Performance Data

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	**2016**	2015	Change
(CDN 000s, except per share data)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**38,633**	68,468	(44)	**111,619**	225,310	(50)
Loss	**(7,117)**	(18,558)	62	**(29,296)**	(13,771)	(113)
Per share – basic	**(0.08)**	(0.22)	64	**(0.35)**	(0.16)	(119)
Per share – diluted	**(0.08)**	(0.22)	64	**(0.35)**	(0.16)	(119)
EBITDA [(1)]	**8,347**	(2,717)	—	**5,763**	48,894	(88)
As a % of revenue	**21.6**	(4.0)	—	**5.2**	21.7	(17)
Adjusted EBITDA [(1)]	**8,487**	24,742	(66)	**15,780**	76,332	(79)
As a % of revenue	**22.0**	36.1	(14)	**14.1**	33.9	(20)
Funds flow from operations	**9,130**	23,791	(62)	**11,491**	76,330	(85)
Per share – basic	**0.11**	0.28	(61)	**0.14**	0.91	(85)
Per share – diluted	**0.11**	0.28	(61)	**0.14**	0.91	(85)
Cash from operating activities	**4,653**	16,332	(72)	**18,977**	119,165	(84)
Free cash flow [(1)]	**3,412**	5,902	(42)	**6,783**	75,419	(91)
Per share – basic	**0.04**	0.07	(43)	**0.08**	0.90	(91)
Per share – diluted	**0.04**	0.07	(43)	**0.08**	0.90	(91)
Capital expenditures	**1,377**	10,769	(87)	**12,886**	44,284	(71)
Working capital	**191,785**	244,324	(22)	**191,785**	244,324	(22)
Total assets	**438,671**	541,276	(19)	**438,671**	541,276	(19)
Total long-term debt	**—**	—	—	**—**	**—**	—
Cash dividends declared	**0.17**	0.17	—	**0.51**	0.51	—
Shares outstanding end of period (#000's)	**84,367**	83,772	1	**84,367**	83,772	1

(1) Non-IFRS financial measures are defined in the Management's Discussion and Analysis section.

Q3 2016 vs Q3 2015

The Company generated consolidated revenue of $38.6 million in the third quarter of 2016, down 44% from $68.5 million in the same period of 2015. Continuing depressed commodity prices have led to reduced activity in the all of the company's major markets compared to the same period in the prior year.

Consolidated EBITDA was $8.3 million in the third quarter, an increase of $11.1 million from the third quarter of 2015. Included in EBITDA in the prior year is an impairment charge of $26.6 million related to excess quantities of rental equipment. Adjusted EBITDA,which adjusts for foreign exchange and certain non-recurring charges,including impairment charges, decreased to $8.5 million, down from $24.7 million in the third quarter of 2015.

The Company recorded a net loss of $7.1 million ($0.08 per share) in the third quarter of 2016, compared to a net loss of $18.6 million ($0.22 per share) recorded in the same period in 2015. The third quarter 2015 results include an impairment charge referred to above. Cost reduction programs previously implemented and a significant decline in depreciation expense from 2015 levels also impacted the comparison of third quarter 2016 results to 2015 amounts.

President’s Message

The environment for oilfield services remained very challenging worldwide during the third quarter. US drilling activity, as measured in industry days, dropped 39% from the previous year period, and declined 53% for the first nine months of 2016. Canadian drilling activity experienced a 38% year-over-year reduction for the quarter and a 45% reduction for the first nine months. Most international markets continued to be similarly affected.

Pason’s third quarter results directly reflect these declines in drilling activity. Revenue for the quarter was $38.6 million, a 44% decline from the previous year. Adjusted EBITDA was $8.5 million, compared to $24.7 million in the previous year period and free cash flow was $3.4 million. The company incurred a loss for the quarter of $7.1 million or $0.08 per share. Significant previously implemented cost reductions, and lower depreciation expenses, partially offset the revenue decline.

US and Canadian EDR market share was essentially unchanged from the previous quarter. Revenue per EDR day in the US was up 4% for the third quarter compared to the previous year, driven by higher adoption of certain products. In Canada, Revenue per EDR day was down 8% year-over-year resulting from price concessions and lower adoption of certain peripheral products.

At September 30, 2016, our cash position stood at $155 million and working capital at $192 million. There is no debt on our balance sheet. We are maintaining our quarterly dividend at $0.17 share.

In the United States, drilling activity has followed a rebound in oil prices from February’s low of US$26 a barrel to more than US$45.The Baker Hughes active rig count climbed above 550 for the first time since February, up from a low of 404 in May. However, the number of active rigs is still down by more than 200 over the same period in 2015. Almost half of the active rigs are operating in Texas and most of the recent growth came in the Permian Basin.

It is likely that the second quarter of 2016 was the low point for North American drilling activity both seasonally and cyclically and that we are in an environment of gradually improving drilling activity. However, oil prices continue to be volatile and the outlook remains uncertain. We don’t expect significant increases in oil company capital spending plans in the near term. We also don’t expect any improvements in pricing for some time. We believe that many producers will be reluctant to significantly dial up spending levels even as crude markets show tentative signs of recovery.

For the remainder of 2016, we aim to strike the optimal balance between cost control and investments in future growth. Our objective is to generate positive free cash flow before the dividend for the year. In Canada, we are experiencing increased competitive and pricing pressures. We are fully committed to holding onto our position as the service provider of choice for key operator and drilling contractor customers.

We are continuing to invest in future growth, including investing in new product development, service capabilities, infrastructure and systems, and in our international footprint. We plan to continue to allocate resources for R&D and IT and we intend to spend up to $20 million in capital expenditures in 2016. We are focusing our product development efforts on our “on-bottom” and “off-bottom” product road maps.

We are building on our strong market position and reputation, and seek opportunities where we can take advantage of our significant strengths. We believe that Pason continues to be well-positioned to maximize returns in the industry's upturn.

Marcel Kessler
President and Chief Executive Officer
November 9, 2016

Management’s Discussion and Analysis

The following discussion and analysis has been prepared by management as of November 9, 2016, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the consolidated financial statements and accompanying notes.

Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

All financial measures presented in this report are expressed in Canadian dollars unless otherwise indicated.

Additional IFRS Measures

In its interim condensed consolidated financial statements, the Corporation uses certain additional IFRS measures. Management believes these measures provide useful supplemental information to readers.

Funds flow from operations

Management believes that funds flow from operations, as reported in the Consolidated Statements of Cash Flows, is a useful additional measure as it represents the cash generated during the period, regardless of the timing of collection of receivables and payment of payables. Funds flow from operations represents the cash flow from continuing operations, excluding non-cash items. Funds flow from operations is defined as net income adjusted for depreciation and amortization expense, non-cash stock-based compensation expense, deferred taxes, and other non-cash items impacting operations.

Cash from operating activities

Cash from operating activities is defined as funds flow from operations adjusted for changes in working capital items.

Non-IFRS Financial Measures

These definitions are not recognized measures under IFRS, and accordingly, may not be comparable to measures used by other companies. These Non-IFRS measures provide readers with additional information regarding the Company's ability to generate funds to finance its operations, fund its research and development and capital expenditure program, and pay dividends.

Revenue per EDR Day

Revenue per EDR day is defined as the daily revenue generated from all products that the Company has on rent on a drilling rig that has the Company’s base EDR installed. This metric provides a key measure on the Company’s ability to increase production adoption and evaluate product pricing.

EBITDA

EBITDA is defined as net income before interest expense, income taxes, stock-based compensation expense, depreciation and amortization expense, and gains on disposal of investments.

Adjusted EBITDA

Adjusted EBITDA is defined as EBITDA, adjusted for foreign exchange, impairment of property, plant, and equipment, restructuring costs, and other items which the Company does not consider to be in the normal course of continuing operations.

Free cash flow

Free cash flow is defined as cash from operating activities plus proceeds on disposal of property, plant, and equipment, less capital expenditures, and deferred development costs.

Overall Performance

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	**2016**	2015	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder (1)	**16,200**	29,722	(45)	**46,817**	98,014	(52)
Pit Volume Totalizer/ePVT	**5,011**	8,933	(44)	**14,832**	30,679	(52)
Communications (1)	**3,799**	6,236	(39)	**10,388**	19,383	(46)
Software	**2,665**	4,672	(43)	**7,587**	15,253	(50)
AutoDriller	**2,259**	4,943	(54)	**6,542**	16,457	(60)
Gas Analyzer	**2,804**	4,985	(44)	**8,281**	16,511	(50)
Other	**5,895**	8,977	(34)	**17,172**	29,013	(41)
Total revenue	**38,633**	68,468	(44)	**111,619**	225,310	(50)

(1) A portion of the Company's Communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue. 2015 comparative figures have been reclassified to conform with 2016 presentation. (Q3 2016 - $1,016 and YTD 2015- $2,981).

Electronic Drilling Recorder (EDR) and Pit Volume Totalizer (PVT) rental day performance for Canada and the United States is reported below:

Canada

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	**2016**	2015	Change
	#	#	(%)	**#**	#	(%)
EDR rental days	**10,500**	17,000	(38)	**29,900**	51,600	(42)
PVT rental days	**9,600**	15,900	(40)	**27,600**	48,600	(43)

United States

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	**2016**	2015	Change
	#	#	(%)	**#**	#	(%)
EDR rental days	**23,800**	46,000	(48)	**67,400**	159,200	(58)
PVT rental days	**18,100**	33,800	(46)	**51,500**	121,100	(57)

Electronic Drilling Recorder (EDR)

The Pason EDR remains the Company's primary product. The EDR provides a complete system of drilling data acquisition, data networking, and drilling management tools and reports at both the wellsite and customer offices. The EDR is the base product from which all other wellsite instrumentation products are linked. By linking these products, a number of otherwise redundant elements such as data processing, display, storage, and networking are eliminated. This ensures greater reliability and a more robust system of instrumentation for the customer. Revenue generated from the EDR decreased 45% for the third quarter and 52% for the first nine months of 2016 compared to the corresponding period in 2015. This decrease is attributable to the industry slowdown, lower product adoption of certain EDR peripheral devices, and pricing pressures from customers. Industry activity in the US market decreased 39% in the third quarter of 2016 compared to the corresponding period in 2015 (53% on a year-to-date basis), while third quarter Canadian rig activity decreased 38% compared to the same period in 2015 (45% on a year-to-date basis). Canadian EDR days, which includes non-oil and gas-related activity, decreased 38% in the third quarter of 2016 from 2015 levels

(42% on a year-to-date basis), while US EDR days decreased by 48% from the third quarter of 2015 (58% on a year-to-date basis).

The Canadian business unit saw increased competition during the third quarter, including continued pricing pressure and the introduction and commercialization of a new EDR offering from an existing competitor. The Company does not believe these factors had a significant effect on the number of EDR days billed in the quarter.

The Pason EDR was installed on 53% of active land rigs in the US during the first nine months of 2016, compared to 58% in the same period of 2015. This change in market share was primarily driven by changes in the mix of active customers and regions.

For purposes of market share, the Company uses the number of EDR days billed and oil and gas drilling days as reported by accepted industry sources.

The Company's International business unit is experiencing the same market conditions as the North American market except for Argentina, where drilling activity has not been impacted to the same degree seen in North America,and the Middle East, where the Company is realizing an increase in its share of net income from its Saudi Arabia joint venture as a result of a continuing increases in rig count and market penetration.

Pit Volume Totalizer (PVT) and Enhanced Pit Volume Totalizer (ePVT)

The ePVT is Pason's proprietary solution for the detection and early warning of “kicks” that are caused by hydrocarbons entering the wellbore under high pressure and expanding as they migrate to the surface. PVT revenue for the first nine months of 2016 was impacted by the decline in rig count activity, offset partially with continued customer adoption of the new ePVT. During the three months ended September 30, 2016, the ePVT was installed on 91% of rigs with a Pason EDR in Canada and 76% in the US, compared to 94% and 74% respectively, in the same period of 2015.

Communications

Pason's Communications revenue comes from a number of communication service offerings, including providing customers with bandwidth through the Company's automatically-aiming satellite system and terrestrial networks. This system provides reliable high-speed wellsite communications for email and web application management tools. Pason displays all data in standard forms on its DataHub web application, although if customers require greater analysis or desire to have the information transferred to another supplier's database, data is available for export from the Pason DataHub using WITSML (a specification for transferring data among oilfield service companies, drilling contractors, and operators). The Company complements its satellite equipment with High Speed Packet Access (HSPA), a high-speed wireless ground system which provides automatic fail-over between satellite and terrestrial networks to achieve greater reliability in its service offering.

Communications revenue decreased by 39% in the third quarter of 2016 compared to the same period in 2015 due to the industry slowdown, offset by an increase in customer adoption of new communication solutions rolled out in the Canadian and US markets.

Software

The Pason DataHub is the Company's data management system that collects, stores, and displays drilling data, reports, and real-time information from drilling operations. The DataHub provides access to data through a number of innovative applications or services, including:

- Live Rig View (LRV), which provides advanced data viewing, directional drilling, and 3D visualization of drilling data in real time via a web browser.

- LRV Mobile, which allows users to access their data on mobile devices, including iPhone, iPad, BlackBerry, and Android.
- WITSML, which provides seamless data sharing with third-party applications, enhancing the value of data hosted by Pason.
- Additional specialized software, including directional offerings.

During the third quarter of 2016, 98% of the Company's Canadian customers and 89% of customers in the US were using all or a portion of the functionality of the DataHub, compared to 97% and 86% respectively in 2015.

AutoDriller

Pason's AutoDriller is used to maintain constant weight on the drill bit while a well is being drilled. During the nine months ended September 30, 2016, the AutoDriller adoption rates continue to decline and the Company anticipates this to continue due in most part to the drop in the number of mechanical rigs being deployed.

Gas Analyzer

The Pason Gas Analyzer measures the total hydrocarbon gases (C1 through C4 and CO_2) exiting the wellbore, and then calculates the lag time to show the formation depth where the gases were produced. The Gas Analyzer provides information about the composition of the gas, and further calculates geologic ratios from the gas composition to assist in indicating the type of gas, natural gas liquid, or oil in the formation. During the third quarter of 2016, the Gas Analyzer was installed on 58% of Canadian and 31% of US land rigs operating with a Pason EDR system, compared to 62% and 26% for the Canadian and US segments respectively in the prior year period.

Other

Other is comprised mostly of the rental of service rig recorders in Latin America, the Electronic Choke Actuator, Hazardous Gas Alarm products, Mobilization revenue, sales of sensors and other systems sold by 3PS.

Discussion of Operations

United States Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	**2016**	2015	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder [(1)]	**10,041**	19,120	(47)	**28,111**	64,135	(56)
Pit Volume Totalizer/ePVT	**2,902**	4,908	(41)	**8,252**	17,949	(54)
Communications [(1)]	**1,831**	2,887	(37)	**4,548**	9,148	(50)
Software	**1,829**	3,062	(40)	**4,924**	10,321	(52)
AutoDriller	**955**	2,383	(60)	**2,537**	8,208	(69)
Gas Analyzer	**1,428**	2,383	(40)	**4,103**	8,342	(51)
Other	**3,332**	5,408	(38)	**9,860**	18,041	(45)
Total revenue	**22,318**	40,151	(44)	**62,335**	136,144	(54)
Operating costs	**12,653**	17,250	(27)	**38,647**	61,600	(37)
Depreciation and amortization	**5,243**	7,862	(33)	**17,479**	25,874	(32)
Segment operating profit	**4,422**	15,039	(71)	**6,209**	48,670	(87)

(1) A portion of the Company's Communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue. 2015 comparative figures have been reclassified to conform with 2016 presentation. (Q3 2015 - $795 and YTD 2015 - $2,366).

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenue per EDR day - USD	**652**	628	**632**	642
Revenue per EDR day - CAD	**851**	822	**836**	809

US segment revenue decreased by 44% in the third quarter of 2016 over the 2015 comparable period (46% decrease when measured in USD). For the first nine months, revenue decreased by 54% (58% decrease when measured in USD).

Industry activity in the US market during the third quarter of 2016 decreased 39% from the prior year, and 53% for the first nine months. US market share was 52% for the third quarter of 2016 compared to 61% during the three months ended September 30, 2015, primarily driven by changes in the mix of active customers and regions.

EDR rental days decreased by 48% for the quarter ended September 30, 2016, over the same time period in 2015, while revenue per EDR day in the third quarter of 2016 increased to US$652, an increase of US $24 over the same period in 2015. This increase is due to an uptick on adoption of certain key products, combined with continued customer acceptance of enhanced communication solutions, offset by selective pricing discounts on certain products.

For the first nine months, EDR rental days decreased 58%, while revenue per EDR day decreased by US $12 to US$632.

The decrease in industry activity, combined with a drop in market share accounted for the drop in revenue for both the quarter and nine months ended September 30, 2016.

Operating costs decreased by 27% in the third quarter relative to the same period in the prior year. When measured in USD, operating costs decreased 29% as the business unit continues to identify and implement changes to its fixed cost structure to meet the challenging business environment while maintaining customer service. The Company announced in the first quarter of 2016 that it would be closing its US business unit office in Golden, Colorado and consolidating all activities to its Houston, Texas office. This consolidation was completed in the third quarter of 2016.

Depreciation expense for the first nine months of 2016 decreased 33% over 2015 amounts, largely due to the asset impairment charges recorded in prior years and a significantly lower capital program.

Segment profit decreased by $10.6 million in the third quarter of 2016 compared to the corresponding period in 2015. Operating profit is down 87% for the nine months ending September, 2016 compared to 2015 levels.

Canadian Operations

	Three Months Ended September 30,			**Nine Months Ended September 30,**		
	2016	2015	Change	**2016**	2015	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder [1]	**4,030**	6,814	(41)	**11,717**	21,339	(45)
Pit Volume Totalizer/ePVT	**1,734**	2,945	(41)	**5,093**	8,969	(43)
Communications [1]	**1,676**	2,901	(42)	**4,864**	8,701	(44)
Software	**778**	1,490	(48)	**2,474**	4,516	(45)
AutoDriller	**796**	1,482	(46)	**2,201**	4,669	(53)
Gas Analyzer	**1,111**	2,084	(47)	**3,261**	6,073	(46)
Other	**630**	1,107	(43)	**1,970**	3,156	(38)
Total revenue	**10,755**	18,823	(43)	**31,580**	57,423	(45)
Operating costs [2]	**3,817**	6,821	(44)	**13,136**	23,729	(45)
Depreciation and amortization	**6,203**	9,447	(34)	**20,116**	28,408	(29)
Segment operating profit (loss)	**735**	2,555	(71)	**(1,672)**	5,286	—

(1) A portion of the Company's Communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue. The 2015 comparative figures have been reclassified to conform with the 2016 presentation. (Q3 2015 - $200 and YTD 2015 - $580).

(2) Certain expenses previously recorded in Other Expenses are now included as a business unit cost, to better reflect the nature of such costs. The 2015 comparative figures have been reclassified to conform with the 2016 presentation (Q3 2015 - $565 and YTD -$1,770).

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenue per EDR day- CAD	**1,011**	1,095	**1,039**	1,100

Canadian segment revenue decreased by 43% for the quarter ended September 30, 2016 compared to the same period in 2015. This drop is the result of a 38% decrease in the number of drilling industry days in the third quarter compared to 2015 levels.

EDR rental days decreased 38% in the third quarter of 2016 compared to 2015 (42% for the first nine months of 2016).

Revenue per EDR day decreased by $84 to $1,011 during the third quarter of 2016 compared to 2015, resulting from selective price discounts on certain products and lower product adoption on certain peripheral products, offset by higher adoption of key products. Revenue per EDR day for the first nine months of 2016 was $1,039, down $61 from the same period in 2015.

Operating costs decreased by 44% in the third quarter of 2016 relative to the same period in 2015 (45% on a year-to-date basis), primarily due to a drop in activity combined with cost control initiatives implemented by all of the business units.

Depreciation expense decreased by approximately 34% and 29% for the three and nine months periods ended September 30, 2016, due to prior year's impairment charges and lower capital expenditures.

The third quarter operating income of $0.7 million is a decrease of $1.8 million from the prior year. Segment operating loss for the first nine months of 2016 is $1.7 million, compared to a profit of $5.3 million in the prior year.

International Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	**2016**	2015	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder [(1)]	**2,129**	3,788	(44)	**6,989**	12,540	(44)
Pit Volume Totalizer/ePVT	**375**	1,080	(65)	**1,487**	3,761	(60)
Communications [(1)]	**292**	448	(35)	**976**	1,534	(36)
Software	**58**	120	(52)	**189**	416	(55)
AutoDriller	**508**	1,078	(53)	**1,804**	3,580	(50)
Gas Analyzer	**265**	518	(49)	**917**	2,096	(56)
Other	**1,933**	2,462	(21)	**5,342**	7,816	(32)
Total revenue	**5,560**	9,494	(41)	**17,704**	31,743	(44)
Operating costs [(2)]	**4,362**	7,233	(40)	**14,081**	23,178	(39)
Depreciation and amortization	**3,483**	1,950	79	**7,274**	7,297	—
Segment operating (loss) profit	**(2,285)**	311	—	**(3,651)**	1,268	—

(1) A portion of the Company's Communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue.The 2015 comparative figures have been reclassified to conform with the 2016 presentation. (Q3 2015- $21 and YTD 2015 - $35).

(2) Certain expenses previously recorded in Other Expenses are now included as a business unit cost, to better reflect the nature of such expenses. The 2015 comparative figures have been reclassified to conform with the 2016 presentation (Q3 2015 - $77 and YTD 2015 - $455).

The market forces impacting the Company's US and Canadian segments also exist in the majority of the Company's International markets.

Revenue in the International operations segment decreased 41% in the third quarter of 2016 compared to the same period in 2015. Impacting the comparison of third quarter results of 2016 to the prior year was the devaluation of the Argentinian peso, which occurred in the fourth quarter of 2015. For the first nine months of 2016 revenue decreased $14.0 million, or 44%.

During the third quarter of 2016 the Company recorded a $1.4 million charge to recognize obsolete inventory. This charge is included in depreciation expense.

The segment operating loss was $2.3 million for the third quarter of 2016, compared to a small operating profit in the corresponding period in 2015. The year-to-date loss was $3.7 million compared to a profit of $1.3 million in the prior year.

Corporate Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	**2016**	2015	Change
(000s)	**($)**	($)	(%)	**($)**	**($)**	(%)
Other expenses						
Research and development	**5,358**	7,288	(26)	**17,615**	25,431	(31)
Corporate services	**3,956**	5,134	(23)	**12,360**	15,040	(18)
Stock-based compensation	**1,457**	808	80	**4,657**	4,596	1
Other						
Restructuring costs	**—**	—	—	**10,861**	2,572	322
Foreign exchange loss (gain)	**96**	904	(89)	**(2,227)**	(1,555)	43
Impairment charge	**—**	26,555	—	**—**	26,555	—
Gain on sale of investment	**—**	—	—	**—**	(2,290)	—
Other (1)	**44**	—	—	**1,383**	(134)	—
Total corporate expenses	**10,911**	40,689	(73)	**44,649**	70,215	(36)

(1) Certain expenses previously recorded in Other Expenses are now included as a business unit cost, to better reflect the nature of such expenses. The 2015 comparative figures have been reclassified to conform with the 2016 presentation (Q3 2015 - $642 and YTD 2015 $2,225).

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, 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 sublease rentals, and the write-off of leasehold improvements and other related costs totaling $1,151. A similar initiative was completed in the second quarter of 2015 and a restructuring charge of $2,572 was recorded. In the third quarter 2015 results include an impairment charge related to excess quantities of equipment totaling $26,555.

Q3 2016 vs Q2 2016

Consolidated revenue was $38.6 million in the third quarter of 2016 compared to $27.2 million in the second quarter of 2016, an increase of $11.4 million or 42%. The third quarter of the year is usually stronger compared to the second quarter due to the seasonality of the Canadian drilling activity. Activity in the WCSB showed only modest seasonal improvements as a result of wet weather in many parts and continued cautious spending from operators. The Canadian segment earned revenue of $10.8 million in the third quarter as compared to $5.0 million in the second quarter of 2016, an increase of $5.8 million. Revenue in the US market increased by $5.9 million, from $16.4 million in the second quarter of 2016 to $22.3 million in the third quarter of 2016. The US land rig count increased by approximately six rigs per week during the third quarter. US market share was consistent at 52%. The International segment experienced a revenue decrease of $0.2 million.

The Company recorded a net loss in the third quarter of 2016 of $7.1 million ($0.08 per share) compared to a loss of $11.3 million ($0.13 per share) in the second quarter of 2016.

Sequentially, EBITDA increased from a negative $2.2 million in the second quarter of 2016 to $8.3 million in the third quarter of 2016. Adjusted EBITDA, which adjusts for foreign exchange and certain non-recurring charges, increased from a negative $1.5 million in the second quarter of 2016 to $8.5 million in the third quarter. Funds flow from operations increased from a negative $1.0 million in the second quarter of 2016 to $9.1 million in the third quarter of 2016.

Summary of Quarterly Results

Three Months Ended	Dec 31, 2014	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	**Sep 30, 2016**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	138,206	99,402	57,440	68,468	59,838	45,813	27,173	**38,633**
Income (loss)	47,211	14,191	(9,404)	(18,558)	(841)	(10,860)	(11,319)	**(7,117)**
Per share – basic	0.57	0.17	(0.11)	(0.22)	(0.01)	(0.13)	(0.13)	**(0.08)**
Per share – diluted	0.57	0.17	(0.11)	(0.22)	(0.01)	(0.13)	(0.13)	**(0.08)**
EBITDA (1)	59,065	44,126	7,485	(2,717)	20,736	(353)	(2,231)	**8,347**
Adjusted EBITDA (1)	72,451	41,679	9,911	24,742	20,128	8,763	(1,470)	**8,487**
Funds flow from (used in) operations	59,947	43,262	9,277	23,791	17,933	3,335	(974)	**9,130**
Per share – basic	0.73	0.52	0.11	0.28	0.21	0.04	(0.01)	**0.11**
Per share – diluted	0.72	0.52	0.11	0.28	0.21	0.04	(0.01)	**0.11**
Cash from operating activities	42,460	71,533	31,300	16,332	10,911	11,331	2,993	**4,653**
Free cash flow (1)	(4,144)	48,219	21,298	5,902	4,719	4,860	(1,489)	**3,412**
Per share – basic	(0.05)	0.58	0.25	0.07	0.05	0.06	(0.02)	**0.04**
Per share – diluted	(0.05)	0.58	0.25	0.07	0.05	0.06	(0.02)	**0.04**

(1) Non-IFRS financial measures are defined in the Management's Discussion and Analysis section.

Reconcile income (loss) to EBITDA

Three Months Ended	Dec 31, 2014	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	**Sept 30, 2016**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Income (loss)	47,211	14,191	(9,404)	(18,558)	(841)	(10,860)	(11,319)	**(7,117)**
Add:								
Taxes	11,310	12,278	(9,272)	(4,226)	(1,027)	(6,817)	(6,728)	**(922)**
Depreciation and amortization	21,144	21,722	20,598	19,259	19,802	16,362	13,578	**14,929**
Stock-based compensation	(20,600)	(1,775)	5,563	808	2,802	962	2,238	**1,457**
Gain on sale of investment	—	(2,290)	—	—	—	—	—	**—**
EBITDA (1)	59,065	44,126	7,485	(2,717)	20,736	(353)	(2,231)	**8,347**

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Dec 31, 2014	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	**Sept 30, 2016**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	59,065	44,126	7,485	(2,717)	20,736	(353)	(2,231)	**8,347**
Add:								
Impairment charges	14,884	—	—	26,555	—	—	—	**—**
Restructuring costs	—	—	2,572	—	1,024	10,861	—	**—**
Foreign exchange	(1,498)	(2,447)	(12)	904	(1,549)	(2,719)	396	**96**
Other	—	—	(134)	—	(83)	974	365	**44**
Adjusted EBITDA (1)	72,451	41,679	9,911	24,742	20,128	8,763	(1,470)	**8,487**

Reconcile cash from operating activities to free cash flow

Three Months Ended	Dec 31, 2014	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	**Sep 30, 2016**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	42,460	71,533	31,300	16,332	10,911	11,331	2,993	**4,653**
Less:								
Additions to property, plant and equipment (net of proceeds)	(44,615)	(21,236)	(7,595)	(8,333)	(6,219)	(4,774)	(3.465)	**(582)**
Deferred development costs	(1,989)	(2,078)	(2,407)	(2,097)	27	(1,697)	(1,017)	**(659)**
Free cash flow (1)	(4,144)	48,219	21,298	5,902	4,719	4,860	1,973	**3,412**

Though the Company has seen a significant deterioration in its operating results due to 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 have often improved 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.

Liquidity and Capital Resources

As at September 30,	**2016**	2015	Change
(000s)	**($)**	($)	(%)
Cash and cash equivalents	**154,598**	198,115	(22)
Working capital	**191,785**	244,324	(22)
Funds flow from operations (1)	**11,491**	76,330	(85)
Capital expenditures (1)	**12,886**	44,284	(71)
As a % of funds flow (1) (2)	**112.1%**	58.0%	93

(1) Figures are for the Nine months ended September 30.

(2) Calculated by dividing capital expenditures by funds flow from operations.

During the third quarter of 2016 the Company received a tax refund of $14.7 million relating to the refiling of prior years' tax returns. This refund reduced the income taxes recoverable amount recorded on the balance sheet.

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	($)	($)	($)	($)
Operating leases	5,669	5,880	869	12,418

Contractual obligations relate primarily to minimum future lease payments required primarily for operating leases for certain facilities and vehicles.

At September 30, 2016, the Company had no capital lease obligations, and other than the operating leases detailed above, and the onerous lease obligation recorded, has no off-balance sheet arrangements.

The Company has available a $5.0 million demand revolving credit facility. At September 30, 2016, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at September 30, 2016, there were 84.4 million common shares and 3.9 million options issued and outstanding.

SEDAR

Additional information relating to the Company can be accessed on the Company's website at www.pason.com and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Critical Accounting Estimates

The preparation of the consolidated financial statements requires that certain estimates and judgments be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and management's judgments, and as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired.

Depreciation and Amortization

The accounting estimate that has the greatest impact on the Company's financial statements is depreciation and amortization. Depreciation of the Company's capital assets includes estimates of useful lives. These estimates may change with experience over time so that actual results could differ significantly from these estimates.

Carrying Value of Assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. Judgments and assessments are made to determine whether an event has occurred that indicates a possible impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year.

Stock-Based Payments

The fair value of stock-based payments is calculated using a Black-Scholes option pricing model. There are a number of estimates used in the calculation, such as the future forfeiture rate, expected option life, and the future price volatility of the underlying security, which can vary from actual future events. The factors applied in the calculation are management's best estimates based on historical information and future forecasts.

Income Taxes

The calculation of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences, tax losses, and other tax credits will reverse. Tax interpretations, regulations, and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change.

The estimation of deferred tax assets and liabilities includes uncertainty with respect to the reversal of temporary differences.

Deferred tax assets are recognized for the carry-forward of unused tax losses and unused tax credits when it is probable that taxable income will be available to utilize unused tax losses and unused tax credits. This requires estimation of future taxable income and usage of tax loss carry-forwards for a considerable period into the future. Income tax expense in future periods may be affected to the extent actual taxable income is not sufficient or available to use the temporary differences giving rise to the deferred tax asset.

Risk and Uncertainties

Pason has implemented a risk management framework that helps the Company manage the reality that future events, decisions, or actions may cause undesirable effects. The framework takes a value-based approach to identifying, prioritizing, communicating, mitigating, and monitoring risks, and aligns this with the organization's appetite for risk considering our culture, strategy, and objectives.

Although a framework can help the Company to manage its risks, the Company's performance is subject to a variety of risks and uncertainties. Although the risks described below are the risks that we believe are material, there may also be risks of which we are currently unaware, or that we currently regard as immaterial based upon the information available to us. Interested parties should be aware that the occurrence of the events described in these risk factors could have a material adverse effect on our business, operating results, and financial condition.

Operating Risks

Pason derives the majority of its revenue from the rental of instrumentation and data services to oil and gas companies and drilling contractors in Canada, the US, Australia, and Latin America. The demand for our products is directly related to land-based or offshore drilling activity funded by energy companies' capital expenditure programs. A substantial or extended decline in energy prices or diversion of funds to large capital programs could adversely affect capital available for drilling activities, directly impacting Pason's revenue.

Commodity Prices

Prices for crude oil and natural gas fluctuate in response to a number of factors beyond Pason's control. The factors that affect prices include, but are not limited to, the following: the actions of the Organization of Petroleum Exporting Countries, world economic conditions, government regulation, political stability in the Middle East and elsewhere, the foreign supply of crude oil, the price of foreign imports, the availability of alternate fuel sources, and weather conditions. Any of these can reduce the amount of drilling activity.

Seasonality

Drilling activity in Canada is seasonal due to weather that limits access to leases in the spring and summer, making the first and last quarters of each year the peak level of demand for Pason's services due to the higher level of drilling activity. The length of the drilling season can be shortened due to warmer winter weather or rainy seasons. Pason can offset some of this risk, although not eliminate it, through continued growth in the US and internationally, where activity is less seasonal.

Proprietary Rights

Pason relies on innovative technologies and products to protect its competitive position in the market. To protect Pason's intellectual property, the company employs trademarks, patents, employment agreements, and other measures to protect trade secrets and confidentiality of information. Pason also believes that due to the rapid pace of technological change in the industry, technical expertise, knowledge, and innovative skill, combined with an ability to rapidly develop, produce, enhance, and market products, also provides protection in maintaining a competitive position.

Litigation

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in Pason's favour, the Company does not currently believe that the outcome of any pending or threatened proceedings related to these or other matters, or the amounts which the Company may be required to pay by reason thereof, would individually or in the aggregate have a material adverse impact on its day-to-day business operations.

Credit Risk

Pason is exposed to credit risk to the extent that its customers, operating primarily in the oil and natural gas industry, may experience financial difficulty and be unable to meet their obligations. However, Pason has a large number of customers on both the Operator and Contractor side, which minimizes exposure to any single customer.

Availability of Qualified Personnel

Due to the specialized and technical nature of Pason's business, Pason is highly dependent on attracting and retaining qualified or key personnel. There is competition for qualified personnel in the areas where Pason operates, and there can be no assurance that qualified personnel can be attracted or retained to meet the growth needs of the business. To mitigate this risk, Pason has a People & Culture department within each significant business unit to support the human resources function.

Alternative Energies

There continues to be extensive discussion at all levels of government worldwide and by the public concerning the burning of fossil fuels and the impact this may have on the global environment. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability, which could lead to potentially increased capital expenditures and operating costs. Implementation of strategies for reducing greenhouse gases could have a material impact on the nature of operations of the Company. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and the possible resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Company.

International Operations

Assets outside of Canada and the US may be adversely affected by changes in governmental policy, social instability, or other political or economic developments beyond the Company's control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and considered warranted. Approximately 90% of the Company's revenues are generated in Canada and the US, which limits exposure to risks and uncertainties in foreign countries.

Foreign Exchange Exposure

The Company operates internationally and is primarily exposed to exchange risk relative to the US dollar. The Canadian operations are exposed to currency risk on US denominated financial assets and liabilities with fluctuations in the rate recognized as foreign exchange gains or losses in the Consolidated Statements of Operations. The Company's self-sustaining foreign subsidiaries expose the Company to exchange rate risk on the translation of their financial assets and liabilities to Canadian dollars for consolidation purposes.

Adjustments arising when translating the foreign subsidiaries into Canadian dollars are reflected in the Consolidated Statements of Operations and Other Comprehensive Income as unrealized foreign currency translation adjustments. The Company has not hedged either one of these risks.

The Company does not employ any financial instruments to manage risk or hedge its activities. The vast majority of the Company’s activities are conducted in Canada and the US, where local revenue is earned against local expenses and the Company is therefore naturally hedged.

Corporate Information

Directors

James D. Hill
Chairman of the Board
Pason Systems Inc.
Calgary, Alberta

James B. Howe(1)(4)(6)(7)
President
Bragg Creek Financial Consultants Ltd.
Calgary, Alberta

Marcel Kessler
President & CEO
Pason Systems Inc.
Calgary, Alberta

T. Jay Collins(2)(3)(6)
Director
Oceaneering International Inc.
Houston, Texas

Judi Hess(2)(4)(5)
CEO & Director
Copperleaf Technologies Inc.
Vancouver, British Columbia

(1) Audit Committee Chairman
(2) Audit Committee Member
(3) HR and Compensation Committee Chairman
(4) HR and Compensation Committee Member
(5) Corporate Governance and Nominations Committee Chairman
(6) Corporate Governance and Nomination Committee Member
(7) Lead Director

Officers & Key Personnel

Marcel Kessler
President
& Chief Executive Officer

Jon Faber
Chief Financial Officer

David Elliott
Vice President, Finance

Timur Kuru
President and General Manager – United States

George Dupont
General Manager, Operations – Canada

Russell Smith
Vice President, Operations – International & Offshore

Ryan Van Beurden
Director, Rig-site R&D

Lars Olesen
Director, Product Management

Kevin Boston
Vice President, Sales & Business Development

Kevin Lo
Vice President, New Ventures

Ron Dudar
Vice President, People & Culture

Melinda Ando
General Counsel & Corporate Secretary

Corporate Head Office

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Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI.TO

Eligible Dividend Designation

Pursuant to the Canadian Income Tax Act, dividends paid by the Company to Canadian residents are considered to be “eligible” dividends.