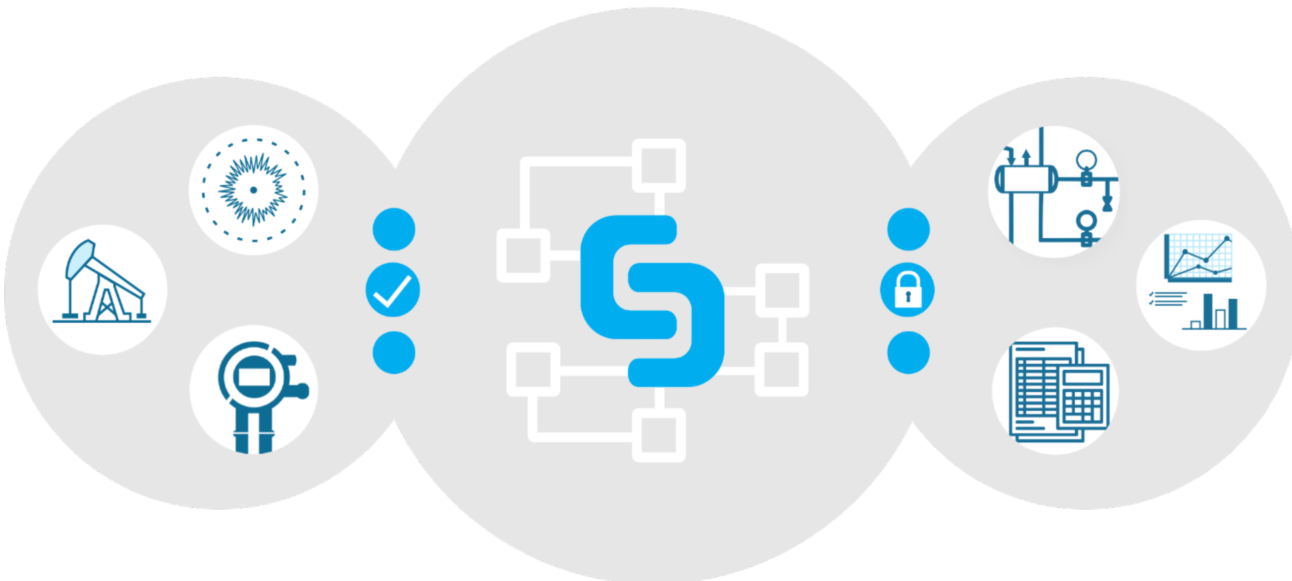

2019

Management Discussion & Analysis

Critical Control Energy Services Corp. March 31, 2019

The discussion and analysis of the financial condition and results of operations of Critical Control Energy Services Corp. is prepared as at May 21, 2019 and should be read in conjunction with the unaudited consolidated interim financial statements of Critical Control Energy Services Corp., and the notes thereto, for the three months ended March 31, 2019, and with the audited consolidated financial statements of Critical Control Energy Services Corp., and the notes thereto, for the year ended December 31, 2018.

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

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 months period ended March 31, 2019, is dated May 21, 2019, and takes into consideration information available up to that date.

The MD&A is based on the unaudited condensed consolidated interim financial statements of Critical Control for the three months period ended March 31, 2019. The MD&A should be read in conjunction with the unaudited condensed consolidated interim financial statements and related notes for the three months period ended March 31, 2019, and the annual consolidated financial statements and related notes for the year ended December 31, 2018, 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 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").

FINANCIAL HIGHLIGHTS

All results are related to continuing operations unless otherwise identified.

For the three months ended March 31, ($ thousands)	2019	2018
Cloud based software	**1,944**	2,032
Software based services	**1,667**	1,843
Measurement services	**1,718**	1,864
Equipment and other revenue	**900**	1,031
Total revenue	**6,229**	6,770
Gross margin (1)	**2,804**	2,701
Gross margin - percentage (1)	**45.0%**	39.9%
Adjusted EBITDA (1)	**1,021**	233
EBITDA (1)	**427**	701
Net loss	**(771)**	(73)

Revenue

- Key strategic cloud based software generated $1.9 million in the first quarter of 2019 consistent with the comparative period in 2018. 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 10% 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 by 8% compared to the prior period due to an increasingly competitive market in the US for measurement services work.
- Equipment and other revenue generated $1.0 million in the first quarter of 2019, consistent with the comparative period in 2018. 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 (1)

- Gross margin in Software improved from 60.5% in 2018 to 63.4% in 2019 despite a strong competitive environment in Canada.
- Gross margin from Field Services was 18.8% in 2019 compared to 10.3% in 2018. 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 competitive pricing pressures.

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

Net loss and adjusted EBITDA (1)

- The Corporation had a loss of $0.8 million in 2019 (2018: $0.1 million). The increased loss is attributed most significantly to foreign exchange and non recurring employment termination charges.
- Adjusted EBITDA was $1 million for the first quarter of 2019 compared to $0.2 million for 2018. The increase from the prior comparative period is attributed most significantly to reduced operating expenses and the adoption of IFRS 16 which transfers lease costs out of operating expenses.

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 price of oil fell below $10 per boe in Canada 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 and early 2019 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 the remainder of 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.

RESPONSIBILITY OF MANAGEMENT AND THE BOARD OF DIRECTORS

Management is responsible for the information disclosed in this MD&A and the accompanying condensed 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 condensed 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.

On January 30, 2019, the Corporation received notice from the TSX that the Corporation's common shares did not meet the continued listing requirements provision that the total value of the common shares in the public float must be in excess of $2 million, excluding any common shares held by officers, directors and those who own more than 10% of the common shares. On February 12, 2019, the Corporation filed an application with the TSX, which was approved, to voluntarily delist the common shares and preferred shares from trading on the TSX after the close of business on February 28, 2019. The Corporation is not seeking an alternative listing for its shares.

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

OPERATIONAL HIGHLIGHTS

For the three months ended March 31, ($ thousands)	**2019**	2018
Software (CND$)		
Cloud based software	**1,944**	2,032
Software based services	**1,667**	1,843
Equipment and other revenue	**45**	120
Total revenue	**3,656**	3,995
Gross margin [(1)]	**2,319**	2,416
Gross margin - percentage [(1)]	**63.4%**	60.5%
Field Services (CND$)		
Measurement services	**1,718**	1,864
Equipment and other revenue	**855**	911
Total revenue	**2,573**	2,775
Gross margin [(1)]	**485**	285
Gross margin - percentage [(1)]	**18.8%**	10.3%

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.

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

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

Field Services operates in multiple locations across the United States.

RESULTS OF OPERATIONS

Software

For the three months ended March 31, ($ thousands)	2019	2018
Cloud based software	**1,944**	2,032
Software based services	**1,667**	1,843
Equipment and other revenue	**45**	120
	3,656	3,995
Operating expense	**1,337**	1,579
Gross margin [(1)]	**2,319**	2,416
Gross margin - percentage [(1)]	**63.4%**	60.5%

Software generated $1.9 million in cloud based software revenue in the first quarter of 2019. This revenue remained strong due to the continued penetration of the Corporation's Software in the United States, offsetting declines in Canada. Software based services revenue decreased compared to the prior period comparison due to shut in wells and both competitive pressure and resulting pricing concessions, generating $1.7 million in 2019, compared to $1.8 million in the prior period.

Gross margin percentage has increased to 63.4% in the first quarter of 2019 from 60.5% in the prior period. This is due to management's continued monitoring of product line revenues, costs, and streamlining of operations. With these improvements, software generated gross margin of $2.3 million.

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

CRITICAL CONTROL

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.

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.

For the three months ended March 31,		
(CND$ thousands)	**2019**	2018
Measurement services	**1,718**	1,864
Equipment and other revenue	**855**	911
	2,573	2,775
Operating expense	**2,088**	2,490
Gross margin [(1)]	**485**	285
Gross margin - percentage [(1)]	**18.8%**	10.3%

Field Services generated revenue for the three months period ended March 31, 2019 of $2.6 million (2018: $2.8 million) a decrease of 7% from the prior period. The decrease for the year was due to 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 has resulted in the gross margin improving to 18.8% in 2019 compared to 10.3% in 2018.

GENERAL AND ADMINISTRATION

For the three months ended March 31,		
($ thousands)	**2019**	2018
General and administrative less share-based payments	**1,478**	2,087
Share-based payments	**2**	14
General and administrative	**1,480**	2,101

For the three months period ended March 31, 2019, total general administration expenses decreased by $0.6 million compared to first quarter of 2018, as a result of the Corporation's continued focus on cost reduction and process efficiencies to maintain lower administrative costs and the adoption of IFRS 16 effective January 1, 2019 in which $0.3 million in lease liability payments previously expensed as operating leases were not included in expenses as required under the new standard.

RESEARCH AND DEVELOPMENT

For the three months ended March 31,		
($ thousands)	**2019**	2018
Research and development	**405**	805
Less:		
Capitalized research and development costs	**100**	424
Research and development	**305**	381

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

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 3 of the Corporation's December 31, 2018 annual audited consolidated financial statements.

DEPRECIATION AND AMORTIZATION

For the three months ended March 31,		
($ thousands)	**2019**	2018
Depreciation	**271**	346
Amortization	**422**	459
Depreciation and amortization	**693**	805

For the three months period ended March 31, 2019, depreciation expense decreased by less than $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 adopted effective January 1, 2018.

Amortization expense, which relates to the intangible assets has remained consistent compared to the prior years. This is attributed to the timing of the impairment of certain product development costs and the prospective change in accounting estimates adopted effective January 1, 2018.

FOREIGN EXCHANGE

For the three months ended March 31,		
($ thousands)	**2019**	2018
Foreign exchange - realized	**5**	17
Foreign exchange - unrealized	**390**	(496)
Foreign exchange	**395**	(479)

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

For the three months ended March 31,		
($ thousands)	**2019**	2018
Bank related charges	**6**	61
Interest on bank indebtedness	**-**	36
Interest on long-term debt	**268**	66
Interest on Factoring Facility	**121**	-
Facotoring Facility monitoring fees	**24**	-
Interest on lease obligations	**86**	-
Finance costs	**505**	163

Finance costs have increased in 2019 compared to prior year. The increase was mainly driven by an increase in interest rates after the closing of the Corporations new debt facilities in November 2018 and non-cash interest on lease liabilities required upon the adoption of IFRS 16 on January 1, 2019.

OTHER EXPENSES

For the three months ended March 31, ($ thousands)	2019	2018
Termination benefits	**177**	2
Other	**20**	-
Other expenses	**197**	2

Other expenses contain expenses and recoveries that are infrequent and unusual in nature and are not expected to be recurring.

The Corporation continued to execute the plan to streamline operations resulting in termination costs of $0.2 million in the current quarter.

NET LOSS, TOTAL COMPREHENSIVE LOSS, AND CASH FLOWS

For the three months ended March 31, ($ thousands)	2019	2018
Adjusted EBITDA [(1)]	**1,021**	233
EBITDA [(1)]	**427**	701
Net loss	**(771)**	(73)
Total comprehensive loss	**(441)**	(104)
Cash provided by operations before change in non-cash working capital balances	**673**	188
Cash flow provided by operating activities	**597**	1,120
Cash flow used by investing activities	**(108)**	(773)
Cash flow used by financing activities	**(240)**	(53)

The Corporation's cash provided by operations before change in non-cash working capital balances increased over the prior year due mainly to non-cash foreign exchange and finance costs.

The decrease in the Corporation's cash flow provided by operating activities is due to the change in non-cash working capital in that period.

The decrease in cash used by investing activities is due to the decreased expenditures on property and equipment and product development costs in the quarter.

The increase in cash used by financing activities is due to the repayments of lease liabilities in the quarter which were previously treated as expenses prior to the adoption of IFRS 16.

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

CRITICAL CONTROL

FINANCIAL HIGHLIGHTS - QUARTERLY ANALYSIS

	2019	2018				2017		
($ thousands)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Cloud based software	**1,944**	1,928	1,910	1,983	2,032	2,049	1,941	1,918
Software based services	**1,667**	1,715	1,772	1,900	1,843	1,889	2,029	2,360
Measurement services	**1,718**	1,670	2,053	1,940	1,864	1,862	1,931	2,229
Equipment and other revenue	**900**	1,153	1,008	1,067	1,031	980	1,172	1,122
Total revenue	**6,229**	6,466	6,743	6,890	6,770	6,780	7,073	7,629
Gross margin [(1)]	**2,804**	2,741	2,775	2,851	2,701	2,923	3,107	3,496
Gross margin - percentage [(1)]	**45.0%**	42.4%	41.2%	41.4%	39.9%	43.1%	43.9%	45.8%
Adjusted EBITDA [(1)]	**1,021**	457	658	282	233	473	533	853
EBITDA [(1)]	**427**	880	(373)	236	701	352	(199)	390
Net loss	**(771)**	(4,547)	(13,289)	(1,329)	(73)	(1,652)	(1,153)	(400)

OPERATIONS HIGHLIGHTS – QUARTERLY ANALYSIS

	2019	2018				2017		
($ thousands)	**Q1**	Q4	Q3	Q2	Q1	Q4	Q3	Q2
Software (CND$)								
Cloud based software	**1,944**	1,928	1,910	1,983	2,032	2,049	1,941	1,918
Software based services	**1,667**	1,715	1,772	1,900	1,843	1,889	2,029	2,360
Equipment and other revenue	**45**	82	32	45	120	72	62	59
Total revenue	**3,656**	3,725	3,714	3,928	3,995	4,010	4,032	4,337
Gross margin [(1)]	**2,319**	2,344	2,240	2,372	2,416	2,592	2,543	2,756
Gross margin - percentage [(1)]	**63.4%**	62.9%	60.3%	60.4%	60.5%	64.6%	63.1%	63.5%
Field Services (CND$)	**-**							
Measurement services	**1,718**	1,670	2,053	1,940	1,864	1,862	2,058	2,448
Equipment and other revenue	**855**	1,071	976	1,022	911	908	983	844
Total revenue	**2,573**	2,741	3,029	2,962	2,775	2,770	3,041	3,292
Gross margin [(1)]	**485**	397	535	479	285	331	564	740
Gross margin - percentage [(1)]	**18.8%**	14.5%	17.7%	16.2%	10.3%	11.9%	18.5%	22.5%

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

LIQUIDITY AND CAPITAL RESOURCES

Working capital

As at ($ thousands)	March 31, 2019	December 31, 2018	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**860**	630	230
Accounts receivable	**4,387**	4,737	(350)
Inventory	**1,289**	1,379	(90)
Prepaid expenses and deposits	**533**	1,079	(546)
	7,069	7,825	(756)
Current liabilities			
Accounts payable and accrued liabilities	**3,189**	3,727	(538)
Deferred revenue	**725**	873	(148)
Factoring Facility	**2,830**	2,801	29
Current portion of deferred lease inducements	**-**	12	(12)
	6,744	7,413	(669)
Working capital (excluding debt and lease liabilities) [(1)]	**325**	412	(87)

The key driver of the change in working capital (excluding debt and lease liabilities) is the decrease in prepaid expenses of $0.5 million, decrease in accounts receivable of $0.4 million, offset by the decrease of $0.5 million in accounts payable and accrued liabilities.

On November 14, 2018, the Corporation closed a credit facility agreement with a new lender to replace the previous credit facility discussed above. Significant details of the facility are summarized below.

a) A $7.0 million non-revolving term loan ("Term Loan") maturing three years after the closing date. The Term Loan is interest only until December 31, 2019 at which time principal payments thereafter will be calculated based on 80% of free cash flow reported for the second preceding month, the first payment which is due in March 2020. The Term Loan bears interest at a rate of 15% and is payable on the last day of each month. The interest rate is reduced to 13.5% if the debt to EBITDA ratio, calculated on a trailing twelve month basis, is less than 2.75 to 1.00 at the end of a fiscal quarter, and is increased by 3% if amounts are not paid when due.

   An interest reserve equal to nine months of interest and a default reserve equal to three months of interest were withheld from the amount advanced and have been included in prepaid expenses and deposits. Interest payments for the first nine months will be applied against the interest reserve and the default reserve is returned upon repayment of the Term Loan.

   After considering the timing of repayments and transaction costs of $0.3 million incurred to finance the Term Loan, the effective interest rate is 18.29%.

b) An accounts receivable factoring agreement ("Factoring Facility") up to a maximum of $4.4 million which is the total of the Corporation's trade accounts receivable at March 31, 2019 (December 31, 2018 - $4.7 million). The fees charged under the factoring agreement are (i) an initial discount fee of 1.50%; (ii) a further daily discount fee of 0.05% on any unpaid amounts in which more than 30 days have elapsed from the factoring of the individual accounts receivable; (iii) monthly monitoring fee of $4 thousand. Under the factoring agreement, a reserve is withheld from the factoring purchase price in the amount of 10% for the individual accounts receivable 0-121 days based on the face value and is returned to the Corporation upon collection of the individual accounts receivable.

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

Under the terms of the factoring agreement, the Corporation is not permitted to amend payment terms relating to any trade accounts receivable or the lender may require immediate repayment of the accounts receivable or charge a further discount of 5% for every 30 days in which payment terms were extended. Should any customer dispute occur, or a customer fail to pay within 120 days from the invoice date, the individual accounts receivable must be repurchased from the factoring corporation at their request for a price equal to the outstanding amount. When the Corporation is obliged to re-purchase an individual accounts receivable, a daily discount fee of 0.05% will be incurred for each day that any portion of the individual accounts receivable remains unpaid.

The amounts owing under the agreement are secured by the Corporation's trade accounts receivable and the lender has a first priority lien. As at March 31, 2019, the amounts advanced under this facility totaled $2.8 million (December 31, 2018 - $2.8 million). This arrangement is recorded as a financing from the lender and factoring costs are charged to operations as incurred.

After a period of one year from the closing date, the amounts may be repaid on 90 days' notice without penalty. The prepayment option represents an embedded derivative which should be separated from the host Term Loan, however had no value at March 31, 2019 or December 31, 2018.

The Term Loan and Factoring Facility are 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; and
- Upstream guarantees from all material subsidiaries of the Corporation.

The Term Loan and Factoring Facility require adherence to the following financial covenants:

- Current ratio to exceed 0.90 to 1.00 each quarter up to and including the quarter ended June 30, 2019 and exceed 1.00 to 1.00 thereafter;
- Commencing January 1, 2019, debt to EBITDA ratio not to exceed 4.00 to 1.00 each quarter up to and including the quarter ended December 31, 2019 and not to exceed 2.75 to 1.00 thereafter;
- Commencing January 1, 2019, debt service coverage ratio to exceed 1.00 to 1.00 each quarter; and
- Commencing January 1, 2019, interest coverage ratio to exceed 1.25 to 1.00 each quarter up to and including the quarter ended December 31, 2019 and exceed 1.75 to 1.00 thereafter.

Liquidity

At March 31, 2019, the Corporation had $0.9 million (2018 – $0.6 million) of cash on hand, and access to a further $1.6 million available on its Factoring Facility (2018 – $0.3 million available on its secured banking facility) to fund ongoing working capital requirements.

The Corporation prepared financial forecasts for the year ended December 31, 2019 which indicated non-compliance with its financial covenants in the first quarter, with expected compliance for all other quarters, which would make the Term Loan and Factoring Facility callable. On March 26, 2019, the Corporation and its lender entered into an amending agreement to revise the calculation of the debt to EBITDA ratio, debt service coverage ratio and interest coverage ratio. The revision is such that EBITDA or adjusted EBITDA as applicable for the quarters ended March 30, 2019 and June 30, 2019 are calculated based on each respective quarters annualized results opposed to the previous rolling four quarter basis.

As at March 31, 2019 and December 31, 2018, the Corporation was in compliance with its financial covenants. Based on the current financial forecasts, the Corporation expects to be in compliance with its amended financial covenants for fiscal 2019 and the first quarter ended March 31, 2020.

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. 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.

SHAREHOLDERS' EQUITY

Issued and Outstanding

Number of common shares	Issued
Balance as at December 31, 2017	44,045,462
Shares issued under Employee Share Purchase Plan	142,148
Shares issued under deferred share unit plan	289,981
Balance as at December 31, 2018	**44,477,591**
Shares issued under Employee Share Purchase Plan	**16,548**
Balance as at March 31, 2019	**44,494,139**

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 and 2018 and March 31, 2019	**2,149,245**

Deferred annual bonus and share purchase plan

Number of deferred common shares	Issued	Vested
Balance as at December 31, 2017	1,576,635	551,635
Granted	500,000	-
Vested	-	233,334
Exercised	(289,981)	(289,981)
Forfeited	(766,666)	-
Balance as at December 31, 2018 and March 31, 2019	**1,019,988**	**494,988**

The total number of common shares that may be reserved for issuance to directors, officers, employees, or other insiders under any share-based compensation arrangement, in aggregate during any one year period, cannot exceed 10% of the Corporation's total issued and outstanding common shares. If any share-based award expires without having been exercised or is terminated/forfeited for any reason under any share-based compensation arrangement then, subject to the terms of that particular share-based compensation arrangement, the common shares underlying such award shall again be available for issuance in connection with any future awards that the Corporation may grant.

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.

Employee share purchase plan

The Corporation adopted an Employee Share Purchase Plan ("ESPP") in 2014 where 3,000,000 common shares may be issued to directors, officers, and employees. The ESPP was subject to the 10% limitation of the Corporation's total issued and outstanding common shares, thereby reducing the number of common shares for issuance under the ESPP to 1,886,351. In May 2018, the Board passed a resolution which prohibits the Corporation from issuing more than 1,386,351 common shares under the ESPP to allow for the increase in the number of common shares issuable under the DSP.

Each participant in the ESPP is permitted to contribute a portion of his or her salary to the ESPP. The Corporation issues the purchased shares from treasury upon the earlier of a written request from the participant and the one year anniversary of the end of the month in which the contribution was made. In addition to the purchased shares, the Corporation matches the participant's contribution, to an annual maximum of the lesser of five thousand dollars or 5 % of the participant's annual base salary. The matched shares are subject to a one-year vesting period and are issued from treasury during the quarter following two years from the end of the month in which the contribution was made.

COMMITMENTS AND CONTINGENCIES

Commitments

The following table shows the Corporation's financial liabilities as of March 31, 2019:

As at March 31, 2019 ($ thousands)	Less than 1 year	2 - 3 years	4 - 5 years	After 5 years
Accounts payable and accrued liabilities	3,189	-	-	-
Factoring Facility	2,830	-	-	-
Lease liabilities	705	1,231	168	83
Term Loan	82	6,615	-	-
	6,806	**7,846**	**168**	**83**

The Term Loan matures in 2021 and monthly principal payments begin in March 2020. The Corporation repays the Factoring Facility as payments are received from customers.

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 and how the results are taxed in various jurisdictions.

EBITDA is derived from the consolidated statements of operations and comprehensive loss is calculated as follows:

For the three months ended March 31, **($ thousands)**	**2019**	2018
Net loss	**(771)**	(73)
Plus:		
Finance costs	**505**	163
Income tax recovery	**-**	(194)
Depreciation and amortization	**693**	805
EBITDA	**427**	701

"**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 from the consolidated statements of operations and comprehensive loss and is calculated as follows:

For the three months ended March 31, **($ thousands)**	**2019**	2018
EBITDA	**427**	701
Plus:		
Share-based payments	**2**	14
Foreign exchange	**395**	(479)
Gain on sale of property and equipment	**-**	(5)
Other expenses	**197**	2
Adjusted EBITDA	**1,021**	233

"**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 position and is calculated as follows:

As at **($ thousands)**	**2019**	2018	Increase (decrease) in working capital
Current assets			
Cash and cash equivalents	**860**	630	230
Accounts receivable	**4,387**	4,737	(350)
Inventory	**1,289**	1,379	(90)
Prepaid expenses and deposits	**533**	1,079	(546)
	7,069	7,825	(756)
Current liabilities			
Accounts payable and accrued liabilities	**3,189**	3,727	(538)
Deferred revenue	**725**	873	(148)
Factoring Facility	**2,830**	2,801	29
Current portion of deferred lease inducements	**-**	12	(12)
	6,744	7,413	(669)
Working capital (excluding debt and lease liabilities) (1)	**325**	412	(87)
Current portion of lease liabilities	**82**	-	82
Current portion of long-term debt	**705**	-	705
Working capital (1)	**(462)**	412	(874)

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 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.

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

"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 2018 Management Discussion and Analysis, which are incorporated herein. The Annual Information Form of the Corporation and the 2018 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 consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, revenue, and expenses. Actual results may differ from these estimates.

The Corporation has applied significant judgements and estimates on a basis consistent with the prior year, except for the adoption of IFRS 16.

NEW STANDARDS AND INTERPRETATIONS ADOPTED

IFRS 16 replaces the previous guidance on lease recognition under IAS 17 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 statements 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 were effective for annual periods beginning on or after January 1, 2019, with early application permitted if IFRS 15 – Revenue from Contracts with Customers, had also been applied.

The Corporation adopted IFRS 16 effective January 1, 2019 using a modified retrospective approach whereby the consolidated financial statements of prior periods presented were not restated and continue to be reported under IAS 17, as permitted by the specific transition provisions of IFRS 16. The cumulative effect of the initial adoption of IFRS 16 was reflected as an adjustment to the deficit at January 1, 2019.

The Corporation recognized lease liabilities at January 1, 2019 for leases previously classified as operating leases, measured at the present value of lease payments using the Corporation's incremental borrowing rate at that date. Property and equipment includes the corresponding right-of-use assets also recognized at January 1, 2019. The right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid lease payments and lease incentives relating to that lease recognized in the consolidated statements of financial position as at December 31, 2018.

As permitted by IFRS 16, the Corporation elected not to recognize lease liabilities and right-of-use assets for short-term leases and leases of low value assets which will continue to be expensed on a straight-line basis over the lease term. The following practical expedients to facilitate the initial adoption of IFRS 16 have also been applied:

- The lease definition was grandfathered for existing contracts on transition. The definition of a lease under IFRS 16 was applied to existing contracts at January 1, 2019;
- Each lease component and any associated non-lease components are accounted for as a single lease component;
- A single incremental borrowing rate is applied to a portfolio of leases with similar characteristics;
- Right-of-use assets and lease liabilities were not recognized for leases with a remaining term of 12 months or less as of
- January 1, 2019; and
- Hindsight was used when determining the lease term when the lease contracts contain options to extend or terminate the lease.

The following table summarizes the impacts of adopting IFRS 16 at January 1, 2019:

	January 1, 2019 prior to adoption of IFRS 16	Adjustments	**January 1, 2019 after adoption of IFRS 16**
Deposits	343	(78)	**265**
Property and equipment	2,353	2,407	**4,760**
Deferred lease inducements	41	(41)	**-**
Lease liabilities	-	2,370	**2,370**

The following table reconciles the operating lease commitments at December 31, 2018 as disclosed in the audited consolidated financial statements to the lease liabilities recognized on initial application of IFRS 16 at January 1, 2019:

Operating lease commitments at December 31, 2018	**3,065**
Discounted using the incremental borrowing rate of 15% at January 1, 2019	**2,301**
Recognition exemption for short-term leases	**(14)**
Extension options reasonably certain to be exercised	**83**
Lease liabilities recognized at January 1, 2019	**2,370**

SUBSEQUENT EVENTS

On April 5, 2019, the Corporation entered into an agreement, amended April 16, 2019, for the re-arrangement and re-organization of the ownership structure of the Corporation (“Plan of Arrangement”). Subject to approval by the common and preferred shareholders, under the Plan of Arrangement, the Corporation will offer to its common and preferred shareholders:

- **Common shareholders** the election to have their common shares purchased by the Corporation for the price of CAD$0.08 per common share or consolidated on the basis of one post-Plan of Arrangement common share (“New Common Shares”) for every five and one quarter pre-Plan of Arrangement common share (“Common Shares”); and
- **Preferred shareholders** the election to have their series A preferred shares ("Preferred Shares") purchased by the Corporation for the price of CAD$0.42 per preferred share, converted to common shares on the basis of two New Common Shares for every one Preferred Share, or exchanged for a newly created class of series B preferred shares (the "New Preferred Shares") on the basis of one New Preferred Share for every one Preferred Share. Each New Preferred Share can be converted to a New Common Share at any time, upon written notice to the Corporation from the holder of such New Preferred Share. The New Preferred Shares can be redeemed by the Company at any time by payment of CAD$2.00 per New Preferred Share plus accrued and unpaid dividends on the New Preferred Shares. As consideration for the exercise feature, existing accrued and unpaid dividends on the existing Preferred Shares and dividends on the New Preferred Shares for the next 36 months are waived. 8% dividends will be accrued thereafter to the New Preferred Shares.

Immediately prior to the Plan of Arrangement, the Corporation will undertake a "private placement" in the aggregate of CAD$1,400,000 whereby two current shareholders, including the Corporations' CEO, subscribe to Preferred Shares equal to the number of Preferred Shares that will be redeemed by the Corporation in respect of the Plan of Arrangement and that number of Common Shares such that the consideration paid for the Common Shares and Preferred Shares subscribed for up to an aggregate of CAD$1,400,000 (the "Financing"). In respect of the Financing, the Corporation has agreed to pay a commitment fee, being the issuance of an aggregate of 1,250,000 Common Shares with a deemed value of CAD$100,000 and for each dollar of additional Financing above $1,200,000, the issuance of Common Shares on a pro rata basis at $0.0833 per Common Share. Such fee is to be paid regardless of whether the Plan of Arrangement is completed.

On May 16, 2019, the Corporation issued the 330,188 shares reserved at March 31, 2019 under the Employee Share Purchase Plan. The total number of issued and outstanding common shares of the Corporation is 44,824,327 as at May 21, 2019.

CORPORATE INFORMATION

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Chairman of the Board

Alykhan Mamdani, BMath, LLB, LLM, CPA, CMA
President & CEO, Director and Founder

Kevin Lo, B.Sc., MBA, P. Eng
Independent Director

Nizar Jaffer Somji, M.Eng, P.Eng
Independent Director

Officers

Alykhan Mamdani
President & CEO

Andrew Varsanyi
Vice President, Operations

Brandy Hunter
Vice President, Operations

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