Performance Data

Three Months Ended March, 31	2019	2018	Change
(CDN 000s, except per share data)	($)	($)	(%)
Revenue	**82,143**	73,813	11
EBITDA (1)	**40,435**	32,220	25
Adjusted EBITDA (1)	**40,641**	34,753	17
As a % of revenue	**49.5**	47.1	240 bps
Funds flow from operations	**35,899**	33,958	6
Per share – basic	**0.42**	0.40	5
Per share – diluted	**0.42**	0.40	5
Cash from operating activities	**8,442**	24,344	(65)
Capital expenditures	**10,317**	5,797	78
Free cash flow (1)	**385**	18,906	(98)
Cash dividends declared	**0.18**	0.17	6
Net Income	**19,044**	12,359	54
Per share – basic	**0.22**	0.15	47
Per share – diluted	**0.22**	0.14	57
Total interest bearing debt	**—**	—	—
Shares outstanding end of period (#000's)	**85,801**	85,172	1

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Q1 2019 vs Q1 2018

The Company generated consolidated revenue of $82.1 million in the first quarter of 2019, an increase of 11% from the same period in 2018. In the US business unit, industry activity increased by 7% while market share increased to 61% from 60% compared to the corresponding period in 2018. In Canada, industry activity decreased by 32% while market share increased. The International business unit saw increases in activity in each of the Company's major markets.

Adjusted EBITDA increased to $40.6 million in the first quarter, an increase of 17% from the same period in 2018. The increase in adjusted EBITDA was driven by the increase in activity in both the US and International business units, offset by a drop in Canadian gross profit and an increase in research and development expense.

Funds flow from operations increased to $35.9 million in the first quarter, an increase of 6% from the same period in 2018. The increase is driven by the increase in adjusted EBITDA, offset by an increase in current tax expense as a result of the Company no longer having tax loss carry forwards to reduce current tax expense.

Cash from operating activities decreased to $8.4 million in the first quarter of 2019, with the decrease attributable to:

- during the first quarter of 2019, the Company paid withholding tax owing to the CRA of $15.3 million as part of the Bilateral Advanced Pricing Arrangement entered into with the CRA and the IRS. The Company will recover this amount from the IRS when its previous years US tax returns are reassessed.
- during the current quarter, the Company paid out the 2018 short term incentive plan. In prior years, the majority of this payment was made in the same year that it was earned.

- the increase in current income tax expense described above.

Free cash flow was significantly lower than the first quarter of 2018 due to the drop in cash from operating activities described above combined with an increase in capital expenditures in the US business unit.

The Company recorded net income of $19.0 million ($0.22 per share) in the first quarter of 2019, compared to net income of $12.4 million ($0.14 per share) recorded in the same period in 2018. Net income was positively impacted from the increased level of activity in the US and international markets, a smaller foreign exchange loss, offset by an increase in both stock-based compensation expense and research and development costs.

President's Message

Pason continues to perform well in all geographies, and we are pleased with our financial results in the first quarter of 2019. Pason generated revenue of $82.1 million in the period, an increase of 11% compared to the same quarter last year. The main drivers of revenue growth were increased industry activity in the United States, higher activity levels in all Pason's international markets, and an increase in the penetration of new Drilling Intelligence products.

Adjusted EBITDA was $40.6 million for the quarter, an increase of 17%. Adjusted EBITDA as a percentage of revenue was 50% compared to 47% one year ago. The driver of this improvement was the increase in revenue with high incremental margins. Adjusted EBITDA was also positively impacted by the adoption of IFRS 16 (Leases) in the first quarter. Pason recorded net income for the quarter of $19.0 million ($0.22 per share) compared to $12.4 million ($0.15 per share) in the prior year quarter.

At March 31, 2019, our working capital position stood at $258 million, including cash and cash equivalents of $184 million. We are maintaining our quarterly dividend at $0.18 share.

At the beginning of last year, we began reporting our revenue along five product categories to better reflect the changing nature of Pason's business as follows:

- **Drilling Data** contains all products and services associated with acquiring, displaying, storing, and delivering drilling data. Revenue in this segment increased 16% in the first quarter compared to the prior year period and accounted for 53% of our total revenue. The increase was driven by a 7% increase in total US land drilling activity and market share gains in both the United States and Canada, and partially offset by a 32% decline in Canadian drilling activity. Internationally, drilling activity increased in all major markets with the largest absolute increases in Australia and Argentina.
- **Mud Management & Safety** includes products such as the Pit Volume Totalizer, Smart Alarms, Gas Analyzer, Hazardous Gas Alarm, and the Electronic Choke Actuator. In the first quarter, Mud Management & Safety revenue increased 11% and generated 29% of total revenue.
- **Communications** includes satellite and terrestrial Internet bandwidth, Wireless Rigsite, VoIP and Intercom services and accounted for 7% of total revenue. Revenue in this segment is showing negative growth because of the transition from satellite to terrestrial bandwidth with lower pricing, while we share cost savings and provide a better user experience for our customers.
- **Drilling Intelligence** bundles Pason's product offerings targeted at enabling our customers' drilling optimization and automation efforts. It contains products such as autodrillers, abbl Directional Advisor®, the ExxonMobil Drilling Advisory System® and Pivot, a pipe oscillation system for improving slide drilling. Drilling Intelligence is our highest growth segment as revenue increased 30% in the first quarter compared to the prior year and accounted for 7% of our total revenue.
- **Analytics & Other** includes our Verdazo Discovery Analytics product suite, various reports, and other revenue streams. This segment is not as directly correlated to drilling activity, grew 14% and accounted for 4% of total revenue in the first quarter.

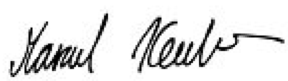
R&D and IT expenses, including deferred development costs, grew 13% in the first quarter compared to the prior year period. The drivers of this growth were additions to R&D staff and the ongoing transition to a more cloud-based IT infrastructure, which implies lower capital spending but higher operating costs in the IT space.

From a macro perspective, driven by a solid demand outlook and OPEC and Russia production cuts taking full effect, the oil market sentiments should steadily improve over the course of this year. There are clear signs that E&P investments are starting to normalize as the industry moves toward a more sustainable financial stewardship of the global resource base. This means that higher investments in the international markets are required simply to keep production flat, while North America land is set for somewhat lower investments.

We expect international drilling activity and rig counts to further increase in 2019. Conversely in North American land, we see lower capital spending relative to last year as companies aim to spend within cash flow, repair balance sheets and improve shareholder returns. We expect US land drilling activity and rig counts to trend down slightly from current levels before starting to increase again towards the end of this year. In Canada, infrastructure issues continue to weigh heavily on the outlook for the upstream sector. With drilling activity constrained by operator access to oil and gas markets, Canadian rig counts are expected to remain materially below last year’s levels.

In this environment, we are prudently managing our fixed costs and maintaining flexibility for our plans for 2019, which gives us the means and confidence to address any activity scenario. Our capital expenditures will be relatively modest going forward with a larger portion of development efforts focused on software and analytics. We intend to spend up to $30 million in capital expenditures in 2019. Our highly capable and flexible IT and communications platform can host additional new Pason and third-party software at the rigsite and in the cloud.

Our market positions remain strong, and we expect to be able to deliver growth through higher product adoption going forward. We are the service provider of choice for many leading operators and drilling contractors with Pason equipment installed on over 65% of all active land drilling rigs in the Western Hemisphere.



Marcel Kessler
President and Chief Executive Officer
May 1, 2019

Management’s Discussion and Analysis

The following discussion and analysis has been prepared by management as of May 1, 2019, 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.

Impact of IFRS 16

The Company adopted IFRS 16, Leases, effective January 1, 2019, using the modified retrospective approach. This new standard supersedes IAS 17, Leases, and introduces a single lessee accounting model by eliminating a lessee's classification of leases as either operating leases or finance leases. Comparative figures have not been restated. Further disclosure is provided in Note 3 to the Condensed Consolidated Interim Financial Statements.

The impact of adopting this new standard on IFRS Measures and Non-IFRS Measures is described below. The figures presented below are the 2019 actual numbers that are classified differently than the 2018 comparative figures. Effectively, the operating expense line items recognized under the previous standard will be bifurcated between depreciation expense and interest expense.

Impact on IFRS Measures

Three Months Ended March 31	**2019**
(000s)	**($)**
Reduction in rental services and local administration	272
Reduction in research and development expenses	233
Reduction in corporate services costs	296
(Increase) in depreciation of right of use assets	(799)
(Increase) in net interest expense on lease liabilities	(130)
Reduction in Income tax provision	32
(Decrease) in net income	**(96)**
Increase in depreciation of right of use assets	799
(Reduction) in Income tax provision	(32)
Total increase in funds flow from operations and cash from operating activities	**671**

Impact on Non-IFRS Measures

Three Months Ended March 31	**2019**
(000s)	**($)**
Decrease in rental services and local administration - Canada operating segment	40
Decrease in rental services and local administration - United States operating segment	197
Decrease in rental services and local administration - International operating segment	35
Decrease in research and development expenses	233
Decrease in corporate services costs	296
Total increase in EBITDA and Adjusted EBITDA	**801**

Additional IFRS Measures

In its Consolidated Financial Statements, the Company 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.

Management believes that EBITDA and Adjusted EBITDA are useful supplemental measures as they provide an indication of the results generated by the Company's principal business activities prior to the consideration of how these results are taxed in multiple jurisdictions, how the results are impacted by foreign exchange or how the results are impacted by the Company's accounting policies for equity-based compensation plans.

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 (including changes to non-cash working capital associated with capital expenditures), and deferred development costs. This metric provides a key measure on the Company's ability to generate cash from it's principal business activities after funding the capital expenditure program, and provides an indication of the amount of cash available to finance, among other items, the Company's dividend and other investment opportunities.

Overall Performance

Three Months Ended March, 31	**2019**	2018	Change
(000s)	**($)**	($)	(%)
Revenue			
Drilling Data	**43,253**	37,295	16
Mud Management and Safety	**23,674**	21,260	11
Communications	**5,957**	7,798	(24)
Drilling Intelligence	**5,973**	4,581	30
Analytics and Other	**3,286**	2,879	14
Total revenue	**82,143**	73,813	11

The Pason Electronic Drilling Recorder (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 at 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.

Total revenue increased 11% for the three months ending March 31, 2019, over the same period in 2018. This increase is attributable to an increase in revenue per EDR day in all three operating segments combined with an increase in the activity in the US and International operating segment.

Industry activity in the US market increased 7% in the first quarter of 2019 compared to the corresponding period in 2018, while first quarter Canadian industry activity decreased by 32%.

US EDR days increased by 9% in the first quarter of 2019 compared to the corresponding period in 2018, while Canadian EDR days, which includes non-oil and gas-related activity, decreased 27% from 2018 levels.

In the first quarter of 2019, the Pason EDR was installed on 61% of the land rigs in the US market, an increase of 100bp over the same time period in 2018.

In the first quarter of 2019, the Pason EDR was installed on 94% of the land rigs in the Canadian market compared to 88% during the same period of 2018. For the 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.

Revenue generated from the Company's other wellsite instrumentation products was largely driven by the increase in drilling activity in the US market combined with increases in the adoption of certain EDR peripherals, most notably the alarms and sensors, and an increase in revenue from the Company's drilling intelligence products. Communication revenue has decreased over the same period in 2018 as the Company continues to share cost savings with its customers.

First quarter revenue was positively impacted by a stronger US dollar relative to the Canadian dollar.

For the first quarter of 2019, the Company saw an increase in activity in all major regions of the International operating segment with the largest increases in Australia and Argentina.

Discussion of Operations

United States Operations

Three Months Ended March, 31	**2019**	2018	Change
(000s)	**($)**	($)	(%)
Revenue			
Drilling Data	**29,176**	23,698	23
Mud Management and Safety	**17,217**	13,236	30
Communications	**3,229**	3,698	(13)
Drilling Intelligence	**3,152**	2,144	47
Analytics and Other	**1,691**	1,332	27
Total revenue	**54,465**	44,108	23
Rental services and local administration	**19,090**	16,885	13
Depreciation and amortization	**4,774**	3,828	25
Segment gross profit	**30,601**	23,395	31

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Three Months Ended March, 31	**2019**	2018	Change
(000s)	**(#)**	(#)	(%)
Pason Electronic Drilling Recorder (EDR) Rental Days	**55,700**	50,900	9

Three Months Ended March, 31	**2019**	2018	Change
	($)	($)	(%)
Revenue per EDR day - USD	**728**	678	7
Revenue per EDR day - CAD	**968**	857	13

Revenue from the US operations increased by 23% in the first quarter of 2019 over the 2018 comparable period (17% when measured in USD).

Industry activity in the US market increased by 7% in the first quarter of 2019 over the 2018 comparable period. US market share was 61% for the first quarter of 2019 compared to 60% during the same period in 2018.

EDR rental days increased by 9% in the first quarter of 2019 over the 2018 comparable period. Revenue per EDR day increased to US $728 in the first quarter of 2019, an increase of US$50 over the same period in 2018. The increase in revenue per EDR day was driven by higher adoption of drilling intelligence products and other peripheral products and selective price increases on certain products.

Rental services and local administration increased by 13% in the first quarter of 2019 over the 2018 comparative period (9% when measured in USD). The increase in operating costs is attributable higher field staff levels and higher direct costs to support additional activity.

Depreciation expense increased by 25% in the first quarter of 2019 over the 2018 comparative period. The increase is due to the adoption of IFRS 16, Leases, the stronger US dollar relative to the Canadian dollar, and a slight increase in the capital program.

Segment gross profit increased by $7.2 million or 31% in the first quarter of 2019 over the 2018 comparative period. The Company benefited from a stronger US dollar relative to the Canadian dollar.

Canadian Operations

Three Months Ended March, 31	2019	2018	Change
(000s)	($)	($)	(%)
Revenue			
Drilling Data	**8,092**	9,920	(18)
Mud Management and Safety	**4,683**	6,661	(30)
Communications	**2,292**	3,769	(39)
Drilling Intelligence	**2,490**	2,118	18
Analytics and Other	**956**	956	—
Total revenue	**18,513**	23,424	(21)
Rental services and local administration	**5,709**	7,328	(22)
Depreciation and amortization	**4,555**	4,385	4
Segment gross profit	**8,249**	11,711	(30)

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Three Months Ended March, 31	2019	2018	Change
(000s)	(#)	(#)	(%)
Pason Electronic Drilling Recorder (EDR) Rental Days	**15,500**	21,100	(27)

Three Months Ended March, 31	2019	2018	Change
	($)	($)	(%)
Revenue per EDR day - CAD	**1,142**	1,070	7

Canadian drilling activity in the first quarter of 2019 decreased by 32% relative to the same period in 2018. Rig activity reflected the challenging industry outlook which lead to among other things a lack of urgency on the part of operators to drill.

Canadian segment revenue decreased by 21% in the first quarter of 2019 over the 2018 comparative period. Canadian market share was 94% for the first quarter of 2019 compared to 88% during the same period of 2018.

EDR rental days decreased 27% in the first quarter of 2019 compared to 2018. Revenue per EDR day increased by $72 to $1,142 during the first quarter of 2019 compared to 2018. The increase is driven by the successful introduction of drilling intelligence products.

Rental services and local administration decreased by 22% in the first quarter of 2019 relative to the same period in 2018.

Depreciation and amortization expense increased by 4% in the first quarter of 2019 over the 2018 comparative period. The increase is due to the adoption of IFRS 16, Leases, off set by a greater proportion of research and development project costs being expensed for accounting purposes.

Segment gross profit for the first quarter of 2019 decreased 30% to $8.2 million compared to $11.7 million in segment gross profit in the 2018 comparative period.

International Operations

Three Months Ended March, 31	2019	2018	Change
(000s)	**($)**	($)	(%)
Revenue			
Drilling Data	**5,985**	3,677	63
Mud Management and Safety	**1,774**	1,363	30
Communications	**436**	331	32
Drilling Intelligence	**331**	319	4
Analytics and Other	**639**	591	8
Total revenue	**9,165**	6,281	46
Rental services and local administration	**5,306**	4,683	13
Depreciation and amortization	**893**	962	(7)
Segment gross profit	**2,966**	636	366

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Drilling activity increased in all of the Company's major international markets, although the majority of the absolute gains were seen in Australia, Argentina, and the Andean region.

Revenue in the International segment increased by 46% in the first quarter of 2019 compared to the same period in 2018.

Rental services and local administration expenses increased by 13% in the first quarter of 2019 compared to the same period in 2018.

Depreciation expense decreased by 7% in the first quarter of 2019 compared to the same period in 2018.

Segment gross profit was $3.0 million for the first quarter of 2019, an improvement from the $0.6 million profit recorded in the corresponding period in 2018.

Corporate Expenses

Three Months Ended March, 31	2019	2018	Change
(000s)	**($)**	($)	(%)
Other expenses			
Research and development	**7,744**	6,359	22
Corporate services	**3,653**	3,805	(4)
Stock-based compensation	**3,824**	2,534	51
Other			
Foreign exchange loss	**101**	2,404	(96)
Net interest expense - lease liability	**137**	—	—
Interest income - short term investments	**(185)**	—	—
Other	**105**	129	(19)
Total corporate expenses	**15,379**	15,231	1

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Research and development expenses increased in the first quarter of 2019 over the 2018 comparative period due to additions to the R&D personnel and the Company's continued transition towards more Cloud-based IT infrastructure, focusing on maximizing uptime service to customers and enhancing disaster recovery and business continuity capabilities.

Net interest expense - lease liability is a result of the adoption of the new lease accounting standard.

Q1 2019 vs Q4 2018

Consolidated revenue was $82.1 million in the first quarter of 2019 compared to $82.0 million in the fourth quarter of 2018, an increase of $0.1 million. Industry activity increased in the Canadian and International markets. The US market recorded an increase in revenue per EDR day, offset by a 5% decrease in activity.

Revenue in the US segment was $54.5 million in the first quarter of 2019 compared to $55.3 million in the fourth quarter of 2018. The Canadian segment earned revenue of $18.5 million in the first quarter of 2019 compared to $17.9 million in the fourth quarter of 2018. The International segment earned revenue of $9.2 million in the first quarter of 2019 compared to $8.7 million in the fourth quarter of 2018.

Adjusted EBITDA, which adjusts EBITDA for foreign exchange and certain non-recurring charges, was $40.6 million in the first quarter of 2019 compared to $39.3 million in the fourth quarter of 2018. Funds flow from operations was $35.9 million in the first quarter of 2019 compared to $30.7 million in the fourth quarter of 2018.

The Company recorded net income in the first quarter of 2019 of $19.0 million ($0.22 per share) compared to net income of $20.7 million ($0.24 per share) in the fourth quarter of 2018.

Summary of Quarterly Results

Three Months Ended	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	**Mar 31, 2019**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	55,792	64,576	66,226	73,813	68,271	82,344	81,965	**82,143**
EBITDA (1)	21,050	25,493	26,651	32,220	23,614	44,633	38,803	**40,435**
Adjusted EBITDA (1)	19,361	26,158	27,797	34,753	29,458	42,473	39,303	**40,641**
Funds flow from operations	18,795	19,896	27,356	33,958	27,836	36,039	30,711	**35,899**
Per share – basic	0.22	0.23	0.32	0.40	0.33	0.42	0.36	**0.42**
Per share – diluted	0.22	0.23	0.32	0.40	0.32	0.00	0.36	**0.42**
Cash from operating activities	24,201	15,128	16,637	24,344	27,617	31,809	23,407	**8,442**
Free cash flow (1)	19,628	11,002	6,690	18,906	23,133	26,880	16,603	**385**
Net Income	5,968	7,404	5,014	12,359	5,479	24,386	20,720	**19,044**
Per share – basic	0.07	0.08	0.06	0.15	0.06	0.00	0.24	**0.22**
Per share – diluted	0.07	0.08	0.06	0.14	0.06	0.00	0.24	**0.22**

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Reconcile Income to EBITDA

Three Months Ended	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	**Mar 31, 2019**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Net Income	5,968	7,404	5,014	12,359	5,479	24,386	20,720	**19,044**
Add:								
Income taxes	1,082	3,760	7,043	8,152	5,060	8,754	7,192	**7,393**
Depreciation and amortization	10,823	11,184	11,701	9,175	9,220	8,904	7,556	**10,222**
Stock-based compensation	3,177	3,145	2,893	2,534	3,855	2,589	3,335	**3,824**
Net interest income	—	—	—	—	—	—	—	**(48)**
EBITDA (1)	21,050	25,493	26,651	32,220	23,614	44,633	38,803	**40,435**

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	**Mar 31, 2019**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	21,050	25,493	26,651	32,220	23,614	44,633	38,803	**40,435**
Add:								
Foreign exchange	(689)	113	1,459	2,404	5,787	(1,516)	1,007	**101**
Other	(1,000)	552	(313)	129	57	(644)	(507)	**105**
Adjusted EBITDA (1)	19,361	26,158	27,797	34,753	29,458	42,473	39,303	**40,641**

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Reconcile cash from operating activities to free cash flow

Three Months Ended	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	**Mar 31, 2019**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	24,201	15,128	16,637	24,344	27,617	31,809	23,407	**8,442**
Less:								
Net additions to property, plant and equipment	(3,913)	(3,881)	(8,749)	(4,452)	(3,227)	(3,890)	(5,621)	**(7,489)**
Deferred development costs	(660)	(245)	(1,198)	(986)	(1,257)	(1,039)	(1,183)	**(568)**
Free cash flow [(1)]	19,628	11,002	6,690	18,906	23,133	26,880	16,603	**385**

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Pason’s quarterly financial results 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, 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 March 31,	**2019**	2018	Change
(000s)	**($)**	($)	(%)
Cash and cash equivalents (1)	**183,931**	162,842	13
Working capital (1)	**258,319**	211,703	22
Funds flow from operations (1)	**35,899**	33,958	6
Capital expenditures (1)	**10,317**	5,797	78
As a % of funds flow (1) (2)	**28.7%**	17.1%	1,167 bps

(1) Figures are for the Three months ended March 31.

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Payment of Income Tax - Other

During the first quarter of 2019, the Company paid withholding tax owing to the Canada Revenue Agency (CRA) of $15,304 as part of the Bilateral Advanced Pricing Arrangement entered into with the CRA and the Internal Revenue Service (IRS). The Company will recover this amount from the IRS when its previous years US tax returns are reassessed.

Normal Course Issuer Bid (NCIB)

During the fourth quarter of 2018, the Company implemented a NCIB program. Under the NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 6,556 common shares, which represent 10% of the public float.

The actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 32 common shares.

The NCIB commenced on December 18, 2018 and expires on December 17, 2019. In the first quarter of 2019, the Company purchased 100 common shares for cancellation, for a total cash consideration of $2,022.

Under an automatic purchase plan with an independent broker (APP), the Company recorded a liability of $2,057 for share repurchases that could take place during its internal blackout period. The total accrual is included in the Consolidated Balance Sheet under trade payables and accruals as at March 31, 2019.

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	($)	($)	($)	($)
Operating leases and other contracts	5,270	7,844	2,426	15,540

Contractual obligations relate primarily to minimum future lease payments required primarily for operating leases of certain facilities. A portion of these future obligations have been recognized on the balance sheet as a leased asset and a corresponding liability, in accordance with IRFS 16, Leases.

The Company has available a $5.0 million demand revolving credit facility. At March 31, 2019, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at March 31, 2019, there were 85,801 common shares and 5,332 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 Human Resources department within each significant business unit to support that 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. The Company's Argentinian subsidiary is operating in a highly inflationary economy and its operating results are being impacted by a weakening Argentina peso relative to the Canadian dollar.

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.

Major Customers

Pason has a large customer base, consisting of both operators and contractors, and does not rely on any single customer for a significant portion of its revenue. No single customer accounted for more than 10% of the consolidated revenues of the Company. The loss of one or more customers, or a reduction in the amount of business Pason does with any of its customers, if not offset by obtaining new customers or increasing the amount of business it does with existing customers, could have a detrimental impact on Pason's revenue.

Key Personnel

Pason's success depends to a significant extent on the contributions of a number of its officers and key employees. The Company does not carry "key person" insurance on any of its key employees. As such, the loss of services of one or more of these key employees could have a material adverse effect on Pason's business, operating results, or financial condition.

Dividends

The decision to pay dividends and the amount paid is at the discretion of Pason's Board of Directors, which regularly reviews the Company's financial position, operating results, and industry outlook. Pason's ability to pay dividends is dependent on the Company's ability to generate cash flow in excess of its operating and investment needs and the Company's financial position.

Taxation

Pason and its subsidiaries are subject to income and other forms of taxation in the various jurisdictions in which they operate. Pason attempts to structure its operations in a tax efficient manner in light of prevailing tax regimes. Any adverse change to existing taxation measures, policies or regulations, or the introduction of new taxation measures, policies or regulations in any of the jurisdictions in which Pason operates could have a negative impact on Pason's business, operating results, or financial condition.

The management of Pason believes that the provision for income taxes is adequate and in accordance with both generally accepted accounting principles and appropriate regulations. However, the tax filing positions of the Company are subject to review and audit by tax authorities who may challenge and succeed in management's interpretation of the applicable tax legislation.

Information Security

Pason's business operations use an extensive network of communications and computer hardware and software systems. In addition, Pason's equipment captures, transmits, and stores significant quantities of drilling data on behalf of its customers. The Company takes measures to protect the security and integrity of its information systems and data, however, there is a risk that these measures may not fully protect against a potential security breach, which could have a negative impact on the Company's ability to operate or its reputation with existing and potential customers.

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
Vice President, Operations – United States

Bryce McLean
Vice President, Operations – Canada

Russell Smith
Vice President, Operations – International & Offshore

Ryan Van Beurden
Vice President, Rig-site Research & Development

Lars Olesen
Vice President, Product Management

Kevin Boston
Vice President, Business Development

Kevin Lo
Vice President, New Ventures

Natalie Fenez
General Counsel

Corporate Head Office

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InvestorRelations@pason.com
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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.

Annual Meeting

Shareholders are invited to attend the Company's Annual General Meeting on Thursday, May 2, 2019 at 3:30 pm at the offices of Pason Systems Inc., 6120 Third Street SE, Calgary, Alberta.