

Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	March 31, 2017	December 31, 2016
(CDN 000s) (unaudited)		(\$)	(\$)
Assets			
Current			
Cash and cash equivalents	9	163,346	146,479
Trade and other receivables		52,370	50,721
Prepaid expenses		4,295	3,826
Income taxes recoverable		9,450	15,066
Assets held for sale	11	—	8,413
Total current assets		229,461	224,505
Non-current			
Property, plant and equipment		140,811	150,504
Intangible assets and goodwill		41,520	43,698
Deferred tax assets		15,283	16,544
Total non-current assets		197,614	210,746
Total assets		427,075	435,251
Liabilities and equity			
Current			
Trade payables and accruals		23,458	24,347
Stock-based compensation liability	6	2,779	1,516
Liabilities held for sale	8	—	223
Total current liabilities		26,237	26,086
Non-current			
Stock-based compensation liability	6	3,363	2,941
Onerous lease obligation		2,904	2,917
Deferred tax liabilities		14,623	16,656
Total non-current liabilities		20,890	22,514
Equity			
Share capital	6	140,683	139,730
Share-based benefits reserve		23,616	23,026
Foreign currency translation reserve		68,438	69,443
Retained earnings		147,211	154,452
Total equity		379,948	386,651
Total liabilities and equity		427,075	435,251

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

Condensed Consolidated Interim Statements of Operations

Three Months Ended March 31,	Note*	2017	2016
(CDN 000s, except per share data) (unaudited)		(\$)	(\$)
Revenue		59,049	45,813
Operating expenses			
Rental services		21,483	23,771
Local administration		2,713	2,329
Depreciation and amortization		11,973	16,362
		36,169	42,462
Operating profit		22,880	3,351
Other expenses			
Research and development		5,877	6,628
Corporate services		4,068	4,322
Stock-based compensation expense	6	2,547	962
Other expense	8	1,439	9,116
		13,931	21,028
Income (loss) before income taxes		8,949	(17,677)
Income tax provision (recovery)		1,796	(6,817)
Net income (loss)		7,153	(10,860)
Income (loss) per share	7		
Basic		0.08	(0.13)
Diluted		0.08	(0.13)

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Condensed Consolidated Interim Statements of Other Comprehensive Income

Three Months Ended March 31,		2017	2016
(CDN 000s) (unaudited)		(\$)	(\$)
Net income (loss)		7,153	(10,860)
Items that may be reclassified subsequently to net income:			
Foreign currency translation adjustment		(1,595)	(25,127)
Reclassification of foreign currency translation gain on disposition of 3PS assets	11	590	—
Other comprehensive (loss) gain		(1,005)	(25,127)
Total comprehensive income (loss)		6,148	(35,987)

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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, 2016		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	6	—	640	—	—	640
Balance at March 31, 2016		128,992	23,692	60,476	227,257	440,417
Net loss		—	—	—	(29,761)	(29,761)
Dividends	6	—	—	—	(43,044)	(43,044)
Other comprehensive income		—	—	8,967	—	8,967
Exercise of stock options	6	9,488	(3,022)	—	—	6,466
Expense related to vesting of options	6	—	2,356	—	—	2,356
Shares issued pursuant to business acquisition		1,250	—	—	—	1,250
Balance at December 31, 2016		139,730	23,026	69,443	154,452	386,651
Net income		—	—	—	7,153	7,153
Dividends	6	—	—	—	(14,394)	(14,394)
Other comprehensive loss		—	—	(1,005)	—	(1,005)
Exercise of stock options	6	953	(247)	—	—	706
Expense related to vesting of options	6	—	837	—	—	837
Balance at March 31, 2017		140,683	23,616	68,438	147,211	379,948

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Condensed Consolidated Interim Statements of Cash Flows

Three Months Ended March 31,	Note*	2017	2016
(CDN 000s) (unaudited)		(\$)	(\$)
Cash from (used in) operating activities			
Net income (loss)		7,153	(10,860)
Adjustment for non-cash items:			
Depreciation and amortization		11,973	16,362
Stock-based compensation	6	2,547	962
Non-cash restructuring costs	8	—	4,833
Deferred income taxes		(889)	(5,288)
Unrealized foreign exchange (gain) loss and other		290	(2,674)
Funds flow from operations		21,074	3,335
Movements in non-cash working capital items:			
(Increase) decrease in trade and other receivables		(1,843)	11,264
(Increase) decrease in prepaid expenses		(442)	136
Decrease (increase) in income taxes recoverable		6,792	(2,743)
Increase in trade payables, accruals and stock-based compensation liability		3,914	6,102
Effects of exchange rate changes		1,507	(906)
Cash generated from operating activities		31,002	17,188
Income tax paid		(1,171)	(5,857)
Net cash from operating activities		29,831	11,331
Cash flows from (used in) financing activities			
Proceeds from issuance of common shares	6	706	610
Payment of dividends	6	(14,394)	(14,294)
Net cash used in financing activities		(13,688)	(13,684)
Cash flows (used in) from investing activities			
Additions to property, plant and equipment		(841)	(4,883)
Development costs		(293)	(1,697)
Proceeds on disposal of investment and property, plant and equipment		3	109
Acquisition	6	(4,750)	—
Proceeds on sale of net operating assets	11	7,123	—
Changes in non-cash working capital		(189)	(719)
Net cash from (used in) investing activities		1,053	(7,190)
Effect of exchange rate on cash and cash equivalents		(329)	(10,210)
Net increase (decrease) in cash and cash equivalents		16,867	(19,753)
Cash and cash equivalents, beginning of period		146,479	195,846
Cash and cash equivalents, end of period	9	163,346	176,093

*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, 2016.

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, 2016.

4. Seasonality

Though the Company has seen a significant deterioration in its operating results as a result of the decline in drilling activity, Pason's quarterly financial results still vary quarter to quarter 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, where location access is best during the winter. The second quarter is typically 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 often improve and location access becomes available; however, a rainy summer can have a significant adverse effect on drilling activity. By the fourth quarter, often the Company's second strongest quarter, access to most areas in Canada becomes available when the ground freezes. Consequently, the performance of the Company may not be comparable quarter to consecutive quarter, but 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, 2016.

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, 2017	Canada	United States	International	Total
	(\$)	(\$)	(\$)	(\$)
Revenue	23,987	29,966	5,096	59,049
Rental services and local administration	5,794	14,210	4,192	24,196
Depreciation and amortization	5,934	5,001	1,038	11,973
Segment operating profit (loss)	12,259	10,755	(134)	22,880
Research and development				5,877
Corporate services				4,068
Stock-based compensation				2,547
Other expenses				1,439
Income tax expense				1,796
Net Income				7,153
Capital expenditures	(53)	1,286	(99)	1,134
Goodwill	1,259	7,181	2,600	11,040
Intangible assets	29,771	709	—	30,480
Segment assets	122,216	253,754	51,105	427,075
Segment liabilities	20,429	11,795	14,903	47,127

Three Months Ended March 31, 2016

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 tax recovery				(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

6. Share Capital

Common Shares

	Three Months Ended March 31, 2017		Year Ended December 31, 2016	
	(\$)	(#)	(\$)	(#)
Balance, beginning of period	139,730	84,628	128,067	84,063
Exercise of stock options:	953	44	10,413	498
Shares issued pursuant to business acquisition	—	—	1,250	67
Balance, end of period	140,683	84,672	139,730	84,628

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, 2017, 4,811 (2016: 4,466) stock options were outstanding for common shares at exercise prices ranging from \$15.94 to \$27.96 per share, expiring between 2017 and 2022 as follows:

	Three Months Ended March 31, 2017		Three Months Ended March 31, 2016	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
Outstanding, beginning of period	5,075	20.52	4,862	21.77
Granted	89	19.32	17	17.93
Equity settled	(44)	16.04	(45)	13.63
Expired or forfeited	(309)	23.17	(368)	23.14
Outstanding, end of period	4,811	20.37	4,466	21.72
Exercisable, end of period	2,194	22.56	285	12.54
Available for grant, end of period	1,116		1,422	

Stock-based compensation expense and liability

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

Expense

Three Months Ended March 31,	2017	2016
	(\$)	(\$)
Stock options	837	639
RSUs	504	35
DSUs	50	(129)
PSUs	449	417
Deferred compensation expense	707	—
Stock-based compensation	2,547	962

On December 31, 2016, the Company purchased all of the existing and outstanding shares of Verdazo Analytics, Inc. (Verdazo). In January of 2017, \$4,750 of the cash portion owing on the acquisition was paid. In accordance with IFRS, a portion of the deferred compensation payable was not considered part of the purchase price but is accounted for as future stock-based compensation expense over the vesting period. This amount, which will be accrued over the three year period ending December 31, 2019, totals \$4,201.

Liability

As at	March 31, 2017	December 31, 2016
	(\$)	(\$)
RSUs	1,106	867
PSUs	966	649
Deferred compensation expense	707	—
Current portion of stock-based compensation liability	2,779	1,516
RSUs	547	306
DSUs	2,397	2,348
PSUs	419	287
Non-current portion of stock-based compensation liability	3,363	2,941
Total stock-based compensation liability	6,142	4,457

Common share dividends

During the quarter ended March 31, 2017, the Company declared and paid dividends of \$14,394 (2016: \$14,294) or \$0.17 per common share (2016: \$0.17).

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,	2017	2016
	(#)	(#)
Issued common shares outstanding, beginning of period	84,628	84,063
Effect of exercised options	27	3
Weighted average number of common shares outstanding for the period	84,655	84,066

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,	2017	2016
	(#)	(#)
Weighted average number of common shares (basic)	84,655	84,066
Effect of share options	232	—
Weighted average number of common shares (diluted)	84,887	84,066

Stock 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 is based on quoted market prices for the period.

8. Other Expenses (Income)

Three Months Ended March 31,	2017	2016
	(\$)	(\$)
Foreign exchange loss (gain)	223	(2,719)
Restructuring costs	—	10,861
Other	1,216	974
Other expenses	1,439	9,116

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 in the first quarter of 2016.

9. Cash and Cash Equivalents

As at	March 31, 2017	December 31, 2016
	(\$)	(\$)
Cash	64,114	55,317
Cash equivalents	99,232	91,162
Cash and cash equivalents	163,346	146,479

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, 2017
	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	163,346	—	—	163,346
Total financial assets at fair value	163,346	—	—	163,346

11. Assets Held for Sale

During 2016, the Company initiated a review of its investment in 3PS, Inc. (3PS). In the fourth quarter of 2016 a final agreement was entered into for the sale of the net operating assets of 3PS, effective January 1, 2017. The net operating assets sold were separately identified on the Consolidated Balance Sheets at December 31, 2016. Cash proceeds of \$7,123 were received in January of 2017. The remaining funds are held in escrow and will be released twelve months after closing in accordance with the terms of the escrow agreement.

The Foreign Currency Translation Reserve on the Consolidated Balance Sheets relating to the net operating assets of 3PS has been brought into Other Comprehensive Income during the first quarter of 2017.

12. Approval of Interim Financial Statements

The condensed unaudited consolidated interim financial statements were approved by the Board of Directors on May 2, 2017.

13. Events After the Reporting Period

On May 2, 2017, 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, 2017 to shareholders of record at the close of business on June 15, 2017.

