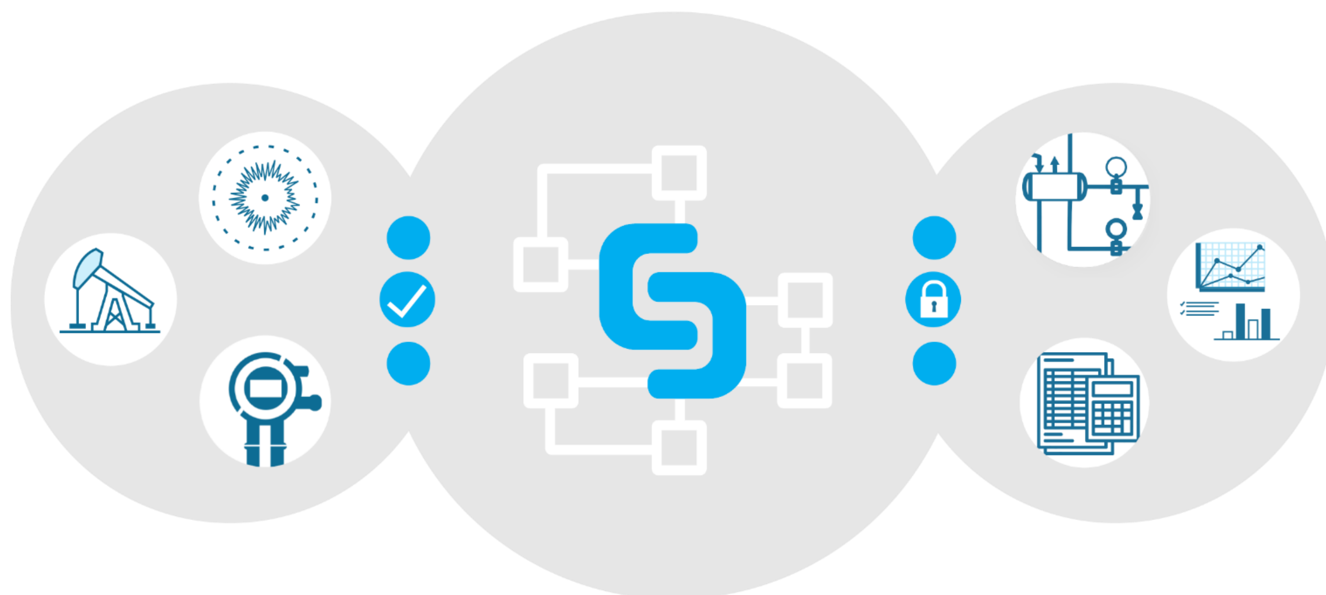

2017

Annual Consolidated Financial Statements

Critical Control Energy Services Corp.

December 31, 2017

CRITICAL CONTROL

Management's Report

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

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

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

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

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

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

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of Critical Control Energy Services Corp.

We have audited the accompanying consolidated financial statements of Critical Control Energy Services Corp., which comprise the consolidated statements of financial position as at December 31, 2017 and December 31, 2016, the consolidated statements of operations and comprehensive income (loss), changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. KPMG Canada provides services to KPMG LLP.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Critical Control Energy Services Corp. as at December 31, 2017 and December 31, 2016, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

KPMG LLP

Chartered Professional Accountants

March 23, 2018
Calgary, Canada

CRITICAL CONTROL

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

As at December 31

($ thousands)	Note	2017	2016
Assets			
Current assets			
Cash and cash equivalents		**287**	552
Accounts receivable	5	**5,938**	7,402
Inventory	6	**2,357**	2,838
Prepaid expenses		**253**	316
		8,835	11,108
Deposits		**81**	88
Tax credit recoverable	11	**293**	758
Deferred income taxes	11	**3,188**	3,433
Property and equipment	7	**2,899**	3,614
Intangible assets and goodwill	8	**19,248**	20,089
		34,544	39,090
Liabilities			
Current liabilities			
Bank indebtedness	10	**4,743**	6,100
Accounts payable and accrued liabilities		**2,963**	3,664
Deferred revenue		**827**	713
Provisions	9	**-**	191
Current portion of long-term debt	10	**661**	1,571
Current portion of deferred lease inducements		**12**	21
		9,206	12,260
Long-term debt	10	**2,712**	2,770
Deferred lease inducements		**41**	53
		11,959	15,083
Shareholders' Equity			
Common shares	12	**29,685**	31,888
Preferred shares and warrants	12	**4,105**	-
Contributed surplus	12	**1,645**	1,607
Accumulated other comprehensive income	12	**1,885**	1,824
Deficit		**(14,735)**	(11,312)
		22,585	24,007
		34,544	39,090

(See Notes to the Consolidated Financial Statements)

Approved on behalf of the Board:

“signed” Gary Bentham
Audit Committee Chairman

“signed” Alykhan Mamdani
President & CEO, Director

CRITICAL CONTROL

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

($ thousands, except per share amounts)	Note	**2017**	2016
Revenue	17	**29,122**	31,766
Expenses			
Operating expense	20	**16,073**	19,052
General and administrative	20	**9,046**	10,004
Research and development		**1,471**	995
Foreign exchange	20	**1,158**	228
Depreciation and amortization		**2,882**	2,610
Loss (gain) on sale of asset		**(27)**	27
Other expenses	19	**248**	663
		(1,729)	(1,813)
Finance costs	20	**972**	1,180
Loss before income taxes		**(2,701)**	(2,993)
Income taxes (recovery)	11	**556**	(1,081)
Net loss before discontinued operations		**(3,257)**	(1,912)
Loss from discontinued operations, net of tax	4	**-**	85
Net loss		**(3,257)**	(1,997)
Other comprehensive income (loss)			
Foreign currency translation adjustment, net of tax		**61**	(42)
		61	(42)
Total comprehensive income (loss)		**(3,196)**	(2,039)
Earnings (loss) per share			
Net earnings			
Basic / Diluted		**(0.06)**	(0.03)

(See Notes to the Consolidated Financial Statements)

CRITICAL CONTROL

CONSOLIDED STATEMENTS OF CHANGES IN EQUITY
For the years ended December 31, 2017 and 2016

($ thousands)	Common shares	Preferred shares and warrants	Contributed surplus	Accumulated other comprehensive income [1]	Deficit	Total equity
Balance at December 31, 2016	**31,888**	**-**	**1,607**	**1,824**	**(11,312)**	**24,007**
Comprehensive income (loss)	**-**	**-**	**-**	**61**	**(3,257)**	**(3,196)**
Preferred share issuance, net of costs	**-**	**1,743**	**-**	**-**	**-**	**1,743**
Warrants issuance	**-**	**90**	**-**	**-**	**-**	**90**
Common share converted to preferred shares	**(2,272)**	**2,272**	**-**	**-**	**-**	**-**
Preferred share dividend	**-**	**-**	**-**	**-**	**(166)**	**(166)**
Employee share purchase plan proceeds	**-**	**-**	**19**	**-**	**-**	**19**
Shares issued from treasury under employee share purchase plan	**31**	**-**	**(31)**	-	-	**-**
Shares issued from treasury under deferred common shares	**38**	**-**	**(38)**	**-**	**-**	**-**
Share-based payments	**-**	**-**	**88**	**-**	**-**	**88**
Balance at December 31, 2017	**29,685**	**4,105**	**1,645**	**1,885**	**(14,735)**	**22,585**
Balance at December 31, 2015	31,720	-	1,632	1,866	(9,315)	25,903
Comprehensive income (loss)	-	-	-	(42)	(1,997)	(2,039)
Employee share purchase plan proceeds	-	-	9	-	-	9
Shares issued from treasury under employee share purchase plan	109	-	(109)	-	-	-
Shares issued from treasury under deferred common shares	59	-	(59)	-	-	-
Share-based payments	-	-	134	-	-	134
Balance at December 31, 2016	31,888	-	1,607	1,824	(11,312)	24,007

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

(See Notes to the Consolidated Financial Statements)

CRITICAL CONTROL

CONSOLIDATED STATEMENTS OF CASH FLOWS			
For the years ended December 31,			
($ thousands)	**Note**	**2017**	2016
Cash provided by (used in)			
Operating activities			
Net loss		**(3,257)**	(1,997)
Adjustments for:			
Depreciation and amortization		**2,882**	2,610
Loss (gain) on sale of asset		**(27)**	27
Foreign exchange	20	**1,158**	228
Finance costs	20	**972**	1,180
Income taxes (recovery)	11	**556**	(1,081)
Other		**89**	149
Income taxes - paid		**(18)**	(11)
Income taxes - recovery		**-**	124
Interest - paid		**(515)**	(749)
Funds provided by (used in) operations		**1,840**	480
Change in non-cash working capital	24	**734**	2,757
		2,574	3,237
Investing activities			
Acquisition of business, net assets	3	**-**	(25)
Purchase of property and equipment		**(685)**	(579)
Purchase of software		**(18)**	(266)
Proceeds on sale of property and equipment		**46**	54
Additions to product development costs		**(1,587)**	(1,011)
		(2,244)	(1,827)
Financing activities			
Proceeds from employee share purchase plan		**19**	9
Proceeds from preferred share issuance, net of issuance costs		**1,833**	-
Proceeds from bank indebtedness		**49,092**	37,256
Repayment of bank indebtedness		**(50,455)**	(38,588)
Proceeds from long-term debt		**499**	3,000
Repayment of long-term debt		**(1,456)**	(3,481)
Preferred share dividends		**(167)**	-
		(635)	(1,804)
Cash flow from discontinued operations	4	**-**	85
Effect of translation of foreign currency cash		**40**	46
Net (decrease) increase in cash		**(265)**	(263)
Cash and cash equivalents, beginning of year		**552**	815
Cash and cash equivalents, end of year		**287**	552

(See Notes to the Consolidated Financial Statements)

1. STRUCTURE OF CORPORATION

Organization

Critical Control Energy Services Corp. (the "Corporation" or "Critical Control") is incorporated in Alberta and domiciled in Canada. The registered address of the Corporation is 1400, 350 – 7 Avenue SW, Calgary, Alberta T2P 3N9. Critical Control is a publicly-traded company listed on the Toronto Stock Exchange ("TSX") under symbol "CCZ".

These consolidated financial statements of the Corporation as at and for the year ended December 31, 2017, are available upon request from the Corporation's head office at Suite 800, 140 – 10th Avenue SE, Calgary, Alberta, Canada T2G 0R1, at www.criticalcontrolenergy.com or at www.sedar.com.

Operations

Critical Control provides solutions for the collection, control, and analysis of measurement and operational data related to oil and gas wells across North America. We provide services to capture data, cloud-based software to visualize and manage it, and business intelligence to make quicker and more informed operational decisions.

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

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

The Software business provides cloud based software and software based 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 Field 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 Laboratory Services***: Gas composition management services including gas sample analysis and data management tools.
- ***Certification and Proving***: Calibration and certification of measurement meters and gas measurement equipment.
- ***Distribution of Measurement Equipment****:* Sale of gas measurement related equipment.
- ***Fabrication***: Assembly and sale of gas measurement related equipment.

2. BASIS OF PREPARATION

(a) Statement of compliance:

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS). Details of the Corporation's accounting policies, including changes during the year are discussed in Notes 25.

The consolidated financial statements were authorized for issue by the Board of Directors on March 23, 2018.

(b) Basis of measurement:

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

(c) Functional and presentation currency:

The consolidated financial statements are presented in Canadian dollars, which is the Corporation's functional currency. All financial information presented in dollars has been rounded to the nearest thousand except for share and per share amounts.

Use of estimates and judgments:

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

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

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about assumptions and estimation uncertainties that have a significant risk of resulting in a material adjustment within the next financial year are as follows:

- ***Impairment calculations for intangible assets, including goodwill.*** Key estimates and assumptions include future cash flows and discount rates used for calculating the recoverable amount of cash-generating units.
- ***Measuring deferred income taxes.*** Key estimates and assumptions include the availability of future taxable earnings as explained above, timing of reversals for temporary differences, and future enacted tax rates.

- ***Fair value of consideration provided and assets acquired in business combinations.*** Key estimates and assumptions include future cash flows and discount rates used for valuing contingent consideration, customer relationship assets, and other intangible assets.
- ***Amortization of customer relationships and other intangible assets.*** The key estimate/assumption is the useful life of each asset.
- ***Provisions, including onerous lease contracts.*** Key estimates include future cash flows and discount rates.

Measurement of fair values

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

(i) Property and equipment

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

(ii) Intangible assets

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

(iii) Inventory

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

(iv) Accounts receivable

Accounts receivable are measured at fair value on transaction date and subsequently at amortized cost. This fair value is determined for disclosure purposes or when such assets are acquired in a business combination.

(v) Non-derivative financial liabilities

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

(vi) Share-based payment transactions

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

Fair value hierarchy

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

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

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

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

3. ACQUISITIONS

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

Acquisition of ScadaView

Effective 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 in February 2016 with the remainder paid in November 2016. The net assets were allocated to the Software operating segment. Revenue and earnings before income taxes generated from the acquisition are minimal. The pro-forma revenue and earnings before income taxes are minimal.

Fair value of net assets acquired **($ thousands)**	
Customer relationship and contracts	**125**
Net assets acquired	**125**

External legal fees and due diligence costs in relation to the acquisition were minimal. These costs have been included in other expenses in the 2016 consolidated statement of operations and comprehensive income (loss).

4. DISCONTINUED OPERATIONS

The comparative consolidated statement of operations and comprehensive income (loss) for the year ended December 31, 2016 and related disclosures present the discontinued operations separately from continuing operations.

For year ended December 31, **($ thousands)**	Service Bureau 2016
Loss (gain) on sale of asset	117
Income taxes (recovery)	(32)
Net earnings (loss) from discontinued operations	(85)

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

For year ended December 31, **($ thousands)**	Service Bureau 2016
Loss (gain) on disposal of assets	117

The cash flow from discontinued operations is as follows:

Carrying value of net assets sold **($ thousands)**	Service Bureau 2016
Proceeds of sale	(117)
(Loss) gain on sale of discontinued assets	(117)

5. ACCOUNTS RECEIVABLE

As at December 31 **($ thousands)**	**2017**	2016
Accounts receivable	**5,938**	7,402

For the year ended 2017, the Corporation periodically preforms a detailed assessment of the amounts due from the Corporation's specific clients and the inherit risk collection within the industry. As a result the Corporation increased its allowance for doubtful accounts by $0.1 million (2016: $0.1 million).

6. INVENTORY

As at December 31 **($ thousands)**	**2017**	2016
Inventory	**2,357**	2,838

As at December 31, 2017, there were no inventory write-downs in 2017 or reversals of previously written-down amounts.

The amount of inventory used during the year was $3.1 million (2016: $3.0 million). The amount was recognised as operating expense in the consolidated statements of operations and comprehensive income (loss) during the year.

7. PROPERTY AND EQUIPMENT

Property and equipment as at and for the periods ended December 31, 2017 and December 31, 2016 were as follows:

($ thousands)	Leasehold improvements	Computer hardware	Office and operating equipment	Vehicles	Total
Costs					
Balance at December 31, 2015	535	2,098	5,450	2,579	10,662
Additions related to operations	11	175	393	-	579
Disposal related to operations	-	(1)	-	(292)	(293)
Effect of foreign exchange	(14)	(10)	(128)	(25)	(177)
Balance at December 31, 2016	532	2,262	5,715	2,262	10,771
Additions related to operations	**58**	**75**	**552**	**-**	**685**
Disposal related to operations	**-**	**(54)**	**(2)**	**(157)**	**(213)**
Effect of foreign exchange	**(31)**	**(22)**	**(301)**	**(207)**	**(561)**
Balance at December 31, 2017	**559**	**2,261**	**5,964**	**1,898**	**10,682**
Accumulated depreciation					
Balance at December 31, 2015	416	1,662	2,710	1,622	6,410
Depreciation	15	143	605	261	1,024
Disposal related to operations	-	-	-	(211)	(211)
Effect of foreign exchange	(12)	(6)	(57)	9	(66)
Balance at December 31, 2016	419	1,799	3,258	1,681	7,157
Depreciation	**15**	**184**	**802**	**167**	**1,168**
Disposal related to operations	**-**	**(22)**	**(2)**	**(116)**	**(140)**
Effect of foreign exchange	**(27)**	**(17)**	**(181)**	**(177)**	**(402)**
Balance at December 31, 2017	**407**	**1,944**	**3,877**	**1,555**	**7,783**
Carrying amount					
Balance at December 31, 2017	**152**	**317**	**2,087**	**343**	**2,899**
Balance at December 31, 2016	113	463	2,457	581	3,614

Leased equipment

The Corporation leases certain equipment under finance lease agreements. The leased equipment is secured by the underlying assets. As at December 31, 2017, the net carrying amount of leased equipment was less than $0.1 million (2016: less than $0.1 million).

Security

At December 31, 2017, all property and equipment of the Corporation was provided as security for long-term debt.

8. INTANGIBLE ASSETS AND GOODWILL

Intangible assets and goodwill as at and for the periods ended December 31, 2017 and December 31, 2016 were as follows:

($ thousands)	Note	Product development costs	Customer relationship and contracts	Software	Non-compete agreement	Goodwill	Total
Costs							
Balance at December 31, 2015		1,845	12,367	9,012	757	12,642	36,623
Additions through acquistion	3	-	25	-	-	-	25
Additions related to operations		1,010	-	266	-	-	1,276
Effect of foreign exchange		-	(191)	-	(18)	(246)	(455)
Balance at December 31, 2016		2,855	12,201	9,278	739	12,396	37,469
Additions related to operations		**1,587**	**-**	**18**	**-**	**-**	**1,605**
Effect of foreign exchange		**-**	**(396)**	**-**	**(40)**	**(524)**	**(960)**
Balance at December 31, 2017		**4,442**	**11,805**	**9,296**	**699**	**11,872**	**38,114**
Accumulated depreciation							
Balance at December 31, 2015		643	6,281	8,289	660	-	15,873
Amortization		248	901	380	57	-	1,586
Effect of foreign exchange		-	(62)	(1)	(16)	-	(79)
Balance at December 31, 2016		891	7,120	8,668	701	-	17,380
Amortization		**534**	**911**	**240**	**29**	**-**	**1,714**
Effect of foreign exchange		**-**	**(190)**	**-**	**(38)**	**-**	**(228)**
Balance at December 31, 2017		**1,425**	**7,841**	**8,908**	**692**	**-**	**18,866**
Carrying amount							
Balance at December 31, 2017		**3,017**	**3,964**	**388**	**7**	**11,872**	**19,248**
Balance at December 31, 2016		1,964	5,081	610	38	12,396	20,089

Intangible assets

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

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

Goodwill

Goodwill is a result of a number of previous business combinations and is generally attributable to anticipated synergies expected from those acquisitions. Goodwill, by definition, has no useful life, and is, therefore, not amortized. However, goodwill is subject to impairment tests at least annually. For purposes of impairment testing, Critical Control assesses goodwill at the operating segment level. As at December 31, 2017 and December 31, 2016, the entire balance included in goodwill was allocated to the Software operating segment.

Impairment testing for cash-generating units containing goodwill

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

Impairment tests for all CGUs containing goodwill were performed at December 31, 2017 and 2016, and none of the CGUs were found to be impaired. The recoverable amount for each CGU was determined based on value in use, which was calculated using discounted after-tax cash flow projections for the Software CGUs.

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

- Cash flows were projected based on past experience, actual operating results, relevant annual budgets and growth expectations. Cash flows beyond five years were extrapolated using a constant growth rate of 3 percent (2016: 3 percent) for Software, which does not exceed the long-term average growth rate for the industry.
- The first year of cash flows was based on the annual operating budgets.
- The anticipated annual revenue included in the cash flow projections for the next four years was based on average compound growth rates of 5 percent (2016: 12 percent).
- The anticipated earnings before income taxes, depreciation, and amortization ("EBITDA") in the next four years was based on rates (as a percentage of sales) averaging 16 percent (2016: 22 percent).
- A break-even discount rate (after-tax) was calculated for each CGU. Based on general industry data and previous acquisition experience, it was determined that the appropriate after-tax discount rate for the CGU would not likely be greater than 15%. Accordingly, if the break-even rate for a CGU exceeded 15%, it was concluded that no impairment existed. The calculated break-even rate exceeded 15% for Software CGU.

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

9. PROVISIONS

($ thousands)	Onerous Leases	Onerous Contract	Total
Balance as at December 31, 2015	783	200	983
Provision used during the year	(498)	(200)	(698)
Change in estimate	(28)	-	(28)
Effect of foreign exchange	(66)	-	(66)
Balance as at December 31, 2016	191	-	191
Provision used during the year	**(191)**	**-**	**(191)**
Balance as at December 31, 2017	**-**	**-**	**-**

The onerous lease provision as at December 31, 2014 related to discontinued operations, specifically, excess space in Edmonton, Alberta which expired on August 31, 2017. In the first quarter of 2016, the lease located in Fort Lupton, Colorado was added to onerous leases, as a change in estimate. In the second quarter of 2016, the lease located in Muncy, Pennsylvania was settled and deducted from onerous leases, as a change in estimate.

The Corporation does not plan to utilize the leased locations due to underdeveloped market opportunities, and thus recognized an onerous lease provision. The net obligation of the onerous leases was estimated based on sublease

agreements expected to be in place. The provision was based on management's best estimate of the sublease rates that will be negotiated, the timing, and the discount rates.

The onerous contract provision related to a significant ProMonitor Schematics implementation project in the Software operating segment. The project started in late 2013 and was completed in 2017.

10. BANK INDEBTEDNESS AND LONG-TERM DEBT

As at December 31 ($ thousands)	Note	2017	2016
Secured bank term loan (CAD $3.0 million)	b	**2,874**	3,000
Secured bank term loan (CAD $2.0 million)	c	**499**	-
Secured bank term loan (USD)	d	**-**	1,275
Secured finance contracts		**-**	66
		3,373	4,341
Current portion		**661**	1,571
Long-term portion		**2,712**	2,770

On December 1, 2017, the Corporation executed an amendment to the credit facility agreement with its lender. Significant details of the facility are summarized below.

(a) A revolving demand operating credit up to $8.5 million to support working capital requirements in Canada and the US. The operating line bearing interest rate is prime plus 1.25%.

The demand operating credit is limited by standard margining of trade receivables and inventories, reduced by priority claims and other adjustments. As at December 31, 2017, the margining limit was estimated to be $5.7 million (December 31, 2016: $6.6 million), leaving $0.9 million (December 31, 2016: $0.5 million) of the operating credit available for future working capital needs. Access to this facility is limited by the impact of debt levels on financial covenants.

(b) On May 9, 2016, a previous demand term loan was repaid and replaced with a $3.0 million committed term loan. This committed term loan matures on April 30, 2019. The Corporation made interest only payments until September 2017. Beginning in September 2017, the Corporation started making monthly principal payments, based on a five year amortization period. The loan bearing interest rate is prime plus 1.75% per year. Repayment of this loan is guaranteed by Export Development Canada ("EDC").

(c) On December 1, 2017, the banking facility agreement was amended to include a credit limit of $2.0 million to fund equipment required under contracts with customers where the subscription of the Corporation's software is bundled with the provision of oil and gas measurement and communication equipment. As at December 31, 2017, $0.5 million of the line of credit has been used. The loan bearing interest rate is prime plus 1.25% per year. The Corporation shall only make interest payments the first six months starting immediately after the first draw. After which, monthly payments of principal and interest are payable over a 36 month term not including the interest only period. Repayment of 75% of this loan is guaranteed by EDC.

(d) A committed term loan of US$0.8 million to fund repayment of the Corporation's previous bank term loan and unsecured promissory note. This committed term loan was repaid July 31, 2017.

The credit facility is secured by the following:

- A general security agreement creating a first-priority security interest in all present and future undertaking and personal property of the Corporation;
- Upstream guarantees from all material subsidiaries of the Corporation, secured by general security agreements and UCC filings as considered appropriate; and
- A guarantee from Export Development Canada (EDC) with respect to the $3.0 million and $2.0 million committed term loans.

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 an Adjusted Debt Service ratio to exceed 1.10 to 1.00. As at December 31, 2017, the Corporation is in compliance with its financial covenants.

11. INCOME TAXES

The components of tax expenses for the years ended 2017 and 2016 were are follows:

For year ended December 31, **($ thousands)**	**2017**	2016
Income tax - current	**460**	(37)
Income tax - deferred	**96**	(1,044)
Income tax (recovery)	**556**	(1,081)

The Corporation is subject to Canadian federal and provincial taxes and US federal and state taxes. For the year ended December 31, 2017, the Corporation had an expense of $0.8 million (2016 –$0.4 million) which relates to the Canadian entities, and a recovery of $0.2 million (2016 – recovery of $1.5 million) pertains to US entities.

Discontinued operations which were Canadian entities for the year ended December 31, 2016 had a less than $0.1 million tax recovery.

Factors affecting tax expense (recovery) for the year:

For year ended December 31, **($ thousands)**	**2017**	2016
Net loss before tax and discontinued operations	**(2,701)**	(2,993)
Corporate statutory tax rate	**27.0%**	27.0%
Tax expense (recovery) at statutory rate	**(729)**	(808)
Non-deductible amounts	**47**	63
Statutory and other rate differences	**438**	(334)
Unrealized temporary differences	**693**	-
Other	**107**	(2)
	556	(1,081)

As at December 31, 2017, the consolidated statements of financial position included current taxes receivable of less than $0.1 million (2016: $0.1 million), and tax credit recoverable of $0.3 million (2016: $0.7 million).

Deferred assets are recognized for tax loss carry-forwards to the extent that the realization of the related tax benefit through future taxable profits is probable. The ability to realize the tax benefits of these losses is dependent upon a number of factors, including future profitability of operations in the jurisdictions in which the tax losses arose. At December 31, 2016, the Corporation had no deferred tax assets which it did not recognize. At December 31, 2017, the Corporation did not recognize $0.7 million of deferred tax assets relating to tax loss carry-forwards of $2.5 million which will begin to expire in 2035.

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

($ thousands)	Balance December 31, 2016	Recognized in profit or loss	Recognized in discontinued operations	Effect of movement in exchange rates	**Balance December 31, 2017**	**Unrealized December 31, 2017**
Accounts receivable, and						
accounts payable	343	(218)	-	(20)	**105**	-
Tax credits recoverable	(205)	52	-	-	**(153)**	-
Property and equipment ,						
and software	(598)	241	-	32	**(325)**	-
Intangible assets,						
other than software	(1,860)	247	-	79	**(1,534)**	-
Provisions	54	(54)	-	-	**-**	-
Other	409	(109)	-	(19)	**281**	-
Tax loss carry-forward	4,274	(563)	-	(118)	**3,593**	693
Intercompany interest	1,932	(358)	-	(127)	**1,447**	-
Foreign exchange	(916)	666	-	24	**(226)**	-
Deferred income tax	3,433	(96)	-	(149)	**3,188**	693
Deferred income tax - asset	3,433				**3,188**	

($ thousands)	Balance December 31, 2015	Recognized in profit or loss	Recognized in discontinued operations	Effect of movement in exchange rates	**Balance December 31, 2016**	**Unrealized December 31, 2016**
Accounts receivable, and						
accounts payable	482	(152)	-	13	**343**	-
Tax credits recoverable	(180)	(25)	-	-	**(205)**	-
Property and equipment ,			-	-	**-**	-
and software	(579)	-	-	(19)	**(598)**	-
Intangible assets,			-	-	**-**	-
other than software	(1,878)	72	-	(54)	**(1,860)**	-
Provisions	309	(261)	-	6	**54**	-
Other	415	(19)	-	13	**409**	-
Tax loss carry-forward	3,101	1,120	32	21	**4,274**	-
Intercompany interest	1,879	(22)	-	75	**1,932**	-
Foreign exchange	(1,199)	331	-	(48)	**(916)**	-
Deferred income tax	2,350	1,044	32	7	**3,433**	-
Deferred income tax - asset	2,350				**3,433**	

12. SHARE CAPITAL

(a) Common shares

Common shares	2017		2016	
($ thousands)	#	$	#	$
Outstanding, beginning of year	**58,459,856**	**31,888**	58,055,503	31,720
Converted common shares	**(14,728,860)**	**(2,272)**	-	-
Shares issued under Employee Share Purchase Plan	**114,466**	**31**	279,353	109
Share-based compensation	**200,000**	**38**	125,000	59
Outstanding, end of year	**44,045,462**	**29,685**	58,459,856	31,888

At December 31, 2017, the Corporation was authorized to issue an unlimited number of common shares without par value. The holders of common shares are entitled to one vote per share and all shares rank equally with regard to the Corporation's residual assets.

In July 2017, the shareholders converted 14,728,860 common shares for 1,136,245 preferred shares pursuant to the plan of arrangement approved by shareholders on June 29, 2017.

(b) Preferred shares and warrants

Preferred shares	2017	
	#	$
Outstanding, beginning of year	-	-
Converted common shares	**1,136,245**	**2,272**
Private placement with warrants	**1,013,000**	**1,833**
Outstanding, end of year	**2,149,245**	**4,105**

In July 2017, the Corporation issued 1,013,000 series A preferred shares ("preferred shares") in exchange for proceeds of $2.0 million and converted 14,728,860 common shares for 1,136,245 preferred shares pursuant to the plan of arrangement approved by shareholders on June 29, 2017. The total cost of issuing the preferred shares was $0.1 million.

The 2,149,245 preferred shares are entitled to receive a cumulative quarterly fixed dividend for the five-year period following their issuance at an annual rate of 8.00%, payable on the last day of March, June, September, and December, as and when declared by the board of directors of the Corporation. The first of such dividends was paid September 30, 2017 and second dividend was paid December 31, 2017. Total dividend paid in the year was $0.2 million.

After five years, the annual dividend rate will be adjusted to a rate equal to the sum of the then five-year Government of Canada bond yield plus 5.00%, provided that, in any event, such rate will not be less than 8.00% per annum.

At any time after the five-year anniversary of their issuance, all or a portion of the preferred shares may be redeemed by the Corporation for an amount equal to the sum of the deemed purchase price for the preferred shares plus any declared, accrued, and unpaid dividends.

With the issuance of the preferred shares the Corporation issued 1,013,000 warrants which entitles the subscriber to purchase one common share of the Corporation at a purchase price of $0.20 per warrant before June 30, 2019.

(c) Contributed surplus

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

(d) Accumulated other comprehensive income (AOCI)

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

13. SHARE-BASED PAYMENT

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

(a) Deferred annual bonus and share purchase plan

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

On July 11, 2016, 150,000 DCS were issued to executives, line managers, and key contributors of the Corporation. The DCS vest if earnings growth targets are met within a three year period. If the earnings growth targets are not met, or if the employee leaves the Corporation before they are met, the DCS are forfeited. The measurement date fair value of the DCS was less than $0.1 million.

Number of deferred common shares	**2017**		2016	
	Issued	**Vested**	Issued	Vested
Outstanding, beginning of year	**1,876,635**	**551,635**	1,926,635	401,635
Granted	**-**	**-**	150,000	-
Vested	**-**	**200,000**	-	150,000
Exercised	**(200,000)**	**(200,000)**	-	-
Forfeited	**(100,000)**	**-**	(200,000)	-
Outstanding, end of year	**1,576,635**	**551,635**	1,876,635	551,635

(b) Employee share purchase plan

On May 13, 2014, the Board approved a new Employee Share Purchase Plan ("ESPP"), which was approved by the shareholders of the Corporation on June 11, 2014 and the TSX on June 23, 2014. The total number of common shares that may be issued under the ESPP to directors, officers, and employees is 3,000,000, of which 1,558,617 (2016: 1,251,097) have been listed and reserved as at December 31, 2017.

Each participant in the ESPP is permitted to contribute a portion of his or her salary to the ESPP. The Corporation issues the purchased shares from treasury upon the earlier of a written request from the participant and the one year anniversary of the end of the month in which the contribution was made. In addition to the purchased shares, the Corporation matches the participant's contribution, to an annual maximum of the lesser of five thousand dollars or 5 percent of the participant's annual base salary. The matched shares are subject to a one-year vesting period and are issued from treasury during the quarter following two years from the end of the month in which the contribution was made.

During the year end December 31, 2017, proceeds net of refunds from purchased shares are credited to contributed surplus and totaled less than $0.1 million (2016: less than $0.1 million) during the year. This amount is transferred to share capital when the shares are issued from treasury, and less than $0.1 million (2016: $0.1 million) was transferred during the year. The measurement date fair value of the matched shares during the year was less than $0.1 million (2016: $0.1 million) and is being expensed over the one year vesting period, with an offsetting credit to contributed surplus. The amount credited to contributed surplus will be transferred to share capital when the matched shares are issued from treasury.

As at December 31, 2017, 122,466 (2016: 41,059) shares were reserved for issuance in relation to purchased shares. 152,240 (2016: 111,946) shares were reserved for issuance in relation to matched shares.

14. EARNINGS PER SHARE

Basic earnings per share for the year ended December 31, 2017 and 2016 is based on the net earnings attributable to shareholders, as reported in the consolidated statements of operations and comprehensive income (loss), and the weighted average number of common shares outstanding in the year.

Diluted earnings per share for the year ended December 31, 2017 and 2016 is based on the net earnings attributable to shareholders as reported in the consolidated statements of operations and comprehensive income (loss) and basic weighted average number of common shares outstanding in the year:

For the years ended December 31,	2017	2016
Weighted average of common shares		
Basic	**54,974,900**	58,221,595
Diluted	**54,974,900**	58,221,595

The average market value of the Corporation's shares for purposes of calculating the dilutive effect of deferred common shares was based on quoted market prices for the period during which the deferred common shares were outstanding. The following potential common shares were excluded from the weighted average number of common shares outstanding (diluted) for 2017 because they were antidilutive:

- 1,576,635 deferred common shares; and
- 274,706 shares reserved under the Employee Share Purchase Plan.

CRITICAL CONTROL

15. CAPITAL MANAGEMENT

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

As at December 31,			
($ thousands)	Note	**2017**	2016
Bank indebtedness	10	**4,743**	6,100
Long-term debt	10	**3,373**	4,341
		8,116	10,441
Less: secured bank term loans	10	**3,373**	3,066
Less: cash and cash equivalents		**287**	552
Net debt		**4,456**	6,823
Total shareholders' equity		**22,585**	24,007
Net debt to equity		**0.2:1**	0.28:1

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The following shows the fair value and carrying values of the financial instruments:

As at December 31	**2017**		**2016**	
($ thousands)	**Fair Value**	**Carrying Value**	**Fair Value**	**Carrying Value**
Loans and receivables:				
Cash and cash equivalents	**287**	**287**	552	552
Accounts receivable	**5,938**	**5,938**	7,402	7,402
Financial liabilities measured at amortized costs:				
Bank indebtedness(1)	**4,743**	**4,743**	6,100	6,100
Accounts payable and accrued liabilities	**2,963**	**2,963**	3,664	3,664
Credit facilities:				
Secured bank term loan - CAD	**499**	**499**	1,275	1,275
Secured bank term loan - CAD	**2,874**	**2,874**	3,000	3,000
Secured bank term loan - USD (2)	**-**	**-**	1,275	1,275
Secured finance contracts	**-**	**-**	66	66

(1) Total value of outstanding at December 31, 2017 of CDN$2.6 million, US$0.2 million, and LIBOR US$1.5 million (December 31, 2016 – CDN$1.7 million, US$2.1 million, and LIBOR US$2.0 million)
(2) Total value outstanding at December 31, 2017 OF $NIL (December 31, 2016 – US$0.9 million).

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

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

Nature and Extent of Risks Arising from Financial Instruments

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

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

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

Credit risk

Critical Control is exposed to credit risk as a result of extending credit to customers for services performed, creating exposure on accounts receivable balances with trade customers. This exposure to credit risk is managed through a corporate credit policy whereby upfront evaluations are performed on all customers and credit is granted based on payment history, financial conditions, and anticipated industry conditions. Customer payments are continuously monitored to ensure the creditworthiness of all customers with outstanding balances and when collectability becomes questionable a provision for doubtful accounts is established. Starting in 2016, the Corporation obtained insurance on its 0 to 120 days outstanding accounts receivable to reduce its credit risk exposure.

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

As at December 31 **($ thousands)**	**2017**	2016
Balance at beginning of year	**1,447**	1,355
Net change in the reserve recorded in the statement of operation	**120**	103
Write-offs charged against the reserve	**(364)**	(11)
Balance at end of year	**1,203**	1,447

As at December 31, 2017, Critical Control had accounts receivable of $2.6 million (December 31, 2016: $3.1 million) that were greater than 90 days for which the provision had been established. It is the Corporation's intention to vigorously pursue the collection of the amounts provided for.

Liquidity risk

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

The Corporation's credit facility with its bank requires meeting certain financial covenants. Management expects to meet these covenants in 2018 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 an event that a demand of the term loan is made, management's plans include the further reduction of expenditures, the pursuit of alternative financing, or the pursuit of other strategic alternatives, the success of which cannot be assured.

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

($ thousands)	Carrying amount	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Accounts payable and accrued liabilities	**2,963**	2,963	-	-	-
Secured bank term loan ($3.0 million)	**2,874**	564	1,500	810	-
Secured bank term loan ($2.0 million)	**499**	97	333	69	-
	6,336	3,624	1,833	879	-

At December 31, 2017, the Corporation had $0.3 million (December 31, 2016: $0.6 million) of cash on hand, and access to a further $0.9 million (December 31, 2016: $0.5 million) available on its secured banking facility to fund ongoing working capital requirements. Access to the amount 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 2018 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 an Adjusted Debt Service ratio to exceed 1.10 to 1.00. As at December 31, 2017, the Corporation is in compliance with its financial covenants.

Market risk

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

Currency risk

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

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

Sensitivity analysis:

A strengthening of the Canadian dollar against the US dollar by 100 basis points at December 31, 2017 would have decreased net earnings by less than $0.1 million (2016: less than $0.1 million), other comprehensive income, total comprehensive income, and equity by less than $0.1 million (2016: less the $0.1 million). The analysis assumes that all other variables, interest rates in particular, remain constant. The analysis has been performed on the same basis for 2016. A weakening of the Canadian dollar by 100 basis points at December 31, 2017 would have had an equal but opposite effect on net earnings, other comprehensive income, and equity, on the basis that all other variables remain constant.

Interest rate risk

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

Sensitivity analysis:

Critical Control is subject to risk exposure related to changes in interest rates on borrowings under the credit facility, which is subject to floating interest rates. A change of 100 basis points in the interest rates would cause a $0.1 million change in interest costs for the year-ended December 31, 2017 (December 31, 2016: $0.1 million). This analysis is based on average debt levels and assumes that all other variables, in particular foreign currency rates, remain constant. The analysis has been performed on the same basis for 2016. The Corporation does not currently hold any financial instruments to mitigate its interest rate risk.

17. REVENUE

For the years ended December 31, ($ thousands)	2017	2016
Cloud based software	**7,801**	7,355
Software based services	**8,414**	9,335
Measurement services	**8,453**	10,624
Equipment and other revenue	**4,454**	4,452
	29,122	31,766

Cloud based software is reasonably expected to be continually provided to clients on a recurring periodic basis. This would include subscription revenue for software.

Software based services are provided to clients based on a per occurrence charge. This would include the implementation of cloud based software and monthly recurring services inclusive of gas chart integration and production and financial accounting.

Measurement services are non-software based services reasonably expected to be provided on a recurring periodic basis. This would include gas and liquid laboratory services, certification and proving, and gas measurement field services.

Equipment and other revenue are viewed as one-time in nature. This would include equipment sales, and fabrication projects.

18. SIGNIFICANT CUSTOMERS

For the year-ended December 31, 2017, the Corporation had one customer that provided a percentage of total revenue of 9% (2016: one customer that provided a percentage of total revenue of 10%).

19. OTHER EXPENSES

For the years ended December 31, ($ thousands)	2017	2016
Acquisition related charges	**-**	25
Provision of onerous lease	**-**	(28)
Termination benefits	**200**	318
Other	**48**	348
	248	663

The Corporation incurred or accrued termination costs in 2017 totaling $0.2 million (2016: $0.3 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 $0.3 milllion.

20. EXPENSES BY NATURE

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

For the years ended December 31, ($ thousands)	2017	2016
Expenses		
Salaries, subcontractors, and benefits	**14,802**	18,185
Material and supplies	**3,751**	3,868
External services and facilities	**6,477**	6,854
Share-based payment	**89**	149
	25,119	29,056
Allocated to:		
Operating expense	**16,073**	19,052
General and administrative	**9,046**	10,004
	25,119	29,056
Foreign exchange		
Foreign exchange - realized	**(95)**	45
Foreign exchange - unrealized	**1,253**	183
	1,158	228
Finance costs		
Bank related charges	**387**	480
Interest on bank indebtedness	**229**	202
Interest on long-term debt	**356**	471
Deferred financing costs on long-term debt	**-**	27
	972	1,180

21. RELATED PARTY TRANSACTIONS

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

Critical Control engages the law firm of Shea Nerland LLP (“SN”) to provide legal advice. One partner of this law firm is a Director of the Corporation. During the year ended December 31, 2017, Critical Control incurred legal fees of $0.1 million (2016 – less than $0.1 million) to SN. At December 31, 2017, less than $0.1 million was due to SN (December 31, 2016 – less than $0.1 million).

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

In 2017, the Corporation issued 1,013,000 preferred shares through a private placement with warrant for $1.8 million. The directors, executive officers, and department heads participated in the offering and purchased 395,500 preferred shares for $0.8 million.

Key Management Compensation

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

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

For the years ended December 31, ($ thousands)	2017	2016
Salaries and benefits	**1,006**	776
Share-based payments	**73**	97
	1,079	873

In 2015, key management personnel left the Corporation as part of the restructuring resulting in severance packages of $0.8 million for these individuals to be paid in monthly installment over the course of the next year. As at December 31, 2017, there was no outstanding balance (December 31, 2016: less than $0.1 million) that relates to unpaid severance. There was no change in key management personnel in 2016.

22. SEGMENTED INFORMATION

The following presents the results of Critical Control's geographic segments:

As at December 31, ($ thousands)	Canada 2017	Canada 2016	US 2017	US 2016	Total 2017	Total 2016
Revenue	**12,054**	11,952	**17,068**	19,814	**29,122**	31,766
Property and equipment	**843**	979	**2,056**	2,635	**2,899**	3,614
Intangible assets and goodwill	**9,059**	8,677	**10,189**	11,412	**19,248**	20,089
Total assets	**12,242**	12,222	**22,302**	26,868	**34,544**	39,090

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

As at December 31, ($ thousands)	Software 2017	Software 2016	Field Services 2017	Field Services 2016	Corporate 2017	Corporate 2016	Total 2017	Total 2016
Property and equipment	**1,016**	979	**1,883**	2,635	**-**	-	**2,899**	3,614
Intangible assets and goodwill	**19,248**	20,089	**-**	-	**-**	-	**19,248**	20,089
Total assets	**24,811**	27,366	**9,733**	11,724	**-**	-	**34,544**	39,090

Year ended December 31, ($ thousands)	Software 2017	Software 2016	Field Services 2017	Field Services 2016	Corporate 2017	Corporate 2016	Total 2017	Total 2016
Revenue								
Cloud based software	**7,801**	7,355	**-**	-	**-**	-	**7,801**	7,355
Software based services	**8,414**	9,335	**-**	-	**-**	-	**8,414**	9,335
Measurement service	**-**	-	**8,453**	10,624	**-**	-	**8,453**	10,624
Equipment and other revenue	**299**	229	**4,155**	4,223	**-**	-	**4,454**	4,452
	16,514	16,919	**12,608**	14,847	**-**	-	**29,122**	31,766
Expenses								
Operating expense	**6,151**	7,492	**9,922**	11,560	**-**	-	**16,073**	19,052
Research and development	**1,471**	995	**-**	-	**-**	-	**1,471**	995
Depreciation and amortization	**2,165**	1,849	**717**	761	**-**	-	**2,882**	2,610
Loss on sale of asset	**(27)**	27	**-**	-	**-**	-	**(27)**	27
	9,760	10,363	**10,639**	12,321	**-**	-	**20,399**	22,684
	6,754	6,556	**1,969**	2,526	**-**	-	**8,723**	9,082
General and administrative	**-**	-	**-**	-	**9,046**	10,004	**9,046**	10,004
Foreign exchange	**-**	-	**-**	-	**1,158**	228	**1,158**	228
Other expenses	**-**	-	**-**	-	**248**	663	**248**	663
Finance costs	**-**	-	**-**	-	**972**	1,180	**972**	1,180
Income taxes	**-**	-	**-**	-	**556**	(1,081)	**556**	(1,081)
Discontinued operations	**-**	-	**-**	-	**-**	85	**-**	85
Net income (loss)	**6,754**	6,556	**1,969**	2,526	**(11,980)**	(11,079)	**(3,257)**	(1,997)
Purchase of property, equipment, and intangible assets	**2,290**	1,843	**-**	13	**-**	-	**2,290**	1,856

23. COMMITMENTS AND CONTINGENCIES

Commitments

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

($ thousands)	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Operating leases	1,467	2,764	1,692	307

24. SUPPLEMENTAL INFORMATION

Change in non-cash working capital balances:

For the years ended December 31, ($ thousands)	2017	2016
Accounts receivable	**1,464**	4,265
Inventory	**481**	341
Prepaid expenses	**63**	46
Accounts payable and accrued liabilities	**(1,197)**	(1,134)
Deferred revenue	**114**	31
Provisions	**(191)**	(792)
	734	2,757

25. SIGNIFICANT ACCOUNTING POLICIES

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

Basis of Consolidation

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

Business combinations

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

Subsidiaries

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

Transactions eliminated on consolidation

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

Foreign currency

Foreign currency transactions

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

Foreign currency translation

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

Cash and cash equivalents

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

Inventory

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

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

Property and equipment

Recognition and measurement

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

Subsequent costs

The cost of replacing a part of an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Corporation and its cost can be

measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property and equipment (repairs and maintenance) are charged to earnings as incurred.

Depreciation

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

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

Leased assets

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

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

Intangible assets

Goodwill

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

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

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

Research and development

Expenditures on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, are charged to earnings as incurred. Development activities involve a plan or design for the production of new

or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Corporation intends to and has sufficient resources to complete development and to use or sell the asset. Amortization of product development costs is charged to earnings on a straight line basis over three years from the date the assets are available for use.

Subsequent expenditures

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

Impairment

Receivables

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

Non-financial assets

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

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

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

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

Provisions

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as

a finance cost. A provision for an onerous contract is recognized when the expected benefits to be derived by the Corporation from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract.

Common shares

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

Preferred shares

Preferred shares that are redeemable at the Corporation's option only, bear discretionary dividends and do not contain any obligations to deliver cash are classified as equity. Discretionary dividends thereon are recognized as equity distributions upon approval by the Corporation's Board of Directors.

If preferred shares are redeemable in cash at the option of the holder or bear non-discretionary dividends they are classified as a financial liability. Non-discretionary dividends thereon are recognized as interest expense in profit or loss.

Earnings per share

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

Revenue Recognition

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

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

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

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

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

Lease payments

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

Employee benefits

Termination benefits

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

Short-term employee benefits

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

Share-based payment transactions

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

Income taxes

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

Current tax

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

Deferred tax

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

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

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

Uncertain tax positions

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

Financial instruments and hedge accounting

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

Financial instruments – recognition and measurement

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

A “financial asset or financial liability at fair value through profit or loss” is classified in this category if it is acquired for the purpose of selling or repurchasing in the short term. The Corporation currently has no “financial assets or financial liabilities at fair value through profit or loss”. Changes in fair value are recognized in financing costs in the consolidated statements of operations and comprehensive income (loss).
The Corporation currently has no “available-for-sale financial assets”, which must be re-measured to fair value at each period and the change in fair value would be recognized in other comprehensive income.

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

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

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

Segment reporting

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

26. NEW STANDARDS AND INTERPRETATIONS NOT YET ADOPTED

A number of new standards and amendments to existing standards have been issued by the International Accounting Standards Board (IASB) that are effective after December 31, 2017, and, therefore, have not been applied to the consolidated financial statements. These new standards and amendments and their anticipated impact on Critical Control's consolidated financial statements once they are adopted are as follows:

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

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

The standard is required to be applied for years beginning on, or after, January 1, 2018. The Corporation has assessed the impact of adopting this standard and concluded that these is a minimal impact on the consolidated financial statements.

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

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

The new standard is effective for annual periods beginning on or after January 1, 2018, using either a full retrospective approach for all periods presented in the period or a modified retrospective approach. The Corporation is in the process of finalizing the impact of the new standard on the consolidated financial statements and has not identified any material adjustments to date.

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

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