

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 and nine months ended September 30, 2016, is dated November 9, 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 and nine months ended September 30, 2016. The MD&A should be read in conjunction with the unaudited consolidated interim financial statements and related notes for the three and nine months ended September 30, 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.criticalcontroenergy.com) and all previous public filings, including the most recent filed Annual Information Form and Information Circular, 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. 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.

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Recurring ⁽¹⁾	6,302	7,900	20,039	21,516
Non-recurring ⁽¹⁾	1,276	2,400	4,515	9,010
Total revenue	7,578	10,300	24,554	30,526
Gross margin ⁽¹⁾	3,100	3,311	9,901	10,880
Gross margin - percentage ⁽¹⁾	40.9%	32.1%	40.3%	35.6%
Adjusted EBITDA ⁽¹⁾	534	5	1,443	687
EBITDA ⁽¹⁾	571	(2,631)	79	(2,430)
Net earnings (loss) before discontinued operations	330	(2,233)	(1,485)	(3,244)
Net earnings (loss)	330	(2,444)	(1,580)	(2,752)

Revenue ⁽¹⁾

- Overall revenue fell by 20.2% in the third quarter compared to the same period in 2015 as a direct result of the impact from reduced exploration, reduced well site activity and shut in wells in both Canada and the United States.
- Year-to-date revenue for 2016 compared to 2015 is lower by 6.9%. The impact of the industry downturn in the year-to-date comparative is slightly offset by the increase in revenue from the Corporation's acquisition in the United States in the second quarter of 2015 (the "Measurement Services Acquisition").
- Non-recurring revenue was the hardest hit, (46.8% in the quarter and 49.9% on a year-to-date basis compared to 2015) as this portion of the business is more deeply affected by capital expenditures by the Corporation's clients.

Gross margin ⁽¹⁾

- Gross margin improved by 27.4% in the third quarter compared to the same period in 2015 (increasing from 32.1% to 40.9%) and 13.2% on a year-to-date basis (increasing from 35.6% in 2015 to 40.3% in 2016) due to the restructuring executed by the Corporation during 2015 and 2016.

Earnings and net earnings ⁽¹⁾

- As a result of increased gross margins and reduced operating expenses from the Corporation's restructuring which commenced in 2015, the Corporation generated net earnings of \$0.3 million in the third quarter compared to a net loss of \$2.2 million in the comparative period. The net loss in 2015 was due primarily to \$3.0 million in one-time charges offset by \$1.3 million tax recovery. The initiatives undertaken by management to reorganize the operations commenced in the third quarter of 2015 have resulted in a consistent reduction in costs and improved EBITDA over the past four consecutive quarters, despite industry conditions.

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 energy prices has negatively 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, well shut-ins, and competitive price concessions. Notwithstanding the foregoing, the Corporation has further penetrated its client base with its software solutions and reengineered its operations to reduce costs to maintain, and in some cases grow, its margins.

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. Although management has observed some formation of optimization in the Corporation's client base, the effect on industry activity remains uncertain as prices of energy remain volatile.

The Corporation's internal business process reengineering and reorganization, commenced in 2015, continued into 2016. The impact of these changes are evident in the Corporation's results in the third quarter of 2016, and are expected to improve results further in 2017. Notwithstanding the foregoing, commodity prices are unpredictable and a material change will affect 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 normalizes 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 data capture. The purchase price was \$0.1 million, of which 20% was paid on the first closing with the remainder to be paid November 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.

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 ("Field Services Acquisition"). The purchase price of US\$0.2 million, US\$0.2 million was paid on the first closing with the remainder paid July 1, 2016.

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 Corporation's key competencies – being the Energy Services businesses in Canada and the US. The Service Bureau Operations segment was not previously classified as held-for-sale or as discontinued operations, but has been classified as such for the three and nine months ended September 30, 2016 and 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. The Corporation provides 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”.

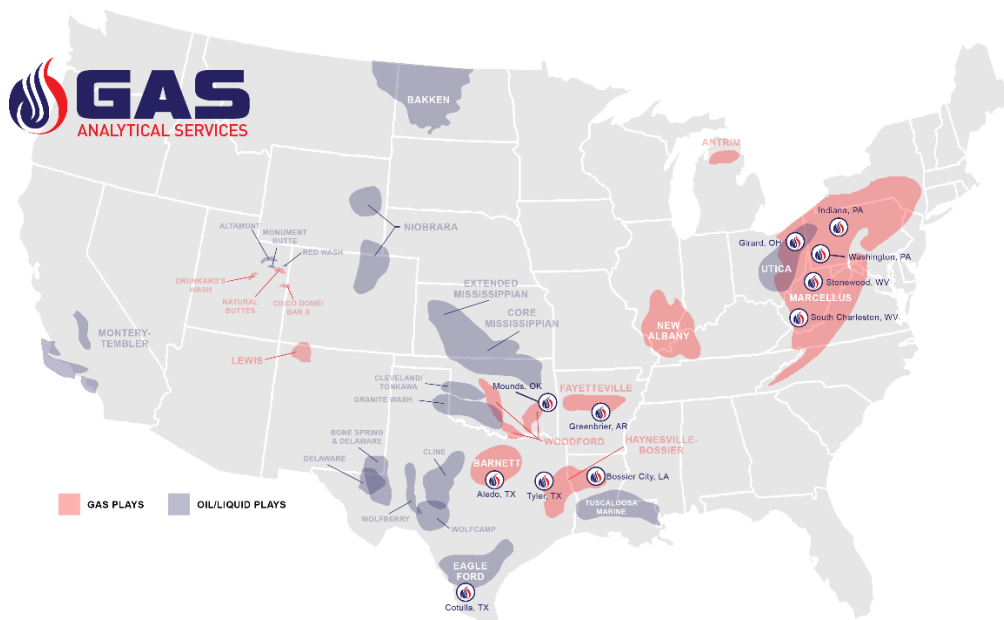
The reportable segments are managed separately because of the unique characteristics and requirements of each business.

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

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Software (CND\$)				
Recurring ⁽¹⁾	3,783	4,493	11,961	13,493
Non-recurring ⁽¹⁾	248	379	1,048	1,105
Total revenue	4,031	4,872	13,009	14,598
Gross margin ⁽¹⁾	2,256	2,472	7,193	7,651
Gross margin - percentage ⁽¹⁾	56.0%	50.7%	55.3%	52.4%
Services (CND\$)				
Recurring ⁽¹⁾	2,519	3,407	8,078	8,023
Non-recurring ⁽¹⁾	1,028	2,021	3,467	7,905
Total revenue	3,547	5,428	11,545	15,928
Gross margin ⁽¹⁾	844	839	2,708	3,229
Gross margin - percentage ⁽¹⁾	23.8%	15.5%	23.5%	20.3%
Services (US\$)				
Recurring ⁽¹⁾	1,940	2,603	6,061	6,347
Non-recurring ⁽¹⁾	793	1,544	2,603	6,308
Total revenue	2,733	4,147	8,664	12,655
Gross margin ⁽¹⁾	650	328	2,029	2,140
Gross margin - percentage ⁽¹⁾	23.8%	7.9%	23.4%	16.9%

RESULTS OF OPERATIONS
Software

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Recurring ⁽¹⁾	3,783	4,493	11,961	13,493
Non-recurring ⁽¹⁾	248	379	1,048	1,105
	4,031	4,872	13,009	14,598
Operating expense	1,775	2,400	5,816	6,947
Gross margin ⁽¹⁾	2,256	2,472	7,193	7,651
Gross margin - percentage ⁽¹⁾	56.0%	50.7%	55.3%	52.4%

Software generated revenue for the three and nine months ended September 30, 2016 of \$4.0 million and \$13.0 million compared to \$4.9 million and \$14.6 million in 2015, a decrease of 17.3% and 10.9%. This is a result of a decrease in the measurement data management revenue due to increased well shut-ins.

The gross margin percentage has increased in the three and nine months ended September 30, 2016 compared to 2015. This is due to management's monitoring of product line revenues, costs, and the streamlining of operations.

Services

(CND\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Recurring ⁽¹⁾	2,519	3,407	8,078	8,023
Non-recurring ⁽¹⁾	1,028	2,021	3,467	7,905
	3,547	5,428	11,545	15,928
Operating expense	2,703	4,589	8,837	12,699
Gross margin ⁽¹⁾	844	839	2,708	3,229
Gross margin - percentage ⁽¹⁾	23.8%	15.5%	23.5%	20.3%

(US\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Recurring ⁽¹⁾	1,940	2,603	6,061	6,347
Non-recurring ⁽¹⁾	793	1,544	2,603	6,308
	2,733	4,147	8,664	12,655
Operating expense	2,083	3,819	6,635	10,515
Gross margin ⁽¹⁾	650	328	2,029	2,140
Gross margin - percentage ⁽¹⁾	23.8%	7.9%	23.4%	16.9%

Services generated revenue for the three and nine months ended September 30, 2016 of \$3.5 million and \$11.5 million compared to \$5.4 million and \$15.9 million in 2015, a decrease of 34.7% and 27.5%.

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 and nine months ended September 30, 2016 of US\$2.7 million and US\$8.7 million compared to US\$4.1 million and US\$12.7 million in 2015, a decrease of 42.1% and 30.3%.

In the third quarter of 2016 recurring revenue decreased 25.5% from US\$2.6 million to US\$1.9 million and non-recurring revenue decreased from US\$1.5 million in 2015 to US\$0.8 million in 2016. The decrease is the result of the decline in the industry and lack of well site activity.

Recurring revenue for the third quarter of 2016 is comprised of US\$1.2 million (2015: US\$1.8 million) from gas measurement field services and US\$0.6 million (2015: US\$0.8 million) from gas and liquid analysis. Non-recurring revenue is comprised of equipment sales and fabrication projects.

Recurring revenue year-to-date 2016 is comprised of US\$3.8 million (2015: US\$4.5 million) from gas measurement field services and US\$2.1 million (2015: US\$1.8 million) from gas and liquid analysis. Non-recurring revenue is comprised of equipment sales and fabrication projects.

The year-to-date recurring revenue decreased due to reduced field services revenue which is partly offset by the increase in gas and liquid analysis revenue. The decrease in non-recurring revenue is attributed to a decreased number of fabrication projects with Appalachian producers in 2016. Non-recurring revenue has been materially impacted due to prevailing industry conditions.

Gross margin percentage for the third quarter of 2016 increased from 7.9% to 23.8%. The increase is attributed to the restructuring of the Services operations and management’s monitoring of expenditures.

Gross margin percentage for the year-to-date increased from 16.9% to 23.4%. The increase is attributed to management’s focus on product line revenues, costs, and the streamlining of operations.

GENERAL AND ADMINISTRATION

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
General and administrative less share-based payment	2,328	3,029	7,737	9,219
Share-based payment	42	78	116	232
General and administrative	2,370	3,107	7,853	9,451

For the three and nine months ended September 30, 2016, total general and administrative expenses decreased by \$0.7 million and \$1.6 million, compared to 2015. Administrative expenses year-to-date have decreased by \$1.1 million from \$3.7 million to \$2.6 million, and is the result of the restructuring done throughout 2015. The Corporation continues to focus on cost reduction and process efficiency to maintain lower administrative costs.

Share-based payment expense decreased by less than \$0.1 million in the current quarter and year-to-date compared to 2015.

RESEARCH AND DEVELOPMENT

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Research and development	501	585	1,562	1,829
Less:				
SR&ED tax credits, net of costs	(3)	-	114	106
Capitalized research and development costs	266	308	727	749
Research and development	238	277	721	974

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 of the Corporation’s 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, February 2016, and October 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

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Depreciation	246	371	746	879
Amortization	263	423	886	1,189
Depreciation and amortization	509	794	1,632	2,068

The decrease in the quarter and year-to-date compared to the prior comparative periods is attributed to the timing of the depreciation of property and equipment and amortization of certain customer relationships and non-compete agreements.

FOREIGN EXCHANGE

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Foreign exchange - realized	9	7	-	32
Foreign exchange - unrealized	(133)	(422)	544	(815)
Foreign exchange	(124)	(415)	544	(783)

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

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Bank related charges	124	59	359	106
Interest on bank indebtedness	87	66	319	113
Interest on long-term debt	65	35	212	133
Deferred financing costs on long-term debt	7	7	20	20
Finance costs	283	167	910	372

For the three and nine months ended September 30, 2016, financing costs were \$0.3 million and \$0.9 million compared to \$0.2 million and \$0.4 million in 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

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Acquisition related charges	-	7	25	159
Bargain purchase price	-	-	-	(762)
Provision of onerous lease	-	-	(76)	598
Write-down for inventory obsolescence	-	399	-	399
Write-down for allowance for doubtful accounts	-	1,217	-	1,217
Termination benefits	16	1,350	270	2,057
Other non-recurring expenses	32	-	476	-
Other expenses	48	2,973	695	3,668

Other expenses contain expenses and recoveries that are infrequent and unusual in nature occurring outside of the normal operating activities of the Corporation and are unlikely to recur in the foreseeable future.

In the second quarter of 2015, as a result of the Measurement Services Acquisition, the Corporation incurred a bargain purchase price of \$0.8 million, offset by acquisition costs of \$0.2 million and provisions on onerous leases of \$0.6 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. In the second quarter of 2016, the lease located in Muncy, PA lease was settled and a recovery was deducted from onerous leases, as a change in estimate to the provision.

Management continues to execute its plan to streamline operations. In relation to this restructuring, the Corporation incurred or accrued termination costs year-to-date totaling \$0.3 million in 2016 (2015: \$2.1 million).

During the second quarter of 2016, the Corporation had a Microsoft license audit and incurred a one-time charge relating to 2013 to 2015 activities of \$0.4 million which was recorded in other non-recurring expenses.

FINANCIAL HIGHLIGHTS - QUARTERLY ANALYSIS

(\$ thousands)	2016				2015			2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Recurring ⁽¹⁾	6,302	6,403	7,334	7,288	7,900	7,842	5,774	5,630
Non-recurring ⁽¹⁾	1,276	1,451	1,788	2,105	2,400	2,905	3,705	3,325
Total revenue	7,578	7,854	9,122	9,393	10,300	10,747	9,479	8,955
Gross margin ⁽¹⁾	3,100	3,191	3,610	3,580	3,311	4,009	3,560	3,499
Gross margin - percentage ⁽¹⁾	40.9%	40.6%	39.6%	38.1%	32.1%	37.3%	37.6%	39.1%
Adjusted EBITDA ⁽¹⁾	534	589	320	118	5	521	161	566
EBITDA ⁽¹⁾	571	219	(711)	(176)	(2,631)	(303)	504	636
Net earnings (loss) before discontinued operations	330	(434)	(1,381)	(718)	(2,233)	(881)	(130)	(273)
Net earnings (loss)	330	(529)	(1,381)	(771)	(2,444)	(897)	589	(1,162)

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

OPERATIONS HIGHLIGHTS – QUARTERLY ANALYSIS

(\$ thousands)	2016				2015			2014
	Q3	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Software (CND\$)								
Recurring ⁽¹⁾	3,783	3,965	4,213	4,226	4,493	4,648	4,352	4,158
Non-recurring ⁽¹⁾	248	391	409	396	379	388	338	419
Total revenue	4,031	4,356	4,622	4,622	4,872	5,036	4,690	4,577
Gross margin ⁽¹⁾	2,256	2,473	2,464	2,327	2,472	2,630	2,549	2,456
Gross margin - percentage ⁽¹⁾	56.0%	56.8%	53.3%	50.3%	50.7%	52.2%	54.3%	53.7%
Services (CND\$)								
Recurring ⁽¹⁾	2,519	2,438	3,121	3,062	3,407	3,194	1,422	1,472
Non-recurring ⁽¹⁾	1,028	1,060	1,379	1,709	2,021	2,517	3,367	2,906
Total revenue	3,547	3,498	4,500	4,771	5,428	5,711	4,789	4,378
Gross margin ⁽¹⁾	844	718	1,146	1,253	839	1,379	1,011	1,043
Gross margin - percentage ⁽¹⁾	23.8%	20.5%	25.5%	26.3%	15.5%	24.1%	21.1%	23.8%
Services (US\$)								
Recurring ⁽¹⁾	1,940	1,877	2,244	2,294	2,603	2,598	1,146	1,297
Non-recurring ⁽¹⁾	793	814	996	1,282	1,544	2,047	2,717	2,557
Total revenue	2,733	2,691	3,240	3,576	4,147	4,645	3,863	3,854
Gross margin ⁽¹⁾	650	552	827	944	328	1,061	751	850
Gross margin - percentage ⁽¹⁾	23.8%	20.5%	25.5%	26.4%	7.9%	22.8%	19.4%	22.1%

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

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Adjusted EBITDA ⁽¹⁾	534	5	1,443	687
EBITDA ⁽¹⁾	571	(2,631)	79	(2,430)
Net earnings (loss) before discontinued operations	330	(2,233)	(1,485)	(3,244)
Net earnings (loss)	330	(2,444)	(1,580)	(2,752)
Total comprehensive income (loss)	342	(1,064)	(1,667)	(907)
Funds provided (used in) by continuing operations ⁽¹⁾	286	(2,936)	317	(3,955)
Cash flow provided (used in) by continuing operations	628	(1,234)	2,579	(3,142)

The Corporation generated adjusted EBITDA for the three and nine months ended September 30, 2016 of \$0.5 million and \$1.4 million compared to less than \$0.1 million and \$0.7 million. The increase is attributed to reduced administrative expenditures offset by increased operating lease expenditures.

Net earnings before discontinued operations for the Corporation was \$0.3 million in the third quarter and loss before discontinued operations of \$1.5 million year-to-date in 2016, compared to net loss before discontinued operations of \$2.2 million and \$3.2 million, respectively, in 2015. The improvement is a result of reduced administration expenditures and charges associated with the Corporation's restructuring, offset by increased financing cost.

The Corporation's funds provided by continuing operations improved in 2016 compared to 2015 attributed to a reduction in charges associated with the Corporation's restructuring and an income tax recovery received in the third quarter, offset by an increase in interest paid.

The cash flow was used to fund the operations of the Corporation, repayment of long-term debt, and the payment of the termination benefits.

LIQUIDITY AND CAPITAL RESOURCES

Working capital (excluding debt)

As at (\$ thousands)	September 30, 2016	December 31, 2015	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	427	815	(388)
Accounts receivable	7,665	11,598	(3,933)
Unbilled revenue	313	182	131
Inventory	2,806	3,179	(373)
Prepaid expenses	370	362	8
	11,581	16,136	(4,555)
Current liabilities			
Bank indebtedness	5,825	7,079	1,254
Accounts payable and accrued liabilities	3,581	4,361	780
Deferred revenue	725	682	(43)
Current portion of provisions	276	811	535
Current portion of deferred lease inducements	25	25	-
	10,432	12,958	2,526
Working capital (excluding debt) ⁽¹⁾	1,149	3,178	(2,029)

The key driver of the change in working capital (excluding debt) is the decrease of accounts receivable of \$4.0 million related to improved timeliness of the collections of outstanding receivables from the Corporation's customers, offset by the decrease of \$1.3 million of bank indebtedness and \$0.8 million in accounts payable and accrued liabilities.

Credit facilities

On August 16, 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\$1.1 million to fund repayment of the Corporation's previous bank term loan and unsecured promissory note.

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

Liquidity

At September 30, 2016, the Corporation had \$0.4 million (December 31, 2015: \$0.8 million) of cash on hand, and access to a further \$0.4 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.

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 decision 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 0.38 to 1.00, and a minimum Adjusted Debt Service ratio of 1.10. As at September 30, 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 September 30, 2016:

(\$ thousands)	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Operating leases	1,644	2,751	2,383	1,140
Accounts payable and accrued liabilities	3,581	-	-	-
Provisions	276	-	-	-
Secured bank term loan (\$3.0 million)	748	1,500	752	-
Secured bank term loan (US\$1.1 million)	972	512	-	-
Secured finance contracts	98	-	-	-
	7,319	4,763	3,135	1,140

The Corporation carries secured bank term loans of \$3.0 million and US\$1.1 million. The \$3.0 million secured bank term loan matures April 2019. The Corporation will make interest only payments for the first twelve months. Beginning in May 2017, the Corporation shall start making monthly principal payments. The US\$1.1 million secured bank term loan matures April 2018 and has repayment terms over the remaining two years. The remaining principal payments in 2016 will be \$0.2 million and 2017 will be \$1.0 million each year.

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 621 modems using the CDMA network have been replaced to-date and management estimates that an additional 326 currently active on NetFlow use the CDMA network. The replacement cost for the remaining 321 modems and antennas is estimated to be \$0.2 million in total and the replacement of these is being planned over the next three months. It is expected that the cost of hardware replacements will be recovered through reduced monthly charges from BELL and increased monthly charges to the Corporation’s 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 to senior member of management	125,000
Shares issued under Employee Share Purchase Plan	255,217
Balance as at September 30, 2016 and November 9, 2016	58,435,720

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 issued on September 27, 2016. Further details on the other share-based compensation are disclosed in Note 13 (c) to the December 31, 2015 consolidated financial statements.

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 Corporation’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:

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
Net earnings (loss) before discontinued operations	330	(2,233)	(1,485)	(3,244)
Plus:				
Finance costs	283	167	910	372
Income taxes (recovery)	(551)	(1,359)	(978)	(1,626)
Depreciation and amortization	509	794	1,632	2,068
EBITDA	571	(2,631)	79	(2,430)

“**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:

(\$ thousands)	Three months ended		Nine months ended	
	September 30,		September 30,	
	2016	2015	2016	2015
EBITDA	571	(2,631)	79	(2,430)
Plus:				
Share-based payment	42	78	116	232
Foreign exchange	(124)	(415)	544	(783)
Loss (gain) on sale of asset	(3)	-	9	-
Other expenses	48	2,973	695	3,668
Adjusted EBITDA	534	5	1,443	687

“**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	September 30,	December 31,
(\$ thousands)	2016	2015
Current assets	11,581	16,136
Less:		
Current liabilities	11,819	18,000
Working capital	(238)	(1,864)
Plus:		
Current portion of long-term debt	1,387	5,042
Working capital (excluding debt)	1,149	3,178

“**Debt to Capitalization ratio**” is calculated based on the total outstanding debt (bank indebtedness and long-term debt) divided by the sum of the total outstanding debt plus shareholders’ 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.

“**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.

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 investment 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.

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