CRITICAL CONTROL | Critical Control Energy Services Corp.

CRITICAL CONTROL ANNOUNCES 2018 YEAR END FINANCIAL RESULTS

CALGARY, ALBERTA, March 27, 2019 – Critical Control Energy Services Corp. (formerly TSX: CCZ; CCZ.PR.A) today reported its financial results for the year ended December 31, 2018.

"Industry challenges in 2018, the impact of such challenges on the Coroporation's operational performance and the resulting negative repurcussions on liquidity required extrordianary measures to address," said Alykhan Mamdani, CEO of Critical Control. "Management is confident that the measures taken in 2018 and early 2019 will ensure the Corporation's viability and will position the Company for future success."

Revenue

- Key strategic cloud based software generated $7.9 million during 2018 consistent with the comparative period in 2017. Industry associated declines in Canada were offset by penetration of the Corporation's client base in the United States ("US").
- Software based services revenue decreased by 14.1% compared to the prior period comparison, due to shut in wells, competitive pricing pressures, and the completion of a large software implementation for a client in 2018.
- Measurement services revenue decreased 11.0% compared to the prior period due to an increasingly competitive market in the US for measurement services work.
- Equipment and other revenue generated $4.3 million during 2018 consistent with the comparative period in 2017. Over 90% of this revenue is based in the US. It fluctuates from period to period depending on demand and is viewed as non-recurring in nature.

Gross margin

- The Corporation achieved a gross margin of 41.2% for the year ended 2018. This is comprised of cloud based software and software based services ("Software") with a gross margin of 61.0% and measurement services and equipment and other revenue ("Field Services") with a gross margin of 14.7%.
- Gross margin in Software decreased from 62.8% to 61.0% during 2018, due to a strong competitive environment in Canada.
- Gross margin from Field Services was 14.7% in 2018 compared to 21.3% in 2019. This reduction was driven by customer losses due to competitive pricing pressure and pricing concessions given to combat competitive pressures. The Corporation focused on restructuring its Field Services business and consolidating operations across the US in order to operate more efficiently, offsetting the impact of the above pressures. During the year ended December 31, 2018, the Corporation sold inventory with a cost of $1.3 million at auction for gross proceeds of $0.1 million of which $0.6 million was applied against the allowance for inventory obsolescence.

Net loss and adjusted EBITDA

- The Corporation has a loss of $19.2 million in 2018 (2017: $3.3 million). The increased loss is attributed to $10.5 million impairment of intangible assets and goodwill, $3.7 million derecognition of deferred income taxes, increase in depreciation and amortization of $2.8 million and increase of $1.5 million in other expenses related to write-down of inventory, termination benefits, restructuring fees, and other charges incurred by the Corporation in 2018.
- Adjusted EBITDA decreased 37.8% in 2018 which is attributed to reduced gross margins, however is partially offset by reduced administrative expenditures.

Outlook and Guidance

The price of oil fell below $10 per boe in Q4 2018, resulting in a material contraction for the Corporation's Software in Canada. The Corporation partially offset this decline with successful penetration of its Software in the US. During the second half of 2018, the Corporation undertook a reorganization to operate in an environment in Canada which is expected to continue to contract and an environment in the US which is expected to be increasingly competitive.

The Corporation's strategy for 2019 and onwards is to leverage its Field Services customers in the US to adopt the Corporation's Software. The Corporation is rebuilding its Field Services business to differentiate an increasingly commoditized offering with cost savings based on adoption of Software. Management's expectation of growth is based upon continued penetration of the Corporation's Software by its US customers and may be impacted as the industry continues investment in automation attracting the entry of new competitive products to the Corporation's Software.

Growth of the Corporation's cloud based Software revenue in the US during 2018 is a reflection of the success of the Corporation's strategy to convert its measurement services to automation based on Software. Management is optimistic that the continuation of this strategy in 2019 will accelerate adoption of the Corporation's cloud based Software in the US which will offset the risk inherent in the Canadian market place.

For further information

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