

THIRD QUARTER INTERIM REPORT



For the three and nine months ended September 30, 2017

Performance Data

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
(CDN 000s, except per share data)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue	64,576	38,633	67	179,417	111,619	61
Income (loss)	8,813	(7,117)	—	22,861	(29,296)	—
Per share – basic	0.10	(0.08)	—	0.27	(0.35)	—
Per share – diluted	0.10	(0.08)	—	0.27	(0.35)	—
EBITDA ⁽¹⁾	25,493	8,347	205	70,012	5,763	1,115
As a % of revenue	39.5	21.6	18	39.0	5.2	34
Adjusted EBITDA ⁽¹⁾	26,158	8,487	208	70,427	15,780	346
As a % of revenue	40.5	22.0	19	39.3	14.1	25
Funds flow from operations	19,896	9,130	118	59,765	11,491	420
Per share – basic	0.23	0.11	109	0.71	0.14	407
Per share – diluted	0.23	0.11	109	0.70	0.14	400
Cash from operating activities	15,128	4,653	225	69,160	18,977	264
Free cash flow ⁽¹⁾	11,002	4,404	150	59,141	6,084	872
Capital expenditures	5,371	1,377	290	11,604	12,886	(10)
Working capital	190,518	191,785	(1)	190,518	191,785	(1)
Total assets	398,926	438,671	(9)	398,926	438,671	(9)
Total long-term debt	—	—	—	—	—	—
Cash dividends declared	0.17	0.17	—	0.51	0.51	—
Shares outstanding end of period (#000's)	84,916	84,367	1	84,916	84,367	1

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

Q3 2017 vs Q3 2016

The Company generated consolidated revenue of \$64.6 million in the third quarter of 2017, an increase of 67% from the same period in 2016. A stable oil price environment and continued optimism has led to increased drilling activity in Canada and the US market. Revenue in the third quarter of 2017, when compared to 2016, was negatively impacted by a stronger Canadian dollar relative to the US dollar. Revenue from the International business unit was unchanged from the third quarter of 2016.

Consolidated adjusted EBITDA increased to \$26.2 million in the third quarter, up from \$8.5 million in the third quarter of 2016. Significant increases in operating profit in all of the Company's key markets led to the rebound in this key measure.

The Company recorded net income of \$8.8 million (\$0.10 per share) in the third quarter of 2017, compared to a net loss of \$7.1 million (\$0.08 per share) recorded in the same period in 2016. The increase in Canadian and US revenue, combined with cost reduction programs previously implemented and a significant decline in depreciation expense from prior year levels, led to the increase in income from 2016. These factors were partially offset by a strengthening Canadian dollar relative to the US dollar.

President's Message

We are pleased with Pason's third quarter results. Pason generated revenue of \$64.6 million in the quarter, an increase of 16% from the second quarter and 67% from the prior year quarter. The main drivers of revenue growth were increased drilling activity in the North American land market and market share gains in the United States, both sequentially and year-over-year. Revenue growth in the quarter was negatively impacted by a stronger Canadian dollar relative to the US dollar. Revenue from the International business unit was flat, with improvements in Australia and the Andean region offset by a decrease in activity in Argentina.

Adjusted EBITDA was \$26.2 million for the quarter, an increase of 35% from the second quarter and 208% from the prior year quarter. Adjusted EBITDA as a percentage of revenue was 41%, up from 35% in the second quarter. The drivers of this improvement were the significant increase in revenue with high incremental margins and cost reduction programs that were executed during the downturn.

Pason recorded net income of \$8.8 million (\$0.10 per share) compared to \$6.9 million (\$0.08 per share) in the second quarter and a loss of \$7.1 million (\$0.08 per share) in the prior year quarter. In addition to the factors outlined above, a significant decline in depreciation expense led to the increase in income. Free cash flow for the quarter was \$11.0 million. At September 30, 2017, our working capital position stood at \$191 million, including cash of \$159 million. There is no debt on our balance sheet. We are maintaining our quarterly dividend at \$0.17 share.

Our customers across the United States and Canada have learned to operate in a "lower for longer" commodity price environment. Operators remain highly focused on the cost and efficiency of drilling operations. Big data analytics remains a high priority for many E&P companies. There is a strong belief that the oil and gas industry has a lot of catching up to do in this area compared to most other industries. In the context of "factory drilling" there is significant value to be unlocked by correlating drilling and completions practices with the lifetime production of a well or a field. In addition, many drilling contractors are looking to differentiate their service offering from their competitors' through technology.

In response to the evolving needs of our customers, we have increased our investment in R&D and IT with further growth planned going into 2018. In addition to continuously enhancing the functionality and performance of existing products, our development efforts are focused on being a key enabler of big data analytics strategies and of drilling optimization and automation efforts.

Many of our products directly improve the efficiency, effectiveness and safety of drilling operations and wellbore quality. Examples of this include our ePVT Adaptive Alarms, AC AutoDriller, abbl Directional Advisor® and the deployment of the advanced Exxon Drilling Advisory System®. We are building on our acquisition of Verdazo Analytics to provide customers with a holistic platform to analyze drilling, completions, production, financial and operational data. The deployment of an enhanced Pason Live web service to our cloud-based offering benefits office-based users of Pason data.

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 approximately \$20 million in capital expenditures in 2017. Our highly capable and flexible IT and communications platform can host new Pason and third party software at the rig site and in the cloud.

The reduction in oil inventories in the third quarter highlights that the oil market is now in balance. As a result, we have recently seen upward movement in oil prices. Comments from several key OPEC countries, as well as from Russia, suggest that a reduction of the existing production cuts beyond the current agreement is a possibility. Further upward movement in oil prices and subsequent growth in global E&P investment are possible in the medium term. This would further stimulate drilling activity worldwide. Pason's market positions

are very strong. 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 (currently over 800). We are uniquely positioned to participate in the industry's growth.

A handwritten signature in black ink, appearing to read "Marcel Kessler", with a stylized flourish at the end.

Marcel Kessler
President and Chief Executive Officer
November 7, 2017

Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of November 7, 2017, 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.

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 its 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 September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Electronic Drilling Recorder	29,547	16,200	82	82,350	46,817	76
Pit Volume Totalizer/ePVT	9,394	5,011	87	25,693	14,832	73
Communications	6,565	3,799	73	18,414	10,388	77
Software	5,343	2,665	100	15,246	7,587	101
AutoDriller	3,838	2,259	70	10,688	6,542	63
Gas Analyzer	4,936	2,804	76	13,227	8,281	60
Other	4,953	5,895	(16)	13,799	17,172	(20)
Total revenue	64,576	38,633	67	179,417	111,619	61

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

	Canada			Canada		
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
	#	#	(%)	#	#	(%)
EDR rental days	16,900	10,500	61	49,900	29,900	67
PVT rental days	15,500	9,600	61	46,100	27,600	67

	United States			United States		
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
	#	#	(%)	#	#	(%)
EDR rental days	49,500	23,800	108	128,500	67,400	91
PVT rental days	38,200	18,100	111	100,800	51,500	96

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.

Total revenue increased 67% and 61% for the three and nine months ending September 2017, over the same period in 2016. This increase is attributable to an increase in drilling activity in the Company's Canadian, US, and certain International markets. The third quarter 2017 results were negatively impacted from a stronger Canadian dollar relative to the US dollar.

Industry activity in the US market increased 102% in the third quarter of 2017 compared to the corresponding period in 2016 (80% on a year-to-date basis), while third quarter Canadian rig activity increased 76% (87% on a year-to-date basis). Canadian EDR days, which includes some non-oil and gas-related activity, increased

61% in the third quarter of 2017 from 2016 levels (67% on a year-to-date basis), while US EDR days increased by 108% from the third quarter of 2016 (91% on a year-to-date basis).

For the first nine months of 2017, the Pason EDR was installed on 56% of the land rigs in the US compared to 53% during the same time period in 2016.

For the nine months ended September 30, 2017, the Pason EDR was installed on 89% of the land rigs in the Canadian market; for the same time period in 2016 the number of EDR days exceeded the number of reported industry days. 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.

Relative to the corresponding period in 2016, the Canadian market saw an increase in pricing pressure in 2017. This pricing pressure has stabilized during 2017.

The revenue generated from the Company's other wellsite instrumentation products tracked the percentage increase in drilling activity. The notable exceptions were:

- increased product adoption of EDR peripherals, including workstations and Pason Rig Display
- increased ePVT adoption rates in the US
- increased AutoDriller rentals in both Canada and the US due to the significant increase in drilling activity which led to more mechanical rigs being deployed in 2017 compared to 2016
- decreased revenue of service rig recorders in Latin America due to the drop in drilling activity which impacted other revenue

Included in the software category is revenue from the Company's data analytics subsidiary, Verdazo.

Other revenue is down due to the sale of the net operating assets of 3PS, Inc. (3PS) effective January 1, 2017.

For the third quarter of 2017, the Company saw an increase in activity in its Australian and Andean operating areas, compared to the corresponding period in 2016. In Argentina, the rig count was lower compared to 2016 levels.

Discussion of Operations

United States Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Electronic Drilling Recorder	20,458	10,041	104	55,982	28,111	99
Pit Volume Totalizer/ePVT	6,335	2,902	118	16,532	8,252	100
Communications	3,454	1,831	89	9,426	4,548	107
Software	3,268	1,829	79	9,067	4,924	84
AutoDriller	2,057	955	115	5,281	2,537	108
Gas Analyzer	2,525	1,428	77	6,568	4,103	60
Other	2,581	3,332	(23)	6,983	9,860	(29)
Total revenue	40,678	22,318	82	109,839	62,335	76
Operating costs	17,130	12,653	35	47,642	38,647	23
Depreciation and amortization	4,151	5,243	(21)	13,322	17,479	(24)
Segment operating profit	19,397	4,422	339	48,875	6,209	687

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue per EDR day - USD	647	652	648	632
Revenue per EDR day - CAD	809	851	847	836

US land-based drilling continued its sequential increase quarter over quarter. Although the majority of the absolute rig count gains were seen in the Permian, the Haynesville and the Bakken regions participated in the increase.

US segment revenue increased by 82% in the third quarter of 2017 over the 2016 comparable period. For the first nine months, revenue increased 76% compared to the prior year. Included in the prior year results was revenue (included in other revenue) from 3PS, the net operating assets of which were sold effective January 1, 2017. Removing 3PS revenue from the comparative figures, revenue increased by 98% in the third quarter of 2017 compared to 2016 (106% increase when measured in USD). The value of the Canadian dollar relative to the US dollar had a negative impact on revenue when measured in Canadian dollars in the third quarter of 2017. For the first nine months of 2017, and removing 3PS, revenue increased by 93% (96% when measured in USD).

Industry activity in the US market during the third quarter of 2017 increased 102% from the prior year, and 80% for the first nine months. US market share was 58% for the third quarter of 2017 compared to 56% during the same period of 2016, primarily driven by market share growth in key US regions combined with changes in the mix of active customers.

EDR rental days increased by 108% for the quarter ended September 30, 2017, over the same time period in 2016, while revenue per EDR day in the third quarter of 2017 decreased to US\$647, a decrease of US \$5 over the same period in 2016.

Revenue per EDR day for the first nine months of 2017 was US\$648, up US\$16 from the same period in 2016.

Operating costs increased by 35% in the 2017 third quarter relative to the same period in the prior year. When measured in USD, and removing 3PS costs, operating costs increased by 65%, with the increase attributable to the hiring of additional field staff and higher repair costs to support the increase in activity.

Depreciation expense for the third quarter of 2017 decreased 21% over 2016 amounts due to the reduction in the capital program since 2014.

Segment profit increased by \$15.0 million in the third quarter of 2017 compared to the corresponding period in 2016.

Canadian Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Electronic Drilling Recorder	6,689	4,030	66	18,894	11,717	61
Pit Volume Totalizer/ePVT	2,486	1,734	43	7,465	5,093	47
Communications	2,872	1,676	71	8,213	4,864	69
Software	1,945	778	150	5,879	2,474	138
AutoDriller	1,378	796	73	4,036	2,201	83
Gas Analyzer	2,099	1,111	89	5,760	3,261	77
Other	851	630	35	2,539	1,970	29
Total revenue	18,320	10,755	70	52,786	31,580	67
Operating costs	6,473	3,817	70	17,826	13,136	36
Depreciation and amortization	6,053	6,203	(2)	17,632	20,116	(12)
Segment operating profit (loss)	5,794	735	688	17,328	(1,672)	—

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue per EDR day- CAD	1,041	1,011	1,010	1,039

The third quarter Canadian rig activity showed significant year-over-year improvement, although activity was range bound for much of the quarter.

Canadian segment revenue increased by 70% for the quarter ended September 30, 2017 compared to the same period in 2016. This increase is the result of a 76% increase in the number of drilling industry days in the third quarter compared to 2016 levels. Included in the software category for 2017 is revenue earned by Verdazo.

EDR rental days increased 61% in the third quarter of 2017 compared to 2016 (67% for the first nine months of 2017).

Revenue per EDR day increased by \$30 to \$1,041 during the third quarter of 2017 compared to 2016. Revenue per EDR day for the nine months ended September 30, 2017 was \$1,010, down \$29 from the same period in 2016, driven in most part by customer mix, and the ongoing effects of pricing concessions made in prior periods.

Operating costs increased by 70% in the third quarter of 2017 relative to the same period in 2016 (36% on a year-to-date basis), with repair costs and direct field costs increasing due to higher activity, combined with the inclusion of Verdazo operating costs.

Depreciation and amortization expense decreased by approximately 2% for the three months ended September 30, 2017. The 2017 amounts include the amortization of investment tax credits received in the third quarter of 2017, offset by the amortization of intangibles that were recognized on the acquisition of Verdazo.

The third quarter 2017 operating profit of \$5.8 million is an improvement of \$5.1 million from the prior year. Segment operating profit for the first nine months of 2017 is \$17.3 million compared to a loss of \$1.7 million in the prior year.

International Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Electronic Drilling Recorder	2,400	2,129	13	7,474	6,989	7
Pit Volume Totalizer/ePVT	573	375	53	1,696	1,487	14
Communications	239	292	(18)	775	976	(21)
Software	130	58	124	300	189	59
AutoDriller	403	508	(21)	1,371	1,804	(24)
Gas Analyzer	312	265	18	899	917	(2)
Other	1,521	1,933	(21)	4,277	5,342	(20)
Total revenue	5,578	5,560	—	16,792	17,704	(5)
Operating costs	4,317	4,362	(1)	13,282	14,081	(6)
Depreciation and amortization	980	3,483	(72)	3,026	7,274	(58)
Segment operating profit (loss)	281	(2,285)	—	484	(3,651)	—

The international rig count was up in several of the Company's international markets, most notably Australia and portions of the Andean region in South America. These increases were offset by a decrease in activity in Argentina. As a result, revenue in the International operations segment was flat in the third quarter of 2017 compared to the same period in 2016. For the nine months of 2017, revenue decreased by 5% from prior years levels as a result of lower activity in the Company's Argentina market.

Operating costs decreased by 1% in the third quarter relative to the same period in the prior year as previous year cost reductions were offset by higher field costs in certain regions.

Depreciation expense decreased by approximately 72% for the three months ended September 30, 2017. In the third quarter of 2016 a \$1.4 million charge was recorded to recognize obsolete inventory. This charge was included in depreciation expense.

The segment operating profit was \$0.3 million for the third quarter of 2017, an improvement from the \$2.3 million loss recorded in the corresponding period in 2016. The year-to-date profit was \$0.5 million compared to a loss of \$3.7 million in the prior year.

Corporate Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2017	2016	Change	2017	2016	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Other expenses						
Research and development	6,945	5,358	30	19,083	17,615	8
Corporate services	3,553	3,956	(10)	11,157	12,360	(10)
Stock-based compensation	3,145	1,457	116	8,869	4,657	90
Other						
Restructuring costs	—	—	—	—	10,861	—
Foreign exchange loss (gain)	113	96	18	(353)	(2,227)	84
Other	552	44	1,155	768	1,383	(44)
Total corporate expenses	14,308	10,911	31	39,524	44,649	(11)

In the first quarter of 2016, the Company initiated additional cost reduction initiatives to address the prolonged downturn in oil and gas drilling activity. As a result, the Company recorded a restructuring charge of \$10.9 million in the first quarter of 2016.

Q3 2017 vs Q2 2017

Consolidated revenue was \$64.6 million in the third quarter of 2017 compared to \$55.8 million in the second quarter of 2017, an increase of \$8.8 million, or 16%. The second quarter is usually the Company's weakest due to the spring break-up in Canada. US activity levels increased from second quarter 2017 levels, which were partially offset by the strengthening of the Canadian dollar versus the US dollar. The Canadian segment earned revenue of \$18.3 million in the third quarter of 2017 compared to \$10.5 million in the second quarter of 2017, an increase of \$7.8 million. Revenue in the US market increased by \$1.5 million, from \$39.2 million in the second quarter of 2017 to \$40.7 million in the third quarter of 2017, as both industry activity and the Company's market share increased. The International segment realized a revenue decrease of \$0.5 million.

The Company recorded a net profit in the third quarter of 2017 of \$8.8 million (\$0.10 per share) compared to a profit of \$6.9 million (\$0.08 per share) in the second quarter of 2017. Included in the third quarter results is an increase in the Company's research and development expenses over the second quarter of \$0.7 million and a foreign exchange loss reported of \$0.1 million versus a foreign exchange gain of \$0.7 million recorded in the second quarter of 2017.

Sequentially, EBITDA increased from \$21.1 million in the second quarter of 2017 to \$25.5 million in the third quarter of 2017. Adjusted EBITDA, which adjusts for foreign exchange and certain non-recurring charges, increased from \$19.4 million in the second quarter of 2017 to \$26.2 million in the third quarter of 2017. Funds flow from operations increased from \$18.8 million in the second quarter of 2017 to \$19.9 million in the third quarter of 2017.

Summary of Quarterly Results

Three Months Ended	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017
(000s, except per share data)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue	59,838	45,813	27,173	38,633	48,827	59,049	55,792	64,576
(Loss) income	(841)	(10,860)	(11,319)	(7,117)	(11,325)	7,153	6,895	8,813
Per share – basic	(0.01)	(0.13)	(0.13)	(0.08)	(0.13)	0.08	0.08	0.10
Per share – diluted	(0.01)	(0.13)	(0.13)	(0.08)	(0.13)	0.08	0.08	0.10
EBITDA ⁽¹⁾	20,736	(353)	(2,231)	8,347	(2,291)	23,469	21,050	25,493
Adjusted EBITDA ⁽¹⁾	20,128	8,763	(1,470)	8,487	15,225	24,908	19,361	26,158
Funds flow from (used in) operations	17,933	3,335	(974)	9,130	15,324	21,074	18,795	19,896
Per share – basic	0.21	0.04	(0.01)	0.11	0.18	0.25	0.22	0.23
Per share – diluted	0.21	0.04	(0.01)	0.11	0.18	0.25	0.22	0.23
Cash from operating activities	10,911	11,331	2,993	4,653	665	29,831	24,201	15,128
Free cash flow ⁽¹⁾	3,878	4,141	(2,461)	4,404	(153)	28,511	19,628	11,002

(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, 2015	Mar 31, 2016	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
(Loss) income	(841)	(10,860)	(11,319)	(7,117)	(11,325)	7,153	6,895	8,813
Add:								
Taxes	(1,027)	(6,817)	(6,728)	(922)	(3,019)	1,796	155	2,351
Depreciation and amortization	19,802	16,362	13,578	14,929	10,515	11,973	10,823	11,184
Stock-based compensation	2,802	962	2,238	1,457	1,538	2,547	3,177	3,145
EBITDA ⁽¹⁾	20,736	(353)	(2,231)	8,347	(2,291)	23,469	21,050	25,493

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
EBITDA	20,736	(353)	(2,231)	8,347	(2,291)	23,469	21,050	25,493
Add:								
Impairment charges	—	—	—	—	17,474	—	—	—
Restructuring costs	1,024	10,861	—	—	—	—	—	—
Foreign exchange	(1,549)	(2,719)	396	96	284	223	(689)	113
Other	(83)	974	365	44	(242)	1,216	(1,000)	552
Adjusted EBITDA ⁽¹⁾	20,128	8,763	(1,470)	8,487	15,225	24,908	19,361	26,158

Reconcile cash from operating activities to free cash flow

Three Months Ended	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sep 30, 2017
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Cash from operating activities	10,911	11,331	2,993	4,653	665	29,831	24,201	15,128
Less:								
Additions to property, plant and equipment (net of proceeds and working capital)	(7,060)	(5,493)	(4,437)	410	(1,827)	(1,027)	(3,913)	(3,881)
Deferred development costs	27	(1,697)	(1,017)	(659)	1,009	(293)	(660)	(245)
Free cash flow ⁽¹⁾	3,878	4,141	(2,461)	4,404	(153)	28,511	19,628	11,002

Though the Company has seen a 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,	2017	2016	Change
(000s)	(\$)	(\$)	(%)
Cash and cash equivalents	159,437	154,598	3
Working capital	190,518	191,785	(1)
Funds flow from operations ⁽¹⁾	59,765	11,491	420
Capital expenditures ⁽¹⁾	11,604	12,886	(10)
As a % of funds flow ^{(1) (2)}	19.4%	112.1%	(83)

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

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

Effective December 31, 2016, the Company purchased all of the existing and outstanding shares of Verdazo Analytics, Inc. (Verdazo). In January 2017, the Company paid \$4.8 million of the cash portion owing.

During 2016, the Company initiated a review of its investment in 3PS, Inc. (3PS). In the fourth quarter of 2016, a final agreement was entered into for the sale of the net operating assets of 3PS, effective January 1, 2017. Cash of \$7.1 million was received in the first quarter of 2017.

In addition, during 2017 the Company received a tax refund of \$6.7 million relating to the refiling of prior years' tax returns.

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	(\$)	(\$)	(\$)	(\$)
Operating leases and other contracts	13,197	7,904	5,727	26,828

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

At September 30, 2017, 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, 2017, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at September 30, 2017, there were 84.9 million common shares and 4.2 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. See note 2 to the Condensed Consolidated Interim Financial Statements for additional information.

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 85% 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.

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. During the year ended December 31, 2016, 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.

Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	September 30, 2017	December 31, 2016
(CDN 000s) (unaudited)		(\$)	(\$)
Assets			
Current			
Cash and cash equivalents	9	159,437	146,479
Trade and other receivables		52,398	50,721
Prepaid expenses		4,834	3,826
Income taxes recoverable		6,086	15,066
Assets held for sale	11	—	8,413
Total current assets		222,755	224,505
Non-current			
Property, plant and equipment		128,033	150,504
Intangible assets and goodwill		36,487	43,698
Deferred tax assets		11,651	16,544
Total non-current assets		176,171	210,746
Total assets		398,926	435,251
Liabilities and equity			
Current			
Trade payables and accruals		26,170	24,347
Stock-based compensation liability	6	6,067	1,516
Liabilities held for sale	11	—	223
Total current liabilities		32,237	26,086
Non-current			
Stock-based compensation liability	6	4,355	2,941
Onerous lease obligation		2,527	2,917
Deferred tax liabilities		9,493	16,656
Total non-current liabilities		16,375	22,514
Equity			
Share capital	6	146,020	139,730
Share-based benefits reserve		24,127	23,026
Foreign currency translation reserve		46,092	69,443
Retained earnings		134,075	154,452
Total equity		350,314	386,651
Total liabilities and equity		398,926	435,251

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

Condensed Consolidated Interim Statements of Operations

	Note*	Three Months Ended September 30,		Nine Months Ended September 30,	
		2017	2016	2017	2016
(CDN 000s, except per share data) (unaudited)					
		(\$)	(\$)	(\$)	(\$)
Revenue		64,576	38,633	179,417	111,619
Operating expenses					
Rental services		25,245	18,087	70,827	58,844
Local administration		2,675	2,745	7,923	7,020
Depreciation and amortization		11,184	14,929	33,980	44,869
		39,104	35,761	112,730	110,733
Operating profit		25,472	2,872	66,687	886
Other expenses					
Research and development		6,945	5,358	19,083	17,615
Corporate services		3,553	3,956	11,157	12,360
Stock-based compensation expense	6	3,145	1,457	8,869	4,657
Other expense	8	665	140	415	10,017
		14,308	10,911	39,524	44,649
Income (loss) before income taxes		11,164	(8,039)	27,163	(43,763)
Income tax provision (recovery)		2,351	(922)	4,302	(14,467)
Net income (loss)		8,813	(7,117)	22,861	(29,296)
Income (loss) per share	7				
Basic		0.10	(0.08)	0.27	(0.35)
Diluted		0.10	(0.08)	0.27	(0.35)

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

Condensed Consolidated Interim Statements of Other Comprehensive Income

		Three Months Ended September 30,		Nine Months Ended September 30,	
		2017	2016	2017	2016
(CDN 000s) (unaudited)					
		(\$)	(\$)	(\$)	(\$)
Net income (loss)		8,813	(7,117)	22,861	(29,296)
Items that may be reclassified subsequently to net income:					
Foreign currency translation adjustment		(12,613)	3,281	(23,941)	(21,584)
Reclassification of foreign currency translation gain on disposition of 3PS assets	11	—	—	590	—
Other comprehensive (loss) gain		(12,613)	3,281	(23,351)	(21,584)
Total comprehensive (loss) income		(3,800)	(3,836)	(490)	(50,880)

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

Condensed Consolidated Interim Statements of Changes in Equity

	Note*	Share Capital	Share-Based Benefits Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)	(\$)
Balance at January 1, 2016		128,067	23,367	85,603	252,411	489,448
Net loss		—	—	—	(29,296)	(29,296)
Dividends	6	—	—	—	(42,963)	(42,963)
Other comprehensive loss		—	—	(21,584)	—	(21,584)
Exercise of stock options	6	6,407	(1,954)	—	—	4,453
Expense related to vesting of options	6	—	2,226	—	—	2,226
Balance at September 30, 2016		134,474	23,639	64,019	180,152	402,284
Net loss		—	—	—	(11,325)	(11,325)
Dividends	6	—	—	—	(14,375)	(14,375)
Other comprehensive income		—	—	5,424	—	5,424
Exercise of stock options	6	4,006	(1,383)	—	—	2,623
Expense related to vesting of options	6	—	770	—	—	770
Shares issued pursuant to business acquisition		1,250	—	—	—	1,250
Balance at December 31, 2016		139,730	23,026	69,443	154,452	386,651
Net income		—	—	—	22,861	22,861
Dividends	6	—	—	—	(43,238)	(43,238)
Other comprehensive loss		—	—	(23,351)	—	(23,351)
Exercise of stock options	6	6,290	(1,516)	—	—	4,774
Expense related to vesting of options	6	—	2,617	—	—	2,617
Balance at September 30, 2017		146,020	24,127	46,092	134,075	350,314

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

Condensed Consolidated Interim Statements of Cash Flows

	Note*	Three Months Ended September 30,		Nine Months Ended September 30,	
		2017	2016	2017	2016
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
Cash from (used in) operating activities					
Net income (loss)		8,813	(7,117)	22,861	(29,296)
Adjustment for non-cash items:					
Depreciation and amortization		11,184	14,929	33,980	44,869
Stock-based compensation	6	3,145	1,457	8,869	4,657
Non-cash restructuring costs		—	—	—	4,833
Deferred income taxes		(1,429)	35	(3,370)	(10,941)
Unrealized foreign exchange (gain) loss and other		(1,817)	(174)	(2,575)	(2,631)
Funds flow from (used in) operations		19,896	9,130	59,765	11,491
Movements in non-cash working capital items:					
(Increase) decrease in trade and other receivables		(6,954)	(12,470)	(5,138)	5,620
Increase in prepaid expenses		(1,418)	(1,713)	(1,160)	(709)
Decrease in income taxes recoverable		3,811	13,927	13,377	10,344
Increase (decrease) in trade payables, accruals and stock-based compensation liability		2,609	(2,575)	5,743	(2,114)
Effects of exchange rate changes		(23)	(1,148)	962	1,158
Cash generated from operating activities		17,921	5,151	73,549	25,790
Income tax paid		(2,793)	(498)	(4,389)	(6,813)
Net cash from operating activities		15,128	4,653	69,160	18,977
Cash flows from (used in) financing activities					
Proceeds from issuance of common shares	6	1,694	1,331	4,774	4,453
Payment of dividends	6	(14,425)	(14,342)	(43,238)	(42,963)
Net cash used in financing activities		(12,731)	(13,011)	(38,464)	(38,510)
Cash flows (used in) from investing activities					
Additions to property, plant and equipment		(5,126)	(718)	(10,406)	(9,513)
Development costs		(245)	(659)	(1,198)	(3,373)
Proceeds on disposal of investment and property, plant and equipment		47	136	61	692
Acquisition	6	—	—	(4,750)	—
Proceeds on sale of net operating assets	11	—	—	7,123	—
Changes in non-cash working capital		1,198	992	1,524	(699)
Net cash used in investing activities		(4,126)	(249)	(7,646)	(12,893)
Effect of exchange rate on cash and cash equivalents		(5,354)	1,223	(10,092)	(8,822)
Net (decrease) increase in cash and cash equivalents		(7,083)	(7,384)	12,958	(41,248)
Cash and cash equivalents, beginning of period		166,520	161,982	146,479	195,846
Cash and cash equivalents, end of period	9	159,437	154,598	159,437	154,598

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

Notes to Condensed Consolidated Interim Financial Statements

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

1. Description of Business

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

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

2. Basis of Preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the requirements of International Accounting Standard ("IAS") 34, Interim Financial Reporting and include the accounts of Pason and its wholly owned subsidiaries. All significant inter-company balances and transactions including revenue and expenses have been eliminated. These unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2016.

Critical accounting judgments and key sources of estimation uncertainty

The Company operates in multiple jurisdictions with complex legal and tax regulatory environments. In certain of these jurisdictions, the Company has taken income tax positions that management believes are supportable and are intended to withstand challenge by tax authorities. Some of these positions are inherently uncertain and include those relating to transfer pricing matters and the interpretation of income tax laws applied to complex transactions as the tax positions taken by the Company rely on the exercise of judgment and it is frequently possible for there to be a range of legitimate and reasonable views.

The Company has adopted certain transfer pricing (TP) policies and methodologies to value inter-company transactions that occur in the normal course of business. The value placed on such transactions must meet certain guidelines that have been established by the tax authorities in the jurisdictions in which the Company operates in. The Company believes that its TP methodologies are in accordance with such guidelines.

In 2014, the Company applied for a Bilateral Advanced Pricing Arrangement (APA) from the Canada Revenue Agency (CRA) and the Internal Revenue Service (IRS) (collectively, the Parties). The purpose of this APA is for the Company to obtain agreement among the Parties on the TP methodology applied to the material inter-company transactions between Pason Systems Corp. and Pason Systems USA and Petron (the covered transactions). Once an APA is concluded it provides tax certainty for the Company. The Company's previous tax filings were based upon the TP methodology presented to the Parties under the APA submission.

The Company understands that the Parties have initiated negotiations to arrive at a methodology that both Parties agree to. The outcome of these negotiations are uncertain and there can be no assurance that the final agreement reached by the Parties will be similar to the Company's previous tax filings. However, the Company does not believe that the outcome of these negotiations would have a material adverse impact on its financial position, or liquidity. However, the final conclusion reached by the Parties may differ significantly from the estimates recorded in these consolidated financial statements which may affect income tax amounts reported in future years.

3. Significant Accounting Policies

There have been no significant accounting policy changes; refer to the audited annual consolidated financial statements as at and for the year ended December 31, 2016.

Future Accounting Policy Changes

IFRS 15, Revenue from Contracts with Customers, is required to be applied for years beginning on or after January 1, 2018 and supersedes existing standards and interpretations including IAS 18, Revenue. Management believes that given its current rental model and the contracts it enters into with its customers that this new standard will not have a material impact on the Company's financial statements.

In January 2016, the International Accounting Standards Board released IFRS 16, Leases, which is required to be applied for years beginning on or after January 1, 2019, and which supersedes IAS 17, Leases; earlier application is allowed, but not before the application of IFRS 15, Revenue from Contracts with Customers.

This new pronouncement introduces a single lessee accounting model by eliminating a lessee's classification of leases as either operating leases or finance leases.

The most significant change will be the lessee's recognition of the initial present value of unavoidable future lease payments as a liability on the Consolidated Balance Sheets. Leases with durations of twelve months or less and leases for low-value assets are exempted.

The measurement of the total lease expense over the term of a lease will be unaffected by the new standard. The presentation on the Consolidated Statement of Operations will result in most lease expenses being presented as amortization of leased assets and financing costs arising from lease liabilities rather than as being a part of either local administration expense or corporate service expenses.

The lessee's actual cash flows will be unaffected, however relative to the current standard, the lessee's statement of cash flows will reflect increased operating activity cash flows offset by a corresponding decrease in financing activity cash flows due to the payment of the "principal" component of leases.

Management has initiated a review of the impact and transition provisions of this new standard, but expects that the company's Consolidated Balance Sheets will be materially affected. At this time it is not possible to make reasonable estimates of the effects of the new standard.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will

be applied by the Company on January 1, 2018. Management that this new standard will not have a material impact on the Company's financial statements.

4. Seasonality

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 often improve and location access becomes available; however, a rainy summer can have a significant adverse effect on drilling activity. By the fourth quarter, often the Company's second strongest quarter, access to most areas in Canada becomes available when the ground freezes. Consequently, the performance of the Company may not be comparable quarter to consecutive quarter, but should be considered on the basis of results for the whole year, or by comparing results in a quarter with results in the same quarter for the previous year.

5. Operating Segments

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

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

There have been no changes in operating segments from the year-ended December 31, 2016.

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

Three Months Ended September 30, 2017	Canada	United States	International	Total
	(\$)	(\$)	(\$)	(\$)
Revenue	18,320	40,678	5,578	64,576
Rental services and local administration	6,473	17,130	4,317	27,920
Depreciation and amortization	6,053	4,151	980	11,184
Segment operating profit	5,794	19,397	281	25,472
Research and development				6,945
Corporate services				3,553
Stock-based compensation				3,145
Other expense				665
Income taxes				2,351
Net income				8,813
Capital expenditures	(363)	5,213	521	5,371
Goodwill	1,259	7,183	2,600	11,042
Intangible assets	25,304	141	—	25,445
Segment assets	109,863	243,696	45,367	398,926
Segment liabilities	25,954	10,253	12,405	48,612

Three Months Ended September 30, 2016

Revenue	10,755	22,318	5,560	38,633
Rental services and local administration	3,817	12,653	4,362	20,832
Depreciation and amortization	6,203	5,243	3,483	14,929
Segment operating profit (loss)	735	4,422	(2,285)	2,872
Research and development				5,358
Corporate services				3,956
Stock-based compensation				1,457
Other expense				140
Income taxes recovery				(922)
Net loss				(7,117)
Capital expenditures	247	1,148	(18)	1,377
Goodwill	—	24,634	2,600	27,234
Intangible assets	25,141	158	200	25,499
Segment assets	128,006	259,184	51,481	438,671
Segment liabilities	25,165	5,845	5,377	36,387

Nine Months Ended September 30, 2017	Canada	United States	International	Total
	(\$)	(\$)	(\$)	(\$)
Revenue	52,786	109,839	16,792	179,417
Rental services and local administration	17,826	47,642	13,282	78,750
Depreciation and amortization	17,632	13,322	3,026	33,980
Segment operating profit	17,328	48,875	484	66,687
Research and development				19,083
Corporate services				11,157
Stock-based compensation				8,869
Other expenses				415
Income tax expense				4,302
Net Income				22,861
Capital expenditures	(245)	11,428	421	11,604
Goodwill	1,259	7,183	2,600	11,042
Intangible assets	25,304	141	—	25,445
Segment assets	109,863	243,696	45,367	398,926
Segment liabilities	25,954	10,253	12,405	48,612

Nine Months Ended September 30, 2016

Revenue	31,580	62,335	17,704	111,619
Rental services and local administration	13,136	38,647	14,081	65,864
Depreciation and amortization	20,116	17,479	7,274	44,869
Segment operating (loss) profit	(1,672)	6,209	(3,651)	886
Research and development				17,615
Corporate services				12,360
Stock-based compensation				4,657
Other expenses				10,017
Income tax recovery				(14,467)
Net loss				(29,296)
Capital expenditures	2,930	9,806	150	12,886
Goodwill	—	24,634	2,600	27,234
Intangible assets	25,141	158	200	25,499
Segment assets	128,006	259,184	51,481	438,671
Segment liabilities	25,165	5,845	5,377	36,387

6. Share Capital

Common Shares				
	Nine Months Ended September 30, 2017		Year Ended December 31, 2016	
	(\$)	(#)	(\$)	(#)
Balance, beginning of period	139,730	84,628	128,067	84,063
Exercise of stock options:	6,290	288	10,413	498
Shares issued pursuant to business acquisition	—	—	1,250	67
Balance, end of period	146,020	84,916	139,730	84,628

Stock option plan

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

At September 30, 2017, 4,243 (2016: 3,908) stock options were outstanding for common shares at exercise prices ranging from \$15.94 to \$27.96 per share, expiring between 2017 and 2022 as follows:

	Nine Months Ended September 30, 2017		Nine Months Ended September 30, 2016	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
Outstanding, beginning of period	5,075	20.53	4,862	21.77
Granted	89	19.32	17	17.93
Equity settled	(288)	16.57	(304)	14.67
Expired or forfeited	(633)	22.51	(667)	23.29
Outstanding, end of period	4,243	20.46	3,908	21.93
Exercisable, end of period	1,775	22.95	1,691	20.70
Available for grant, end of period	1,702		1,998	

Stock-based compensation expense and liability

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

Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(\$)	(\$)	(\$)	(\$)
Stock options	979	810	2,617	2,227
RSUs	524	268	1,718	990
DSUs	33	(58)	208	114
PSUs	902	437	2,204	1,326
Deferred compensation expense	707	—	2,122	—
Stock-based compensation	3,145	1,457	8,869	4,657

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

Liability

As at	September 30, 2017	December 31, 2016
	(\$)	(\$)
RSUs	1,753	867
PSUs	2,192	649
Deferred compensation expense	2,122	—
Current portion of stock-based compensation liability	6,067	1,516
RSUs	1,014	306
DSUs	2,392	2,348
PSUs	949	287
Non-current portion of stock-based compensation liability	4,355	2,941
Total stock-based compensation liability	10,422	4,457

Common share dividends

During the quarter ended September 30, 2017, the Company declared and paid dividends of \$14,425 (2016: \$14,342) or \$0.17 per common share (2016: \$0.17).

7. Income Per Share

Basic income per share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(#)	(#)	(#)	(#)
Issued common shares outstanding, beginning of period	84,814	84,280	84,628	84,063
Effect of exercised options	39	31	129	136
Weighted average number of common shares outstanding for the period	84,853	84,311	84,757	84,199

Diluted income per share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(#)	(#)	(#)	(#)
Weighted average number of common shares (basic)	84,853	84,311	84,757	84,199
Effect of share options	117	—	197	—
Weighted average number of common shares (diluted)	84,970	84,311	84,954	84,199

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

8. Other Expenses (Income)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(\$)	(\$)	(\$)	(\$)
Foreign exchange loss (gain)	113	96	(353)	(2,227)
Restructuring costs	—	—	—	10,861
Other	552	44	768	1,383
Other expenses	665	140	415	10,017

In the first quarter of 2016, the Company initiated additional cost reduction initiatives to address the prolonged downturn in oil and gas drilling activity. As a result, the Company recorded a restructuring charge of \$10,861 in the first quarter of 2016.

9. Cash and Cash Equivalents

As at	September 30, 2017	December 31, 2016
	(\$)	(\$)
Cash	74,011	55,317
Cash equivalents	85,426	91,162
Cash and cash equivalents	159,437	146,479

Cash equivalents are made up mostly of cash invested in money market funds with interest rates of approximately 1.0%, and maturities from 1–30 days.

10. Financial Instruments

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

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

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

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

Financial Assets at Fair Value				September 30, 2017
	Level 1	Level 2	Level 3	
	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	159,437	—	—	159,437
Total financial assets at fair value	159,437	—	—	159,437

11. Assets Held for Sale

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

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

12. Approval of Interim Financial Statements

The condensed unaudited consolidated interim financial statements were approved by the Board of Directors on November 7, 2017.

13. Events After the Reporting Period

On November 7, 2017, the Company announced a quarterly dividend of \$0.17 per share on the Company's common shares. The dividend will be paid on December 29, 2017 to shareholders of record at the close of business on December 15, 2017.

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

Bryce McLean
General Manager, 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

Melinda Ando
General Counsel & Corporate
Secretary

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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.