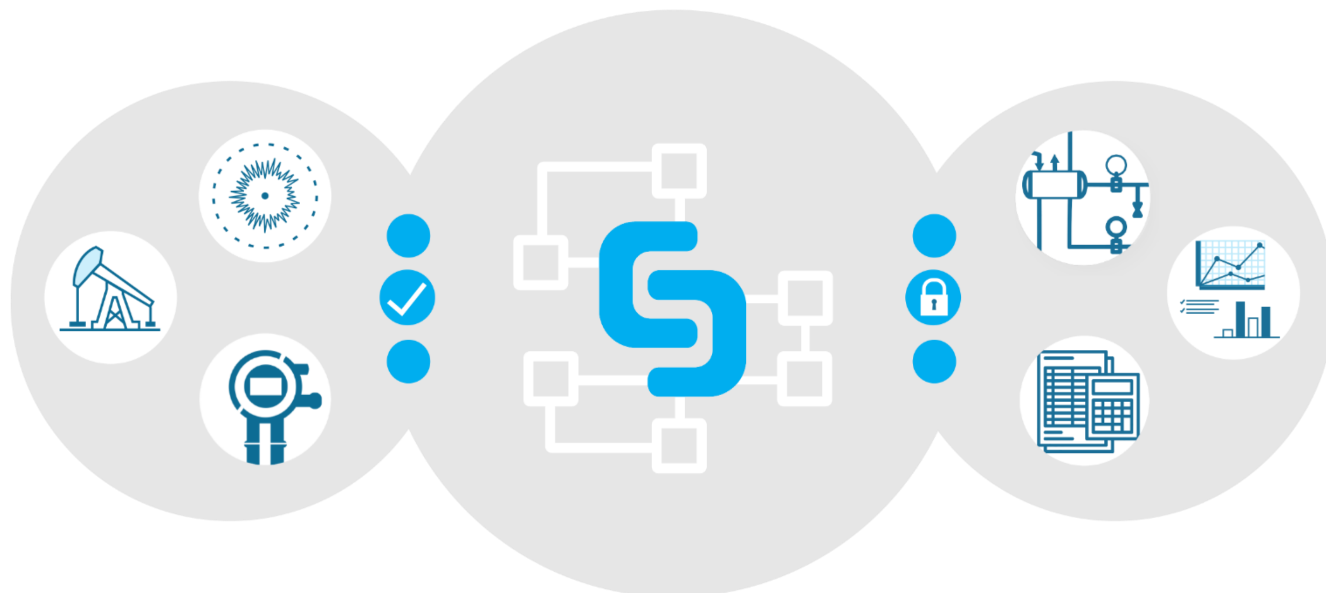


2017

Management Discussion & Analysis

Critical Control Energy Services Corp. December 31, 2017

The discussion and analysis of the financial condition and results of operations of Critical Control Energy Services Corp. is prepared as at March 23, 2018 and should be read in conjunction with the audited consolidated financial statements of Critical Control Energy Services Corp., and the notes thereto, for the year ended December 31, 2017.

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

CRITICAL CONTROL

MANAGEMENT DISCUSSION AND ANALYSIS

The following management discussion and analysis (MD&A) of the financial condition and results of operations is intended to help the reader understand the current and prospective financial position and operating results of Critical Control Energy Services Corp. (“Critical Control” or the “Corporation”). The MD&A discusses the operating and financial results for the three and twelve months ended December 31, 2017, is dated March 23, 2018, and takes into consideration information available up to that date.

The MD&A is based on the annual consolidated financial statements of Critical Control for the year ended December 31, 2017. The MD&A should be read in conjunction with the annual consolidated financial statements and related notes for the year ended December 31, 2017, prepared in accordance with International Financial Reporting Standards (IFRS).

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

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

FORWARD-LOOKING STATEMENTS

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

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

FINANCIAL HIGHLIGHTS

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

For the years ended December 31, ($ thousands)	2017	2016	2015
Cloud based software [1]	**7,801**	7,355	7,759
Software based services [1]	**8,414**	9,335	11,236
Measurement services [1]	**8,453**	10,624	11,085
Equipment and other revenue [1]	**4,454**	4,452	9,856
Total revenue	**29,122**	31,766	39,936
Gross margin [1]	**13,049**	12,714	14,477
Gross margin - percentage [1]	**44.8%**	40.0%	36.3%
Adjusted EBITDA [1]	**2,621**	1,864	822
EBITDA [1]	**1,153**	797	(2,589)
Net loss	**(3,257)**	(1,997)	(3,506)

Revenue [1]

- Strong cloud based software revenue in the Corporation's Software segment together with growth driven from the continued penetration of the Corporation's software in both Canada and the United States offset declines from shut in wells and the cost saving measures implemented by the industry. As a result, Software revenue fell by only 2.4% to $16.5 million in 2017 from $16.9 million in 2016.
- Industry factors and the subsequent competitive environment continue to impact the Corporation's revenue from its Field Services business, which generated US$9.7 million in 2017, a 13.3% decrease from the previous year.

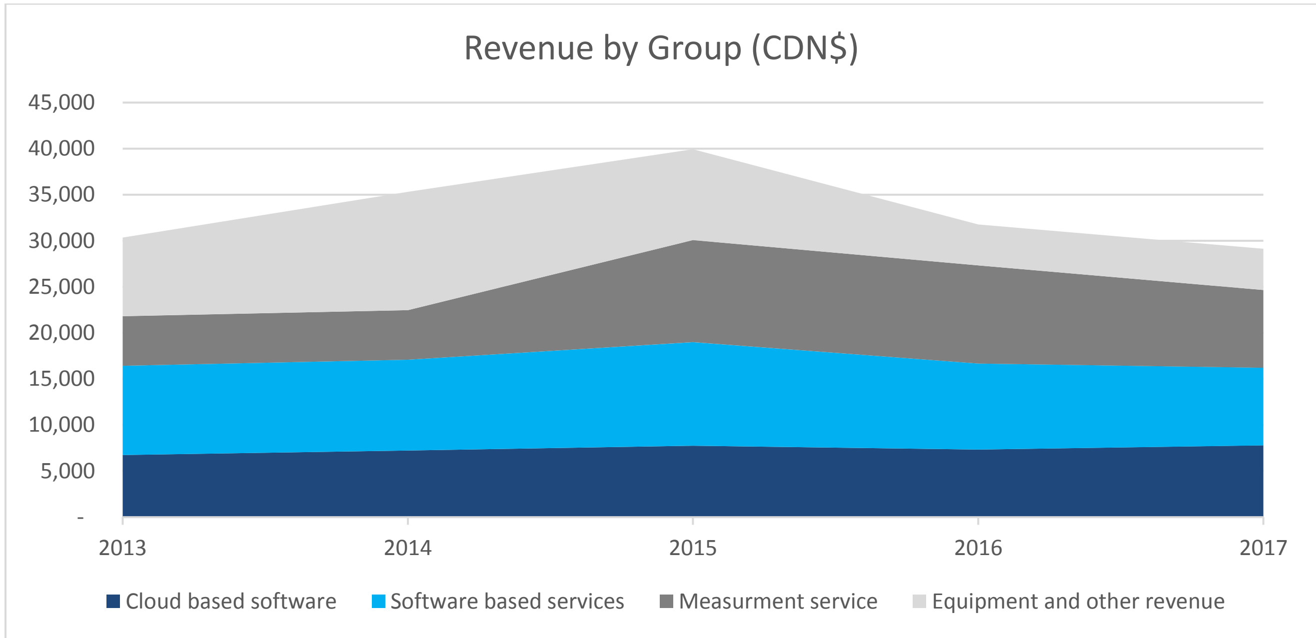
Gross margin [1]

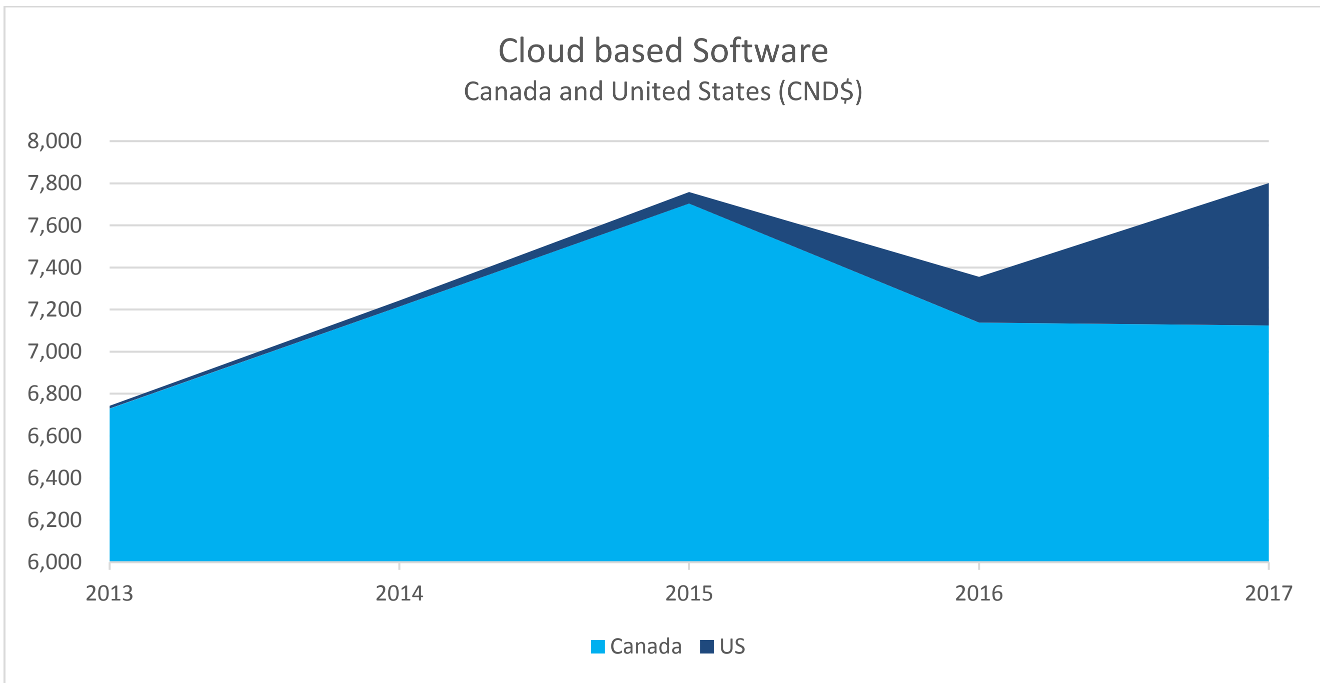
- Management's measures to reengineer the Corporation's business to exit the downturn in a more competitive position resulted in gross margin increasing from 40.0% in 2016 to 44.8% in 2017.
- Gross margin in Software improved from 55.7% to 62.8% despite a strong competitive environment and continued pressures to provide price breaks during the downturn.
- Management continues to focus on streamlining the Field Services operations and leveraging its software to improve the efficiency of measurement services.

Earnings and net earnings [1]

- The Corporation has a loss of $3.3 million in 2017 (2016: $2.0 million). The difference relates primarily to an unrealized foreign exchange loss of $1.3 million compared to a $0.2 million loss in 2016.
- Adjusted EBITDA increased 38.8% in 2017 from $1.9 million in 2016 to $2.6 million. The increase is attributed to reduced administrative expenditure and improvements to gross margin.

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


Revenue by Group (CDN$)
45,000
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
-
2013
2014
2015
2016
2017
Cloud based software
Software based services
Measurment service
Equipment and other revenue


Cloud based Software
Canada and United States (CND$)
8,000
7,800
7,600
7,400
7,200
7,000
6,800
6,600
6,400
6,200
6,000
2013
2014
2015
2016
2017
Canada
US

OPERATIONAL HIGHLIGHTS

For the years ended December 31, ($ thousands)	2017	2016	2015
Software (CND$)			
Cloud based software [1]	**7,801**	7,355	7,759
Software based services [1]	**8,414**	9,335	11,236
Equipment and other revenue [1]	**299**	229	242
Total revenue	**16,514**	16,919	19,237
Gross margin [1]	**10,363**	9,427	9,978
Gross margin - percentage [1]	**62.8%**	55.7%	51.9%
Field Services (CND$)			
Measurement services [1]	**8,453**	10,624	11,085
Equipment and other revenue [1]	**4,155**	4,223	9,614
Total revenue	**12,608**	14,847	20,699
Gross margin [1]	**2,686**	3,287	4,482
Gross margin - percentage [1]	**21.3%**	22.1%	21.7%
Field Services (US$)			
Measurement services [1]	**6,485**	7,757	8,641
Equipment and other revenue [1]	**3,185**	3,396	7,590
Total revenue	**9,670**	11,153	16,231
Gross margin [1]	**2,053**	2,466	3,523
Gross margin - percentage [1]	**21.3%**	22.1%	21.7%

2017 ANNUAL SUMMARY

In 2015, Critical Control embarked on a restructuring of the Corporation to reposition itself as a digital oilfield service company focused on industry penetration of its cloud based software partnered with its field and lab services into the US market. Throughout 2015 the Corporation restructured the business through the disposition of its non-energy sector Service Bureau and subsequent Measurement Services Acquisition. In addition, the Corporation integrated its Canadian and US business units into a single organization, reducing overhead, centralizing accounting, creating a sales and marketing team to span North America, and reengineered its business processes to integrate its solutions with the objective of leveraging its size and centralization capability to obtain economies of scale. Going into 2016, the Corporation continued to focus on improving its business process with management's monitoring of product line revenues, costs, and the streamlining of operations. The Corporation's focus on improving the Service business segment resulted in rationalization of headcount in the first half of 2016 as well as consolidation of field offices to improve efficiencies.

The Corporation revised its financing to better enable it to penetrate the US market with its software. Focus was placed on utilizing the Service business segment to cross sell software solutions, developing channel partnerships, and further improving the Field Services business through implementing the Corporation's software products.

These initiatives have allowed the Corporation to improve gross margin in the software business segments and reduce overhead costs, resulting in Adjusted EBITDA increasing $1.1 million in 2016 and $0.7 million in 2017, while total revenue declined $8.2 million in 2016 and $2.7 million in 2017 due to industry conditions.

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

OUTLOOK AND GUIDANCE

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

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

The volatility in the price of oil and gas through 2017 has continued to impede investment in the industry. While the strengthening price of oil in early 2018 has created cautious optimism in the Corporation's US client base, the lack of access to export markets in Canada continues to negatively impact investment in the Corporation's largest revenue base.

As the industry struggled over the past three years, oil and gas service providers have become increasingly competitive materially driving down costs to the producer, which have materially impacted the Corporation's revenue base. While the impact to the Corporation's measurement service and software based services was felt the most, the value provided by the Corporation's cloud based software generated modest growth, driven primarily through penetration of the Corporation's software into the US market.

The Corporation's strategy for 2018 and onwards is to leverage its Field Services customers in the US to adopt the Corporation's software. The Corporation is rebuilding its Field Services business to differentiate an increasingly commoditized offering with cost savings based on adoption of software. Management is confident that this endeavour will yield growth in the Corporation's strategic cloud based software revenue, but the effort is expected to negatively impact the Corporation's measurement services revenue in early 2018 as the Corporation implements customers onto its cloud based software. Management's expectation of growth is based upon continued penetration of the Corporation's software by its US customers and may be impacted as the industry continues investment in automation attracting the entry of new competitive products to the Corporation's software.

Growth of the Corporation's cloud based software revenue in the US during 2017 is an early reflection of the success of the Corporation's strategy to covert its measurement services to automation based on software. Management is optimistic that the continuation of this strategy in 2018 will accelerate adoption of the Corporation's cloud based software in the US which will offset the risk inherent in the Canadian market place.

The Corporation has continued its investment in enhancing its existing software portfolio and adding new software products to reduce energy producer's cost and risk. Management intends on continuing this investment through 2018.

NON-GAAP MEASURES AND ADDITIONAL GAAP MEASURES

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

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

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

SCADAVIEW ACQUISITION

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

CORPORATE PROFILE

Critical Control provides solutions for the collection, control, and analysis of measurement and operational data related to the oil and gas wells across North America. The Corporation provides services to capture data, cloud-based software to visualize and manage it, and business intelligence to make quicker and more informed operational decisions. All of the Corporation's identifiable assets are located in Canada and the United States. Critical Control is a publicly traded company listed on the Toronto Stock Exchange ("TSX") under the symbols "CCZ" and "CCS.PR.A".

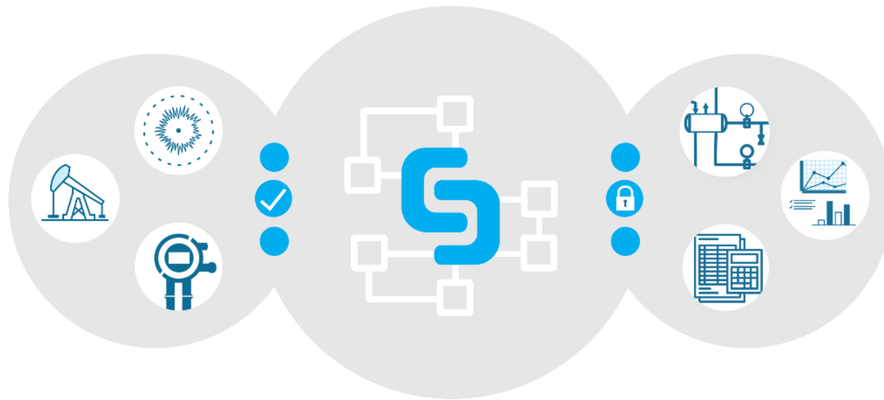
The reportable segments are managed separately because of the unique characteristics and requirements of each business.

Software

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.

Software operations has offices located in Calgary, Alberta, Indiana, Pennsylvania, Girard, Ohio, Stonewood, West Virginia, and Tyler, Texas.



Field Services

The Field Services business provides the following services to its upstream and midstream oil and gas clients. The business comprises of two services lines in the United States.

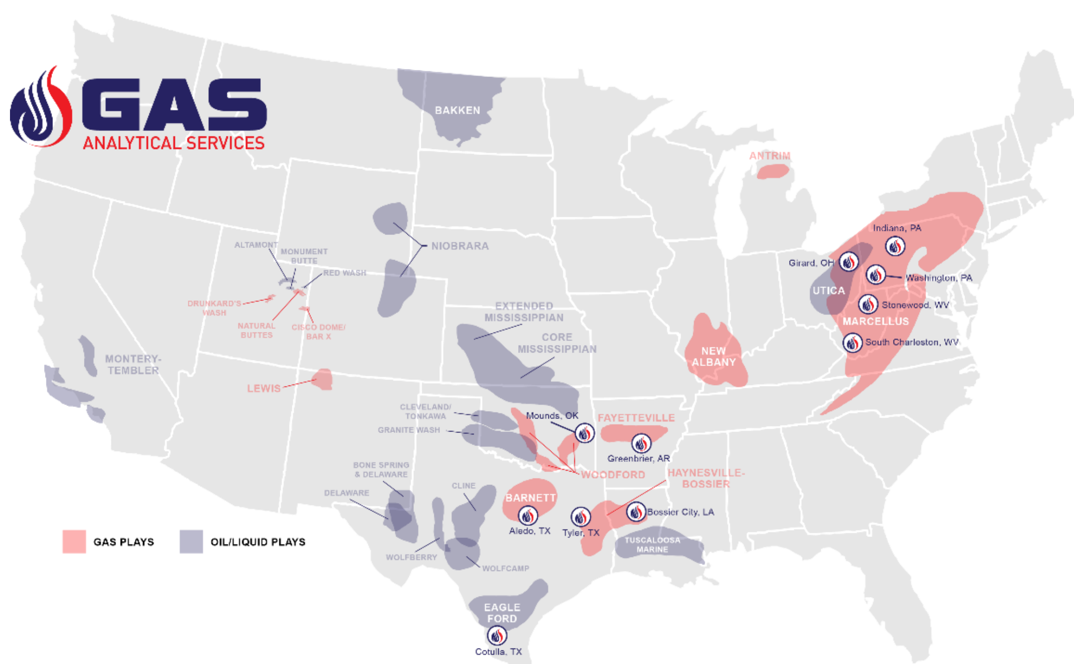
Measurement services

- ***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.

Equipment and other revenue

- ***Distribution of Measurement Equipment****:* resale of gas measurement related equipment.
- ***Fabrication***: assembly and sale of gas measurement related equipment.

Field Services operates in twelve locations across the United States.



RESULTS OF OPERATIONS

Software

For the years ended December 31, ($ thousands)	2017	2016	2015
Cloud based software [1]	**7,801**	7,355	7,759
Software based services [1]	**8,414**	9,335	11,236
Equipment and other revenue [1]	**299**	229	242
	16,514	16,919	19,237
Operating expense	**6,151**	7,492	9,259
Gross margin [1]	**10,363**	9,427	9,978
Gross margin - percentage [1]	**62.8%**	55.7%	51.9%

Software generated revenue for the year ended December 31, 2017 of $16.5 million (2016: $16.9 million, 2015: $19.2 million). The increase in cloud based software subscriptions increased in 2017 driven by the expansion into the US market. This offset the decline in software based services revenue that resulted from a decrease in measurement data management revenue due to increased well shut-ins.

Gross margin percentage has increased to 62.8% in 2017 (2016: 55.7%, 2015: 51.9%). This is due to the focus on cloud based software and management's continued monitoring of product line revenues, costs, and the streamlining of operations that began in 2015. With these improvements, software generated an increase in gross margin of $0.9 million.

Field Services

For the years ended December 31, (CND$ thousands)	2017	2016	2015
Measurement services [1]	**8,453**	10,624	11,085
Equipment and other revenue [1]	**4,155**	4,223	9,614
	12,608	14,847	20,699
Operating expense	**9,922**	11,560	16,217
Gross margin [1]	**2,686**	3,287	4,482
Gross margin - percentage [1]	**21.3%**	22.1%	21.7%

Field Services generated revenue for the year ended December 31, 2017 of $12.6 million (2016: $14.8 million, 2015: $20.7 million) a decrease of 14.9%.

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

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

For the years ended December 31, (US$ thousands)	2017	2016	2015
Measurement services [1]	**6,485**	7,757	8,641
Equipment and other revenue [1]	**3,185**	3,396	7,590
	9,670	11,153	16,231
Operating expense	**7,617**	8,687	12,708
Gross margin [1]	**2,053**	2,466	3,523
Gross margin - percentage [1]	**21.2%**	22.1%	21.7%

The Field Services business unit is comprised of two distinctive groups of products. Measurement services which includes lab, field, certification and proving, and Equipment and other revenue which includes distribution of measurement equipment and fabrication based in Indiana, Pennsylvania.

Measurement services generated revenue in 2017 of US$6.5 million (2016: US$7.8 million, 2015: US$8.6 million). The decline in revenue compared to the prior years is representative of the decline in the industry throughout 2016 and increased competition in 2017.

The Corporation focused on the optimization of its operations in 2017. Throughout the year the Corporation implemented and utilized its software to create more efficient processes.

Fabrication work which is included within equipment and other revenue has historically contributed significantly to the profitability of US operations until mid-2015 when the industry and lack of well site activity negatively impacted fabrication orders. The Corporation restructured operations to maximize efficiencies and sustained the minimum operating expenses through the decline to ensure it is available when future opportunities arise.

GENERAL AND ADMINISTRATION

For the years ended December 31, ($ thousands)	2017	2016	2015
General and administrative less share-based payment	**8,957**	9,855	12,233
Share-based payment	**89**	149	333
General and administrative	**9,046**	10,004	12,566

For the year ended December 31, 2017, total general administration expenses decreased by $1.0 million compared to 2016. Administrative expenses decreased by $0.9 million from $9.9 million to $9.0 million, as a result of the restructuring done throughout 2015 and 2016. The Corporation continues to focus on cost reduction and process efficiencies to maintain lower administrative costs.

Share-based payment expense was maintained at $0.1 million year over year. The expense is driven by the timing of vesting of deferred share units.

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

RESEARCH AND DEVELOPMENT

For the years ended December 31, ($ thousands)	2017	2016	2015
Research and development	**3,058**	2,120	2,521
Less:			
Capitalized research and development costs	**(1,587)**	(1,011)	(950)
Research and development	**1,471**	995	1,422

The Corporation continues its research and development initiatives to increase the functionality that the Software customers derive from the Corporation's products. The Corporation's accounting policies for research and development require capitalization of product development expenditures that meet specific criteria as set out in Note 26 of the Corporation's December 31, 2017 annual audited consolidated financial statements.

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

- ***Regulatory Compliance and Risk Management***: In 2013, the Corporation embarked on a project to develop a new pipeline risk and measurement schematic product based on existing solutions acquired in previous acquisitions. The pipeline risk component uses proprietary risk scoring algorithms to account for a wide variety of internal, external, and topographical factors to develop a risk score. The measurement schematics component produces database driven schematics and GIS maps for upstream facilities. Both solutions utilize a common web-enabled front-end, and both integrate the same public and private data sources. The project continued into 2017 and new versions of the software were released with numerous improvements, enhancements, and functionality.

DEPRECIATION AND AMORTIZATION

For the years ended December 31, ($ thousands)	2017	2016	2015
Depreciation	**1,168**	1,024	968
Amortization	**1,714**	1,586	1,507
Depreciation and amortization	**2,882**	2,610	2,475

For the year ended December 31, 2017, depreciation expense increased by $0.1 million compared to the prior year. The increase is related to the increase of property and equipment used in the expansion of the US operations.

Amortization expense, which relates to the intangible assets increased $0.1 million compared to the prior years. This is attributed to the timing of the amortization of certain deferred development costs, customer relationships and non-compete agreements.

FOREIGN EXCHANGE

For the years ended December 31, ($ thousands)	2017	2016	2015
Foreign exchange - realized	**(95)**	45	(987)
Foreign exchange - unrealized	**1,253**	183	(168)
Foreign exchange	**1,158**	228	(1,155)

Foreign exchange gains and losses are the result of foreign currency fluctuations during the period and the timing of when items are settled.

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

FINANCE COSTS

For the years ended December 31, ($ thousands)	2017	2016	2015
Bank related charges	**387**	480	186
Interest on bank indebtedness	**229**	202	240
Interest on long-term debt	**356**	471	102
Deferred financing costs on long-term debt	**-**	27	27
Finance costs	**972**	1,180	555

Finance costs have decreased in 2017 compared to prior year. The decrease was mainly driven by improved interest rates management negotiated with its credit facility. The Corporation borrowed from its credit facility to finance the Corporation's expansion into the US market.

OTHER EXPENSES

For the years ended December 31, ($ thousands)	2017	2016	2015
Acquisition related charges	**-**	25	193
Bargain purchase price	**-**	-	(464)
Provision of onerous lease	**-**	(28)	597
Termination benefits	**200**	318	2,303
Write-down for allowance for doubtful accounts	**-**	-	1,217
Write-down for inventory obsolescence	**-**	-	399
Other	**48**	348	-
Other expenses	**248**	663	4,245

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

In the second quarter of 2015, Critical Control acquired net assets from the Measurement Services Acquisition which resulted in a gain on acquisition of $0.5 million, which was offset by the subsequently recognized onerous lease provision of $0.6 million and $0.1 million of costs relating to the acquisition.

In the first quarter of 2016, the lease located in Fort Lupton, CO was added as an onerous lease as a change in estimate to the provision. In the second quarter of 2016, the lease located in Muncy, PA lease was settled and a recovery was deducted from onerous leases, as a change in estimate to the provision.

During the fourth quarter of 2014, management commenced the execution of a plan to streamline operations. This continued throughout 2015, 2016, and into 2017. In relation to this restructuring, the Corporation incurred or accrued termination costs totaling $2.8 million over the past three years (2017: $0.2 million, 2016: $0.3 million, and 2015: $2.3 million).

In the third quarter of 2015, upon review of the increased risk of insolvency in the industry and the amount due from the Corporation's specific clients, the Corporation has increased its allowance for doubtful accounts by $1.2 million. The Corporation also in the third quarter of 2015, recognized an inventory write-down of $0.4 million due to the downturn in the exploration market.

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

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

For the years ended December 31, ($ thousands)	2017	2016	2015
Adjusted EBITDA [(1)]	**2,621**	1,864	822
EBITDA [(1)]	**1,153**	797	(2,589)
Net loss before discontinued operations	**(3,257)**	(1,912)	(3,945)
Net loss	**(3,257)**	(1,997)	(3,506)
Total comprehensive income (loss)	**(3,139)**	(2,039)	(2,274)
Funds (used in) provided by operations [(1)]	**1,840**	565	1,276
Cash flow provided by (used in) continuing operations	**2,574**	3,322	441

For the year ended December 31, 2017, the Corporation's net loss was $2.4 million compared to $2.0 million in 2016. The decrease is attributed to increased unrealized foreign exchange loss of $1.3 million (2016: $0.2 million) offset by reduced administration expenditures.

Adjusted EBITDA increased from $1.9 million to $2.6 million. The increase is attributed to reduced administrative expenditures and improvements in overall gross margin, offset by the decline in revenue.

The Corporation's funds provided by continuing operations improved in 2017 compared to 2016, attributed to a reduction in administration expenditure and interest paid offset by increased research and development expenditure.

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

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

CRITICAL CONTROL

FINANCIAL HIGHLIGHTS - QUARTERLY ANALYSIS

	2017				2016			
($ thousands)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Cloud based software [1]	**2,049**	1,941	1,918	1,893	1,771	1,833	1,827	1,924
Software based services [1]	**1,889**	2,029	2,360	2,136	2,221	2,200	2,396	2,518
Measurement services [1]	**1,862**	1,931	2,229	2,431	2,250	2,518	2,502	3,354
Equipment and other revenue [1]	**980**	1,172	1,122	1,180	1,096	1,087	1,044	1,225
Total revenue	**6,780**	7,073	7,629	7,640	7,338	7,638	7,769	9,021
Gross margin [1]	**2,923**	3,107	3,496	3,523	2,939	3,160	3,106	3,509
Gross margin - percentage [1]	**43.1%**	43.9%	45.8%	46.1%	40.1%	41.4%	40.0%	38.9%
Adjusted EBITDA [1]	**473**	533	853	762	547	594	504	219
EBITDA [1]	**352**	(199)	390	610	844	631	134	(812)
Net earnings (loss)	**(1,652)**	(1,153)	(400)	(52)	(291)	390	(614)	(1,482)

OPERATIONS HIGHLIGHTS – QUARTERLY ANALYSIS

	2017				2016			
($ thousands)	**Q4**	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Software (CND$)								
Cloud based software [1]	**2,049**	1,941	1,918	1,893	1,771	1,833	1,827	1,924
Software based services [1]	**1,889**	2,029	2,360	2,136	2,221	2,200	2,396	2,518
Equipment and other revenue [1]	**72**	62	59	106	44	58	48	79
Total revenue	**4,010**	4,032	4,337	4,135	4,036	4,091	4,271	4,521
Gross margin [1]	**2,592**	2,543	2,756	2,472	2,360	2,316	2,388	2,363
Gross margin - percentage [1]	**64.6%**	63.1%	63.5%	59.8%	58.5%	56.6%	55.9%	52.3%
Field Services (CND$)								
Measurement services [1]	**1,862**	2,058	2,448	2,431	2,250	2,518	2,502	3,354
Equipment and other revenue [1]	**908**	983	844	1,074	1,052	1,029	996	1,146
Total revenue	**2,770**	3,041	3,292	3,505	3,302	3,547	3,498	4,500
Gross margin [1]	**331**	564	740	1,051	579	844	718	1,146
Gross margin - percentage [1]	**11.9%**	18.5%	22.5%	30.0%	17.5%	23.8%	20.5%	25.5%
Field Services (US$)								
Measurement services [1]	**1,484**	1,503	1,656	1,842	1,696	1,940	1,877	2,244
Equipment and other revenue [1]	**729**	857	787	812	793	793	814	996
Total revenue	**2,213**	2,360	2,443	2,654	2,489	2,733	2,691	3,240
Gross margin [1]	**269**	438	551	795	437	650	552	827
Gross margin - percentage [1]	**11.9%**	18.5%	22.5%	30.0%	17.5%	23.8%	20.5%	25.5%

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

FOURTH QUARTER ANALYSIS

Software

Three months ended December 31, ($ thousands)	2017	2016
Cloud based software [1]	**2,049**	1,771
Software based services [1]	**1,889**	2,221
Equipment and other revenue [1]	**72**	44
	4,010	4,036
Operating expense	**1,418**	1,676
Gross margin [1]	**2,592**	2,360
Gross margin - percentage [1]	**64.6%**	58.5%

Software generated revenue for the three months ended December 31, 2017 was $4.0 million consistent with $4.0 million in 2016. Cloud based software subscription increased $0.2 million offsetting the decline in software based services.

The gross margin percentage increased from 58.5% to 64.6%. The increase gross margin is a direct result of the Corporation's business process reengineering. The Corporation has been able to streamline its workflow by better utilizing the software and creating more efficient back office processes, enabling it to generate improved margins.

Field Services

Three months ended December 31, (CND$ thousands)	2017	2016
Measurement services [1]	**1,862**	2,250
Equipment and other revenue [1]	**908**	1,052
	2,770	3,302
Operating expense	**2,439**	2,723
Gross margin [1]	**331**	579
Gross margin - percentage [1]	**11.9%**	17.5%

Three months ended December 31, (US$ thousands)	2017	2016
Measurement services [1]	**1,484**	1,696
Equipment and other revenue [1]	**729**	793
	2,213	2,489
Operating expense	**1,944**	2,052
Gross margin [1]	**269**	437
Gross margin - percentage [1]	**11.9%**	17.5%

Field Services generated revenue for the three months ended December 31, 2017 of $2.8 million compared to $3.3 million in 2016.

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

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

Field Services generated revenue for the three months ended December 31, 2017 of US$2.2 million compared to US$2.5 million in 2016.

Measurement services revenue decreased 11.8% from US$1.7 million to US$1.5 million, the decline in revenue in the fourth quarter of 2017 compared to the prior year is related to the decline in the industry in 2016 and increased competition in 2017. The equipment and other revenue declined $0.1 million year over year.

Gross margin percentage decreased from 17.5% to 11.9%, this is the related to the decline in revenue and the restructuring of the measurement services management team in the fourth quarter of 2017.

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As at December 31 ($ thousands)	2017	2016	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**287**	552	(265)
Accounts receivable	**5,938**	7,402	(1,464)
Inventory	**2,357**	2,838	(481)
Prepaid expenses	**253**	316	(63)
	8,835	11,108	(2,273)
Current liabilities			
Bank indebtedness	**4,743**	6,100	1,357
Accounts payable and accrued liabilities	**2,963**	3,664	701
Deferred revenue	**827**	713	(114)
Current portion of provisions	**-**	191	191
Current portion of deferred lease inducements	**12**	21	9
	8,545	10,689	2,144
Working capital (excluding debt) [1]	**290**	419	(129)

As at December 31 ($ thousands)	2017	2016	Increase (decrease)
Bank indebtedness	**4,743**	6,100	(1,357)
Secured bank term loan - $3.0 million	**2,874**	3,000	(126)
Secured bank term loan - $2.0 million	**499**	-	499
Secured bank term loan - US$1.7 million	**-**	1,275	(1,275)
Secured finance contracts	**-**	66	(66)
Total debt	**8,116**	10,441	(2,325)
Less:			
Cash and cash equivalents	**287**	552	(265)
Net debt	**7,829**	**9,889**	(2,060)

The key driver of the change in working capital (excluding debt) is the decrease of accounts receivable of $1.5 million related to improved timelines of the collections of outstanding receivables from the Corporation's customers and decrease in inventory of $0.5 million, attributed to better inventory management, offset by the decrease of $1.4 million of bank indebtedness and $0.7 million in accounts payable and accrued liabilities.

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

Credit facilities

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 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%.

- 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").

- On December 1, 2017, the banking facility agreement was amended to include a credit facility with a credit limit of $2.0 million to fund equipment required under contracts with customers when 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 had been used. The loan bearing interest rate is prime plus 1.25% per year. The Corporation shall only make interest payments for 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.

- 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.

Liquidity

At December 31, 2017, the Corporation had $0.3 million (December 31, 2016: $0.6 million) cash on hand, and access to a further $0.9 million (December 31, 2016: $0.6 million) available on its secured banking facility to fund ongoing working capital requirements.

Management anticipates that its current level of cash flow from operations is sufficient to meet its existing operational obligations, but intends to regularly review its level of capital resources and actively manage its affairs given that the Corporation is at the upper limit of its secured banking facility. This review will consider factors such as the current economic environment, changes in demand for the Corporation's services, capital spending requirements, foreign exchange rates, 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, fluctuations in foreign currency translation, 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.

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.

COMMITMENTS AND CONTINGENCIES

Commitments

The following table shows the Corporation's financial liabilities and commitments as of December 31, 2017, inclusive of operating leases:

($ thousands)	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Operating leases	1,467	2,764	1,692	307
Accounts payable and accrued liabilities	2,963	-	-	-
Secured bank term loan ($3.0 million)	220	1,407	1,247	-
Secured bank term loan ($2.0 million)	83	333	83	-
	4,734	4,503	3,022	307

The Corporation carries a $3.0 million and $2.0 million secured bank term loans. The $3.0 million secured bank term loan matures April 2019. The Corporation makes monthly principals payments, based on a five year amortization period. The $2.0 million facility as at December 31, 2017, $0.5 million of the line of credit has been used. The Corporation shall only make interest payments for 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.

SHAREHOLDERS' EQUITY

Issued and Outstanding

Number of common shares	Issued
Balance as at December 31, 2015	58,055,503
Shares issued to senior member of management	125,000
Shares issued under Employee Share Purchase Plan	279,353
Balance as at December 31, 2016	**58,459,856**
Common shares converted to preferred shares	**(14,728,860)**
Shares issued to senior member of management	**200,000**
Shares issued under Employee Share Purchase Plan	**114,466**
Balance as at December 31, 2017	**44,045,462**
Shares issued under Employee Share Purchase Plan	**14,648**
Balance as at March 23, 2018	**44,060,110**

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 Corporation 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.

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 dividends 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.

Number of deferred common shares		
	Issued	**Vested**
Balance as at December 31, 2015	1,926,635	401,635
Granted	150,000	-
Vested	-	150,000
Exercised	-	-
Forfeited	(200,000)	-
Balance as at December 31, 2016	1,876,635	551,635
Vested	**-**	**200,000**
Exercised	**(200,000)**	**(200,000)**
Forfeited	**(100,000)**	**-**
Balance as at December 31, 2017	**1,576,635**	**551,635**

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.

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.

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.

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.

NON-GAAP MEASURES DEFINITIONS

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

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

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

For the years ended December 31, ($ thousands)	2017	2016	2015
Net loss	**(3,257)**	(1,912)	(3,945)
Plus:			
Finance costs	**972**	1,180	555
Income taxes (recovery)	**556**	(1,081)	(1,674)
Depreciation and amortization	**2,882**	2,610	2,475
EBITDA	**1,153**	797	(2,589)

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

Adjusted EBITDA is calculated as follows:

For the years ended December 31, ($ thousands)	2017	2016	2015
EBITDA	**1,153**	797	(2,589)
Plus:			
Share-based payment	**89**	149	333
Foreign exchange	**1,158**	228	(1,155)
Loss (gain) on sale of asset	**(27)**	27	(12)
Other expenses	**248**	663	4,245
Adjusted EBITDA	**2,621**	1,864	822

"**Working capital**" is used by management and the investment community to analyze the operating liquidity available to the Corporation. Working capital is calculated based on current assets less current liabilities.

"**Working capital (excluding debt)**" is used by management and the investment community to analyze the operating liquidity available to the Corporation. Working capital (excluding debt) is calculated based on current assets less current liabilities excluding the current portion of long-term debt.
Working capital (excluding debt) is derived from the consolidated statements of financial positions and is calculated as follows:

As at December 31 **($ thousands)**	**2017**	2016	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**287**	552	(265)
Accounts receivable	**5,938**	7,402	(1,464)
Inventory	**2,357**	2,838	(481)
Prepaid expenses	**253**	316	(63)
	8,835	11,108	(2,273)
Current liabilities			
Bank indebtedness	**4,743**	6,100	1,357
Accounts payable and accrued liabilities	**2,963**	3,664	701
Deferred revenue	**827**	713	(114)
Provisions	**-**	191	191
Current portion of deferred lease inducements	**12**	21	9
	8,545	10,689	2,144
Working capital (excluding debt) [(1)]	**290**	419	(129)
Current portion of long-term debt	**661**	1,571	910
Working capital [(1)]	**(371)**	(1,152)	(781)

"Debt to Capitalization ratio" is calculated based on the total outstanding debt (bank indebtedness and long-term debt) divided by the sum of the total outstanding debt plus shareholders' equity.

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

ADDITIONAL GAAP MEASURES DEFINITIONS

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

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

"**Gross margin percentage**" is used by management and investors to analyze overall and segmented operating performance. Gross margin percentage is calculated from the consolidated statements of operations and comprehensive income (loss) and

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

from the segmented information in the notes to the consolidated financial statements. Gross margin percentage is defined as gross margin divided by revenue.

"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.

BUSINESS RISKS

Management of Growth

The Corporation has, in the past, experienced significant growth in its business, including an expansion in the Corporation's staff, customer base and the expansion of its product and service offerings. Such growth placed, and will continue to place, a significant strain on the Corporation's management and operations. The Corporation's ability to manage growth effectively in the future will require it to further develop and improve its operational, financial, and other internal systems, as well as to hire, and manage employees. If the Corporation is unable to manage its growth effectively, the Corporation's business, results of operations, liquidity, and financial condition could be materially and adversely affected.

Fluctuation in Quarterly Results

Quarterly revenue and operating results may fluctuate as a result of a variety of factors, including demand for the Corporation's products and services; the proportion of recurring revenue versus non-recurring revenue; the introduction of new products and product enhancements by the Corporation or its competitors; changes in the Corporation's pricing policies or those of its competitors; currency exchange rate fluctuations; or the fixed nature of a significant portion of the Corporation's operating expenses, particularly salaries and leasing costs.

Dependence on Management and Key Employees

The Corporation's continued success will depend, to a very significant extent, on the performance and continued services of its senior management and certain other key employees; the loss of any of whom could have a material adverse effect upon the Corporation. In addition, the Corporation has hired a number of key managers in recent years and may continue to expand its management team in the future. The Corporation believes that its future success will also depend in large part upon its ability to attract and retain highly skilled technical, managerial and sales/marketing personnel. Competition for such personnel is intense and the Corporation has experienced difficulties in recruiting qualified personnel and may continue to experience such difficulties in the future. There can be no assurance that the Corporation will be successful in attracting and retaining the personnel it requires to continue to maintain and expand its business. The Corporation has key person life insurance on its President and CEO.

Risks Related to Acquisitions

The Corporation may, in the future, further expand its operations or product offerings through the acquisition of additional businesses, products, or technologies. There can be no assurances that the Corporation will be able to identify, acquire or profitably manage additional businesses without substantial expenses, delays, or other operational or financial problems.

Furthermore, acquisitions also entail numerous risks, including: difficulties in assimilating acquired operations, products and personnel; unanticipated costs, events, and legal liabilities; diversion of management's attention from other business concerns; adverse effects on existing business relationships with suppliers and customers; risks of entering markets in which the Corporation has limited or no prior experience; and potential loss of key employees from either the Corporation’s pre-existing business or the acquired organization. Some or all of these risks could have a material adverse effect on the Corporation's business, results of operations, financial condition and liquidity.

In addition, there can be no assurance that acquired businesses, products, or technologies, if any, will achieve anticipated revenues and income. Acquisitions could also use a substantial portion of the Corporation's available cash; may result in the Corporation incurring substantial debt, which may not be available on favorable terms and may adversely affect the liquidity of the Corporation’s stock; may result in the Corporation assuming contingent liabilities and taking substantial charges in connection with the impairment and amortization of intangible assets; and may result in the issuance of equity securities that would dilute existing shareholders. The failure of the Corporation to manage its acquisition strategy successfully could have a material adverse effect on the Corporation's business, results of operations, liquidity, and financial condition.

Protection of Intellectual Property

The Corporation relies primarily on a combination of copyright, trademark and trade secrets laws, confidentiality procedures, and contractual provisions to protect its proprietary rights. Substantial portions of the Corporation’s sales are derived from outsourced business processes that are intrinsically tied to the Corporation’s proprietary software and other intellectual property. The Corporation generally enters into confidentiality agreements with clients, employees, and outsourced development companies, including offshore software development companies assisting the Corporation with its development activities. Despite the Corporation's efforts to protect its proprietary rights, unauthorized parties may attempt to copy and may succeed in copying aspects of the Corporation's products or may attempt to obtain and use information that the Corporation regards as proprietary. Furthermore, there can be no assurance that others will not independently develop products similar to those of the Corporation. In addition, the laws of some foreign countries do not protect the Corporation's proprietary rights to as great an extent as do the laws of Canada and the US. There can be no assurance that the Corporation's competitors will not independently develop similar technology or that the Corporation's means of protecting its proprietary rights will be adequate, and, consequently, the Corporation's business, results of operations, liquidity, and financial condition could be materially adversely affected.

The Corporation is not aware that any of its products infringe the proprietary rights of third parties. There can be no assurance, however, that third parties will not claim infringement by the Corporation with respect to current or future products. Defense of such claims, with or without merit, could be time-consuming, result in costly litigation, cause product delivery delays or require the Corporation to enter into royalty or licensing agreements. Such royalty or licensing agreements, if required, may not be available on terms acceptable to the Corporation or at all, either of which could have a material adverse effect on the Corporation's business, results of operations, liquidity, and financial condition.

Market Adoption and Software Development Risk

The Corporation has made and continues to make significant investments in software for clients to better control their production related data, and some of the costs have been capitalized. The investments were made based on management's evaluation of the market and the needs of the Corporation's client base. The total costs of development cannot be accurately predicted, and the timing of deliverables is subject to constraints of labour and unpredictability of development timelines. There can be no assurance of market adoption of this software once it is developed, which could have a material adverse effect on the Corporation’s business, results of operations, liquidity, and financial condition.

Risks Related to Cloud Based Solutions

The Corporation's strategy on software development is to provide its solutions to the client through a web interface rather than license the software for deployment to servers used by the client. Although implementation is less expensive and quicker with such a design, accessibility to the software by the client is dependent upon access to the internet, the speed and

availability of which is outside the control of the Corporation. Prolonged interruptions to software access could have a material adverse effect on the Corporation’s business, results of operations, liquidity, and financial condition.

RISK RELATED TO THE INDUSTRY

Price of Oil and Gas

The Corporation’s products and services cost oil and gas producers money. In many instances, the product or service provided is a necessary component of the producer’s business, or the value proposition to the producer is such that it saves the producer money. Where the price of oil and gas is low, the value proposition may be insufficient to entice producers to adopt the Corporation’s products or services. This could cause a material delay in the Corporation’s growth objectives and target profitability.

Intense Competition

The markets for the Corporation's products and services are intensely competitive and rapidly changing, and a number of companies offer products and services similar to the Corporation's products and services and target the same customers as the Corporation. The Corporation believes its ability to compete depends upon many factors within and outside its control, including the timely development and introduction of new products and services and product enhancements; product functionality, performance, price, and reliability; customer service and support; sales and marketing efforts; and the introduction of new products and services by competitors.

Many of the Corporation's competitors and potential competitors are substantially larger than the Corporation and have greater name recognition, larger customer bases and significantly greater financial, technical, marketing, public relations, sales, distribution, and other resources than the Corporation. As a result, they may be able to respond more quickly to new or emerging technologies and changes in customer requirements, or devote greater resources to the development, promotion and sale of their products than the Corporation.

As competition increases, the prices that the Corporation charges for its products and services may decline. If the Corporation is not able to compete successfully, the Corporation's business, financial condition, liquidity, and operating results could be materially adversely affected.

Rapid Technological Change

The markets for the Corporation's products are characterized by rapid technological advances, evolving industry standards, changes in end-user requirements and frequent new product introductions and enhancements. The Corporation's future success will depend upon its ability to enhance its current products, and to develop and introduce new products that keep pace with technological developments, respond to evolving end-user requirements and achieve market acceptance.

The development of such new products or enhanced versions of existing products entails significant technological risks. There can be no assurance that the Corporation will be successful in marketing its existing products or be successful in developing or marketing new products or product enhancements, any of which could have a material adverse effect on the Corporation's business, results of operations, financial condition, and liquidity.

Effect of Government Regulation

The business processes associated with the Corporation's software are, in part, designed to meet government regulation requirements where applicable. The Corporation's expansion in the United States, including states in which the Corporation has not done significant business, carries uncertainty with respect to the application of the Corporation's software to government regulation requirements, which could have a material adverse effect on the Corporation’s business, results of operations, liquidity, and financial condition.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

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

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

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

CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

Changes in Accounting Policies

The December 31, 2017 consolidated financial statements (“consolidated financial statements”) have been prepared in accordance with International Financial Reporting Standards (“IFRS”). Information about the significant accounting policies applied under IFRS is presented in Note 26 and Note 27 to the consolidated financial statements. Information about changes to accounting policies applied under IFRSs in 2017 is presented in Note 26 and Note 27 to the consolidated financial statements.

Critical Accounting Estimates

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

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.

CRITICAL CONTROL

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