Critical Control Energy Services Corp.

CRITICAL CONTROL ANNOUNCES SECOND QUARTER 2018 FINANCIAL RESULTS

CALGARY, ALBERTA, August 14, 2018 – Critical Control Energy Services Corp. (TSX: CCZ) today reported its financial results for the three and six months ended June 30, 2018.

"Management is actively engaged to improve efficiency, reduce cost and increase profitability," said Alykhan Mamdani. "Management is confident that the growth from its key strategic initiatives are the foundation of future profitability."

Revenue

- Key strategic Cloud based software generated $2.0 million in the second quarter of 2018, a growth of 4% fueled by market penetration in the United States, which increased by 67% compared to the comparative period in 2017.
- Software based services revenue decreased by 20% compared to the prior period comparison, due in large part to the nearing completion of a major implementation for one of the Corporation's customers in Canada.
- Measurement services revenue decreased by 13% compared to the prior period. A portion of this decline was expected given the Corporation's strategy to replace a portion of field services with automation.
- Equipment and other revenue generated $1.0 million in the second quarter of 2018, over 90% of this revenue is based in the United States.

Gross margin

- Gross margin 41.4% consists of 60.4% Software and 16.2% Field Services.
- Gross margin in Software decreased from 63.5% to 60.4% in the second quarter of 2018, due to a strong competitive environment in Canada.
- The Corporation continues to focus on restructuring the Field Services business and consolidation of operations across the US. The implementation of these initiatives combined with reduced revenue contributed to a decreased gross margin of 16.2% in the second quarter of 2018.

Earnings and net earnings

- The Corporation's loss before tax was $1.3 million for the second quarter 2018, compared to $0.4 million in the second quarter of 2017. This increase is attributed to $0.4 million in restructuring costs and $0.5 million in change in the estimate of deferred income taxes, offset by reduced expenditures.
- The Adjusted EBITDA was $0.3 million for the second quarter of 2018. The decrease from the prior comparative period of $0.9 million is attributed to a decline in revenue offset by reduced administrative expenditures.

Outlook and Guidance

The strengthening price of oil in early 2018 has created cautious optimism in the Corporation's US client base but 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 during 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 services 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 Field Services in 2018 and onwards is to leverage its Field Services' customers in the US to adopt the Corporation's software. Instead of competing on price alone, 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 continue to negatively impact the Corporation's measurement services revenue in 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.

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, 2017 to $0.9 million as at June 30, 2018. This decline is attributed primarily to investment by the Corporation in capitalized research and development. In May 2018, the Corporation did a restructuring of the research and development department. The payment of these restructuring costs is expected to be substantially paid by the end of the fourth quarter of 2018, but have been fully expensed in the second quarter of 2018.

The Corporation is working closely with its lender to ensure ongoing compliance with the provisions of its credit facilities. To ensure sufficient liquidity to meet its financial obligations for the remainder of 2018, the Corporation will require additional capital, replacement financing or an amended credit agreement from its existing lender. The Corporation is actively engaged in addressing alternative solutions, including but not limited to, the raising of additional equity capital, the replacement of its existing credit facility with different repayment terms, or a combination thereof. Until an alternative solution is reached, the Corporation has suspended payment of cash dividends on its preferred shares.

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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