tax credit recoverable		**668**	605
Deposits		**162**	129
Deferred income taxes	11	**2,350**	2,082
Property and equipment	7	**4,252**	2,956
Intangible assets and goodwill	8	**20,750**	20,546
		44,318	42,935
Liabilities			
Current liabilities			
Bank indebtedness	10	**7,079**	2,631
Accounts payable and accrued liabilities		**4,361**	5,013
Deferred revenue		**682**	2,072
Current portion of provisions	9	**811**	563
Current portion of long-term debt	10	**5,042**	1,143
Current portion of deferred lease inducements		**25**	199
		18,000	11,621
Provisions	9	**172**	255
Long-term debt	10	**56**	2,312
Deferred lease inducements		**74**	185
Deferred income taxes		**-**	554
		18,302	14,927
Shareholders' Equity			
Common shares	12	**31,720**	31,463
Contributed surplus	12	**1,632**	1,590
Accumulated other comprehensive income (loss)	12	**1,866**	634
Deficit		**(9,202)**	(5,679)
		26,016	28,008
		44,318	42,935
Commitments and contingencies	18		

(See Notes to the Consolidated Financial Statements)

Approved on behalf of the Board:

“signed” Gary Bentham
Audit Committee Chairman

“signed” Alykhan Mamdani
President & CEO, Director

CRITICAL CONTROL

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
For the years ended December 31,

($ thousands)	Note	2015	2014
Revenue	14	**39,919**	35,386
Expenses			
Operating expense	22	**25,459**	21,756
General and administrative	22	**12,566**	10,452
Research and development		**1,422**	1,371
Foreign exchange	22	**(1,155)**	(555)
Depreciation and amortization		**2,475**	2,272
Loss (gain) on sale of asset		**(12)**	(7)
Other expenses	23	**4,245**	223
		(5,081)	(126)
Finance costs	22	**555**	500
Loss before income taxes		**(5,636)**	(626)
Income taxes (recovery)	11	**(1,674)**	(20)
Loss before discontinued operations		**(3,962)**	(606)
Loss (income) from discontinued operations, net of tax	6	**(439)**	617
Net loss		**(3,523)**	(1,223)
Other comprehensive income (loss)			
Foreign currency translation adjustment, net of tax		**1,232**	555
		1,232	555
Total comprehensive loss		**(2,291)**	(668)
Earnings per share			
Net earnings			
Basic / Diluted		**(0.06)**	(0.02)
Net earnings - continuing operations			
Basic / Diluted		**(0.07)**	(0.01)

(See Notes to the Consolidated Financial Statements)

CRITICAL CONTROL

CONSOLIDED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2015 and 2014

($ thousands)	Note	Common Shares	Contributed surplus	Accumulated other comprehensive income (1)	Deficit	Total equity
Balance at December 31, 2014		**31,463**	**1,590**	**634**	**(5,679)**	**28,008**
Comprehensive income (loss)		**-**	**-**	**1,232**	**(3,523)**	**(2,291)**
Employee share purchase plan proceeds	13	**77**	**(74)**	**-**	**-**	**3**
Deferred shares	13	**180**	**(197)**	**-**	**-**	**(17)**
Share-based payments	13	**-**	**313**	**-**	**-**	**313**
Balance at December 31, 2015		**31,720**	**1,632**	**1,866**	**(9,202)**	**26,016**
Balance at December 31, 2013		29,047	1,093	79	(4,456)	25,763
Comprehensive income (loss)		-	-	555	(1,223)	(668)
Share issuance, net of costs		2,588	180	-	-	2,768
Employee share purchase plan proceeds	13	15	110	-	-	125
Shares purchased under normal course issuer bid	12	(246)	39	-	-	(207)
Share-based payments	13	59	168	-	-	227
Balance at December 31, 2014		31,463	1,590	634	(5,679)	28,008

(1) Accumulated other comprehensive income (loss) consists of foreign currency translation adjustment.
All amounts will be reclassified to profit or loss when specific conditions are met.

(See Notes to the Consolidated Financial Statements)

CRITICAL CONTROL

CONSOLIDATED STATEMENTS OF CASH FLOW For the years ended December 31, ($ thousands)	Note	2015	2014
Cash flows provided by (used in)			
Operating activities			
Loss before discontinued operations		**(3,962)**	(606)
Adjustments for:			
Depreciation and amortization		**2,475**	2,272
Foreign exchange	22	**(1,155)**	(555)
Gain on disposal of property and equipment		**(12)**	(7)
Finance costs	22	**555**	500
Income taxes (recovery)		**(1,674)**	(20)
Bargain purchase price	23	**(464)**	-
Other		**333**	192
Income taxes - paid		**(55)**	(272)
Income taxes - recovery		**72**	-
Interest - paid		**(328)**	(228)
Funds (used in) provided by continuing operations		**(4,215)**	1,276
Change in non-cash working capital	24	**(1,535)**	(835)
		(5,750)	441
Investing activities			
Purchase of measurement services, net assets	5	**(2,467)**	-
Purchase of field services acquisition, net assets	5	**(274)**	-
Purchase of business combination, net assets	5	**-**	(157)
Purchase of property and equipment	7	**(654)**	(344)
Purchase of software	8	**(143)**	(32)
Proceeds on sale of property and equipment		**943**	49
Additions to product development costs	8	**(949)**	(587)
Deferred lease inducements		**-**	18
		(3,544)	(1,053)
Financing activities			
Proceeds from private placement		**-**	3,000
Proceeds from employee share purchase plan, net of refunds		**2**	125
Proceeds from bank indebtedness		**17,748**	2,631
Repayment of bank indebtedness		**(14,337)**	(1,092)
Proceeds from long-term debt		**2,617**	1,444
Repayment of long-term debt		**(1,663)**	(2,975)
Share issue and financing costs		**-**	(362)
Shares purchased under normal course issuer bid		**-**	(207)
		4,367	2,564
Cash flow from discontinued operations	6	**3,859**	(600)
Effect of translation of foreign currency cash		**78**	19
Net (decrease) increase in cash		**(990)**	1,371
Cash and cash equivalents, beginning of period		**1,805**	434
Cash and cash equivalents, end of period		**815**	1,805

(See Notes to the Consolidated Financial Statements)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. STRUCTURE OF 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 consolidated financial statements of the Corporation as at and for the year ended December 31, 2015, 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 provides solutions for the collection, control, and analysis of measurement and operational data related to the oil and gas wells across North America. We provide services to capture data, cloud-based software to visualize and manage it, and business intelligence to make quicker and more informed operational decisions.

In 2015, as part of the restructuring of the Corporation, executive management and internal reporting changed leadership and strategy, focusing on two strategic business segments. The Software business segment that operates in Canada and the United States, and the Services business segment that operates exclusively in the United States.

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

The reportable segments are managed separately because of the unique characteristics and requirements of each business.

The Software business provides the following services to its upstream and midstream oil and gas clients:

- ***Measurement Data Management***: Gas chart integration and reporting; web-based monitoring and control of electronic devices at the well site; 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 Services business provides the following services to its upstream and midstream oil and gas clients:

- ***Gas Measurement Field Services***: inclusive of natural gas meter installation, calibration, and monitoring.
- ***Gas and Liquid Analysis***: gas composition management services including gas sample analysis and data management tools;
- ***Certification and Proving***: calibration and certification of measurement meters and gas measurement equipment.
- ***Equipment and Fabrication***: assembly and sale of gas measurement and related equipment.

2. BASIS OF PREPARATION

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Details of the Corporation's accounting policies, including changes during the year are discussed in Note 27.

The consolidated financial statements were authorized for issue by the Board of Directors on March 23, 2016.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

The consolidated 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.

Use of estimates and judgments:

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgements, estimates, and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenues, and expenses. Actual results may differ from these estimates.

The key judgements identified in applying accounting policies that have a significant effect on the amounts recognized in the consolidated financial statements include the following:

- The determination of whether it is probable that sufficient taxable earnings will be generated in future periods to utilize tax losses and tax credits for the purpose of recognizing related tax assets. If sufficient taxable earnings are not generated, or estimates change, the Corporation would be required to reverse the related tax assets, or a portion thereof, which would impact income tax expense and possibly earnings before income tax if tax credits were reversed.
- Whether losses will be incurred on significant implementation projects. The Corporation has recognized a loss on one of its ProMonitor implementation projects (see Note 9). If sufficient efficiencies or recoveries are implemented to achieve profitability on the remainder of the project, this loss will be reversed. There is also risk that the loss could be higher than the provision amount, which would result in reduced margins that could be material.
- The determination of cash generating units and reportable segments that are managed separately because of the unique characteristics and requirements of each business.

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. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are as follows:

- ***Impairment calculations for intangible assets, including goodwill.*** Key estimates and assumptions include future cash flows and discount rates used for calculating the recoverable amount of cash-generating units.
- ***Measuring deferred income taxes.*** Key estimates and assumptions include the availability of future taxable earnings as explained above, timing of reversals for temporary differences, and future enacted tax rates.
- ***Fair value of consideration provided and assets acquired in business combinations.*** Key estimates and assumptions include future cash flows and discount rates used for valuing contingent consideration, customer relationship assets, and other intangible assets.
- ***Amortization of customer relationships and other intangible assets.*** The key estimate/assumption is the useful life of each asset.
- ***Provisions, including onerous lease contracts.*** Key estimates include future cash flows and discount rates.

Measurement of fair values

A number of the Corporation's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values are disclosed in the notes specific to that asset or liability.

(i) Property and equipment

The fair value of property and equipment recognized as a result of a business combination is based on market values. The market value of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and willingly.

(ii) Intangible assets

The fair value of intangible assets is based on the discounted cash flows expected to be derived from the use and eventual sale of the assets.

(iii) Inventory

The fair value of inventories acquired in business combinations is determined based on the estimated selling price in the ordinary course of business less the estimated costs of completion and sale, and a reasonable profit margin based on the effort required to complete and sell the inventories.

(iv) Accounts receivable

The fair value of accounts receivables is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes or when such assets are acquired in a business combination.

(v) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

(vi) Share-based payment transactions

The fair value of deferred common shares, employee share purchase plan shares, restricted common shares and common shares are measured based on the grant date share price.

Fair value hierarchy

When measuring the fair value of an asset or liability, the Corporation uses market observable data to the extent possible. Fair values are categorized into different levels in a fair value hierarchy based on the inputs used in the valuation techniques as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: unobservable inputs for the asset or liability.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Corporation recognizes transfers between levels of the fair value hierarchy at the end of the reporting period during which the change has occurred.

3. ACCOUNTS RECEIVABLE

As at December 31,		
($ thousands)	**2015**	2014
Accounts receivable	**11,598**	9,095

For the year ended 2015, upon review of the increased risk of insolvency in the industry and a detailed assessment of the amounts due from the Corporation's specific clients, the Corporation increased its allowance for doubtful accounts by $1.2 million (2014: less than $0.1 million).

4. INVENTORY

As at December 31,		
($ thousands)	**2015**	2014
Inventory	**3,179**	3,779

During the year December 31, 2015, Critical Control recognized an inventory write-down of $0.4 million due to the downturn in the exploration market (2014: $Nil). The write-down was recognized as other expense in the consolidated statement of operations and comprehensive income (loss) for the year. At December 31, 2015, there were no reversals of previously written-down amounts.

The amount of inventory used during the year was $7.1 million (2014: $10.0 million). The amount was recognised as operating expense in the consolidated statements of operations and comprehensive income (loss) during the year.

5. ACQUISITIONS AND BUSINESS COMBINATIONS

The acquisitions and business combinations have been accounted for using the acquisition method under IFRS 3, and the results of operations have been included in the consolidated statements of operations and comprehensive income (loss) from the date of acquisition.

Measurement services acquisition

Effective April 1, 2015, the Corporation acquired, through its subsidiary, Gas Analytical Services, Inc., certain assets of Legacy Measurement Solutions, Inc. of 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 the first closing with the remainder paid on the second closing date of December 15, 2015.

Fair value of net assets acquired ($ thousands)	
Total consideration	**2,467**
Inventory	**85**
Land and building	**867**
Computer hardware and software	**3**
Office and operating equipment	**1,430**
Vehicles	**479**
Customer relationship and contracts	**127**
Software	**237**
Deferred income tax	**(297)**
Net assets acquired	**2,931**
Bargain purchase price	**(464)**

The net assets acquired have been allocated to the Software and Services operating segments. Revenue generated from the net assets since the date of the Measurement Services Acquisition was US$4.1 million. Earnings before income tax contributed from the net assets in 2015 was US$0.2 million loss. The pro-forma revenue is estimated to be US$5.5 million and earnings before income tax is estimated to be a US$0.4 million loss.

The gain on the 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 other expenses in the 2015 consolidated statement of operations and comprehensive income (loss).

Field services acquisition

Effective December 4, 2015, the Corporation acquired, through its subsidiary, Gas Analytical Services, Inc., certain assets of Fleaux Services of Louisiana, L.L.C. of Shreveport, Louisiana related to gas measurement field services. The purchase price was US$0.3 million, of which US$0.2 million was paid in December 2015 with the remainder to be paid April 1, 2016.

Fair value of net assets acquired ($ thousands)	
Customer relationship and contracts	**411**
Net assets acquired	**411**

The net assets acquired have been allocated to the Services operating segment. Revenue generated from the net assets since the date of acquisition is less than $0.1 million. Earnings before income tax contributed from the net assets in 2015 is less than $0.1 million. The pro-forma revenue is estimated to be US$0.7 million.

External legal fees and due diligence costs in relation to the acquisition were minimal. These costs have been included in other expenses in the 2015 consolidated statement of operations and comprehensive income (loss).

Business Combination

Effective October 1, 2014, the Corporation acquired, through Gas Analytical Services, Inc., certain assets of Red River Laboratories Inc. (operating as Falkner Red River Laboratories) of Bossier City, Louisiana. The acquired business of Falkner tests oil, petrochemicals, and other liquids to determine composition for oil producers and other industrial companies.

Fair value of net assets acquired **($ thousands)**	
Office and operating equipment	**95**
Customer relationship and contracts	**62**
Net assets acquired	**157**

External legal fees and due diligence costs in relation to the acquisition were minimal. These costs have been included in other expenses in the 2014 consolidated statement of operations and comprehensive income.

6. DISCONTINUED OPERATIONS

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 comparative consolidated statement of operations and comprehensive income for the year ended December 31, 2014 and related disclosures have been restated to present the discontinued operations separately from continuing 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 Alberta, for gross proceeds of $1.3 million.

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 obligations that was assumed by the purchaser.

The gain on sale of discontinued operations includes a goodwill impairment loss of $0.3 million.

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

For the years ended December 31,		
($ thousands)	**2015**	2014
Revenue	**3,280**	15,550
Expenses		
Operating expense	**2,346**	10,872
General and administrative	**817**	4,038
Foreign exchange	**13**	5
Depreciation and amortization	**44**	713
Gain on sale of asset	**(1,388)**	(10)
Other expenses	**485**	768
	963	(836)
Finance costs	**3**	28
Earning (loss) before income taxes	**960**	(864)
Income taxes (recovery)	**521**	(247)
Net income (loss)	**439**	(617)

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

Carrying value of net assets sold	
($ thousands)	
Proceeds of sale	**3,974**
Inventory	**83**
Other expenses	**24**
Deposit	**18**
Leasehold improvement	**78**
Computer hardware and software	**179**
Office and operating equipment	**517**
Vehicles	**10**
Software	**14**
Goodwill	**2,069**
Provisions	**(225)**
Deferred lease inducement	**(251)**
Net assets disposed	**2,516**
Legal fees	**70**
Gain on sale of discontinued operations	**1,388**

The cash flow from discontinued operations is as follows:

For the years ended December 31,		
($ thousands)	**2015**	2014
Cash flows from (used in) discontinued operations		
Operating activities	**1,339**	(241)
Gain on disposal of assets	**(1,388)**	(10)
Investing activities	**3,908**	(349)
Net cash flow	**3,859**	(600)

CRITICAL CONTROL

7. PROPERTY AND EQUIPMENT

Property and equipment as at and for the periods ended December 31, 2015 and December 31, 2014 were as follows:

($ thousands)	Note	Land and building	Leasehold improvements	Computer hardware	Office and operating equipment	Vehicles	Total
Costs							
Balance at December 31, 2013		-	1,338	3,671	3,560	1,635	10,204
Additions through acquistion	5	-	-	-	95	-	95
Other additions		-	26	319	995	38	1,378
Disposals		-	-	(3)	(286)	(28)	(317)
Effect of foreign exchange		-	29	28	224	153	434
Balance at December 31, 2014		-	1,393	4,015	4,588	1,798	11,794
Additions through acquistion	5	**867**	**-**	**3**	**1,430**	**479**	**2,779**
Other additions		**-**	**122**	**240**	**292**	**-**	**654**
Disposal of discontinued operations	6	**-**	**(321)**	**(2,197)**	**(1,537)**	**(53)**	**(4,108)**
Other disposal		**(963)**	**(731)**	**(22)**	**-**	**(41)**	**(1,757)**
Effect of foreign exchange		**96**	**72**	**59**	**677**	**396**	**1,300**
Balance at December 31, 2015		**-**	**535**	**2,098**	**5,450**	**2,579**	**10,662**
Accumulated depreciation							
Balance at December 31, 2013		-	1,132	3,280	2,395	983	7,790
Depreciation		-	115	224	396	101	836
Disposals		-	-	-	-	(26)	(26)
Effect of foreign exchange		-	25	11	113	89	238
Balance at December 31, 2014		-	1,272	3,515	2,904	1,147	8,838
Depreciation		**24**	**54**	**131**	**514**	**288**	**1,011**
Disposal of discontinued operations	6	**-**	**(243)**	**(2,018)**	**(1,020)**	**(43)**	**(3,324)**
Other disposal		**(25)**	**(730)**	**-**	**(3)**	**(6)**	**(764)**
Effect of foreign exchange		**1**	**63**	**34**	**315**	**236**	**649**
Balance at December 31, 2015		**-**	**416**	**1,662**	**2,710**	**1,622**	**6,410**
Carrying amount							
Balance at December 31, 2015		**-**	**119**	**436**	**2,740**	**957**	**4,252**
Balance at December 31, 2014		-	121	500	1,684	651	2,956

Leased equipment

The Corporation leases certain equipment under finance lease agreements. The leased equipment is secured by the underlying assets. As at December 31, 2015, the net carrying amount of leased equipment was less than $0.1 million (2014: $0.4 million).

Security

At December 31, 2015, all property and equipment of the Corporation was provided as security for long-term debt.

Non-cash transactions

During 2014, items of property and equipment costing $0.6 million were acquired by way of finance contracts or finance leases that have been excluded from the consolidated statement of cash flows.

8. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill as at and for the periods ended December 31, 2015 and December 31, 2014 were as follows:

($ thousands)	Note	Product development costs	Customer relationship and contracts	Software	Non-compete agreement	Goodwill	Total
Costs							
Balance at December 31, 2013		424	16,662	10,172	613	12,805	40,676
Additions through business combination	5	-	62	-	-	-	62
Other additions		587	20	34	-	-	641
Tax credits		(73)	-	-	-	-	(73)
Effect of foreign exchange		-	396	-	43	574	1,013
Balance at December 31, 2014		938	17,140	10,206	656	13,379	42,319
Additions through business acquistion	5	**-**	**538**	**237**	**-**	**-**	**775**
Other additions		**949**	**-**	**143**	**-**	**-**	**1,092**
Tax credits		**(42)**	**-**	**-**	**-**	**-**	**(42)**
Disposal of discontinued operations	6	**-**	**(6,259)**	**(1,577)**	**-**	**(2,069)**	**(9,905)**
Effect of foreign exchange		**-**	**948**	**3**	**101**	**1,332**	**2,384**
Balance at December 31, 2015		**1,845**	**12,367**	**9,012**	**757**	**12,642**	**36,623**
Accumulated depreciation							
Balance at December 31, 2013		-	10,090	9,142	350	-	19,582
Amortization		113	1,167	421	108	-	1,809
Impairment loss		235	-	-	-	-	235
Effect of foreign exchange		-	117	-	30	-	147
Balance at December 31, 2014		348	11,374	9,563	488	-	21,773
Amortization		**295**	**840**	**286**	**88**	**-**	**1,509**
Impairment loss		**-**	**-**	**-**	**-**	**346**	**346**
Disposal of discontinued operations	6	**-**	**(6,259)**	**(1,563)**	**-**	**(346)**	**(8,168)**
Effect of foreign exchange		**-**	**326**	**3**	**84**	**-**	**413**
Balance at December 31, 2015		**643**	**6,281**	**8,289**	**660**	**-**	**15,873**
Carrying amount							
Balance at December 31, 2015		**1,202**	**6,086**	**723**	**97**	**12,642**	**20,750**
Balance at December 31, 2014		590	5,766	643	168	13,379	20,546

In 2014 product development costs incurred an impairment charge of $0.2 million related to the Corporation's field data capture ("FDC") product. Given the sharp drop in the price of oil in late 2014 and the associated reduction in expenditures amongst oil and gas companies in Western Canada, the Corporation has revised its expectations with respect to being able to penetrate the market with its FDC product.

During the year, the Corporation recognized $0.1 million (2014: $0.2 million) of Scientific Research and Experimental Development (SR&ED) tax credits upon receiving Notices of Assessment from Canada Revenue Agency and Alberta Treasury Board and Finance in relation to tax returns filed for the prior year. Of the amount recognized in 2015, less than $0.1 million (2014: $0.1 million) was applied against the cost of intangible assets (product development costs).

Intangible assets

Product development costs are internally generated from capitalized research and development projects which are amortized over the expected life of the developed product line.

Customer relationships and contracts, software, and non-compete agreements are a result of a number of previous business combinations.

Goodwill

Goodwill is a result of a number of previous business combinations and is generally attributable to anticipated synergies expected from those acquisitions. Goodwill, by definition, has no useful life, and is, therefore, not amortized. However, goodwill is subject to impairment tests at least annually. For purposes of impairment testing, Critical Control assesses goodwill at the operating segment level. As at December 31, 2015 and December 31, 2014, the entire balance included in goodwill was allocated to the Software operating segment.

Impairment testing for cash-generating units containing goodwill

For the purpose of impairment testing, goodwill acquired in each business combination is allocated to the Corporation's cash-generating units ("CGUs") that are expected to benefit from the synergies of the combination. Each CGU represents the lowest level within the Corporation at which goodwill is monitored for internal management purposes and is not larger than an operating segment. The carrying amount of goodwill allocated to each unit is as follows:

For the years ended December 31, **($ thousands)**	**2015**	2014
Software	**12,642**	11,310
Service Bureau	**-**	2,069
	12,642	13,379

Impairment tests for all CGUs containing goodwill were performed at December 31, 2015 and 2014, and none of the CGUs were found to be impaired. The recoverable amount for each CGU was determined based on value in use, which was calculated using discounted after-tax cash flow projections for the Software and Services CGUs.

The calculation of value in use for the Software and Services CGUs was based on the following key assumptions:

- Cash flows were projected based on past experience, actual operating results, relevant annual budgets and growth expectations. Cash flows beyond five years were extrapolated using a constant growth rate of 3 percent for Software and 3 percent for Services, which does not exceed the long-term average growth rate for the industry.
- The first year of cash flows was based on the annual operating budgets.
- The anticipated annual revenue included in the cash flow projections for the next four years was based on average compound growth rates of 6 percent for Software and 4 percent for Services.
- The anticipated earnings before income taxes, depreciation, and amortization ("EBITDA") in the next four years was based on rates (as a percentage of sales) averaging 10 percent for Software and 12 percent for Services.
- A break-even discount rate (after-tax) was calculated for each CGU. Based on general industry data and previous acquisition experience, it was determined that the appropriate after-tax discount rate for each CGU would not likely be greater than 15%. Accordingly, if the break-even rate for a CGU exceeded 15%, it was concluded that no impairment existed. The calculated break-even rate exceeded 15% for the Software and Service CGU.

The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and are based on both external and internal sources (e.g., historical data).

9. PROVISIONS

($ thousands)	Onerous Lease	Onerous Contract	Total
Balance as at December 31, 2013	414	-	414
Provisions recognized	254	200	454
Provision used during the year	(20)	-	(20)
Change in estmate	(36)	-	(36)
Unwinding of discount	6	-	6
Balance as at December 31, 2014	618	200	818
Provision used during the year	**(211)**	**-**	**(211)**
Provision related to measurement services acquisition	**597**	**-**	**597**
Provision disposed of in discontinued operations	**(225)**	**-**	**(225)**
Change in estimate	**44**	**-**	**44**
Effect of movement in exchange rates	**(40)**	**-**	**(40)**
Balance as at December 31, 2015	**783**	**200**	**983**
Current portion	**611**	**200**	**811**
Long-term portion	**172**	**-**	**172**

The onerous lease provision as at December 31, 2014 relates to discontinued operations, specifically, excess space in Edmonton, Alberta which expires August 31, 2017. In the second quarter of 2015, a portion of the onerous lease provision related to the Service Bureau Operations segment was reallocated to disposal of discontinued operations.

In the second quarter of 2015, as part of the Measurement Services Acquisition, Critical Control assumed responsibility for three 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, and has thus recognized an onerous lease provision.

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 Software operating segment. The project started in late 2013 and is scheduled to complete in the following year. The provision is reviewed and reassessed on a periodic basis by management.

10. LONG-TERM DEBT

As at December 31,			
($ thousands)	**Note**	**2015**	2014
Demand term loans	b	**2,614**	-
Secured bank term loan	c	**2,245**	2,523
Secured finance contracts		**225**	351
Finance lease liabilities		**14**	581
		5,098	3,455
Current portion		**5,042**	1,143
Long-term portion		**56**	2,312

On December 18, 2015, the Corporation entered into a revised credit facility agreement with its lenders. Significant details of the facility are summarized below.

(a) A revolving demand operating credit up to $8.5 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% to 5.0% per annum based on the Corporation's ratio of Debt to Adjusted EBITDA;
- Canadian dollar Banker's Acceptances with terms up to six months and stamping fees calculated at 3.0% to 6.5% per annum based on the Corporation's ratio of Debt to Adjusted EBITDA;
- US dollar loans bearing interest at US Base Rate plus 1.5% to 5.0% per annum based on ratio of Debt to Adjusted EBITDA; and
- US dollar LIBOR loans with terms up to six months bearing interest at applicable LIBOR plus 3.0% to 6.5% per annum based on the Corporation's ratio of Debt to Adjusted EBITDA.

The demand operating credit is limited by standard margining of trade receivables and inventories, reduced by priority claims and other adjustments. As at December 31, 2015, the margining limit was estimated to be $8.1 million (December 31, 2014: $7.1 million), leaving $1.0 million (December 31, 2014: $4.5 million) of the operating credit available for future working capital needs. Access to this facility is limited by the impact of debt levels on financial covenants.

(b) A demand term loan of US$1.9 million to fund the Measurement Services 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$1.7 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 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 agreement requires adherence to certain financial covenants, including a Debt to Capitalization ratio not to exceed 0.36 to 1.00. As at December 31, 2015, the Corporation is in compliance with this financial covenant.

Beginning in 2016, the credit facility agreement requires adherence to certain financial covenants of a minimum Adjusted Debt Service ratio of 0.80 in the first quarter of 2016, stepping up to 1.25 in the second quarter of 2016. As at December 31, 2015, the Corporation had obtained a waiver for the Adjusted Debt Services ratio.

11. INCOME TAXES

The components of tax expenses by segment for the years ended 2015 and 2014 were are follows:

For year ended December 31, ($ thousands)	2015	2014
Income tax - current	**(30)**	128
Income tax - deferred	**(1,644)**	(148)
Income tax (recovery)	**(1,674)**	(20)

The Corporation is subject to Canadian federal and provincial taxes and US federal and state taxes. For the year ended December 31, 2015, the Corporation had a recovery of $0.7 million (2014 – less than $0.1 million) which relates to the Canadian entities, and a recovery of $1.0 million (2014 – less than $0.1 million) pertains to US entities.

Discontinued operations which were Canadian entities for the year ended December 31, 2015 had a $0.5 million tax expense (2014 - $0.2 million recovery).

Factors affecting tax expense (recovery) for the year:

For year ended December 31, ($ thousands)	2015	2014
Net loss before tax and discontinued operations	**(5,636)**	(626)
Corporate statutory tax rate	**26.0%**	25.0%
Tax expense at statutory rate	**(1,465)**	(157)
Non-taxable amounts	**(6)**	90
Statutory and other rate differences	**(248)**	(18)
Effect of change in timing or expected tax rates	**(85)**	-
Other	**130**	65
	(1,674)	(20)

As at December 31, 2015, the consolidated statements of financial position included current taxes receivable of $0.2 million (2014: less than $0.1 million), and tax credit recoverable of $0.7 million (2014: $0.6 million).

Deferred assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including future profitability of operations in the jurisdictions in which the tax losses arose. At December 31, 2015, the Corporation had no deferred tax assets which it did not recognize.

The movement of deferred tax assets and liabilities are shown below:

($ thousands)	Balance December 31, 2014	Recognized in profit or loss	Recognized in bargain purchase price	Recognized in discontinued operations	Recognized in other comprehensive income	Effect of movement in exchange rates	**Balance December 31, 2015**
Accounts receivable, and accounts payable	(35)	510	-	-	-	7	**482**
Tax credits recoverable	(103)	(72)	-	(5)	-	-	**(180)**
Property and equipment , and software	(354)	102	(297)	(75)	-	45	**(579)**
Intangible assets, other than software	(1,205)	(114)	-	(343)	-	(216)	**(1,878)**
Provisions	235	109	-	(35)	-	-	**309**
Other	435	(47)	-	(1)	-	28	**415**
Tax loss carry-forward	2,112	1,011	-	(68)	-	46	**3,101**
Intercompany interest	897	809	-	-	-	173	**1,879**
Foreign exchange	(454)	(664)	-	-	7	(88)	**(1,199)**
Deferred income tax	1,528	1,644	(297)	(527)	7	(5)	**2,350**
Deferred income tax - asset	2,082						**2,350**
Deferred income tax - (liability)	(554)						**-**

($ thousands)	Balance December 31, 2013	Recognized in profit or loss	Recognized directly in equity	Recognized in discontinued operations	Recognized in other comprehensive income	Effect of movement in exchange rates	Balance December 31, 2014
Accounts receivable, and accounts payable	(50)	1	-	-	-	14	(35)
Tax credits recoverable	(168)	51	-	14	-	-	(103)
Property and equipment , and software	(314)	91	-	(110)	-	(21)	(354)
Intangible assets, other than software	(1,290)	91	-	80	-	(86)	(1,205)
Provisions	107	71	-	57	-	-	235
Other	503	(130)	62	(1)	-	1	435
Tax loss carry-forward	1,748	84	-	270	-	10	2,112
Intercompany interest	708	136	-	-	-	53	897
Foreign exchange	(108)	(247)	-	-	(91)	(8)	(454)
Deferred income tax	1,136	148	62	310	(91)	(37)	1,528
Deferred income tax - asset	1,540						2,082
Deferred income tax - (liability)	(404)						(554)

CRITICAL CONTROL

12. SHARE CAPITAL

(a) Common shares

Number of common shares	2015	2014
Outstanding, beginning of year	**57,493,451**	51,774,012
Private placement	**-**	6,000,000
Shares purchased under normal course issuer bid	**-**	(438,500)
Share-based compensation	**397,776**	125,000
Shares issued under Employee Share Purchase Plan	**164,276**	32,939
Outstanding, end of year	**58,055,503**	57,493,451

At December 31, 2015, the Corporation was authorized to issue an unlimited number of common shares without par value. The holders of common shares are entitled to one vote per share and all shares rank equally with regard to the Corporation's residual assets.

On June 30, 2014, the Corporation closed a private placement, pursuant to which 6,000,000 units of the Corporation (the "Units") were issued at a price of $0.50 per Unit, for gross proceeds of $3.0 million. Each Unit is comprised of one common share in the capital of the Corporation and one-half of one common share purchase warrant (each whole common share purchase warrant, a "Warrant").

Each Warrant entitled the holder thereof to acquire one additional common share in the capital of the Corporation at a price of $0.70 per share, at any time on or before June 30, 2015. $2.8 million of the gross proceeds was allocated to the common shares, and $0.2 million was allocated to the share purchase warrants.

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.

(b) Contributed surplus

The contributed surplus reserve comprises all share based payment transactions that do not involve the issuance of shares, NCIB adjustments as summarized above, private placement proceeds allocated to unexercised share purchase warrants, and Employee Share Purchase Plan proceeds for unissued common shares.

(c) Accumulated other comprehensive income (AOCI)

AOCI is comprised of the cumulative translation account, which includes all foreign currency differences arising from the translation of the financial statements of foreign operations.

13. SHARE-BASED PAYMENT

The total number of common shares that may be reserved for issuance to directors, officers, employees, or other insiders under any security-based compensation arrangement, in aggregate during any one year period, cannot exceed 10% of the Corporation's total issued and outstanding common shares. If any security-based award expires without having been exercised or is terminated/forfeited for any reason under any security-based compensation arrangement then, subject to the terms of that particular security-based compensation arrangement, the common shares underlying such award shall again be available for issuance in connection with any future awards that the Corporation may grant.

(a) Deferred annual bonus and share purchase plan

The Corporation adopted a Deferred Annual Bonus and Share Purchase Plan ("DSP") in 2006. The DSP enables employees to elect to receive up to 10% of their annual base salary and up to 100% of any annual bonus to which they become entitled in the form of deferred common shares ("DCS"). Each DCS may be redeemed by the holder for one common share of the Corporation for no additional payment on death or termination of the holder's service to the Corporation.

In 2006, 1,000,000 common shares were reserved for issuance pursuant to the DSP. Upon shareholder approval on June 11, 2014 and TSX approval on June 23, 2014, the Corporation increased the aggregate number of common shares authorized for issuance upon the redemption of all DCSs granted under the DSP to 2,500,000.

Effective September 27, 2013, the Board approved the issuance of 150,000 DCS (vesting on September 27, 2016) in relation to the hiring of a senior member of management. The measurement date fair value of the DCS was less than $0.1 million, which is being expensed over the vesting period.

On June 24, 2014, 1,175,000 DCS were issued to executives, line managers, and key contributors of the Corporation, and 300,000 DCS were issued to independent directors. The DCS to executives, line managers, and key contributors vest if earnings growth targets are met within a three year period. If the earnings growth targets are not met, or if the employee leaves the Corporation before they are met, the DCS are forfeited. The DCS to independent directors vest three years from the issuance date, providing they continue to serve as directors, with no performance targets. The measurement date fair value of the DCS was $0.7 million. The amount related to directors is being expensed over the three year vesting period. The amount related to executives, line managers, and key contributors is being expensed over the expected vesting period based on the most likely outcome of the performance condition.

On June 23, 2015, 100,000 DCS were issued to an executive of the Corporation, and 100,000 DCS were issued to independent directors. The DCS to the executive and independent directors vest three years from the issuance date, providing they continue to serve as directors, with no performance targets. The measurement date fair value of the DCS was less than $0.1 million. The amount related to executive and directors is being expensed over the three year vesting period.

On September 11, 2015, 500,000 DCS were issued to executives, line managers, and key contributors of the Corporation. The DCS vest if earnings growth targets are met within a three year period. If the earnings growth targets are not met, or if the employee leaves the Corporation before they are met, the DCS are forfeited. The measurement date fair value of the DCS was $0.2 million.

Number of deferred common shares	**2015**		2014	
	Issued	**Vested**	Issued	Vested
Outstanding, beginning of year	**2,199,411**	**699,411**	849,411	699,411
Granted	**700,000**	**-**	1,475,000	-
Vested	**-**	**150,000**	-	-
Exercised	**(447,776)**	**(447,776)**	-	-
Forfeited	**(525,000)**	**-**	(125,000)	-
Outstanding, end of year	**1,926,635**	**401,635**	2,199,411	699,411

(b) Employee share purchase plan

On May 13, 2014, the Board approved a new Employee Share Purchase Plan ("ESPP"), which was approved by the shareholders of the Corporation on June 11, 2014 and the TSX on June 23, 2014. The total number of common shares that may be issued under the ESPP to directors, officers, and employees is 3,000,000, of which 1,296,379 (2014: 1,372,369) have been listed and reserved as at December 31, 2015.

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 five thousand dollars or 5 percent 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.

During the year end December 31, 2015, proceeds net of refunds from purchased shares are credited to contributed surplus and totaled less than $0.1 million (2014: $0.1 million) during the year. This amount is transferred to share capital when the shares are issued from treasury, and $0.1 million (2014: less than $0.1 million) was transferred during the year. The measurement date fair value of the matched shares during the year was $0.1 million (2014: $0.1 million) and is being expensed 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 December 31, 2015, 118,432 (2014: 240,520) shares were reserved for issuance in relation to purchased shares. 274,649 (2014: 240,520) shares were reserved for issuance in relation to matched shares.

(c) Other share-based compensation

Effective September 27, 2013, the Board approved the following share-based compensation in relation to the hiring of a senior member of management:

- 125,000 restricted common shares of the Corporation to be issued from treasury, subject to repayment if the senior member of management does not remain employed with the Corporation for the three years ended September 27, 2016. The issuance of the restricted common shares was approved by the shareholders on June 11, 2014 and the TSX on June 23, 2014. The measurement date fair value of the restricted common shares was less than $0.1 million, which is being expensed over the three year restriction period. The restricted common shares were issued on July 21, 2014.

- 125,000 common shares of the Corporation to be issued from treasury on September 27, 2016, subject to continued employment from September 27, 2013 to September 27, 2016. The issuance of the common shares was approved by the shareholders on June 11, 2014 and the TSX on June 23, 2014. The measurement date fair value of the common shares was less than $0.1 million, which is being expensed over the three years leading up to issuance of the common shares. Should the senior member of management be terminated without cause or terminated in relation to a change of control prior to September 27, 2016, a portion of the common shares would be issued in accordance with specified formulas.

14. REVENUE

For the years ended December 31, ($ thousands)	2015	2014
Recurring	**28,804**	21,743
Non-recurring	**11,115**	13,643
	39,919	35,386

Recurring revenue refers to Software and Services that are provided to the client which is reasonably expected to be continually provided on a periodic basis. This would include subscription revenue and production related services.

Non-recurring revenue refers to Software and Services that are provided to the client which are viewed as one-time in nature. This would include implementation revenue and fabrication projects.

15. EARNINGS PER SHARE

Basic earnings per share for the year ended December 31, 2015 and 2014 is based on the net earnings attributable to shareholders, as reported in the consolidated statements of operations and comprehensive income (loss), and the weighted average number of common shares outstanding in the period.

Diluted earnings per share for the year ended December 31, 2015 and 2014 is based on the net earnings attributable to shareholders as reported in the consolidated statements of operations and comprehensive income (loss) and basic weighted average number of common shares outstanding, both adjusted for dilutive factors as follows:

For the years ended December 31, ($ thousands except share data)	2015	2014
Weighted average of common shares		
Basic	**57,741,122**	54,499,830
Diluted	**57,741,122**	54,499,830

The average market value of the Corporation's shares for purposes of calculating the dilutive effect of deferred common shares was based on quoted market prices for the period during which the deferred common shares were outstanding. The following potential common shares were excluded from the weighted average number of common shares outstanding (diluted) for 2015 because they were antidilutive:

- 1,926,635 deferred common shares;
- 393,081 shares reserved under the Employee Share Purchase Plan; and
- 125,000 common shares to be issued from treasury on September 27, 2016.

16. CAPITAL MANAGEMENT

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor, and market confidence and to sustain future development of the business. Management and the Board of Directors monitor capital using a debt to equity ratio. The target ratio is 0.5:1 and is calculated as loans and borrowings (excluding secured bank facility), net of cash, divided by shareholders' equity. The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. The Corporation's debt to equity ratio at the end of the reporting period was as follows:

As at December 31, ($ thousands)	Note	2015	2014
Bank indebtedness	10	**7,079**	2,631
Long-term debt	10	**5,098**	3,455
		12,177	6,086
Less: secured bank term loans	10	**2,245**	2,523
Less: cash and cash equivalents		**815**	1,805
Net debt		**9,117**	1,758
Total shareholders' equity		**26,016**	28,008
Net debt to equity		**0.35:1**	0.06:1

There were no changes in the Corporation's approach to capital management during the year.

17. FINANCIAL INSTRUMENTS

Critical Control's financial instruments include cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and long-term debt.

As at December 31,	2015		2014	
	Fair	Carrying	Fair	Carrying
($ thousands)	Value	Value	Value	Value
Loans and receivables:				
Cash and cash equivalents	**815**	**815**	1,805	1,805
Accounts receivable	**11,598**	**11,598**	9,095	9,095
Financial liabilities measured at amortized costs:				
Bank indebtedness (1)	**7,079**	**7,079**	2,631	2,631
Accounts payable and accrued liabilities	**4,361**	**4,361**	5,013	5,013
Credit facilities:				
Demand loan (2)	**2,614**	**2,614**	-	-
Secured bank term loan (3)	**2,272**	**2,245**	2,577	2,523
Secured finance contracts	**225**	**225**	932	932

(1) Total value of outstanding at December 31, 2015 of CDN$1.1 million, US$2.3 million, and LIBOR US$2.0 million (December 31, 2014 – LIBOR US$1.0 million)
(2) Total value outstanding at December 31, 2015 of US$1.8 million (December 31, 2014 – $Nil).
(3) Total value outstanding at December 31, 2015 of US$1.6 million (December 31, 2014 – US$2.2 million).

Critical Control has estimated the fair value amounts using appropriate valuation methodologies and information available to management as of the valuation dates. The following methods and assumptions were used to estimate the fair value of each class of financial instrument for which it was practicable to estimate that value:

- **Cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities**. The carrying amounts approximate fair value because of the short maturity of these instruments.
- **Bank indebtedness, credit facilities, and secured finance contracts**. The fair value of the various components of long-term debt is based on the values owed to third-party financial institutions using current market price indicators. Long-term debt is a level 2 in the fair value hierarchy.

Nature and Extent of Risks Arising from Financial Instruments

Critical Control is exposed to a number of market risks arising through the use of financial instruments in the ordinary course of business. Specifically, Critical Control is subject to credit risk, liquidity risk, currency risk, and interest rate risk.

This note presents information about the Corporation's exposure to each of the above risks, the Corporation's objectives, policies and processes for measuring and managing risk, and the Critical Control's management of capital. The Board of Directors has overall responsibility for the establishment and oversight of the Corporation's risk management framework. Critical Control's management team identifies and analyzes the risks faced by the Corporation and manages/monitors these risks, including the impact of changes in market conditions and changes in the Corporation's activities.

	Risk			
			Market risks	
	Credit	Liquidity	Currency	Interest rate
Measured at cost or amorized cost				
Cash and cash equivalents	X	X	X	X
Accounts receivable	X		X	
Bank indebtedness		X	X	X
Accounts payable and accrued liabilities		X	X	
Long-term debt		X	X	X

Credit risk

Critical Control is exposed to credit risk as a result of extending credit to customers for services performed, creating exposure on accounts receivable balances with trade customers. This exposure to credit risk is managed through a corporate credit policy whereby upfront evaluations are performed on all customers and credit is granted based on payment history, financial conditions, and anticipated industry conditions. Customer payments are continuously monitored to ensure the creditworthiness of all customers with outstanding balances and when collectability becomes questionable a provision for doubtful accounts is established.

The following is a reconciliation of the change in the credit risk provision:

As at December 31, **($ thousands)**	**2015**	2014
Balance at beginning of year	**277**	306
Increase in reserve recorded in the statement of operation in current period	**1,217**	11
Write-offs charged against the reserve	**(139)**	(40)
Balance at end of year	**1,355**	277

As at December 31, 2015, Critical Control had accounts receivable of $5.0 million (December 31, 2014: $1.7 million) that were greater than 90 days for which the provision had been established. It is the Corporation's intention to vigorously pursue the collection of the amounts provided for.

Liquidity risk

Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. Critical Control actively manages its liquidity through daily, weekly, and longer-term cash outlook and debt management strategies. The Corporation's policy is to ensure that sufficient resources are available either from cash balances, cash flows or undrawn committed bank facility, to ensure all obligations are met as they fall due.

The Corporation's credit facility with its bank requires meeting certain financial covenants. Management expects to meet these covenants in 2016 based on its current financial forecasts which in turn are based on assumptions regarding industry conditions. In light of the prevailing volatility in oil and gas prices and the impact of such prices on the Corporation's customer base, there is a risk that the Corporation's financial results will be negatively affected putting the Corporation offside of its financial covenants, which in turn would make the Corporation's secured term loan due upon demand. In such event that a demand of the term loan or demand loan is made, management's plans include the further reduction of expenditures, the pursuit of alternative financing, or the pursuit of other strategic alternatives, the success of which cannot be assured.

The following maturity analysis shows the remaining contractual maturities for Critical Control's financial liabilities:

($ thousands)	Carrying amount	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and accrued liabilities	**4,361**	4,361	-	-	-
Provisions	**983**	811	172	-	-
Demand term loan	**2,614**	2,614	-	-	-
Secured bank term loan	**2,245**	2,245	-	-	-
Secured finance contracts	**225**	156	69	-	-
Finance lease liabilities	**14**	14	-	-	-
	10,442	10,201	241	-	-

The Corporation carries a demand term loan and a secured bank term loan. The demand term loan can be demanded by the lender but has repayment terms over three years. Assuming these repayment terms are renewed/extended, the principal payments in 2016, 2017, and 2018 would be $0.9 million each year. The secured bank term loan matures in the fourth quarter of 2016 but has repayment terms over three years. Assuming these repayment terms are renewed/extended, the principal payments in 2016, 2017, and 2018 would be $0.8 million each year.

At December 31, 2015, the Corporation had $0.8 million (2014: $1.8 million) of cash on hand and access to a further $1.0 million (2014: $4.5 million) available on its secured banking facility to fund ongoing working capital requirements. Access to the bank facility is limited by the impact of debt levels on financial covenants. The Corporation's credit facility requires adherence to certain financial covenants. As at December 31, 2015, the Corporation is in compliance with these financial covenants.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Corporation's income or the value of its financial instrument holdings. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the returns.

Currency risk

The Corporation, through its US subsidiaries, has significant US operations for which the functional currency is the US dollar. Future fluctuations in exchange rates will have an effect on the Corporation's operating results, financial position, and cash flows. Future fluctuations will also have an effect on foreign currency translation adjustments that do not flow through net earnings, but do flow though comprehensive income. The Corporation is also exposed to minor currency risk on working capital and borrowings that are denominated in currencies other than the respective functional currencies of Critical Control's entities, primarily the Canadian dollar, but also the US dollar.

The currencies in which these transactions are denominated are Canadian and US dollars. The Corporation has no exposure to foreign currency fluctuations other than those relating to the US and Canadian dollars. Generally, borrowings are denominated in currencies that match the cash flows generated by the underlying operations of the Corporation, which would be the functional currency of the Corporation's entities. This provides an economic hedge without derivatives being entered into and, therefore, hedge accounting is not applied.

Sensitivity analysis:

A strengthening of the Canadian dollar against the US dollar by 100 basis points at December 31, 2015 would have decreased net earnings by less than $0.1 million (2014: less than $0.1 million), other comprehensive income, total comprehensive income, and equity by less than $0.1 million (2014: less the $0.1 million). The analysis assumes that all other variables, interest rates in particular, remain constant. The analysis has been performed on the same basis for 2014. A weakening of the Canadian dollar by 100 basis points at December 31, 2015 would have had an equal but opposite effect on net earnings, other comprehensive income, and equity, on the basis that all other variables remain constant.

Interest rate risk

The Corporation's objective in managing interest rate risk is to monitor expected volatility in interest rates while also minimizing financing expense levels. Interest rate risk mainly arises from fluctuations of interest rates and the impact on the expense associated with variable rate debt. On an ongoing basis, management monitors changes in short-term rates and considers long-term forecasts to assess potential cash flow impacts to the Corporation.

Critical Control is subject to risk exposure related to changes in interest rates on borrowings under the credit facility, which is subject to floating interest rates. A change of 100 basis points in the interest rates would cause a $0.1 million change in interest costs for the year-ended December 31, 2015 (December 31, 2014: less than $0.1 million). This analysis is based on average debt levels and assumes that all other variables, in particular foreign currency rates, remain constant. The analysis has been performed on the same basis for 2014. The Corporation does not currently hold any financial instruments to mitigate its interest rate risk.

18. COMMITMENTS AND CONTINGENCIES

Commitments

Critical Control has several operating lease agreements on buildings and equipment. Operating lease expenses are included in general and administrative expenses in the consolidated statements of operations and comprehensive income (loss). The Corporation does not have any contingent rental or sublease payments, nor any sublease income. The leases expire at various times through 2026 and there are no significant renewal or purchase options.

For the years ended December 31, 2015	**Less than**	**2 - 3**	**4 - 5**	**After**
($ thousands)	**1 year**	**years**	**years**	**5 years**
Operating leases	**2,073**	**2,914**	**2,570**	**2,066**

Contingencies

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 527 modems using the CDMA network have been replaced to-date and management estimates that an additional 449 currently active on NetFlow use the CDMA network. The replacement cost for the remaining 449 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.

19. SEGMENTED INFORMATION

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

For year ended December 31, **($ thousands)**	**Software 2015**	Software 2014	**Services 2015**	Services 2014	**Corporate 2015**	Corporate 2014	**Total 2015**	Total 2014
Revenue								
Recurring	**17,719**	16,346	**11,085**	5,397	**-**	-	**28,804**	21,743
Non-recurring	**1,501**	1,327	**9,614**	12,316	**-**	-	**11,115**	13,643
	19,220	17,673	**20,699**	17,713	**-**	-	**39,919**	35,386
Expenses								
Operating expense	**9,242**	8,484	**16,217**	13,272	**-**	-	**25,459**	21,756
Research and development	**1,422**	1,371	**-**	-	**-**	-	**1,422**	1,371
Depreciation and amortization	**1,778**	1,862	**697**	410	**-**	-	**2,475**	2,272
Loss (gain) on sale of asset	**-**	-	**(12)**	(7)	**-**	-	**(12)**	(7)
	12,442	11,717	**16,902**	13,675	**-**	-	**29,344**	25,392
	6,778	5,956	**3,797**	4,038	**-**	-	**10,575**	9,994
General and administrative	**-**	-	**-**	-	**12,566**	10,452	**12,566**	10,452
Foreign exchange	**-**	-	**-**	-	**(1,155)**	(555)	**(1,155)**	(555)
Other expenses	**-**	-	**-**	-	**4,245**	223	**4,245**	223
Finance costs	**-**	-	**-**	-	**555**	500	**555**	500
Income taxes	**-**	-	**-**	-	**(1,674)**	(20)	**(1,674)**	(20)
Discontinued operations	**-**		**-**	-	**(439)**	617	**(439)**	617
Net loss	**6,778**	5,956	**3,797**	4,038	**(14,098)**	(11,217)	**(3,523)**	(1,223)

For year ended December 31, **($ thousands)**	**Software 2015**	Software 2014	**Services 2015**	Services 2014	**Service Bureau 2015**	Service Bureau 2014	**Total 2015**	Total 2014
Property and equipment	**760**	642	**3,492**	1,488	**-**	826	**4,252**	2,956
Intangible assets and goodwill	**20,750**	18,462	**-**	-	**-**	2,084	**20,750**	20,546
Total assets	**30,787**	23,985	**13,531**	9,158	**-**	9,792	**44,318**	42,935
Purchase of property, equipment, and intangible assets	**143**	32	**3,395**	141	**-**	360	**3,538**	533

20. SIGNIFICANT CUSTOMERS

For the year-ended December 31, 2015, the Corporation had two customer that provided a percentage of total revenue of 8% and 8% (2014: two customers that provided a percentage of total revenue of 19% and 8%).

21. RELATED PARTY TRANSACTIONS

Related party transactions in the normal course of operations are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Critical Control engages the law firm of Shea Nerland Calnan LLP ("SNC") to provide legal advice. One partner of this law firm is a Director of the Corporation. During the year ended December 31, 2015, Critical Control incurred legal fees of less than $0.1 million (2014 - $0.1 million) to SNC. At December 31, 2015, less than $0.1 million was due to SNC (December 31, 2014 – less than $0.1 million).

In December of 2015, the Corporation sold two US based real estate assets acquired as part of the Measurement Services Acquisition for US$0.7 million to Unguja Holdings, LLC. One of the owners of this company is a director of the Corporation. As part of the sale of the two properties the Corporation entered into a ten year lease agreement with Unguja Holdings, LLC, which began in January of 2016. The annual rent to be paid on the two properties will be $0.1 million.

Key Management Compensation

Key management personnel are persons having authority and responsibility for planning, directing, and controlling the activities of the Company. Critical Control has identified key management personnel as directors, executive officers, and department heads.

The following discloses the amounts recognized as expense during the year related to directors and key management personnel compensation:

For the years ended December 31, ($ thousands)	2015	2014
Salaries and benefits	**1,174**	1,370
Share-based payments	**163**	27
	1,337	1,397

In 2015, key management personnel left the Corporation as part of the restructuring resulting in severance packages of $0.8 million for these individuals to be paid in monthly installment over the course of the next year. As at December 31, 2015, an outstanding balance of $0.4 million (December 31, 2014: $Nil) relates to unpaid severance.

Legal Entities

The following is a list of active legal entities through which Critical Control conducts its operations, all are 100% owned:

Entity	Principal activity	Country of Incorporation
Critical Control Energy Service Inc.	Software	Canada
CriticalControl, Inc.	Holding company	United States
Gas Analytical Services, Inc.	Software and Services	United States

On October 30, 2015, CriticalControl Solutions Inc. amalgamated with CriticalControl Energy Services Inc. to form Critical Control Energy Services Inc.

22. EXPENSES BY NATURE

The Corporation presents certain expenses in the consolidated statements of operations and comprehensive income (loss) by function. The following table presents those expenses by nature:

For the years ended December 31, ($ thousands)	2015	2014
Expenses		
Salaries, subcontractors, and benefits	**21,981**	17,075
Material and supplies	**7,597**	9,359
External services and facilities	**8,114**	5,582
Share-based payment	**333**	192
	38,025	32,208
Allocated to:		
Operating expense	**25,459**	21,756
General and administrative	**12,566**	10,452
	38,025	32,208
Foreign exchange		
Foreign exchange - realized	**(987)**	26
Foreign exchange - unrealized	**(168)**	(581)
	(1,155)	(555)
Finance costs		
Bank related charges	**186**	157
Interest on bank indebtedness	**240**	93
Interest on long-term debt	**102**	206
Deferred financing costs on long-term debt	**27**	44
	555	500

23. OTHER EXPENSES

For the years ended December 31, ($ thousands)	2015	2014
Acquisition related charges	**193**	-
Bargain purchase price	**(464)**	-
Provision of onerous lease	**597**	-
Write-down for inventory obsolescence	**399**	-
Write-down for allowance for doubtful accounts	**1,217**	-
Termination benefits	**2,303**	173
Other non-recurring expenses	**-**	50
	4,245	223

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 $2.3 million (2014: $0.2 million).

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 increased its allowance for doubtful accounts by $1.2 million (2014: less than $0.1 million).

During the year December 31, 2015, Critical Control recognized an inventory write-down of $0.4 million due to the downturn in the exploration market (2014: $Nil). The write-down was recognized as an expense in the consolidated statement of operations and comprehensive income (loss) for the year. At December 31, 2015, there were no reversals of previously written-down amounts.

24. SUPPLEMENTAL INFORMATION

Change in non-cash working capital balances:

For the years ended December 31, ($ thousands)	2015	2014
Accounts receivable	**(2,503)**	(843)
Unbilled revenue	**165**	(85)
Inventory	**600**	(748)
Prepaid expenses	**1,229**	60
Accounts payable and accrued liabilities	**199**	844
Deferred revenue	**(1,390)**	(43)
Provisions	**165**	(20)
	(1,535)	(835)

25. SUBSEQUENT EVENTS

Acquisition of SCADAVIEW

Effective February 10, 2016, the Corporation acquired, through its subsidiary, Critical Control Energy Service Inc., certain assets of ScadaView Data (Canada) Corp. of Calgary, Alberta related to field data capture. The purchase price was $0.1 million, of which 20% was paid in February 2016 with the remainder to be paid October 1, 2016. The net assets will be allocated to the Software operating segment.

26. CHANGE IN PRESENTATION

Critical Control has changed the presentation of statement of operations and comprehensive income (loss) to improve disclosure of the Corporation's operations. The change has resulted in the reclassification of certain revenue and expenses. The change in presentation has been applied retroactively.

The table below summarizes the movement of the revenue and expenses:

For the year ended December 31, 2014 ($ thousands)	Note	Reported	Adjustment	Revised
Revenue		35,386		35,386
Operating expenses		22,871		21,756
	a		(754)	
	b		(485)	
	c		124	
General and administration		11,600		10,452
	a	-	(1,518)	
	b		485	
	c		(124)	
	d		18	
	e		(9)	
Research and development		1,371		1,371
Depreciation and amortization	a	-	754	2,272
	a		1,518	
Foreign exchange	f	-	(555)	(555)
Gain on sale of property and equipment	g	-	(7)	(7)
Other expenses	g	216	7	223
		36,058		35,512
		(672)		(126)
Finance costs	d	(46)	(18)	500
	e		9	
	f		555	
		(626)		(626)
Income taxes (recovery)		(20)		(20)
		(606)		(606)
Loss (gain) from discontinued operations		617		617
Net loss		(1,223)		(1,223)

(a) Depreciation and amortization

Depreciation and amortization previously within cost of revenue and selling and administration has been disclosed separately to improve visibility and disclosure.

(b) Office leases

A portion of the operating leases for locations in Canada and the United States was allocated to cost of revenue. This has been reclassified to general and administration to improve disclosure of the direct expenditure, and external services and facilities expenditures.

(c) Operations supervisors

Operations supervisors previously treated as administration have been reclassified from selling and administration to operating expense to better reflect the direct expenditure costs.

(d) Accounts receivable impairment

Accounts receivable impairment previously in finance costs have been reclassified to general and administrative expense.

(e) Deferred finance costs

Deferred finance costs previously in selling and administrative expenses were reclassified to finance costs.

(f) Foreign exchange

Foreign exchange previously in finance costs have been reclassified to its own financial statement line item to improve disclosure.

(g) Gain on disposal of property and equipment

Gain on disposal of property and equipment previously in other expenses have been disclosed separately.

27. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out in this note have been applied consistently to all periods presented in these consolidated financial statements. The accounting policies have been applied consistently by the Corporation.

Basis of Consolidation

The consolidated financial statements include the accounts of Critical Control and its subsidiaries, all of which are wholly-owned. Any reference to Critical Control or the Corporation throughout these consolidated financial statements refers to Critical Control and its subsidiaries. All intercompany transactions between Critical Control and each of its wholly-owned subsidiaries have been eliminated.

Business combinations

The Corporation measures goodwill as the fair value of the consideration transferred less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in earnings. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred. Any contingent consideration payable is measured at fair value at the acquisition date. If the contingent consideration is classified as equity, then it is not re-measured and settlement is accounted for within equity. Otherwise, subsequent changes in the estimate of the contingent consideration to be paid are recognized in earnings.

Subsidiaries

Subsidiaries are entities controlled by the Corporation. The Corporation controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial results of subsidiaries are included in the consolidated financial statements from the date that control commenced until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Corporation.

Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

Foreign currency

Foreign currency transactions

Transactions in foreign currencies are translated into the functional currency of the applicable entity at the exchange rate in effect at the time of the transaction. Monetary items are then re-translated into the entity's functional currency at each reporting period at the exchange rates in effect at the statements of financial position date. Non-monetary items are not re-translated. Revenues and expenses denominated in foreign currency are translated at rates in effect at the time of the transactions. Gains and losses on foreign currency transactions are included as a separate line item in the consolidated statements of operations and comprehensive income (loss).

Foreign currency translation

The Corporation's non-Canadian operations have functional currencies that differ from the Canadian dollar and, therefore, assets and liabilities are translated into Canadian dollars at the exchange rates in effect at the statements of financial position date and revenues and expenses are translated at the average exchange rates for the relevant period. Translation gains or losses are included in other comprehensive income. When the settlement of an intercompany receivable from or intercompany payable to a foreign operation is neither planned nor likely foreseeable in the future, foreign exchange gains or losses arising on the translation of those intercompany balances is considered a part of the net investment in the foreign operation and are recognized in other comprehensive income.

Cash and cash equivalents

Cash and cash equivalents are comprised of cash at bank and cash in hand, including offsetting bank overdrafts, short-term investments, and similar instruments that have a maturity of three months or less at the date of acquisition. In reporting periods where bank overdrafts exceed cash and cash equivalents, the balance will be referred to as bank indebtedness.

Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is calculated on a specific identification or first-in first-out basis and includes expenditures incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Property and equipment

Recognition and measurement

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment. Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment and are recognized net within other operating expenses.

Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment (repairs and maintenance) are charged to earnings as incurred.

Depreciation

Depreciation is calculated based on the depreciable amount, which is the cost of an asset less its residual value. Depreciation is charged to earnings, from the date assets are installed and ready for use, either on a straight-line or declining balance basis, over the estimated useful lives of each part of an item of property and equipment. The methods and rates of depreciation are as follows:

Building	declining balance 20%
Leasehold improvements	straight-line over lease term
Computer hardware	declining balance at 30% to 50%
Office and operating equipment	declining balance at 30%, or straight-line over three years
Vehicles	declining balance at 30%

Leased assets

Leases where the Corporation assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition, each leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases, and the leased assets are not recognized in the Corporation’s consolidated statement of financial position.

Intangible assets

Goodwill

Goodwill that arises upon the acquisition of a business is included in intangible assets. Goodwill is measured at cost less accumulated impairment losses and is not amortized.

Software, non-compete agreements, and customer relationships and contracts

Software, non-compete agreements, and customer relationships and contracts are measured at cost less accumulated amortization and accumulated impairment losses. Amortization is calculated based on the cost of the asset less its residual value. Amortization of non-compete agreements and customer relationships and contracts is charged to earnings on a straight-line basis over the estimated useful lives of the underlying contracts, agreements, or relationships, which range from 5 to 15 years. Amortization of software is charged to earnings on a declining balance basis at a rate of 50%, except for software acquired in relation to acquisitions, which is amortized on a straight line basis over periods ranging from 2 to 7 years. For all intangible assets other than goodwill, amortization is charged from the date the assets are available for use, and the rates used are those that most closely reflect the expected pattern of consumption of the future economic benefits embodied in the assets. Amortization methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are charged to earnings as incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Corporation intends to and has sufficient resources to complete development and to use or sell the asset. Amortization of product development costs is charged to earnings on a straight line basis over three years from the date the assets are available for use.

Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific intangible asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, are charged to earnings as incurred.

Impairment

Receivables

The Corporation considers evidence of impairment for receivables primarily at a specific level, but also at a collective level. Losses are recognized in earnings and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through earnings.

Non-financial assets

The carrying amounts of the Corporation's non-financial assets, other than current assets and tax related assets, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the recoverable amount of the asset or cash-generating unit is estimated. For goodwill, the recoverable amount is estimated each year at December 31.

The recoverable amount of an asset or CGU is the greater of its value-in-use and its fair value less costs to sell. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or CGU. Goodwill acquired in a business combination is allocated to the group of CGUs that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level that goodwill is monitored for internal reporting purposes.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (or group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost. A provision for an onerous contract is recognized when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Common shares

Common shares are classified as equity. Costs directly attributable to the issue of common shares are recognized as a reduction of equity, net of any tax effects.

Earnings per share

The Corporation presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the earnings attributable to common shareholders by the weighted average number of common shares outstanding during the period. Diluted EPS is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

Revenue Recognition

The Corporation derives revenues primarily from providing solutions to clients in energy sector. The Corporation's solutions for each sector are comprised of services, maintenance and support, third party hardware, software and equipment sales, and the fabrication and assembly of gas measurement and related equipment. Each component of the Corporation's solutions has specific revenue recognition policies, and revenue is only recognized when it is probable that the revenue will be received, the revenue can be measured reliably, and the costs are identifiable and can be measured reliably.

Services include data entry, technology solutions, and outsourcing as well as the Corporation's solutions to the energy sector, some of which are dependent on the Corporation's proprietary applications and data sets. Revenue related to Services is recognized as the services are performed. Amounts invoiced in advance of work performed are recorded as unearned revenue, and revenue recognized in advance of being invoiced is recorded as unbilled revenue.

Revenue related to agreements for maintenance and support is recognized on a straight-line basis over the term of the agreement.

Sales of third-party hardware and software applications and revenue from the fabrication, assembly, and sale of gas measurement and related equipment are generally recognized upon delivery, provided the following criteria are met:

- there is no continuing management involvement over the goods to the degree usually associated with ownership; and
- the significant risks and rewards of ownership have been transferred to the customer and there is no effective control over the goods.

The Corporation uses the percentage of completion method to account for long-term implementation contracts in the Software operations. Total actual costs are compared to total expected costs to evaluate the percentage completion of the relevant project. This percentage is then applied to the expected revenue of the project. This method of accounting for contracts requires the Corporation to make estimates regarding the total costs of the project, progress against the project schedule and the estimated completion date, all of which impact the amount of revenue and gross margin recognized in each reporting period. Senior management reviews these estimates at each reporting period.

Lease payments

Payments made under operating leases are recognized in earnings on a straight-line basis over the term of the lease. Lease incentives/inducements received are recognized as an integral part of the total lease expense over the term of the lease. Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Employee benefits

Termination benefits

Termination benefits are recognized as an expense when the Corporation's entities can no longer withdraw the offer of these benefits. The termination benefits may be recognized earlier when the Corporation recognizes costs for restructuring that are within the scope of IAS 37 Provisions, Contingent Liabilities and Contingent Assets.

Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related services are provided. A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if there is a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Share-based payment transactions

The measurement date fair value of equity-settled share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees become entitled to the awards (vesting period). The amount recognized as an expense is adjusted to reflect the number of awards for which the related service vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that meet the related service conditions at the vesting date.

Income taxes

Income tax expense is comprised of current and future tax. Tax is recognized in the consolidated statements of operations and comprehensive income (loss) except to the extent that it relates to items recognized in other comprehensive income or equity on the statements of financial position.

Current tax

Current tax is calculated using tax rates which are enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations are subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to taxation authorities.

Deferred tax

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is determined using tax rates which are enacted or substantively enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred tax liabilities are generally recognized for all taxable temporary differences, except for temporary differences that arise from goodwill, which is not deductible for tax purposes. Deferred tax liabilities are also recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future.

Deferred tax assets are recognized to the extent it is probable that taxable profits will be available against which the deductible balances can be utilized. All deferred tax assets are analyzed at each reporting period and reduced to the extent that it is no longer probable that the asset will be recovered. Deferred tax assets and liabilities are not recognized with respect to temporary differences that arise on initial recognition of assets and liabilities acquired other than in a business combination.

Uncertain tax positions

The Corporation is subject to taxation in numerous jurisdictions. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Corporation maintains provisions for uncertain tax positions that it believes appropriately reflect its risks with respect to tax matters under active discussion, audit, dispute, or appeal with tax authorities or which are otherwise considered to involve uncertainty. These provisions are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Corporation reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were initially recorded, such differences will affect the tax provisions in the period in which such determination is made.

Financial instruments and hedge accounting

The Corporation's financial instruments consist of cash and cash equivalents, accounts receivable, bank indebtedness, accounts payable and accrued liabilities, and long-term debt.

Financial instruments – recognition and measurement

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as "financial asset or financial liability at fair value through profit or loss", "available-for-sale financial asset", "held-to-maturity investment", "loans and receivables", or "financial liabilities measured at amortized cost".

A "financial asset or financial liability at fair value through profit or loss" is classified in this category if it is acquired for the purpose of selling or repurchasing in the short term. The Corporation currently has no "financial assets or financial liabilities at fair value through profit or loss". Changes in fair value are recognized in financing costs in the consolidated statements of operations and comprehensive income (loss).

The Corporation currently has no "available-for-sale financial assets", which must be re-measured to fair value at each period and the change in fair value would be recognized in other comprehensive income.

The Corporation currently has no "held-to-maturity investments". "Held-to-maturity investments" are non-derivative financial assets with fixed or determinable payments and fixed maturities that are intended to be held to maturity. These financial instruments are measured at amortized cost using the effective interest method, less impairment.

"Loans and receivables" are non-derivative financial assets with fixed or determinable payments and are not quoted on the active market and consist of cash and cash equivalents and accounts receivable. "Loans and receivables" are initially recognized at the amount expected to be received and are subsequently measured at amortized cost using the effective interest method, less a specific provision for impairment.

The Corporation's "financial liabilities measured at amortized cost" consist of bank indebtedness, accounts payable and accrued liabilities, and long-term debt. They are recognized at amortized cost, using the effective interest rate method, at each reporting period, net of transaction costs directly attributable to the issuance of the long-term debt. Transaction costs related to the issuance of any long-term debt are netted against the carrying value of the associated long-term debt and amortized as part of financing costs over the life of that debt using the effective interest rate method.

Segment reporting

An operating segment is a component of the Corporation that engages in business activities from which it may earn revenues and incur expenses. The operating results of all operating segments for which discrete financial information is available are reviewed regularly by executive management to make decisions about resources to be allocated to the segments and assess their performance. Segment results that are important to executive management generally include items directly attributable to a segment. Unallocated items include corporate assets, head office expenses, public company costs, interest, unrealized foreign exchange, and other expenses not directly attributable to operating segments.

28. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards and amendments to existing standards have been issued by the International Accounting Standards Board (IASB) that are effective after December 31, 2015, and, therefore, have not been applied to the consolidated financial statements. These new standards and amendments and their anticipated impact on Critical Control's consolidated financial statements once they are adopted are as follows:

IFRS 9 - Financial Instruments: IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models for debt instruments in IAS 39 – Financial Instruments – Recognition and Measurement (IAS 39) with a new measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and related dividends which will now limit recognition to fair value through profit or loss or at fair value through other comprehensive income.

Requirements for financial liabilities were also added in October 2010 but they largely carried forward existing requirements in IAS 39, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

The standard is required to be applied for years beginning on, or after, January 1, 2018. The Corporation is currently assessing the impact of adopting this standard on the consolidated financial statements and consolidated financial statements.

IFRS 15 – Revenue from Contracts with Customers: IFRS 15 replaces the previous guidance on revenue recognition and provides a framework to record revenue from contracts for the sale of goods or services, unless the contracts are in the scope of IAS 17 – Leases or other IFRS standards. Under IFRS 15, revenue is to be recognized to depict the transfer of goods or services in an amount that reflects the consideration to which the entity expects to be entitled following five steps:

1. Identify the contract with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognize revenue when (or as) the entity satisfies a performance obligation

The new standard is effective for annual periods beginning on or after January 1, 2018, using either a full retrospective approach for all periods presented in the period or a modified retrospective approach. The Corporation is currently evaluating the impact of the new standard.

IFRS 16 – Leases: IFRS 16 replaces the previous guidance on lease recognition and establishes principles for recognition, measurement, presentation and disclosure of leases, with the objective of ensuring that lessees and lessors provide relevant information that faithfully represents those transactions. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, will remain largely unchanged.

The amendments are effective for annual periods beginning on or after January 1, 2019, with early application permitted if IFRS 15 – Revenue from Contracts with Customers, has also been applied. The Corporation is currently assessing the impact of the amendment on its consolidated financial statements.

29. COMPARATIVE FIGURES

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