CRITICAL CONTROL

Q1 2016

Management Discussion & Analysis

Critical Control Energy Services Corp.

March 31, 2016

The discussion and analysis of the financial condition and results of operations of Critical Control Energy Services Corp. is prepared as at May 13, 2016 and should be read in conjunction with the unaudited condensed consolidated interim financial statements of Critical Control Energy Services Corp., and the notes thereto, for the three months ended March 31, 2016 and with the audited consolidated financial statements of Critical Control Energy Services Corp., and the notes thereto, for the year ended December 31, 2015.

All financial information is presented in thousands of Canadian dollars, except share and per share data, and where otherwise indicated.

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis (MD&A) of the financial condition and results of operations is intended to help the reader understand the current and prospective financial position and operating results of Critical Control Energy Services Corp. ("Critical Control" or the "Corporation"). The MD&A discusses the operating and financial results for the three months ended March 31, 2016, is dated May 13, 2016, and takes into consideration information available up to that date. The MD&A is based on the unaudited consolidated interim financial statements of Critical Control for the three months ended March 31, 2016. The MD&A should be read in conjunction with the unaudited consolidated interim financial statements and related notes for the three months ended March 31, 2016, and the annual consolidated financial statements and related notes for the year ended December 31, 2015, prepared in accordance with International Financial Reporting Standards (IFRS).

Additional information is available on Critical Control's website (www.criticalcontrol.com) and all previous public filings, including this most recent filed Annual Report and Annual Information Form, are available through SEDAR (www.sedar.com).

All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified. All amounts are stated in thousands unless otherwise identified.

FORWARD-LOOKING STATEMENTS

The MD&A contains certain forward-looking statements relating to the Corporation's plans, strategies, objectives, expectations and intentions. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "believe", "plans", "intends", "confident", "might" and similar expressions are intended to identify forward-looking information or statements. Various assumptions were used in drawing the conclusions or making the projections contained in the forward-looking statements throughout this MD&A. The forward-looking information and statements included in this MD&A are not guarantees of future performance and should not be unduly relied upon. Forward-looking statements are based on current expectations, estimates, and projections that involve a number of risks and uncertainties, which could cause actual results to differ materially from those anticipated and described in the forward-looking statements. Such information and statements involve known and unknown risks, uncertainties, and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking information or statements.

In particular, but without limiting the foregoing, this MD&A may contain forward-looking information and statements pertaining to the fluctuations in the demand for the Corporation's services; the ability for the Corporation to attract and retain qualified personnel; the existence of competitors; technological changes and developments; the existence of operating risks inherent in the oil and gas services industry; assumptions regarding foreign currency exchange rates and interest rates; the existence of regulatory and legislative uncertainties; the possibility of changes in tax laws and general economic conditions including the capital and credit markets; assumptions made about future performance and operations of the joint venture arrangement. The Corporation cautions that the foregoing list of assumptions, risks, and uncertainties is not exhaustive. The forward-looking information and statements contained in this MD&A speak only as of the date of this MD&A and the Corporation assumes no obligation to publicly update or revise them to reflect new events or circumstances, except as may be required pursuant to applicable securities laws.

FINANCIAL HIGHLIGHTS

All results are related to continuing operations unless otherwise identified. All reported numbers have been restated to reflect continuing operations. Please refer to the discontinued operations section for additional information.

For the three months ended March 31, ($ thousands)	2016	2015
Recurring [1]	**7,446**	5,774
Non-recurring [1]	**1,677**	3,705
Total revenue	**9,123**	9,479
Gross margin [1]	**3,611**	3,560
Gross margin - percentage [1]	**39.6%**	37.6%
Adjusted EBITDA [1]	**321**	161
EBITDA [1]	**(710)**	504
Loss before discontinued operations	**(1,381)**	(130)
Net (loss) earnings	**(1,381)**	589

Revenue [1]

- Recurring revenue increased by 29% in first quarter of 2016 to $7.4 million from $5.8 million in 2015, driven from the Corporation's acquisition in the United States in the second quarter of 2015 (the "Measurement Services Acquisition). A decrease of revenue from non-recurring equipment and fabrication offset this increase resulting in total revenue decreasing by 3.8% to $9.1 million for first quarter of 2016 compared to $9.5 million in 2015.
- The Corporation's Software segment revenue remained consistent in the first quarter of 2016 compared to 2015 at $4.6 million of which $4.3 million of this was recurring revenue. Despite declines from a large number of shut-in wells affecting recurring revenue, growth was driven from continued penetration of the Corporation's products in Canada and the United States, as well as certain customers acquired with the Measurement Services Acquisition.
- Revenue from the Corporation's Services business, based in the United States, in the first quarter of 2016 was $4.5 million compared to $4.8 million in 2015. Recurring revenue increased 95.8% in the quarter related to growth derived primarily from the Measurement Services Acquisition. Non-recurring revenue in the Corporation's Services business decreased $2.2 million due to a decrease in equipment and fabrication sales.

Gross margin [1]

- Overall, gross margin increased from 37.6% in the first of quarter 2015 compared to 39.6% in the first quarter of 2016 due to improved margins in the Services business which increased from 21.1% in 2015 to 25.5% in 2016. This increase was due to the increase in recurring revenue which has higher margins than non-recurring revenue from equipment sales and fabrication. Gross margin held steady in Software at 53.4% as efficiencies offset pricing pressures from the industry downturn.

Earnings and net earnings [1]

- The Corporation's $1.4 million loss before discontinued operations for the first quarter of 2016 (2015: $0.1 million) is a result of a primarily unrealized foreign exchange loss of $0.7 million (compared to a $0.4 million gain in first quarter of 2015), increased finance costs of $0.3 million, and certain one-time restructuring costs in other expenses of $0.3 million.

[1] See Non-GAAP measures and additional GAAP measures

OUTLOOK AND GUIDANCE

This Outlook and Guidance contains forward-looking statements that the Corporation does not intend, and does not assume any obligation, to update, except as required by law. The forward looking information and statements include:

- The current economic climate and its effect on the Corporation's client base business;
- The price of natural gas and its effect on capital spending and operating budgets of the Corporation's client base;
- The effect of the economy and the price of oil and gas on the Corporation's clients' expenditure plans;
- The demand for value added services that provide additional cost reduction or production optimization for the Corporation's Energy Services client base; and
- Management's assumptions regarding the sustainability of recurring revenue streams and the Corporation's expected profitability.
- Management's outlook and guidance contains forward looking statements of the Corporation's ability to penetrate the US client base with its software and continue its penetration in the Canadian market to offset reduced revenue resulting from the downturn in the industry. These forward looking statements are based on continued acceptance of the Corporation's products and the current price of oil and gas. A further decline in the price of commodities will increase the rate of decline of the Corporation's historic revenue – especially if the continued price or decline results in an acceleration in the shutting in of operating wells. Under such conditions, the Corporation would be at risk of declining revenue.

The decline in the price of oil and gas since late 2014 has materially impacted the Corporation's revenue. Current industry conditions and the resulting lack of liquidity amongst producers has led to a material drop in non-recurring revenue which is expected to continue through 2016.

These same conditions have impacted the Corporation's recurring revenue base with bankruptcies, shut in wells and competitive price concessions. Notwithstanding the forgoing, the Corporation has further penetrated its client base with its software solutions to keep recurring revenue in line with 2015 levels and expects to continue this trend through 2016.

The Corporation expects recurring revenue from its Services division to continue being impacted for the remainder of 2016, given the lack of well site activity.

The Corporation's internal business process reengineering and reorganization, commenced in 2015, continued into 2016. As of May 2016, the material portion of the Corporation's planned changes have been completed. While some benefit is evident in Q1 2016, the Corporation expects a greater benefit from these changes in the second half of 2016. This expectation is based on the current state of the industry and the continued success the Corporation has had in maintaining and growing its revenue base. Commodity prices are unpredictable and a material change will affect management's expectations for profitability.

NON-GAAP MEASURES AND ADDITIONAL GAAP MEASURES

Throughout this document, reference is made to "gross margin", "working capital", and "adjusted EBITDA", which are all non-IFRS measures. Management believes that gross margin, defined as revenue less operating expenses, is a useful supplemental measure of operations. Management believes that working capital, defined as current assets less current liabilities, is an indicator of the Corporation's liquidity and its ability to meet its current obligations. Management believes that Adjusted EBITDA, which normalize earnings to exclude certain amounts, is a useful measure for comparing results from one period to another. Readers are cautioned that these non-IFRS measures may not be comparable to similar measures used by other companies. Readers are also cautioned not to view these non-IFRS financial measures as an alternative to financial measures calculated in accordance with International Financial Reporting Standards ("IFRS").

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying consolidated financial statements, and has, in place, appropriate information systems, procedures, and controls to ensure that information used internally by management and disclosed externally is materially complete and reliable. In addition, Critical Control's Audit Committee, on behalf of the Board of Directors, provides an oversight role with respect to all public financial disclosures made by the Corporation and has reviewed and approved this MD&A and the accompanying consolidated financial statements.

SCADAVIEW ACQUISITION

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

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 of December 15, 2015. The net assets acquired have been allocated to the Services operating segment.

DISCONTINUED OPERATIONS

On March 12, 2015, the Corporation announced the sale of a portion of its Service Bureau Operations, specifically the operations based in Quebec, Ontario, and Manitoba, for gross proceeds of $1.0 million under an asset sale. On March 27, 2015, the Corporation announced closing of the sale of another component of its Service Bureau Operations, specifically the operations consisting of reselling imaging equipment, preventative maintenance contracts and third party document imaging software, for gross proceeds of $1.7 million. On May 4, 2015, the Corporation announced the sale of the final component of its Service Bureau Operations, specifically the operations based in 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 obligation that was assumed by the purchaser and certain assets that are recoverable from the purchaser.

Through the series of transactions noted above, the Corporation 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 Corporate's key competencies – being the Energy Services businesses in Canada and the US. The Service Bureau Operations segment was not previously classified as held-for-sale or as discontinued operations, but has been classified as such for the three months ended March 31, 2015.

CORPORATE PROFILE

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. All of the Corporation’s identifiable assets are located in Canada and the United States. Critical Control is a publicly-traded company listed on the Toronto Stock Exchange (“TSX”) under the symbol “CCZ”.

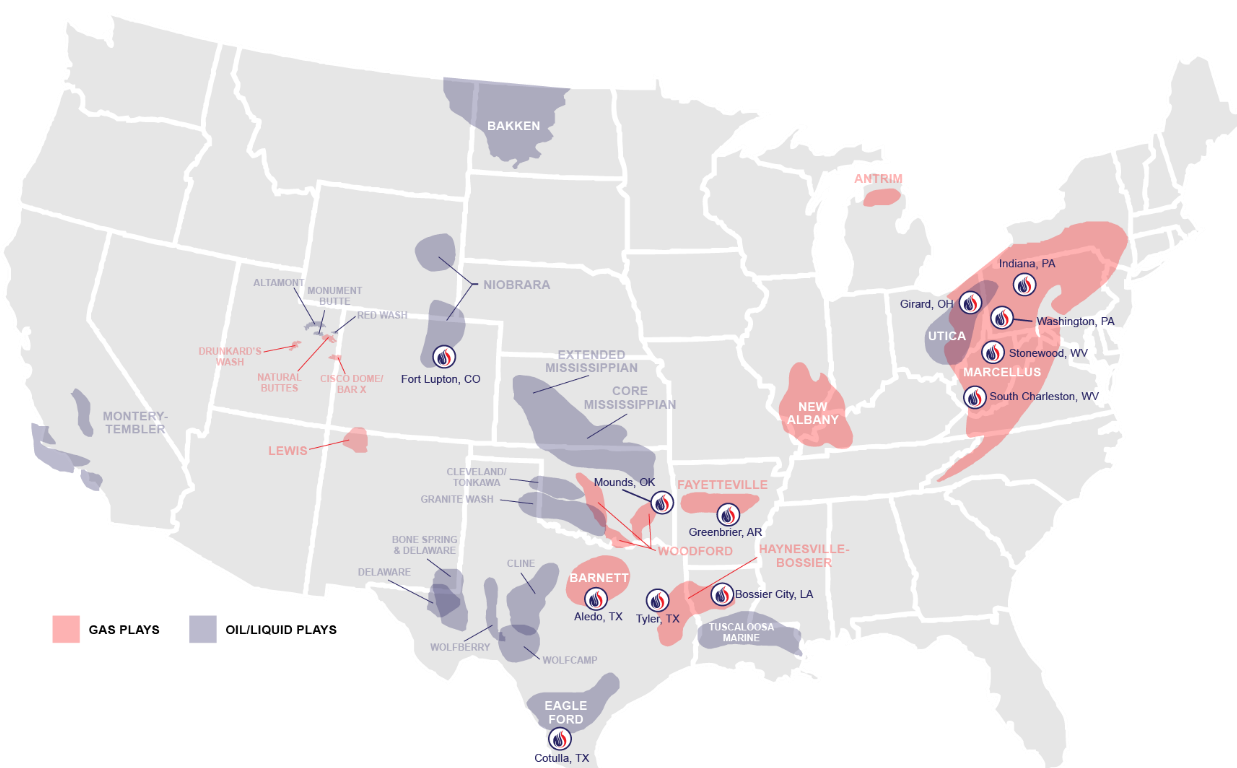
The reportable segments are managed separately because of the unique characteristics and requirements of each business.

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.
- ***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.



OPERATIONAL HIGHLIGHTS

For the three months ended March 31, ($ thousands)	2016	2015
Software (CND$)		
Recurring [1]	**4,325**	4,352
Non-recurring [1]	**297**	338
Total revenue	**4,622**	4,690
Gross margin [1]	**2,464**	2,549
Gross margin - percentage [1]	**53.3%**	54.3%
Services (CND$)		
Recurring [1]	**3,121**	1,422
Non-recurring [1]	**1,380**	3,367
Total revenue	**4,501**	4,789
Gross margin [1]	**1,147**	1,011
Gross margin - percentage [1]	**25.5%**	21.1%
Services (US$)		
Recurring [1]	**2,244**	1,146
Non-recurring [1]	**996**	2,717
Total revenue	**3,240**	3,863
Gross margin [1]	**827**	751
Gross margin - percentage [1]	**25.5%**	19.4%

RESULTS OF OPERATIONS

Software

For the three months ended March 31, ($ thousands)	2016	2015
Recurring [1]	**4,325**	4,352
Non-recurring [1]	**297**	338
	4,622	4,690
Operating expense	**2,158**	2,141
Gross margin [1]	**2,464**	2,549
Gross margin - percentage [1]	**53.3%**	54.3%

Software generated revenue for the first quarter of 2016 of $4.6 million compared to $4.7 million in 2015. The decrease of 1.4% is related to non-recurring revenue fluctuations. Measurement data management revenue remains consistent at $3.5 million in the first quarter of 2016, with growth offsetting well shut-ins.

The gross margin percentage continues to be maintained at 53.4%. This is due to management's monitoring of costs and product line revenues.

[1] See Non-GAAP measures and additional GAAP measures

Services

For the three months ended March 31, (CND$ thousands)	2016	2015
Recurring [1]	3,121	1,422
Non-recurring [1]	1,380	3,367
	4,501	4,789
Operating expense	3,354	3,778
Gross margin [1]	1,147	1,011
Gross margin - percentage [1]	25.5%	21.1%

For the three months ended March 31, (US$ thousands)	2016	2015
Recurring [1]	2,244	1,146
Non-recurring [1]	996	2,717
	3,240	3,863
Operating expense	2,413	3,112
Gross margin [1]	827	751
Gross margin - percentage [1]	25.5%	19.4%

Services generated revenue for the three months ended March 31, 2015 of $4.5 million compared to $4.8 million in 2015, an decrease of 6.0%.

Due to the impact of foreign exchange translation in relation to foreign currency fluctuations, financial results for US operations have been provided in both Canadian and US dollars.

Services generated revenue for the three months ended March 31, 2016 of US$3.2 million compared to US$3.8 million in 2015, a decrease of 16.1%. Recurring revenue increased 95.8% from US$1.1 million to US$2.2 million, offset by a decrease in non-recurring revenue from US$2.7 million in 2015 to US$1.0 million in 2016. The increase in recurring revenue is related to the growth in operations and offices from the Measurement Services Acquisition in the second quarter of 2015. The decrease in non-recurring revenue is attributed to a decreased number of fabrication projects with Appalachian producers in 2016. New non-recurring revenue has been materially impacted due to prevailing industry conditions.

Recurring revenue is comprised of US$1.4 million (2015: US$0.8 million) from gas measurement field services and US$0.8 million (2015: US$0.3 million) from gas and liquid analysis. Non-recurring revenue is comprised of equipment sales and fabrications projects.

Gross margin percentage increased from 19.4% to 25.5%. The increase is attributed to the restructuring of the Services operations, managements monitoring of expenditures, and the recurring revenue having higher margins than non-recurring revenue.

[1] See Non-GAAP measures and additional GAAP measures

GENERAL AND ADMINISTRATION

For the three months ended March 31, ($ thousands)	2016	2015
General and administrative less share-based payment	**2,923**	2,951
Share-based payment	**48**	73
General and administrative	**2,971**	3,024

For the three month ended March 31, 2016, total general and administrative expenses remained consistent at $2.9 million, compared to 2015. Administrative expenses have decreased $0.5 million from $1.5 million to $1.0 million, and is the result of the restructuring done throughout 2015. The decrease is offset by an increase in office leases due to the expansion of operations from the Measurement Services Acquisition from five to twelve offices across the United States.

Share-based payment expense increased by less than $0.1 million in the current quarter compared to 2015. The increase is related to Deferred Share Units issued in 2015.

RESEARCH AND DEVELOPMENT

For the three months ended March 31, ($ thousands)	2016	2015
Research and development	**582**	623
Less:		
Capitalized research and development costs	**215**	175
Research and development	**367**	448

The Corporation continues its research and development initiatives in 2016 to increase the functionality that Software clients derive from the Corporation's products. The Corporation's accounting policies for research and development require capitalization of product development expenditures that meet specific criteria as set out in Note 27 to the December 31, 2015 annual audited consolidated financial statements.

ProMonitor – In 2013, the Corporation embarked on a project to develop a new pipeline risk and measurement schematic product based on existing solutions acquired in previous acquisitions. The pipeline risk component uses proprietary risk scoring algorithms to account for a wide variety of internal, external, and topographical factors to develop a risk score. The measurement schematics component produces database driven schematics and GIS maps for upstream facilities. Both solutions utilize a common web-enabled front-end; and both integrate the same public and private data sources. The project continued into 2015 and new versions of the software were released in August 2015 and February 2016, with numerous improvements, enhancements, and functionality.

ProTrend – In 2015, the Corporation embarked on a project to develop a new version of its existing ProTrend application. The updated application will have new functionality as well as a modern, easy-to-use web interface for both desktop and mobile users.

DEPRECIATION AND AMORTIZATION

For the three months ended March 31, ($ thousands)	2016	2015
Depreciation	**255**	169
Amortization	**316**	373
Depreciation and amortization	**571**	542

For the three months ended March 31, 2016, depreciation expense increased by $0.1 million or 50.9% compared to 2015. The increase in depreciation is related to the increase of property and equipment acquired from the Measurement Service Acquisition and the fluctuation in the strength of the US dollar compared to the Canadian dollar.

Amortization expense, which relates to the intangible assets, decreased $0.1 million or 16.4%. The decrease relates to the timing of amortization of certain customer relationships and non-compete agreements.

FOREIGN EXCHANGE

For the three months ended March 31, ($ thousands)	2016	2015
Foreign exchange - realized	**14**	30
Foreign exchange - unrealized	**713**	(463)
Foreign exchange	**727**	(433)

For the three months ended March 31, 2016, Critical Control recorded a foreign exchange loss of $0.7 million compared to a gain of $0.4 million in 2015. Foreign exchange gains and losses are the result of foreign currency fluctuations during the period and the timing of when items are settled.

Foreign exchange gains and losses fluctuate quarterly in relation to changes in the US/Canadian exchange rate. Intercompany advances of a current nature between the Corporation and its US subsidiaries, net of the Corporation’s loans and borrowings denominated in US dollars, have the most significant impact on foreign exchange gains and losses.

FINANCE COSTS

For the three months ended March 31, ($ thousands)	2016	2015
Bank related charges	**106**	34
Interest on bank indebtedness	**146**	29
Interest on long-term debt	**41**	33
Deferred financing costs on long-term debt	**7**	7
Finance costs	**300**	103

For the three months ended March 31, 2016, financing costs increased by $0.2 million, or 191.3%, compared to 2015. The increase was mainly driven by increased debt levels. The Corporation borrowed from its credit facilities primarily in relationship to the Measurement Services Acquisition and the corporate restructuring in 2015.

OTHER EXPENSES

For the three months ended March 31, ($ thousands)	2016	2015
Acquisition related charges	**11**	13
Provision of onerous lease	**61**	-
Termination benefits	**191**	4
Other expenses	**263**	17

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 $0.2 million in 2016 (2015: less than $0.1 million).

In the first quarter of 2016, the lease located in Fort Lupton, CO was added as an onerous lease as a change in estimate to the provision.

NET EARNINGS, TOTAL COMPREHENSIVE INCOME (LOSS), AND CASH FLOWS

For the three months ended March 31, ($ thousands)	2016	2015
Adjusted EBITDA [1]	**321**	161
EBITDA [1]	**(710)**	504
Loss before discontinued operations	**(1,381)**	(130)
Net (loss) income	**(1,381)**	589
Total comprehensive income (loss)	**(1,509)**	1,187
Funds (used in) provided by continuing operations [1]	**(92)**	80
Cash flow (used in) provided by continuing operations	**1,762**	545

For the three months ended March 31, 2016, the Corporation's net loss of $1.3 million (compared to net income of $0.6 million in 2015) was impacted materially by $0.7 million in unrealized foreign exchange loss (2015: $0.5 million gain), and charges associated with the Corporation's restructuring.

Adjusted EBITDA increased from $0.2 million to $0.3 million due to reduced administrative expenditures offset by increased operating lease expenditures.

The Corporation's funds used in continuing operations of less than $0.1 million in 2016 compared to generating funds provided by continued operations of $0.1 million in 2015. The cash flow was used to fund the operations of the Corporation, repayment of long-term debt, and the payment of the termination benefits.

[1] See Non-GAAP measures and additional GAAP measures

FINANCIAL HIGHLIGHTS - QUARTERLY ANALYSIS

	2016	2015				2014		
($ thousands)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Recurring [1]	**7,446**	7,288	7,900	7,842	5,774	5,630	5,558	5,340
Non-recurring [1]	**1,677**	2,105	2,400	2,905	3,705	3,325	4,842	3,159
Total revenue	**9,123**	9,393	10,300	10,747	9,479	8,955	10,400	8,499
Gross margin [1]	**3,611**	3,580	3,311	4,009	3,560	3,499	4,005	3,370
Gross margin - percentage [1]	**39.6%**	38.1%	32.1%	37.3%	37.6%	39.1%	38.5%	39.7%
Adjusted EBITDA [1]	**321**	118	5	521	161	566	958	462
EBITDA [1]	**(710)**	(176)	(2,631)	(303)	504	636	1,151	542
Net (loss) earnings before discontinued operations	**(1,381)**	(718)	(2,233)	(881)	(130)	(273)	372	(364)
Net (loss) earnings	**(1,381)**	(771)	(2,444)	(897)	589	(1,162)	219	(110)

OPERATIONS HIGHLIGHTS – QUARTERLY ANALYSIS

	2016	2015				2014		
($ thousands)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Software (CND$)								
Recurring [1]	**4,325**	4,226	4,493	4,648	4,352	4,158	4,109	4,124
Non-recurring [1]	**297**	396	379	388	338	419	296	282
Total revenue	**4,622**	4,622	4,872	5,036	4,690	4,577	4,405	4,406
Gross margin [1]	**2,464**	2,327	2,472	2,630	2,549	2,456	2,385	2,305
Gross margin - percentage [1]	**53.3%**	50.3%	50.7%	52.2%	54.3%	53.7%	54.1%	52.3%
Services (CND$)								
Recurring [1]	**3,121**	3,062	3,407	3,194	1,422	1,472	1,449	1,216
Non-recurring [1]	**1,380**	1,709	2,021	2,517	3,367	2,906	4,546	2,877
Total revenue	**4,501**	4,771	5,428	5,711	4,789	4,378	5,995	4,093
Gross margin [1]	**1,147**	1,253	839	1,379	1,011	1,043	1,620	1,065
Gross margin - percentage [1]	**25.5%**	26.3%	15.5%	24.1%	21.1%	23.8%	27.0%	26.0%
Services (US$)								
Recurring [1]	**2,244**	2,294	2,603	2,598	1,146	1,297	1,329	1,113
Non-recurring [1]	**996**	1,282	1,544	2,047	2,717	2,557	4,167	2,643
Total revenue	**3,240**	3,576	4,147	4,645	3,863	3,854	5,496	3,756
Gross margin [1]	**827**	944	328	1,061	751	850	1,419	913
Gross margin - percentage [1]	**25.5%**	26.4%	7.9%	22.8%	19.4%	22.1%	25.8%	24.3%

[1] See Non-GAAP measures and additional GAAP measures

LIQUIDITY AND CAPITAL RESOURCES

Working capital (excluding debt)

As at ($ thousands)	**March 31, 2016**	December 31, 2015	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**1,423**	815	608
Accounts receivable	**9,104**	11,598	(2,494)
Unbilled revenue	**522**	182	340
Inventory	**2,854**	3,179	(325)
Prepaid expenses	**285**	362	(77)
	14,188	16,136	(1,948)
Current liabilities			
Bank indebtedness	**7,169**	7,079	(90)
Accounts payable and accrued liabilities	**3,913**	4,361	448
Deferred revenue	**663**	682	19
Current portion of provisions	**704**	811	107
Current portion of deferred lease inducements	**25**	25	-
	12,474	12,958	484
Working capital (excluding debt) (1)	**1,714**	3,178	(1,464)

The key driver of the decrease in working capital (excluding debt) is due the decrease of accounts receivable of $2.5 million related to improved timeliness of the collections of outstanding receivables from its customers, offset by the decrease of $0.4 million in accounts payable and accrued liabilities.

Credit facilities

On April 15, 2016, the Corporation entered into a revised credit facility agreement with its lenders. Significant details of the facility are summarized below.

- A revolving demand operating credit up to $8.5 million. Access to this is limited by the impact of debt levels on financial covenants.
- A committed term loan of $3.0 million to repay the demand term loan of US$1.9 million to fund the Measurement Services Acquisition, and fund future growth in the US market.
- A committed term loan of US$1.7 million to fund repayment of the Corporation's previous bank term loan and unsecured promissory note.

Liquidity

At March 31, 2016, the Corporation had $1.4 million (December 31, 2015: $0.8 million) of cash on hand, and access to a further $0.1 million (December 31, 2015: $1.0 million) available on its secured banking facility to fund ongoing working capital requirements. Access to the amounts available is limited by the impact of debt levels on financial covenants. Management anticipates that its current level of cash flow from operations and access to working capital will be sufficient to meet its existing obligations, but intends to regularly review its level of capital resources and adjust spending accordingly. This review will consider factors such as the current economic environment, changes in demand for the Corporation's services, capital spending requirements, working capital needs, and profitability of the Corporation's operations, any of which could materially affect the Corporation's ability to meet its obligations.

(1) See Non-GAAP measures and additional GAAP measures

Additional financing may be necessary in a variety of circumstances, including the requirement of working capital to ramp up operations required by strong growth, the occurrence of adverse circumstances, or the decisions to expand geographically into new markets or by acquisition. It is anticipated that the financing may be raised by bank debt, other forms of debt, or the issue of equity. It is possible that such financing will not be available, or if available, will not be available on favorable terms.

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 on 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 credit facility agreement requires adherence to certain financial covenants, including a Debt to Capitalization ratio not to exceed 0.36 to 1.00, and 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 March 31, 2016, the Corporation is in compliance with its financial covenants.

COMMITMENTS AND CONTINGENCIES

Commitments

The following table shows the Corporation's financial liabilities and commitments as of March 31, 2016, inclusive of operating leases which reflects the credit facility as revised April 15, 2016:

($ thousands)	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Operating leases	1,942	2,818	2,522	1,738
Accounts payable and accrued liabilities	4,361	-	-	-
Provisions	554	110	-	-
Secured bank term loan ($3.0 million)	-	1,875	1,125	-
Secured bank term loan (US$1.7 million)	951	971	-	-
Secured finance contracts	130	31	-	-
Finance lease liabilities	8	-	-	-
	7,946	5,805	3,647	1,738

The Corporation carries secured bank tern loans of $3.0 million and US$1.7 million. The $3.0 million secured bank term loan matures April 2019 and interest only payments for the first twelve months, with principle payments starting in June 2017 over the remaining four years. The US$1.7 million secured bank term loan matures April 2018 and has repayment terms over the remaining two years. The principal payments in 2016, 2017, and 2018 would be $1.0 million each year.

The demand loan of $2.2 million was repaid on May 9, 2016 and replaced with the $3.0 million secured bank term loan with a guarantee from Export Development Canada (EDC).

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 534 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 411 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.

SHAREHOLDERS' EQUITY

Issued and Outstanding

Number of common shares	Issued
Balance as at December 31, 2014	**57,493,451**
Share-based compensation	**397,776**
Shares issued under Employee Share Purchase Plan	**164,276**
Balance as at December 31, 2015	**58,055,503**
Shares issued under Employee Share Purchase Plan	**31,466**
Balance as at March 31, 2016 and May 13, 2016	**58,086,969**

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. Further details on the DCS are disclosed in Note 13 (a) to the December 31, 2015 consolidated financial statements.

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. Further details on the ESPP are disclosed in Note 13 (b) to the December 31, 2015 consolidated financial statements.

Other share-based compensation

Effective September 27, 2013, the Board also approved the following share-based compensation in relation to the hiring of a senior member of management of 125,000 restricted common shares issued on June 23, 2014 and 125,000 common shares of the Corporation to be issued on September 27, 2016. 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. Further details on the other share-based compensation are disclosed in Note 13 (c) to the December 31, 2015 consolidated financial statements.

SUBSEQUENT EVENTS

On April 15, 2016, the Corporation entered into a revised credit facility agreement with its lender.

Effective April 30, 2016, Critical Control received an EDC Guarantee on the $3.0 million dollar committed term loan plus accrued and unpaid interest calculated at the guaranteed interest for a maximum of one hundred and twenty days of accrued and unpaid interest with the credit facility. The guarantee fee rate is 2.85% per annum on the outstanding principal amount.

On May 9, 2016, the demand term loan was replaced with a $3.0 million committed term loan. This committed term loan matures on April 30, 2019. The Corporation shall make interest only payments for the first twelve months. Beginning in June 2017, the Corporation will start making monthly principal payments.

NON-GAAP MEASURES DEFINITIONS

This MD&A contains references to certain financial measures and associated per share data that do not have any standardized meaning prescribed by IFRS and may not be comparable to similar measures presented by other companies. These financial measures are computed on a consistent basis for each reporting period and include EBITDA, Adjusted EBITDA, Adjusted net earnings, and working capital.

These non-GAAP measures are identified and defined as follows:

"**EBITDA**" is a measure of the Corporation's operating profitability. EBITDA provides an indication of the results generated by the Company's principal business activities prior to how these activities are financed, assets are depreciated and amortized or how the results are taxed in various jurisdictions.

EBITDA is derived from the consolidated statements of operations and comprehensive income (loss) and is calculated as follows:

For the three months ended March 31,		
($ thousands)	**2016**	2015
Loss before discontinued operations	**(1,381)**	(130)
Plus:		
Finance costs	**300**	103
Income taxes (recovery)	**(200)**	(11)
Depreciation and amortization	**571**	542
EBITDA	**(710)**	504

"**Adjusted EBITDA**" is used by management and investors to analyze EBITDA (as defined above) prior to the effect of foreign exchange, other expenses, and share-based payment expense. Adjusted EBITDA is not intended to represent net earnings as calculated in accordance with IFRS. Adjusted EBITDA provides an indication of the results generated by the Corporation's principal business activities prior to how these activities are financed, assets are depreciated, amortized and impaired, the impact of foreign exchange, how the results are taxed in various jurisdictions, effects of share-based payment expenses, and normalized other expenses not recurring in nature.

Adjusted EBITDA is calculated as follows:

For the three months ended March 31,		
($ thousands)	**2016**	2015
EBITDA	**(710)**	504
Plus:		
Share-based payment	**48**	73
Foreign exchange	**727**	(433)
Loss (gain) on sale of asset	**(7)**	-
Other expenses	**263**	17
Adjusted EBITDA	**321**	161

"**Working capital (excluding debt)**" is used by management and the investment community to analyze the operating liquidity available to the Corporation. Working capital (excluding debt) is calculated based on current assets less current liabilities excluding the current portion of long-term debt.

Working capital (excluding debt) is derived from the consolidated statements of financial positions and is calculated as follows:

As at ($ thousands)	**March 31, 2016**	**December 31,** 2015
Current assets	**14,188**	16,136
Less:		
Current liabilities	**15,827**	18,000
Working capital	**(1,639)**	(1,864)
Plus:		
Current portion of long-term debt	**3,353**	5,042
Working capital (excluding debt)	**1,714**	3,178

"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, equipment sales, and fabrication projects.

"Debt to Capitalization ratio" is calculated based on the total outstanding debt divided by the sum of the total outstanding debt plus shareholder's equity.

"Adjusted Debt Service ratio" is calculated based on the annualized repayment of debt plus interest payments divided by the annualized Adjusted EBITDA.

ADDITIONAL GAAP MEASURES DEFINITIONS

"**Funds provided by continuing operations**" is used by management and investors to analyze the funds generated by the Corporation's principal business activities prior to consideration of working capital, which is primarily made up of highly liquid balances. This balance is reported in the Consolidated Statements of Cash Flows included in the cash provided by operating activities section.

"**Gross margin**" is used by management and investors to analyze overall and segmented operating performance. Gross margin is not intended to represent an alternative to net earnings or other measures of financial performance calculated in accordance with IFRS. Operating income is calculated from the consolidated statements of operations and comprehensive income (loss) and from the segmented information contained in the notes to the consolidated financial statements. Gross margin is defined as revenue less operating expenses.

"**Gross margin percentage**" is used by management and investors to analyze overall and segmented operating performance. Gross margin percentage is calculated from the consolidated statements of operations and comprehensive income (loss) and from the segmented information in the notes to the consolidated financial statements. Gross margin percentage is defined as gross margin divided by revenue.

BUSINESS RISKS AND RISK RELATED TO INDUSTRY

The business of Critical Control Energy Services Corp. is subject to risk and uncertainties. Prior to making any investments decisions regarding Critical Control, investors should carefully consider, among other things, the risk described (including risk and uncertainties listed in the Forward-Looking Statements section in this MD&A) and risk factors set forth in the most recent Annual Information Form of the Corporation and the 2015 Management Discussion and Analysis, which are incorporated herein. The Annual Information Form of the Corporation and the 2015 Management Discussion and Analysis have been filed with SEDAR and can be accessed at www.sedar.com.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

Management is responsible for designing disclosure controls and internal controls over financial reporting ("ICFR"), as defined in National Instrument 52-109 Certification of Disclosure in Issuer's Annual and Interim Filings ("52-109"). Management has designed such internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements and other filings in accordance with IFRS. The control framework management used to design ICFR is the Internal Control – Integrated Framework (2013) published by The Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management has concluded that the Corporation's ICFR are not effective due to a material weakness in relation to segregation of duties. Given the limited resources and number of staff, it is not feasible for the Corporation to achieve complete segregation of duties amongst its staff. This creates a risk that inaccurate recording of amounts could be made and not corrected on a timely basis. The result is that the Corporation is highly reliant on the performance of mitigating procedures and management oversight during its financial close process.

In assessing the Corporation's disclosure controls and procedures (DC&P), management concluded that DC&P are not effective due to the material weakness in the Corporation's ICFR.

CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

The preparation of the condensed consolidated interim financial statements requires management to make judgements and estimates that affect the reported amounts of assets, liabilities, income, and expenses. Judgements and estimates are continually evaluated and are based on historical experience and expectations of future events. While judgements and estimates used by Critical Control are believed to be reasonable under current circumstances, actual results could differ. The Corporation has applied significant judgements on a basis consistent with the prior year.

CORPORATE INFORMATION

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President & CEO, Director and Founder

Kevin Lo, B.Sc., MBA, P. Eng
Independent director

Nizar Jaffer Somji, M.Eng, P.Eng
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Officers

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President & CEO, Director and Founder

Bradley Lepla, CPA,CA
Chief Financial Officer

Karim Punja, CFA
Vice President, Operations

Additional information relating to the Corporation is available on SEDAR at www.sedar.com