CRITICAL CONTROL | Critical Control Energy Services Corp.

CRITICAL CONTROL ANNOUNCES FIRST QUARTER 2017 FINANCIAL RESULTS

CALGARY, ALBERTA, May 10, 2017 – Critical Control Energy Services Corp. (TSX: CCZ) today reported its financial results for the three months ended March 31, 2017.

"The results of the business process reengineering undertaken by management in 2016 are evident in our improved margins and reduced general and administrative expenses in the quarter", said Alykhan Mamdani. "While the uncertainty in the oil and gas industry continues, the changes we have made to our operations and the investment we have made in our software products enables the Company to weather the turbulence and the opportunity to grow."

Revenue

- The decline in the price of oil and gas since the fourth quarter of 2014 impacted the industry causing reduced expenditure in exploration, development and operations. As a consequence, the Corporation's revenue declined to $7.6 million in 2017 compared to $9.0 million in 2016, a 15.6% overall decline.
- Strong recurring 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 industry. As a result, Software revenue fell by only 8.5% to $4.1 million in 2017 from $4.5 million in 2016.
- Despite industry factors and the subsequent competitive environment, the Corporation's recurring revenue from its Services business remained relatively steady generating US$2.9 million in revenue in 2017, a 12.4% decrease from the previous period. The Corporation's revenue from fabrication of measurement related equipment for new wells hit the Corporation's revenue the hardest causing non-recurring revenue in the Services business to fall by 75.9% to $0.1 million.

Gross margin

- Management's measures to reengineer the Corporation's business to exit the downturn in a more competitive position continues to increase gross margin from 39.6% to 46.1%.
- Gross margin in Software improved from 54.5% to 59.8% despite a strong competitive environment and pressures to provide price concessions during the downturn.
- Despite the reduction of gross margin in the Corporation's fabrication business from negative 27.9% in 2016 to negative 62.9% in 2017, the total gross margin in Services improved from 25.5% to 30.0%. This resulted from management's focus on streamlining the operations in the first half of 2016.

Earnings and net earnings

- The Corporation's loss before tax dropped to less than $0.1 million from a loss of $1.4 million in 2016. This change was a result of decreased general and administrative costs in 2017 compared to results from 2016 which included a $0.3 million one-time reorganization expenses and a $0.7 million foreign currency loss.

Outlook and Guidance

The decline in energy prices resulted in oil and gas producers shutting in production, reducing operating costs associated with the Corporation's services, demanding price reductions and in certain cases, filing for creditor protection. These factors combined with competitive pressures from other service companies negatively impacted the Corporation's revenue through 2016.

Notwithstanding the foregoing, the Corporation has further penetrated its client base with its software solutions and reengineered its operations to reduce costs to maintain, and in some cases grow, its margins.

The impact of the Corporation's internal business process reengineering and reorganization in 2016 are evident in the Corporation's results in the first quarter of 2017 with improved gross margins and reduced general and administrative expenses. Management is optimistic that these margins are sustainable through 2017 at today's commodity prices and will continue to improve in the event industry activity increases. Notwithstanding the foregoing, commodity prices or increased competitive pressures are unpredictable and a material change will affect profitability.

Simultaneous with cost saving measures, 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 during 2017. The growth from these initiatives has enabled the Corporation to offset reduced revenue from its existing products during the downturn in 2016 and management expects this investment to differentiate the Corporation from its competitors and provide an avenue of growth regardless of industry conditions in 2017. This expectation is based upon the Corporation's ability to develop its software on a timely basis, bring it to market cost effectively and to successfully penetrate the Corporation's existing client base with new software capabilities to address existing costs and operational risks.

Cash available to the Corporation in cash and availability on its secured lines of credit has declined from $1.1 million as at December 31, 2016 to $0.5 million as at March 31, 2017. This decline is attributed primarily to investment by the Corporation in capitalized research and development and the payment of costs associated with charges expensed in 2016 related to the restructuring necessary to increase gross margin and reduce general and administrative costs, the beneficial results of which can be seen in the current quarter. Payment of these restructuring costs expensed in 2016 are expected to be materially complete by the end of second quarter of 2017 and the Corporation's budget for capitalized research and development significantly declines during the course of 2017 and therefore Management expects that current cash flow from operations combined with cash available is sufficient to fund the operational obligations of the Corporation. Notwithstanding the forgoing, the ability of the Corporation to invest in additional research and development or complete existing research and development in the event existing projects get delayed or extended will be curtailed due to the Corporation's access to capital. In such event, additional funds will be required to be raised by the Corporation through the issuance of debt, equity or a combination thereof, the success of which cannot be definitive.

About Critical Control

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 the data, cloud based software to visualize and manage it and the business intelligence to make quicker and more informed operational decisions.

For further information

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