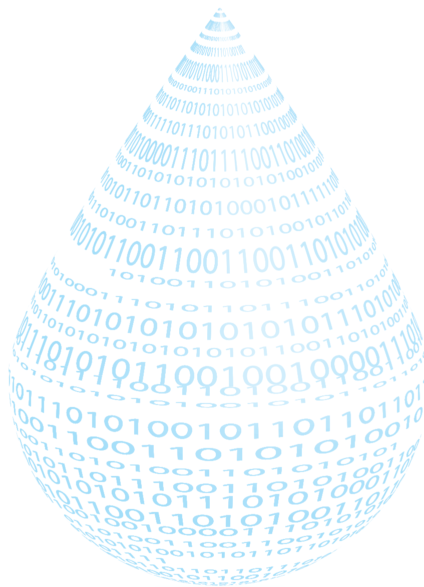
CRITICAL CONTROL



Q2 2017

Management Discussion & Analysis

Critical Control Energy Services Corp. June 30, 2017

The discussion and analysis of the financial condition and results of operations of the Corporation is prepared as at August 9, 2017 and should be read in conjunction with the unaudited condensed consolidated interim financial statements of Critical Control Energy Services Corp., and the notes thereto, for the three and six months ended June 30, 2017, and with the audited consolidated financial statements of Critical Control Energy Services Corp., and the notes thereto, for the year ended December 31, 2016.

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

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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 six months ended June 30, 2017, is dated August 9, 2017, and takes into consideration information available up to that date.

The MD&A is based on the unaudited consolidated interim financial statements of Critical Control for the three and six months ended June 30, 2017. The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes for the three and six months ended June 30, 2017, and the annual consolidated financial statements and related notes for the year ended December 31, 2016, prepared in accordance with International Financial Reporting Standards (IFRS).

Additional information is available on Critical Control's website (www.criticalcontrolenergy.com) and all previous public filings, including the most recent filed Annual Information Form and Information Circular, are available through SEDAR (www.sedar.com). All amounts are denominated in Canadian dollars (CDN$) unless otherwise identified. All amounts are stated in thousands unless otherwise identified.

FORWARD-LOOKING STATEMENTS

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

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

NON-GAAP MEASURES AND ADDITIONAL GAAP MEASURES

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

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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.

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2017**	2016	**2017**	2016
Recurring [1]	**6,058**	6,403	**12,315**	13,737
Non-recurring [1]	**1,571**	1,366	**2,954**	3,053
Total revenue	**7,629**	7,769	**15,269**	16,790
Gross margin [1]	**3,496**	3,106	**7,019**	6,615
Gross margin - percentage [1]	**45.8%**	40.0%	**46.0%**	39.4%
Adjusted EBITDA [1]	**853**	504	**1,615**	723
EBITDA [1]	**390**	134	**1,000**	(678)
Net earnings (loss)	**(400)**	(614)	**(452)**	(2,096)

Revenue [1]

- Industry driven revenue decline stabilized in the quarter with total revenue of $7.6 million compared to $7.8 million in the second quarter of 2016.
- 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. Accordingly, Software revenue in the second quarter remained steady at $4.3 million in 2017 compared to $4.3 million in 2016.
- Industry factors and the subsequent competitive environment continue to impact the Corporation's recurring revenue from its Services business, which generated US$1.7 million in revenue in the second quarter of 2017, a 11.8% decrease from the previous period.

Gross margin [1]

- Management's reengineering of the business has allowed the Corporation to exit the downturn in a more competitive position with gross margin increasing from 40.0% in 2016 to 45.8%.
- Gross margin in Software improved from 55.9% to 63.5% despite a strong competitive environment and pressures to provide price concession.
- The Corporation's fabrication business gross margin went from negative 57.6. % in 2016 to positive 3.0% in 2017, the total gross margin in Measurement Services continued strong at 24.3%. This resulted from management's focus on streamlining the Services operations in the first half of 2016.

Earnings and net earnings [1]

- The Corporation's loss before tax in the second quarter is consistent at $0.7 million despite an unrealized foreign exchange loss in the second quarter of 2017 of $0.4 million. EBITDA, adjusted for this unrealized foreign exchange loss increased from $0.5 million in the second quarter of 2016 to $0.9 million in the second quarter of 2017.

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

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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;
- Management's assumptions regarding the sustainability of recurring revenue streams and the Corporation's expected profitability. 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 outlook and guidance contains forward looking statements of the Corporation's ability to penetrate the US client base with its software and continue its penetration in the Canadian market to offset reduced revenue resulting from the downturn in the industry. These forward looking statements are based on continued acceptance of the Corporation's products and the current price of oil and gas. A further decline in the price of commodities will increase the rate of decline of the Corporation's historic revenue – especially if the continued price or decline results in an acceleration in the shutting in of operating wells. Under such conditions, the Corporation would be at risk of declining revenue.

The decline in energy prices in 2015 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 in 2016 and early 2017. These factors combined with competitive pressures from other service companies negatively impacted the Corporation's revenue throughout 2016 and early 2017, with such declines appearing to ebb in the second quarter of 2017.

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 half 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.

Subsequent to the end of the second quarter of 2017, the Corporation completed a private placement of preferred shares for gross proceeds of $2.0 million. The completion of this offering increases the Corporation's immediate liquidity and working capital, and in the opinion of management, based upon current industry conditions and progress in the Corporation's business, is sufficient working capital to meet the Corporation's stated objectives in 2017 and 2018.

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 paid in 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 symbol "CCZ".

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

Software

The Software business provides the following services to its upstream and midstream oil and gas clients:

- ***Measurement Data Management***: Gas chart integration and reporting; web-based monitoring and control of electronic devices at the well site; and cost-efficient data validation.
- ***Regulatory Compliance and Risk Management***: Integrated pipeline and asset profiles management; intelligent fluid analysis management; and streamlined, auditable meter calibration.
- ***Production and Financial Accounting***: Production accounting; financial and joint interest accounting; capital projects management; land and contracts management; production asset management; and facility processing contract management.

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

Services

The 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.
- ***Distribution of Measurement Equipment****:* Resale of gas measurement related equipment.

Measurement Services operates in twelve locations across the United States.

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Fabrication

- ***Fabrication***: Assembly and sale of gas measurement related equipment.

US Fabrication operates in Indiana, Pennsylvania.

OPERATIONAL HIGHLIGHTS

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2017**	2016	**2017**	2016
Software (CND$)				
Recurring [1]	**3,827**	3,965	**7,651**	8,178
Non-recurring [1]	**509**	306	**820**	614
Total revenue	**4,336**	4,271	**8,471**	8,792
Gross margin [1]	**2,755**	2,388	**5,227**	4,937
Gross margin - percentage [1]	**63.5%**	55.9%	**61.7%**	56.2%
Services (CND$)				
Recurring [1]	**2,231**	2,438	**4,664**	5,559
Non-recurring [1]	**1,062**	1,060	**2,134**	2,439
Total revenue	**3,293**	3,498	**6,798**	7,998
Gross margin [1]	**741**	718	**1,792**	1,864
Gross margin - percentage [1]	**22.5%**	20.5%	**26.4%**	23.3%
Services (US$)				
Recurring [1]	**1,656**	1,877	**3,498**	4,121
Non-recurring [1]	**787**	814	**1,599**	1,810
Total revenue	**2,443**	2,691	**5,097**	5,931
Gross margin [1]	**551**	552	**1,346**	1,379
Gross margin - percentage [1]	**22.6%**	20.5%	**26.4%**	23.3%
Measurement Services (US$)				
Recurring [1]	**1,656**	1,877	**3,498**	4,121
Non-recurring [1]	**589**	670	**1,331**	1,376
Total revenue	**2,245**	2,547	**4,829**	5,497
Gross margin [1]	**545**	635	**1,357**	1,543
Gross margin - percentage [1]	**24.3%**	24.9%	**28.1%**	28.1%
Fabrication (US$)				
Recurring [1]	**-**	-	**-**	-
Non-recurring [1]	**198**	144	**268**	434
Total revenue	**198**	144	**268**	434
Gross margin [1]	**6**	(83)	**(11)**	(164)
Gross margin - percentage [1]	**3.0%**	-57.6%	**-4.1%**	-37.8%

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

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RESULTS OF OPERATIONS

Software

($ thousands)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Recurring [1]	**3,827**	3,965	**7,651**	8,178
Non-recurring [1]	**509**	306	**820**	614
	4,336	4,271	**8,471**	8,792
Operating expense	**1,581**	1,883	**3,244**	3,855
Gross margin [1]	**2,755**	2,388	**5,227**	4,937
Gross margin - percentage [1]	**63.5%**	55.9%	**61.7%**	56.2%

Software generated revenue for the three and six months ended June 30, 2017 of $4.3 million and $8.5 million (2016: $4.3 million and $8.8 million). The increase in non-recurring revenue from one-time implementations has off-set the decrease in recurring revenue from 2016 due to increased well shut-ins.

Gross margin percentage has increased to 63.5% in the current period compared to 55.9% in the prior period. This is due to management's continued monitoring of product line revenues, costs, and the streamlining of operations that began in 2015.

Services

(CND$ thousands)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Recurring [1]	**2,231**	2,438	**4,664**	5,559
Non-recurring [1]	**1,062**	1,060	**2,134**	2,439
	3,293	3,498	**6,798**	7,998
Operating expense	**2,552**	2,780	**5,006**	6,134
Gross margin [1]	**741**	718	**1,792**	1,864
Gross margin - percentage [1]	**22.5%**	20.5%	**26.4%**	23.3%

Services generated revenue for the three and six months ended June 30, 2017 of $3.3 million and $6.8 million compared to $3.5 million and $8.0 million in 2016, a decrease of 5.7% and 15.0%, respectively.

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.

(US$ thousands)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Recurring [1]	**1,656**	1,877	**3,498**	4,121
Non-recurring [1]	**787**	814	**1,599**	1,810
	2,443	2,691	**5,097**	5,931
Operating expense	**1,892**	2,139	**3,751**	4,552
Gross margin [1]	**551**	552	**1,346**	1,379
Gross margin - percentage [1]	**22.6%**	20.5%	**26.4%**	23.3%

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

The Services business unit is comprised of two distinctive groups of products, Measurement Services and Fabrication. Measurement Services includes lab, field, certification and proving, with distribution of measurement equipment. Fabrication based in Indiana, Pennsylvania.

Measurement Services

	Three months ended June 30,		Six months ended June 30,	
(US$ thousands)	**2017**	2016	**2017**	2016
Recurring [(1)]	**1,656**	1,877	**3,498**	4,121
Non-recurring [(1)]	**589**	670	**1,331**	1,376
	2,245	2,547	**4,829**	5,497
Operating expense	**1,700**	1,912	**3,472**	3,954
Gross margin [(1)]	**545**	635	**1,357**	1,543
Gross margin - percentage [(1)]	**24.3%**	24.9%	**28.1%**	28.1%

Measurement Services generated revenue in the current quarter and year-to-date 2017 of US$2.2 million and US$4.8 million (2016: US$2.5 million and $5.5 million). The decline in revenue compared to prior periods is representative of the decline in the industry throughout 2016.

The Corporation focused on the optimization of its operations in 2016. Throughout the year the Corporation implemented and utilized its software to create more efficient processes. The results of these initiatives have maintained the gross margin percentage in 2017.

Fabrication

	Three months ended June 30,		Six months ended June 30,	
(US$ thousands)	**2017**	2016	**2017**	2016
Recurring [(1)]	**-**	-	**-**	-
Non-recurring [(1)]	**198**	144	**268**	434
	198	144	**268**	434
Operating expense	**192**	227	**279**	598
Gross margin [(1)]	**6**	(83)	**(11)**	(164)
Gross margin - percentage [(1)]	**3.0%**	-57.6%	**-4.1%**	-37.8%

Fabrication 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 decided to sustain the minimum operating expenses through the decline to ensure that the US Fabrication product line would be available to take advantage of opportunities as drilling activity rebounds.

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

GENERAL AND ADMINISTRATION

($ thousands)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
General and administrative less share-based payment	**2,307**	2,486	**4,719**	5,409
Share-based payment	**36**	26	**70**	74
General and administrative	**2,343**	2,512	**4,789**	5,483

For the three and six months ended June 30, 2017, total general and administration expenses have decreased by $0.2 million and $0.7 million, respectively, and is the result of the restructuring done throughout 2016. The Corporation continues to focus on cost reduction and process efficiency to maintain lower administrative costs.

Share-based payment expense decreased by less than $0.1 million period over period. The decrease is related to timing of vesting of Deferred Share Units.

RESEARCH AND DEVELOPMENT

($ thousands)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Research and development	**660**	479	**1,471**	1,061
Less:				
SR&ED tax credits, net of costs	**-**	117	**-**	117
Capitalized research and development costs	**324**	246	**786**	461
Research and development	**336**	116	**685**	483

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 27 of the Corporation's December 31, 2016 annual audited consolidated financial statements.

DEPRECIATION AND AMORTIZATION

($ thousands)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Depreciation	**345**	245	**605**	500
Amortization	**433**	307	**846**	623
Depreciation and amortization	**778**	552	**1,451**	1,123

For the three and six months ended June 30, 2017, depreciation expense increased by $0.1 million compared to the prior year. This is attributed to the timing of depreciation of acquired assets.

Amortization expense, which relates to the intangible assets increased by $0.1 million and $0.2 million compared to the prior periods, respectively. This is attributed to the timing of the amortization of certain customer relationships and non-compete agreements.

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FOREIGN EXCHANGE

($ thousands)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Foreign exchange (gain) loss - realized	**(1)**	(23)	**(18)**	(9)
Foreign exchange (gain) loss - unrealized	**441**	(36)	**566**	677
Foreign exchange	**440**	(59)	**548**	668

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

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

FINANCE COSTS

($ thousands)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Bank related charges	**99**	130	**222**	235
Interest on bank indebtedness	**101**	63	**131**	135
Interest on long-term debt	**95**	128	**206**	244
Deferred financing costs on long-term debt	**-**	6	**-**	13
Finance costs	**295**	327	**559**	627

Finance costs have decreased less than $0.1 million in the current periods compared to prior periods.

OTHER EXPENSES

($ thousands)	Three months ended June 30, 2017	2016	Six months ended June 30, 2017	2016
Acquisition related charges	**-**	14	**-**	25
Provision of onerous lease	**-**	(137)	**-**	(76)
Termination benefits	**-**	63	**10**	254
Other non-recurring expenses	**(17)**	444	**(17)**	444
Other expenses	**(17)**	384	**(7)**	647

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

In the first quarter of 2016, management continued its plan to streamline operations resulting in $0.2 million in termination benefits. The Corporation termination benefits in 2017 were less than $0.1 million.

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

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2017**	2016	**2017**	2016
Adjusted EBITDA [1]	**853**	504	**1,615**	723
EBITDA [1]	**390**	134	**1,000**	(678)
Net loss	**(400)**	(614)	**(452)**	(2,096)
Total comprehensive income (loss)	**(403)**	(585)	**(458)**	(2,067)
Funds provided (used in) by continuing operations [1]	**1,481**	39	**1,326**	(250)
Cash flow provided (used in) by continuing operations	**(637)**	189	**1,314**	1,856

For the three and six months ended June 30, 2017, the Corporation's net loss was $0.4 million and $0.5 million compared to $0.6 million and $2.1 million in 2016. The improvement is a result of reduced administration expenditures and charges associated with the Corporation's restructuring.

Adjusted EBITDA increased from $0.5 million to $0.9 million in the current quarter, and from $0.9 million to $1.6 million year to date. The increase is attributed to reduced administrative expenditures and improvements in overall gross margin.

The Corporation's funds provided by continuing operations improved in 2017 compared to 2016 due to improved gross margins and reduced general and administrative expenses.

The decline in the Corporation's cash flow from continuing operations is due from the increase in funds provided by continuing operations being offset by changes in non-cash working capital in the period.

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

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FINANCIAL AND OPERATING HIGHLIGHTS - QUARTERLY ANALYSIS

	2017		2016				2015	
($ thousands)	**Q2**	Q1	Q4	Q3	Q2	Q1	Q4	Q3
Software (CND$)								
Recurring [(1)]	**3,827**	3,824	3,720	3,783	3,965	4,213	4,226	4,493
Non-recurring [(1)]	**509**	311	316	308	306	308	310	259
Total revenue	**4,336**	4,135	4,036	4,091	4,271	4,521	4,536	4,752
Gross margin [(1)]	**2,755**	2,472	2,360	2,316	2,388	2,363	2,241	2,352
Gross margin - percentage [(1)]	**63.5%**	59.8%	58.5%	56.6%	55.9%	52.3%	49.4%	49.5%
Services (CND$)								
Recurring [(1)]	**2,231**	2,433	2,249	2,519	2,438	3,121	3,062	3,407
Non-recurring [(1)]	**1,062**	1,072	1,053	1,028	1,060	1,379	1,709	2,021
Total revenue	**3,293**	3,505	3,302	3,547	3,498	4,500	4,771	5,428
Gross margin [(1)]	**741**	1,051	579	844	718	1,146	1,253	839
Gross margin - percentage [(1)]	**22.5%**	30.0%	17.5%	23.8%	20.5%	25.5%	26.3%	15.5%
Services (US$)								
Recurring [(1)]	**1,656**	1,842	1,696	1,940	1,877	2,244	2,294	2,603
Non-recurring [(1)]	**787**	812	793	793	814	996	1,282	1,544
Total revenue	**2,443**	2,654	2,489	2,733	2,691	3,240	3,576	4,147
Gross margin [(1)]	**551**	795	437	650	552	827	943	643
Gross margin - percentage [(1)]	**22.6%**	30.0%	17.6%	23.8%	20.5%	25.5%	26.4%	15.5%
Measurement Services (US$)								
Recurring [(1)]	**1,656**	1,842	1,696	1,940	1,877	2,244	2,294	2,603
Non-recurring [(1)]	**589**	742	723	786	670	706	715	844
Total revenue	**2,245**	2,584	2,419	2,726	2,547	2,950	3,009	3,447
Gross margin [(1)]	**545**	812	464	697	635	908	773	705
Gross margin - percentage [(1)]	**24.3%**	31.4%	19.2%	25.6%	24.9%	30.8%	25.7%	20.5%
Fabrication (US$)								
Recurring [(1)]	**-**	-	-	-	-	-	-	-
Non-recurring [(1)]	**198**	70	70	7	144	290	567	700
Total revenue	**198**	70	70	7	144	290	567	700
Gross margin [(1)]	**6**	(17)	(27)	(47)	(83)	(81)	170	(62)
Gross margin - percentage [(1)]	**3.0%**	-24.3%	-38.6%	-671.4%	-57.6%	-27.9%	30.0%	-8.9%

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

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As at ($ thousands)	June 30, 2017	December 31, 2016	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**225**	552	(327)
Accounts receivable	**7,144**	7,402	(258)
Inventory	**2,731**	2,838	(107)
Prepaid expenses	**373**	316	57
	10,473	11,108	(635)
Current liabilities			
Bank indebtedness	**6,449**	6,100	(349)
Accounts payable and accrued liabilities	**3,714**	3,664	(50)
Deferred revenue	**672**	713	41
Provisions	**42**	191	149
Current portion of deferred lease inducements	**14**	21	7
	10,891	10,689	(202)
Working capital (excluding debt) [1]	**(418)**	419	(837)
Current portion of long-term debt	**811**	1,571	760
Working capital [1]	**(1,229)**	(1,152)	77

The key driver of the change in working capital (excluding debt) is the decrease of accounts receivable of $0.3 million related to improved timeliness of the collections of outstanding receivables from the Corporation's customers, offset by the increase of $0.3 million of bank indebtedness used to invest in product development.

Credit facilities

On July 12, 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, as at June 30, 2017. The margining limit (see Note 10(a) of the 2016 consolidated financial statements) is estimated to be $6.7 million (December 31, 2016: $6.7 million), leaving $0.3 million (December 31, 2016: $0.6 million) of the operating credit available for future working capital needs. Access to this is limited by the impact of debt levels on financial covenants.
- A committed term loan of $3.0 million.
- A committed term loan of US$0.7 million to fund repayment of the Corporation's previous bank term loan and unsecured promissory note. This was repaid on 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 committed term loan.

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

Liquidity

As at **($ thousands)**	**June 30, 2017**	December 31, 2016	Increase (decrease)
Bank indebtedness	**6,449**	6,100	349
Secured bank term loan - $3.0 million	**3,000**	3,000	-
Secured bank term loan - US$0.6 million	**747**	1,275	(528)
Secured finance contracts	**10**	66	(56)
Total debt	**10,206**	10,441	(235)
Less:			
Cash and cash equivalents	**225**	552	(327)
Net debt	**9,981**	**9,889**	92

At June 30, 2017, the Corporation had $0.2 million (December 31, 2016: $0.5 million) of cash on hand, and access to a further $0.3 million (December 31, 2016: $0.6 million) available on its secured banking facility to fund ongoing working capital requirements.

Subsequent to the end of the second quarter of 2017, the Corporation completed a private placement of preferred shares for gross proceeds of $2.0 million, improving the Corporation's working capital by $1.6 million after net proceeds paid off the US dollar committed term loan.

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 2017 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 June 30, 2017, the Corporation is in compliance with its financial covenants.

CRITICAL CONTROL

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**
Shares issued to senior member of management	**150,000**
Shares issued under Employee Share Purchase Plan	**53,036**
Balance as at June 30, 2017	**58,662,892**
Common shares converted to preferred shares	**(14,728,860)**
Shares issued under Employee Share Purchase Plan	**34,860**
Shares issued under deferred share unit plan	**50,000**
Balance ast at August 9, 2017	**44,018,892**

Deferred annual bonus and share purchase plan

The Corporation adopted a Deferred Annual Bonus and Share Purchase Plan ("DSP") in 2006. The DSP enables employees to elect to receive up to 10% of their annual base salary and up to 100% of any annual bonus to which they become entitled in the form of deferred common shares ("DCS"). Each DCS may be redeemed by the holder for one common share of the Corporation for no additional payment on death or termination of the holder's service to the Corporation. Further details on the DCS are disclosed in Note 13 (a) to the December 31, 2016 consolidated financial statements.

Employee share purchase plan

On May 13, 2014, the Board approved a new Employee Share Purchase Plan ("ESPP"), which was approved by the shareholders of the Corporation on June 11, 2014 and the TSX on June 23, 2014. Further details on the ESPP are disclosed in Note 13 (b) to the December 31, 2016 consolidated financial statements.

SUBSEQUENT EVENT

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 will be 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, if declared, shall be payable on September 30, 2017.

After five years, the annual dividend rate will be adjusted to a rate equal to the sum of 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 series A preferred shares may be redeemed by the Corporation for an amount equal to the sum of the deemed purchase price for the series A 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.

COMMITMENTS AND CONTINGENCIES

Commitments

The following table shows the Corporation's financial liabilities and commitments as of June 30, 2017, inclusive of operating leases:

($ thousands)	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Operating leases	1,480	2,875	2,281	359
Accounts payable and accrued liabilities	3,714	-	-	-
Provisions	42	-	-	-
Secured bank term loan ($3.0 million)	220	1,407	1,373	-
Secured finance contracts	10	-	-	-
	5,466	4,282	3,654	359

The Corporation's secured bank term loan matures April 2019. The Corporation will make interest only payments until September 2017. Beginning in September 2017, the Corporation will start making monthly principal payments, based on a five year amortization period.

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:

	Three months ended June 30,		Six months ended June 30,	
($ thousands)	**2017**	2016	**2017**	2016
Net loss before discontinued operations	**(400)**	(519)	**(452)**	(2,001)
Plus:				
Finance costs	**295**	327	**559**	627
Income taxes (recovery)	**(283)**	(226)	**(558)**	(427)
Depreciation and amortization	**778**	552	**1,451**	1,123
EBITDA	**390**	134	**1,000**	(678)

"**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:

	Three months ended June 30,		**Six months ended June 30,**	
($ thousands)	**2017**	2016	**2017**	2016
EBITDA	**390**	134	**1,000**	(678)
Plus:				
Share-based payment	**36**	26	**70**	74
Foreign exchange	**440**	(59)	**548**	668
Loss (gain) on sale of asset	**4**	19	**4**	12
Other expenses	**(17)**	384	**(7)**	647
Adjusted EBITDA	**853**	504	**1,615**	723

"**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 **($ thousands)**	**2017**	2016
Current assets		
Cash and cash equivalents	**225**	552
Accounts receivable	**7,144**	7,402
Inventory	**2,731**	2,838
Prepaid expenses	**373**	316
	10,473	11,108
Current liabilities		
Bank indebtedness	**6,449**	6,100
Accounts payable and accrued liabilities	**3,714**	3,664
Deferred revenue	**672**	713
Current portion of provisions	**42**	191
Current portion of deferred lease inducements	**14**	21
	10,891	10,689
Working capital (excluding debt)	**(418)**	419
Current portion of long-term debt	**811**	1,571
Working capital	**(1,229)**	(1,152)

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

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

ADDITIONAL GAAP MEASURES DEFINITIONS

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

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

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

"Recurring revenue" refers to Software and Services that are provided to the client which is reasonably expected to be continually provided on a periodic basis. This would include subscription revenue and production related services.

"Non-recurring revenue" refers to Software and Services that are provided to the client which are viewed as one-time in nature. This would include implementation revenue, equipment sales, and fabrication projects.

BUSINESS RISKS

The business of Critical Control Energy Services Corp. is subject to risk and uncertainties. Prior to making any investment decisions regarding Critical Control, investors should carefully consider, among other things, the risk described (including risk and uncertainties listed in the Forward-Looking Statements section in this MD&A) and risk factors set forth in the most recent Annual Information Form of the Corporation and the 2016 Management Discussion and Analysis, which are incorporated herein. The Annual Information Form of the Corporation and the 2016 Management Discussion and Analysis have been filed with SEDAR and can be accessed at www.sedar.com.

CRITICAL ACCOUNTING JUDGEMENT AND ESTIMATES

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

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, 2016, 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 does not expect the change to have a material 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. IFRS 15 also requires additional disclosures about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. IFRS 15 supersedes IAS 18, Revenue, IAS 11, Construction Contracts and a number of revenue-related interpretations.

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 currently evaluating the impact of the new standard and developing a transition plan to implement IFRS 15, but expects there to be minimal impact on the consolidated financial statements. Additionally, we continue to monitor international developments of the standard as a component of our impact evaluation

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 on-balance sheet 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.

DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINACIAL REPORTING

There have been no significant changes in the Corporation's disclosure controls and procedures (DC&P) and internal controls over financial reporting (ICFR) for the three and six months ended June 30, 2017. No additional material weaknesses or significant deficiencies have been identified in the design and operating effectiveness of these controls which could materially affect, or are reasonably likely to affect, Corporation's internal controls over financial reporting.

CRITICAL CONTROL

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