Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	**March 31, 2016**	December 31, 2015
(CDN 000s) (unaudited)		**($)**	($)
Assets			
Current			
Cash and cash equivalents	9	**176,093**	195,846
Trade and other receivables		**34,277**	48,613
Prepaid expenses		**3,505**	3,719
Income taxes recoverable		**25,954**	17,468
Total current assets		**239,829**	265,646
Non-current			
Property, plant and equipment		**183,277**	201,436
Intangible assets and goodwill		**55,259**	57,643
Deferred tax assets		**4,255**	4,900
Total non-current assets		**242,791**	263,979
Total assets		**482,620**	529,625
Liabilities and equity			
Current			
Trade payables and accruals	8	**22,806**	18,454
Stock-based compensation liability	6	**2,485**	2,220
Total current liabilities		**25,291**	20,674
Non-current			
Stock-based compensation liability	6	**3,106**	3,059
Onerous lease obligation	8	**3,008**	—
Deferred tax liabilities		**10,798**	16,444
Total non-current liabilities		**16,912**	19,503
Equity			
Share capital	6	**128,992**	128,067
Share-based benefits reserve		**23,692**	23,367
Foreign currency translation reserve		**60,476**	85,603
Retained earnings		**227,257**	252,411
Total equity		**440,417**	489,448
Total liabilities and equity		**482,620**	529,625

*The Notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Operations

Three Months Ended March 31,		**2016**	2015
(CDN 000s, except per share data) (unaudited)		**($)**	($)
Revenue		**45,813**	99,402
Operating expenses			
Rental services		**23,771**	38,291
Local administration		**2,329**	4,916
Depreciation and amortization		**16,362**	21,722
		42,462	64,929
Operating profit		**3,351**	34,473
Other expenses			
Research and development		**6,628**	9,330
Corporate services		**4,322**	5,186
Stock-based compensation expense	6	**962**	(1,775)
Restructuring and other expense (income)	8	**9,116**	(4,737)
		21,028	8,004
(Loss) income before income taxes		**(17,677)**	26,469
Income tax (recovery) expense		**(6,817)**	12,278
Net (loss) income		**(10,860)**	14,191
(Loss) income per share	7		
Basic		**(0.13)**	0.17
Diluted		**(0.13)**	0.17

*The Notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Other Comprehensive Income

Three Months Ended March 31,	**2016**	2015
(CDN 000s) (unaudited)	**($)**	($)
Net (loss) income	**(10,860)**	14,191
Items that may be reclassified subsequently to net income:		
Foreign currency translation adjustment	**(25,127)**	30,959
Total comprehensive (loss) income	**(35,987)**	45,150

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Condensed Consolidated Interim Statements of Changes in Equity

(CDN 000s) (unaudited)	Note*	Share Capital	Share-Based Benefits Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
		($)	($)	($)	($)	($)
Balance at January 1, 2015		113,827	12,927	32,807	323,962	483,523
Net income		—	—	—	14,191	14,191
Dividends		—	—	—	(14,193)	(14,193)
Other comprehensive income		—	—	30,959	—	30,959
Exercise of stock options		3,784	—	—	—	3,784
Balance at March 31, 2015		117,611	12,927	63,766	323,960	518,264
Net loss		—	—	—	(28,803)	(28,803)
Dividends		—	—	—	(42,746)	(42,746)
Other comprehensive income		—	—	21,837	—	21,837
Exercise of stock options		10,456	(3,171)	—	—	7,285
Expense related to vesting of options		—	1,938	—	—	1,938
Reclassification of equity settled options		—	11,673	—	—	11,673
Balance at December 31, 2015		128,067	23,367	85,603	252,411	489,448
Net loss		—	—	—	(10,860)	(10,860)
Dividends	6	—	—	—	(14,294)	(14,294)
Other comprehensive loss		—	—	(25,127)	—	(25,127)
Exercise of stock options	6	925	(315)	—	—	610
Expense related to vesting of options		—	640	—	—	640
Balance at March 31, 2016		**128,992**	**23,692**	**60,476**	**227,257**	**440,417**

*The Notes are an integral part of these condensed consolidated interim financial statements.

Condensed Consolidated Interim Statements of Cash Flows

Three Months Ended March 31,	Note*	2016	2015
(CDN 000s) (unaudited)		($)	($)
Cash from (used in) operating activities			
Net (loss) income		**(10,860)**	14,191
Adjustment for non-cash items:			
Depreciation and amortization		**16,362**	21,722
Gain on sale of investment	8	**—**	(2,290)
Stock-based compensation	6	**962**	(1,775)
Non-cash restructuring costs	8	**4,833**	—
Deferred income taxes		**(5,288)**	8,022
Unrealized foreign exchange (gain) loss		**(2,674)**	3,392
Funds flow from operations		**3,335**	43,262
Movements in non-cash working capital items:			
Decrease in trade and other receivables		**11,264**	44,590
Decrease in prepaid expenses		**136**	1,261
(Increase)/decrease in income taxes recoverable		**(2,743)**	4,488
Increase/(decrease) in trade payables, accruals and stock-based compensation liability		**6,102**	(13,047)
Effects of exchange rate changes		**(906)**	(3,189)
Cash generated from operating activities		**17,188**	77,365
Income tax paid		**(5,857)**	(5,832)
Net cash from operating activities		**11,331**	71,533
Cash flows from (used in) financing activities			
Proceeds from issuance of common shares	6	**610**	2,693
Payment of dividends	6	**(14,294)**	(14,193)
Net cash used in financing activities		**(13,684)**	(11,500)
Cash flows (used in) from investing activities			
Additions to property, plant and equipment		**(4,883)**	(21,435)
Development costs		**(1,697)**	(2,078)
Proceeds on disposal of investment and property, plant and equipment		**109**	3,288
Changes in non-cash working capital		**(719)**	(5,127)
Net cash used in investing activities		**(7,190)**	(25,352)
Effect of exchange rate on cash and cash equivalents		**(10,210)**	12,247
Net (decrease) increase in cash and cash equivalents		**(19,753)**	46,928
Cash and cash equivalents, beginning of period		**195,846**	144,858
Cash and cash equivalents, end of period	9	**176,093**	191,786

*The Notes are an integral part of these condensed consolidated interim financial statements.

Notes to Condensed Consolidated Interim Financial Statements

($CDN 000s, except per share data) (unaudited)

1. Description of Business

Pason Systems Inc. (the "Company") is a leading global provider of instrumentation and data management systems for drilling rigs.

The Company headquarters are located at 6130 Third Street SE, Calgary, Alberta, Canada. The Company is a publicly traded company listed on the Toronto Stock Exchange under the symbol PSI. The condensed consolidated interim financial statements of the Company are comprised of the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The accompanying consolidated financial statements include the accounts of Pason Systems Inc. and its wholly owned subsidiaries.

2. Basis of Preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the requirements of International Accounting Standard ("IAS") 34, Interim Financial Reporting and include the accounts of Pason and its wholly owned subsidiaries. All significant inter-company balances and transactions including revenue and expenses have been eliminated. These unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2015.

Change in accounting classification

In the first quarter of 2016 , the Company changed the accounting policy for the classification of certain expenses. Expenses that were previously recorded as other costs are now included as rental services in the respective business unit, to better reflect the nature of the expense. The 2015 comparative quarterly financial statements have been adjusted to reflect this change in accounting classification. Rental service costs and other costs for the first quarter of 2015 have been adjusted by $795.

3. Significant Accounting Policies

There have been no significant accounting policy changes; refer to the audited annual consolidated financial statements as at and for the year ended December 31, 2015.

4. Seasonality

Variations in Pason's quarterly financial results are due in part to the seasonality of the oil and gas service industry in Canada, which is somewhat offset by the less seasonal nature of US and International operations. The first quarter is generally the strongest quarter for the Company due to strong activity in Canada when location access is best during the winter. The second quarter is always the slowest due to spring break up in Canada when many areas are not accessible due to ground conditions, and therefore, do not permit the movement of heavy equipment. Activity generally increases in the third quarter, depending on the year, as ground conditions have often improved and location access becomes available; however, a rainy summer can have a significant adverse effect on drilling activity. The fourth quarter is often the Company's second strongest quarter when access to most areas in Canada become available with ground freezing. Consequently, the performance of the Company may not be comparable quarter to consecutive quarter and should be considered on the basis of results for the whole year, or by comparing results in a quarter with results in the same quarter for the previous year.

5. Operating Segments

The Group has three reportable segments, as described below, which are the Group’s strategic business units. The strategic business units offer the same services, but are managed separately. For each of the strategic business units, the Group’s senior management reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on operating profit as included in the internal management reports. Operating profit is used to measure performance, as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined with reference to arm's length pricing.

There have been no changes in operating segments from the year-ended December 31, 2015.

The Company operates in three geographic segments: Canada, the United States, and International (Latin America, Offshore, the Eastern Hemisphere, and the Middle East). The amounts related to each segment are as follows:

Three Months Ended March 31, 2016	**Canada**	**United States**	**International**	**Total**
	($)	**($)**	**($)**	**($)**
Revenue	**15,825**	**23,626**	**6,362**	**45,813**
Rental services and local administration	**5,324**	**15,245**	**5,531**	**26,100**
Depreciation and amortization	**7,582**	**6,773**	**2,007**	**16,362**
Segment operating profit (loss)	**2,919**	**1,608**	**(1,176)**	**3,351**
Research and development				**6,628**
Corporate services				**4,322**
Stock-based compensation				**962**
Other expenses				**9,116**
Income taxes				**(6,817)**
Net Loss				**(10,860)**
Capital expenditures	**1,717**	**4,774**	**89**	**6,580**
Goodwill	**—**	**24,008**	**2,600**	**26,608**
Intangible assets	**27,820**	**184**	**647**	**28,651**
Segment assets	**156,355**	**264,895**	**61,370**	**482,620**
Segment liabilities	**19,063**	**10,767**	**12,373**	**42,203**

Three Months Ended March 31, 2015				
Revenue	29,359	57,515	12,528	99,402
Rental services and local administration	9,512	24,975	8,720	43,207
Depreciation and amortization	9,629	9,758	2,335	21,722
Segment operating profit	10,218	22,782	1,473	34,473
Research and development				9,330
Corporate services				5,186
Stock-based compensation				(1,775)
Other income				(4,737)
Income taxes				12,278
Net Income				14,191
Capital expenditures	5,924	11,822	5,767	23,513
Goodwill	—	23,474	2,600	26,074
Intangible assets	31,233	2,170	1,879	35,282
Segment assets	159,178	353,989	79,056	592,223
Segment liabilities	28,969	32,616	12,374	73,959

6. Share Capital

	Common Shares			
	Three Months Ended March 31, 2016		Year Ended December 31, 2015	
	($)	**(#)**	($)	(#)
Balance, beginning of period	**128,067**	**84,063**	113,827	83,363
Exercise of stock options:	**925**	**45**	14,240	700
Balance, end of period	**128,992**	**84,108**	128,067	84,063

Stock option plan

The Group has a stock option plan that entitles qualified employees to purchase shares in the Company. Options, which are issued at market price, vest over three years, and expire after five years.

At March 31, 2016, 4,466 (2015: 4,194) stock options were outstanding for common shares at exercise prices ranging from $12.49 to $27.96 per share, expiring between 2016 and 2021 as follows:

	Three Months Ended March 31, 2016		Three Months Ended March 31, 2015	
	Share Options	**Weighted Average Exercise Price**	Share Options	Weighted Average Exercise Price
	(#)	**($)**	(#)	($)
Outstanding, beginning of period	**4,862**	**21.77**	4,490	21.06
Granted	**17**	**17.93**	—	—
Equity settled	**(45)**	**13.63**	(196)	13.61
Expired or forfeited	**(368)**	**23.14**	(100)	24.30
Outstanding, end of period	**4,466**	**21.72**	4,194	21.33
Exercisable, end of period	**285**	**12.54**	1,582	16.61
Available for grant, end of period	**1,422**		4,161	

In May 2015, shareholders' approved a modification of the Option Plan to eliminate the ability for the option holder to settle options for cash and to reduce the number of options outstanding at any given time from 10% to 7% of the total number of common shares outstanding.

Stock-based compensation expense and liability

The stock option, restricted share unit (RSU), deferred share unit (DSU) and performance share unit (PSU) plans expense can be summarized as follows:

Expense

Three Months Ended March 31,	**2016**	2015
	($)	($)
Stock options	**639**	(2,734)
RSUs	**35**	591
DSUs	**(129)**	6
PSUs	**417**	362
Stock-based compensation	**962**	(1,775)

Liability

As at	**March 31, 2016**	December 31, 2015
	($)	($)
RSUs	**1,597**	1,641
PSUs	**888**	579
Current portion of stock-based compensation liability	**2,485**	2,220
RSUs	**401**	333
DSUs	**1,994**	2,124
PSUs	**711**	602
Non-current portion of stock-based compensation liability	**3,106**	3,059
Total stock-based compensation liability	**5,591**	5,279

Common share dividends

During the quarter ended March 31, 2016, the Company declared and paid dividends of $14,294 (2015: $14,193) or $0.17 per common share (2015: $0.17).

Normal Course Issuer Bid (NCIB)

During the first quarter of 2016, the Company allowed the NCIB program to expire. The Company did not purchase any shares for cancellation during the quarter.

7. Income Per Share

Basic income per share

The calculation of basic income per share was based on the following weighted average number of common shares:

Three Months Ended March 31,	**2016**	2015
	(#)	(#)
Issued common shares outstanding, beginning of period	**84,063**	83,363
Effect of exercised options	**3**	98
Weighted average number of common shares for the period	**84,066**	83,461

Diluted income per share

The calculation of diluted income per share was based on a weighted average number of common shares outstanding after adjustment for the effects of all potential dilutive common shares calculated as follows:

Three Months Ended March 31,	**2016**	2015
	(#)	(#)
Weighted average number of common shares (basic)	**84,066**	83,461
Effect of share options	**—**	—
Weighted average number of common shares (diluted)	**84,066**	83,461

Options are excluded from the above calculation if their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

8. Restructuring and Other Expenses (Income)

Three Months Ended March 31,	2016	2015
	($)	($)
Foreign exchange gain	(2,719)	(2,447)
Gain on sale of investment	—	(2,290)
Restructuring costs	10,861	—
Other	974	—
Other expenses (income)	9,116	(4,737)

In the first quarter of 2016, the Company initiated additional cost reduction initiatives to address the prolonged downturn in oil and gas drilling activity. These actions included further staff reductions and office space consolidation. As a result, the Company recorded a restructuring charge of $10,861, which is comprised of $6,028 for employee termination and other staff related costs, an onerous lease obligation charge of $3,682, which is calculated at the present value of the expected net cost of continuing with the lease after adjusting for anticipated sublease rentals, and the write-off of leasehold improvements and other related costs totaling $1,151. The current portion of the onerous lease provision is included in trade payables and accruals while the non-current portion is separately disclosed on the Condensed Consolidated Interim Balance Sheet.

During the first quarter of 2015, the Company disposed of its investment in a small, privately held company and realized a gain of $2,290.

9. Cash and Cash Equivalents

As at	March 31, 2016	December 31, 2015
	($)	($)
Cash	65,270	92,649
Cash equivalents	110,823	103,197
Cash and cash equivalents	176,093	195,846

Cash equivalents are made up mostly of cash invested in money market funds with interest rates of approximately 0.5%, and maturities from 1–30 days.

10. Financial Instruments

The carrying values of financial assets and liabilities approximate their fair value due to the short-term nature of these items. Pason's financial instruments include cash and cash equivalents, trade and other receivables, trade payables and accruals, and stock-based compensation liability.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data.

	Financial Assets at Fair Value			
	Level 1	Level 2	Level 3	**March 31, 2016**
	($)	($)	($)	**($)**
Cash and cash equivalents	176,093	—	—	**176,093**
Total financial assets at fair value	176,093	—	—	**176,093**

11. Contingency

In March of 2016 the Company announced that all claims, answers, affirmative defenses and counterclaims, asserted by the defendant against the Company and by the Company against the defendant relating to the alleged AutoDriller patent infringement lawsuit initially filed in February 2015 have been dismissed with prejudice by the United States District Court for the Southern District of Texas

12. Approval of Interim Financial Statements

The condensed unaudited consolidated interim financial statements were approved by the Board of Directors on May 10, 2016.

13. Events After the Reporting Period

On May 10, 2016, the Company announced a quarterly dividend of $0.17 per share on the Company’s common shares. The dividend will be paid on June 29, 2016 to shareholders of record at the close of business on June 15, 2016.