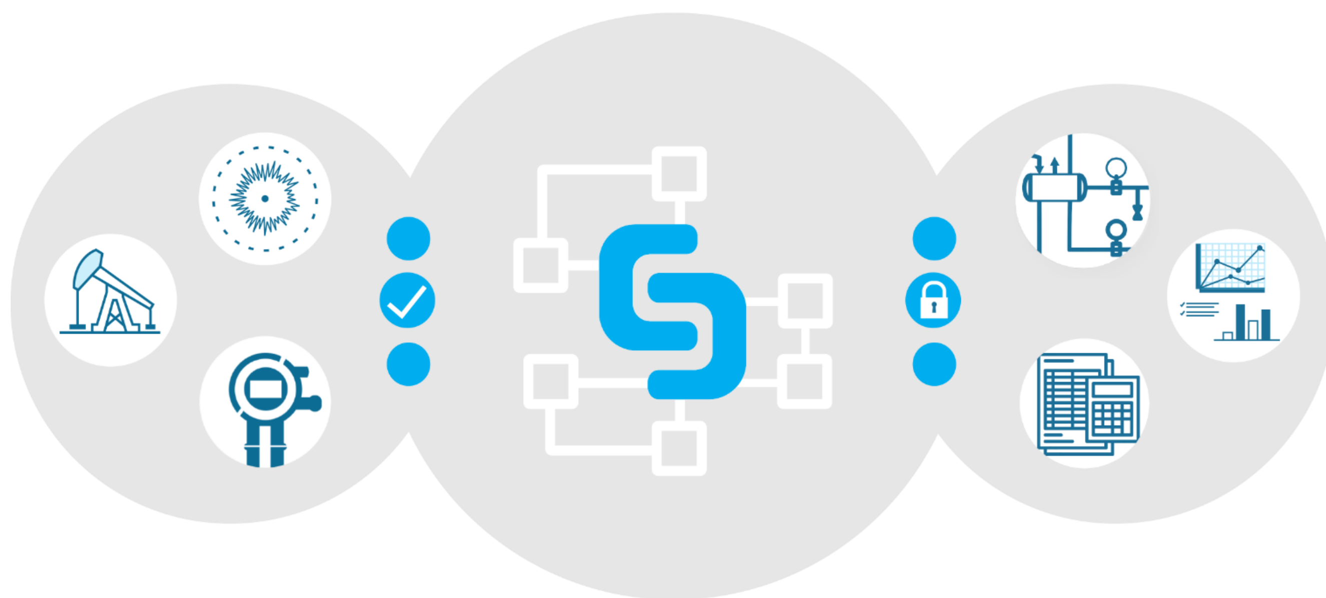

Q3 2018

Management Discussion & Analysis

Critical Control Energy Services Corp. September 30, 2018

The discussion and analysis of the financial condition and results of operations of the Corporation is prepared as at November 14, 2018 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 nine months ended September 30, 2018, and 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 nine months period ended September 30, 2018, is dated November 14, 2018, 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 nine months period ended September 30, 2018. The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes for the three and nine months period ended September 30, 2018, and 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 (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", "EBITDA", 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").

CRITICAL CONTROL

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.

($ thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Cloud based software [1]	**1,910**	1,941	**5,925**	5,752
Software based services [1]	**1,772**	2,029	**5,515**	6,525
Measurement services [1]	**2,053**	1,931	**5,857**	6,591
Equipment and other revenue [1]	**1,008**	1,172	**3,106**	3,474
Total revenue	**6,743**	7,073	**20,403**	22,342
Gross margin [1]	**2,775**	3,107	**8,327**	10,126
Gross margin - percentage [1]	**41.2%**	43.9%	**40.8%**	45.3%
Adjusted EBITDA [1]	**658**	533	**1,174**	2,148
EBITDA [1]	**(373)**	(199)	**564**	801
Net earnings (loss)	**(13,289)**	(1,153)	**(14,691)**	(1,605)

Revenue [1]

- Key strategic Cloud based software generated $1.9 million in the third quarter of 2018 consistent with the comparative period in 2017.
- Software based services revenue decreased by 12.7% 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 increased 6.3% compared to the prior period due to an increase in field service and certification work offsetting a decline in lab services.
- Equipment and other revenue generated $1.0 million in the third quarter of 2018, over 90% of this revenue is based in the United States, it fluctuates from period to period depending on demand and is viewed as non-recurring in nature.

Gross margin [1]

- The Corporation achieved a gross margin of 41.2% in the third quarter of 2018 which is comprised of Software with a gross margin of 60.3% and Field Services with a gross margin of 17.7%.
- Gross margin in Software decreased from 63.1% to 60.3% in the third quarter of 2018, due to a strong competitive environment in Canada.
- The Corporation continues to focus on restructuring its Field Services business and consolidating operations across the US. The implementation of these initiatives combined with reduced revenue contributed to a decreased gross margin of 17.7% in the third quarter of 2018 from 18.56% in the third quarter of 2017.

Earnings and net earnings [1]

- The Corporation's loss was $13.1 million for the third quarter 2018, compared to $1.2 million in the third quarter of 2017. The increased loss is attributed to $8.5 million impairment of intangible assets and goodwill, $3.5 million derecognition of deferred income taxes, $0.6 million in other expenses related to termination benefits, restructuring costs, and refinancing charges incurred by the Corporation in the third quarter of 2018.
- Adjusted EBITDA was $0.7 million for the third quarter of 2018 compared to $0.6 million in 2017. The increase from the prior comparative period of $0.1 million is attributed to reduced administrative expenditures offset by a decline in revenue.

[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 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.

In May 2018, the Corporation completed a restructuring of its 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 were fully expensed in the second quarter of 2018. Subsequent to the end of Q3, 2018, the Corporation restructured its measurement business in the Southern United States, resulting in closure of its offices in Mounds, Oklahoma, Greenbriar, Arkansas and Cotulla, Texas. The impact of the closure of these offices and related staff is expected to increase earnings in 2019 and the associated costs will be expensed in fourth quarter of 2018.

The financial performance of the Corporation in 2018 has necessitated the refinancing of the Corporation's secured debt with higher costs debt provided by a lender that specializes in higher leverage situations. The financing was completed on November 14, 2018. This has resulted in more flexible secured debt facilities, but at a materially increased cost. These increased costs will be necessary until the Corporation is able to improve its operational performance and the Corporation will continue to assess alternative financings solutions.

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

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.

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 "CCZ.PR.A".

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

Software

The Software segment 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 segment 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 multiple locations across the United States.

OPERATIONAL HIGHLIGHTS

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2018**	2017	**2018**	2017
Software (CND$)				
Cloud based software [1]	**1,910**	1,941	**5,925**	5,752
Software based services [1]	**1,772**	2,029	**5,515**	6,525
Equipment and other revenue [1]	**32**	62	**197**	227
Total revenue	**3,714**	4,032	**11,637**	12,504
Gross margin [1]	**2,240**	2,543	**7,028**	7,771
Gross margin - percentage [1]	**60.3%**	63.1%	**60.4%**	62.1%
Field Services (CND$)				
Measurement services [1]	**2,053**	2,058	**5,857**	6,939
Equipment and other revenue [1]	**976**	983	**2,909**	2,899
Total revenue	**3,029**	3,041	**8,766**	9,838
Gross margin [1]	**535**	564	**1,299**	2,355
Gross margin - percentage [1]	**17.7%**	18.5%	**14.8%**	23.9%
Field Services (US$)				
Measurement services [1]	**1,567**	1,503	**4,558**	5,001
Equipment and other revenue [1]	**750**	857	**2,274**	2,456
Total revenue	**2,317**	2,360	**6,832**	7,457
Gross margin [1]	**413**	438	**1,018**	1,784
Gross margin - percentage [1]	**17.8%**	18.6%	**14.9%**	23.9%

RESULTS OF OPERATIONS

Software

	Three months ended September 30,		Nine months ended September 30,	
($ thousands)	**2018**	2017	**2018**	2017
Cloud based software [1]	**1,910**	1,941	**5,925**	5,752
Software based services [1]	**1,772**	2,029	**5,515**	6,525
Equipment and other revenue [1]	**32**	62	**197**	227
	3,714	4,032	**11,637**	12,504
Operating expense	**1,474**	1,489	**4,609**	4,733
Gross margin [1]	**2,240**	2,543	**7,028**	7,771
Gross margin - percentage [1]	**60.3%**	63.1%	**60.4%**	62.1%

The Corporation generated $1.9 million in cloud based software revenue in the third quarter of 2018. This revenue remained strong due to the continued penetration of the Corporation’s software in the United States, offsetting pricing pressures from increased competition. Software based services revenue decreased compared to the prior period comparison due to shut in wells and pricing pressures, generating $1.8 million in the third quarter of 2018, compared to $2.0 million in the prior period.

Gross margin percentage has decreased to 60.3% in third quarter of 2018 from 63.1% in the prior period. The decline is the result of a dip in revenue as management continues monitoring its product line revenues, costs, and streamlining of operations. Software generated gross margins of $2.2 million and $7.0 million for the three and nine months ended September 30, 2018.

Field Services

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.

	Three months ended September 30,		Nine months ended September 30,	
(CND$ thousands)	**2018**	2017	**2018**	2017
Measurement services [(1)]	**2,053**	2,058	**5,857**	6,939
Equipment and other revenue [(1)]	**976**	983	**2,909**	2,899
	3,029	3,041	**8,766**	9,838
Operating expense	**2,494**	2,477	**7,467**	7,483
Gross margin [(1)]	**535**	564	**1,299**	2,355
Gross margin - percentage [(1)]	**17.7%**	18.5%	**14.8%**	23.9%

Field Services generated revenue for the three and nine months period ended September 30, 2018 of $3.0 million and $8.8 million (2017: $3.0 million and $9.8 million). Although revenue for the three months was consistent with the prior periods, the decrease for the nine months period ended was due to increased competition.

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

	Three months ended September 30,		Nine months ended September 30,	
(US$ thousands)	**2018**	2017	**2018**	2017
Measurement services [(1)]	**1,567**	1,503	**4,558**	5,001
Equipment and other revenue [(1)]	**750**	857	**2,274**	2,456
	2,317	2,360	**6,832**	7,457
Operating expense	**1,904**	1,922	**5,814**	5,673
Gross margin [(1)]	**413**	438	**1,018**	1,784
Gross margin - percentage [(1)]	**17.8%**	18.6%	**14.9%**	23.9%

Field Services generated revenue of US$2.3 million and US$6.8 million for the three and nine months ended September 30, 2018. The decline in revenue compared to the prior period comparative is representative of increased competition.

The Corporation focused on restructuring the Field Services business segment to integrate its software into the operation process and evaluated field offices that were underperforming in 2018. The implementation of these initiatives combined with the Corporation's strategy to replace a portion of field services with automation resulted in a decrease gross margin of 17.8%. The Corporation's Field Services gross margin as been improving steadily for the past four quarters.

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

CRITICAL CONTROL

GENERAL AND ADMINISTRATION

($ thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
General and administrative less share-based payment	**1,779**	2,199	**6,078**	6,918
Share-based payment	**73**	16	**108**	86
General and administrative	**1,852**	2,215	**6,186**	7,004

For the three and nine months period ended September 30, 2018, total general administration expenses decreased by $0.4 million and $0.8 million, respectively, as a result of the Corporation's continued focus on cost reduction and process efficiencies to maintain lower administrative costs.

Share-based payment expense was maintained at less than $0.1 million in the period. The expense is driven by the timing of vesting of deferred share units.

RESEARCH AND DEVELOPMENT

($ thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Research and development	**630**	813	**2,157**	2,284
Less:				
Capitalized research and development costs	**292**	438	**1,081**	1,224
Research and development	**338**	375	**1,076**	1,060

The Corporation continues its research and development initiatives to increase the functionality that Software clients 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 25 of the Corporation's December 31, 2017 annual audited consolidated financial statements.

DEPRECIATION AND AMORTIZATION

($ thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Depreciation	**374**	292	**1,100**	897
Amortization	**483**	433	**1,426**	1,279
Depreciation and amortization	**857**	725	**2,526**	2,176

For the three and nine months period ended September 30, 2018, depreciation expense increased by $0.1 million compared to the prior year. This is attributed to the timing of depreciation of acquired assets and the prospective change in accounting estimates.

Amortization expense, which relates to the intangible assets has remained consistent within $0.1 million compared to the prior years. This is attributed to the timing of the amortization of certain customer relationships, non-compete agreements and the prospective change in accounting estimates.

FOREIGN EXCHANGE

($ thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Foreign exchange (gain) loss - realized	**(24)**	(61)	**38**	(79)
Foreign exchange (gain) loss - unrealized	**349**	715	**(576)**	1,281
Foreign exchange	**325**	654	**(538)**	1,202

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 September 30, 2018	2017	Nine months ended September 30, 2018	2017
Bank related charges	**75**	74	**194**	296
Interest on bank indebtedness	**40**	63	**115**	194
Interest on long-term debt	**76**	85	**212**	291
Finance costs	**191**	222	**521**	781

Finance costs have decreased in 2018 compared to the prior period. The decrease was mainly driven by improved interest rates management negotiated on its credit facility.

RESTRUCTURING COSTS AND OTHER EXPENSES

($ thousands)	Three months ended 2018	2017	Nine months ended 2018	2017
Termination benefits	**16**	62	**373**	72
Restructuring costs	**300**	-	**300**	-
Other	**316**	-	**366**	(17)
	632	62	**1,039**	55

Restructuring costs and 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 third quarter of 2018, the Corporation incurred restructuring costs of $0.3 million to be paid in the third quarter of 2019 as part of the renegotiated lease in Calgary, Alberta. The change of terms will enable the Corporation to save $0.5 million per annum, for a total of $2.0 million for the remaining life of the lease. The corporation incurred an additional $0.3 million in its investigation of alternative financing 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.

ASSET IMPAIRMENT

The Corporation reviews the carrying value of its long term non-financial assets at each reporting period for indicators of impairment. During the period ended September 30, 2018, the Corporation reviewed all of its cash generating units ("CGU") for indicators of impairment. As a result of current forecasts, trading value, and financing, the Corporation performed impairment tests to assess the carrying values of its property, plant and equipment, intangible assets and goodwill for all CGUs.

The recoverable amount of each CGU was determined by using a discounted cash flow model for the value-in-use and the fair market value less cost of disposal methods. The Company used a 5-year model, a discount rate range of 12% to 15% and terminal growth rate of 3.0%. Revenue and cash flow assumptions were based on a combination of past results and expectations of future growth. The recoverable amount of each CGU was in excess of the carrying amount with the exception of the following:

- The Corporation identified that the deferred development costs CGU related to one of its product lines was below its carrying amount. An impairment charge of $2.2 million was recorded against intangible assets related to this CGU. The Corporation determined that given the change in focus and move away from this project that its commercialization was unlikely and therefore was determined to be impaired.
- The Corporation identified that the recoverable amount of the Goodwill CGU related to Software operations that was incurred from US based asset acquisitions was below its carrying amount. An impairment charge of $6.3 million was recorded against goodwill related to this CGU.

Impairment tests for all CGUs containing goodwill were performed, and in the third quarter of 2018 the CGUs were found to be impaired. The recoverable amount for each CGU was determined based on value in use, which was calculated using discounted after-tax cash flow projections for the Software CGUs.

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

- Cash flows were projected based on past experience, actual operating results, relevant annual budgets and growth expectations. Cash flows beyond five years were extrapolated using a constant growth rate of 3 percent (2017: 3 percent) for Software, which does not exceed the long-term average growth rate for the industry.
- The first year of cash flows was based on the annual operating budgets.
- The anticipated annual revenue included in the cash flow projections for the next four years was based on average compound growth rates of 1 percent (2017: 5 percent).
- The anticipated earnings before income taxes, depreciation, and amortization ("EBITDA") in the next four years was based on rates (as a percentage of sales) averaging 11 percent (2017: 16 percent).
- A break-even discount rate (after-tax) was calculated for each CGU. Based on general industry data and previous acquisition experience, it was determined that the appropriate after-tax discount rate for the CGU should not be less than 15%. The calculated break-even rate was 11% for Software CGU and the Corporation concluded that impairment of the assets was recognized. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and are based on both external and internal sources (e.g., historical data).

The Company recorded a total asset impairment of $8.5 million during the period ended September 30, 2018 (2017 - nil).

DEFERRED INCOME TAX

In the nine months ended September 30, 2018 the Corporation derecognized deferred tax assets of $3.5 million related to relating to non-capital tax losses of $17.5 million that will expire between 2026 and 2035, as it is uncertain whether future taxable profit will be available against which the Corporation can use the benefits therefrom.

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

($ thousands)	Three months ended September 30, 2018	2017	Nine months ended September 30, 2018	2017
Adjusted EBITDA [(1)]	**658**	533	**1,174**	2,148
EBITDA [(1)]	**(373)**	(199)	**564**	801
Net earnings (loss)	**(13,289)**	(1,153)	**(14,691)**	(1,605)
Total comprehensive income (loss)	**(13,248)**	(1,114)	**(14,722)**	(1,515)
Funds provided (used in) by operations [(1)]	**193**	1,838	**38**	1,683
Cash flow provided (used in) by operations	**349**	(62)	**2,300**	1,889

For the three and nine months ended September 30, 2018, the Corporation's net loss was $13.1 million and $14.5 million compared to $1.2 million and $1.6 million in 2017. This increase is attributed to $9.5 million in restructuring costs and other expenses related to termination benefits, restructuring costs, and refinancing charges incurred by the Corporation in the third quarter of 2018.

The Adjusted EBITDA was $0.7 million for the third quarter of 2018. The increase from the prior comparative period of $0.5 million is attributed to reduced administrative expenditures off set by to a decline in revenue.

The Corporation's funds provided by operations decreased in the third quarter of 2018 compared to the third quarter of 2017 due to reduced revenue offset by a decrease in administrative expenses.

The increase in the Corporation's cash flow from operations is due to the change in non-working capital for the nine months period ended September 30, 2018.

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

CRITICAL CONTROL

FINANCIAL AND OPERATING HIGHLIGHTS - QUARTERLY ANALYSIS

	2018			2017				2016
($ thousands)	**Q3**	Q2	Q1	Q4	Q3	Q2	Q1	Q4
Cloud based software [1]	**1,910**	1,983	2,032	2,049	1,941	1,918	1,893	1,771
Software based services [1]	**1,772**	1,900	1,843	1,889	2,029	2,360	2,136	2,221
Measurement services [1]	**2,053**	1,940	1,864	1,862	1,931	2,229	2,431	2,250
Equipment and other revenue [1]	**1,008**	1,067	1,031	980	1,172	1,122	1,180	1,096
Total revenue	**6,743**	6,890	6,770	6,780	7,073	7,629	7,640	7,338
Gross margin [1]	**2,775**	2,851	2,701	2,923	3,107	3,496	3,523	2,939
Gross margin - percentage [1]	**41.2%**	41.4%	39.9%	43.1%	43.9%	45.8%	46.1%	40.1%
Adjusted EBITDA [1]	**658**	282	234	473	533	853	762	547
EBITDA [1]	**(373)**	236	701	352	(199)	390	610	844
Net earnings (loss)	**(13,289)**	(1,329)	(73)	(1,652)	(1,153)	(400)	(52)	(291)
Software (CND$)								
Cloud based software [1]	**1,910**	1,983	2,032	2,049	1,941	1,918	1,893	1,771
Software based services [1]	**1,772**	1,900	1,843	1,889	2,029	2,360	2,136	2,221
Equipment and other revenue [1]	**32**	45	120	72	62	59	106	44
Total revenue	**3,714**	3,928	3,995	4,010	4,032	4,337	4,135	4,036
Gross margin [1]	**2,240**	2,372	2,416	2,592	2,543	2,756	2,472	2,360
Gross margin - percentage [1]	**60.3%**	60.4%	60.5%	64.6%	63.1%	63.5%	59.8%	58.5%
Field Services (CND$)								
Measurement services [1]	**2,053**	1,940	1,864	1,862	2,058	2,448	2,431	2,250
Equipment and other revenue [1]	**976**	1,022	911	908	983	844	1,074	1,052
Total revenue	**3,029**	2,962	2,775	2,770	3,041	3,292	3,505	3,302
Gross margin [1]	**535**	479	285	331	564	740	1,051	579
Gross margin - percentage [1]	**17.7%**	16.2%	10.3%	11.9%	18.5%	22.5%	30.0%	17.5%
Field Services (US$)								
Measurement services [1]	**1,567**	1,511	1,480	1,484	1,503	1,656	1,842	1,696
Equipment and other revenue [1]	**750**	800	724	729	857	787	812	793
Total revenue	**2,317**	2,311	2,204	2,213	2,360	2,443	2,654	2,489
Gross margin [1]	**413**	377	228	269	438	551	795	437
Gross margin - percentage [1]	**17.7%**	16.2%	10.3%	11.9%	18.5%	22.5%	30.0%	17.5%

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

CRITICAL CONTROL

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As at ($ thousands)	September 30, 2018	December 31, 2017	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**787**	287	500
Accounts receivable	**4,806**	5,938	(1,132)
Inventory	**2,138**	2,357	(219)
Prepaid expenses	**297**	253	44
	8,028	8,835	(807)
Current liabilities			
Bank indebtedness	**5,434**	4,743	(691)
Accounts payable and accrued liabilities	**3,920**	2,963	(957)
Deferred revenue	**764**	827	63
Current portion of deferred lease inducements	**12**	12	-
	10,130	8,545	(1,585)
Working capital (excluding debt) [1]	**(2,102)**	290	(2,392)
Current portion of long-term debt	**2,808**	661	(2,147)
Working capital [1]	**(4,910)**	(371)	(4,539)

The key driver of the change in working capital (excluding debt) is the increase in cash and cash equivalents of $0.5 million offset by the increase in bank indebtedness of $0.7 million; the decrease in account receivable of $1.1 million relates to decreased revenue and changes in the foreign exchange rates; and the increase of $1.0 million in accounts payable and accrued liabilities.

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

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

c) On December 1, 2017, the banking facility agreement was amended to include a credit limit of $2.0 million to fund equipment required under contracts with customers where the subscription of the Corporation's software is bundled with the provision of oil and gas measurement and communication equipment. As at June 30, 2018, $0.9 million of the line of credit has been used. The loan bearing interest rate is prime plus 1.25% per year. The Corporation shall only make interest payments the first six months starting immediately after the first draw. After which, monthly payments of principal and interest are payable over a 36 month term not including the interest only period. Repayment of 75% of this loan is guaranteed by EDC.

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

The credit facility is secured by the following:

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

The credit facility agreement requires adherence to certain financial covenants, including a Debt to Capitalization ratio not to exceed 0.38 to 1.00 and an Adjusted Debt Service ratio to exceed 1.10 to 1.00. As at September 30, 2018, the Corporation obtained a waiver for the breach with its Adjusted Debt Service ratio financial covenants.

Subsequent to the period end, the Corporation obtained a new credit facility agreement with a new lender. The significant details of the facility are summarized below. The new credit facilities are for a period of 3 years and can be repaid on 90 days notice after one year. The new credit facilities include a term loan of $7.0 million at 15% interest per annum (the “Term Loan”) and factoring facility. The Term Loan is interest only until December 31, 2019 and principal payments thereafter will be calculated based on 80% of free cash flow after all expenses, capitalized payments and interest. The remainder of the new credit facilities will be in the form of a flexible factoring operating line, enabling the Corporation to draw 90% of its invoices for a period of 120 days (the “Factor Facility”). Effective interest on the Factor Facility will be at 1.5% per month, but will only be incurred when funds are drawn.

The new credit facilities were closed November 14, 2018. The funds drawn on the facilities were applied as follows:

Term Loan	$	7,000
Factoring facility		2,969
Gross loan		9,969
Reserve		(1,051)
Advanced proceeds		8,918
Closing costs and fees		(93)
Net proceeds		8,825
Loan payout		(8,261)
Addition to working capital		564

Liquidity

At September 30, 2018, the Corporation had $0.8 million (December 31, 2017: $0.3 million) cash on hand, and were overdrawn on the line of credit by $0.5 million (December 31, 2017: access availability of $0.9 million) on its secured banking facility to fund ongoing working capital requirements.

The Corporation has prepared financial forecasts for the remainder of 2018 and as set out in note 3, that the Corporation was in breach of its covenant and obtained a waiver from the lender prior to September 30, 2018. Based on the forecast for 2019, and the refinancing just completed, the Corporation expects to have sufficient liquidity to sustain operations through to the end of 2019. The Corporation is continually assessing new sources of equity and debt financing.

SHAREHOLDERS' EQUITY

Issued and Outstanding

Number of common shares	
	Issued
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 Deferred Share Unit Plan	**156,647**
Shares issued under Employee Share Purchase Plan	**131,146**
Balance as at September 30, 2018	**44,333,255**
Shares issued under Employee Share Purchase Plan	**133,334**
Balance as at November 14, 2018	**44,466,589**

Preferred shares and warrants

Number of preferred shares	
	Issued
Balance as at December 31, 2016	-
Common shares converted to preferred shares	1,136,245
Private placement with warrants	1,013,000
Balance as at December 31, 2017, September 30, 2018 and November 14, 2018	**2,149,245**

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, 2017 consolidated financial statements.

In second quarter of 2018, 750,000 DSC were issued to an executive of the Corporation. The DCS vest if earnings growth targets are met within a three year period. If the earnings are not met, or if the employee leaves the Corporation before they are met, the DCS are forfeited. The measurement date fair value of the DCS was $0.2 million.

Employee share purchase plan

On May 13, 2014, the Board approved the 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, 2017 consolidated financial statements.

CRITICAL CONTROL

COMMITMENTS AND CONTINGENCIES

Commitments

The following table shows the Corporation's financial liabilities and commitments as of June 30, 2018, inclusive of operating leases:

($ thousands)	Less than 1 year	1 - 3 years	4 - 5 years	After 5 years
Operating leases	1,039	1,659	583	229
Accounts payable and accrued liabilities	3,920	-	-	-
Secured bank term loan ($3.0 million)	744	1,488	266	-
Secured bank term loan ($2.0 million)	285	569	-	-
	5,988	3,716	849	229

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 and assumes the loan will be refinanced. As at September 30, 2018, $0.9 million of the $2.0 million of the line of credit has been used. The Corporation shall monthly payments of principal and interest are payable over a 36 month term.

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 September 30,		Nine months ended June 30,	
($ thousands)	**2018**	2017	**2018**	2017
Net loss	**(13,289)**	(1,153)	**(14,691)**	(1,605)
Plus:				
Finance costs	**191**	222	**521**	781
Income taxes (recovery)	**3,368**	7	**3,708**	(551)
Depreciation and amortization	**857**	725	**2,526**	2,176
Asset impairment	**8,500**	-	**8,500**	-
EBITDA	**(373)**	**(199)**	**564**	**801**

CRITICAL CONTROL

"**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 September 30,		**Nine months ended June 30,**	
($ thousands)	**2018**	2017	**2018**	2017
EBITDA	**(373)**	(199)	**564**	801
Plus:				
Share-based payment	**73**	16	**108**	86
Foreign exchange	**325**	654	**(538)**	1,202
Loss (gain) on sale of asset	**1**	-	**-**	4
Restructuring costs and other expenses	**632**	62	**1,039**	55
Adjusted EBITDA	**658**	533	**1,173**	2,148

"**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)**	**September 30, 2018**	December 31, 2017	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**787**	287	500
Accounts receivable	**4,806**	5,938	(1,132)
Inventory	**2,138**	2,357	(219)
Prepaid expenses	**297**	253	44
	8,028	8,835	(807)
Current liabilities			
Bank indebtedness	**5,434**	4,743	(691)
Accounts payable and accrued liabilities	**3,920**	2,963	(957)
Deferred revenue	**764**	827	63
Current portion of deferred lease inducements	**12**	12	-
	10,130	8,545	(1,585)
Working capital (excluding debt)	**(2,102)**	290	(2,392)
Current portion of long-term debt	**2,808**	661	(2,147)
Working capital	**(4,910)**	(371)	(4,539)

"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.

"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

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 2017 Management Discussion and Analysis, which are incorporated herein. The Annual Information Form of the Corporation and the 2017 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, except for depreciation and amortization.

Change in estimates and judgments:

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

Leasehold improvements	straight-line over lease term
Computer hardware	straight-line over five years
Office and operating equipment	straight-line over five years
Vehicles	straight-line over five years
Product development costs	straight-line over five years
Customer relationship and contracts	straight-line over two to seven years
Software	straight-line over two years

New Standards and Interpretations 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 adopted 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 has adopted this standard and concluded that there is a minimal impact on the consolidated financial statements.

CRITICAL CONTROL

New Standards and Interpretations Not Yet Adopted

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.

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 nine months period ended September 30, 2018. 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

CORPORATE INFORMATION

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President & CEO

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Chief Financial Officer

Karim Punja, CFA
Chief Operating Officer

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