

SECOND QUARTER INTERIM REPORT



For the three and six months ended June 30, 2017

Performance Data

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
(CDN 000s, except per share data)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue	55,792	27,173	105	114,841	72,986	57
Income (loss)	6,895	(11,319)	—	14,048	(22,179)	—
Per share – basic	0.08	(0.13)	—	0.17	(0.26)	—
Per share – diluted	0.08	(0.13)	—	0.17	(0.26)	—
EBITDA ⁽¹⁾	21,050	(2,231)	—	44,519	(2,584)	—
As a % of revenue	37.7	(8.2)	—	38.8	(3.5)	—
Adjusted EBITDA ⁽¹⁾	19,361	(1,470)	—	44,269	7,293	507
As a % of revenue	34.7	(5.4)	—	38.5	10.0	29
Funds flow from operations	18,795	(974)	—	39,869	2,361	1,589
Per share – basic	0.22	(0.01)	—	0.47	0.03	1,467
Per share – diluted	0.22	(0.01)	—	0.47	0.03	1,467
Cash from operating activities	24,201	2,993	709	54,032	14,324	277
Free cash flow ⁽¹⁾	19,628	(2,461)	—	48,139	1,680	2,765
Capital expenditures	5,099	4,929	3	6,233	11,509	(46)
Working capital	197,191	197,843	—	197,191	197,843	—
Total assets	412,991	456,894	(10)	412,991	456,894	(10)
Total long-term debt	—	—	—	—	—	—
Cash dividends declared	0.17	0.17	—	0.34	0.34	—
Shares outstanding end of period (#000's)	84,814	84,280	1	84,814	84,280	1

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

Q2 2017 vs Q2 2016

The Company generated consolidated revenue of \$55.8 million in the second quarter of 2017, an increase of 105% from the same period in 2016. Stable commodity prices and continued optimism has led to increased drilling activity in Canada and the US market. Revenue in the second quarter of 2017, when compared to 2016, also benefited by a lower Canadian dollar relative to the US dollar. Revenue from the International business unit increased modestly compared to the second quarter of 2016.

Consolidated adjusted EBITDA increased to \$19.4 million in the second quarter, up from a negative \$1.5 million in the second quarter of 2016. Strong operational performance in North America gross profit performance led to the rebound in these key measures.

The Company recorded net income of \$6.9 million (\$0.08 per share) in the second quarter of 2017, compared to a net loss of \$11.3 million (\$0.13 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 levels. In addition, the strengthening Canadian dollar toward the end of the second quarter of 2017 led to a lower effective tax rate for the second quarter of 2017.

President's Message

The second quarter of each year generally has the lowest drilling activity due to spring break-up in Canada, when many areas are not accessible because of ground conditions. As a result, financial performance in the second quarter is usually weaker than in the first. This was again the case this year. However, due to higher drilling activity in the United States, in Canada, and in certain International markets, as well as lower operating costs, Pason's financial performance improved significantly from the second quarter of 2016.

Revenue for the quarter was up 105% to \$55.8 million from the previous year period. Income for the second quarter of 2017 was \$6.9 million, or \$0.08 per share, compared to a loss of \$11.3 million in the previous year. Adjusted EBITDA was \$19.4 million, resulting in an adjusted EBITDA margin of 35%. Free Cash Flow for the quarter was \$19.6 million. At June 30, 2017, our working capital position stood at \$197 million, including cash at \$167 million. There is no debt on our balance sheet. We are maintaining our quarterly dividend at \$0.17 per share.

The key drivers of improved financial performance were: 1) higher drilling activity in the United States - especially in the Permian region - as well as in Canada; 2) increased US market share; and 3) a significant reduction in operating costs and depreciation.

The impact of previously implemented cost reduction programs is highlighted by comparing this quarter's results with the second quarter of 2015. While revenue was essentially at the same level, EBITDA increased from \$7.5 million the second quarter of 2015 to \$21.1 million in the second quarter of 2017. Our recorded net income was also much improved. We expect to continue to reap the benefits of our lower fixed cost structure into the foreseeable future.

Since the beginning of this year, growth in land-based drilling activity in North American has exceeded our expectations. The US land rig count now stands at 930 and the average for Canada year-to-date is at 180.

While we don't expect to see immediate reductions in operator capital budgets - and thus drilling activity - we believe growth will be muted going forward. Operator capital budgets are likely to be significantly impacted by future commodity prices, and the potential to return to lower commodity prices, as well as continued pipeline and LNG uncertainty in Canada, may create headwinds to continued growth in industry activity.

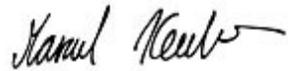
Pason's two main objectives for 2017 remain unchanged: 1) to fully participate in the industry's upturn while containing growth of the cost base; and 2) to become a key enabler of drilling automation and big data strategies.

We continue to invest approximately \$30 million annually in R&D and IT. In addition to continuously enhancing the functionality and performance of existing products, our development efforts are focused on products that directly improve the efficiency, effectiveness and safety of drilling operations and wellbore quality.

Examples of this include our ePVT Adaptive Alarms and Digital Trip Sheets, 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, production, and operational data. The deployment of an enhanced Live Rig View (LRV) 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 our current development efforts focused on software and analytics. Our very capable and flexible rigsite IT and communications platform can host new Pason and third party software. For 2017, we intend to spend up to \$25 million in capital expenditures.

Pason's market position remains very strong and the outlook for our new products and services looks promising. 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 and a growing presence in the Middle East.

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
August 9, 2017

Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of August 9, 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.

Free cash flow

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

Overall Performance

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Electronic Drilling Recorder	27,147	11,462	137	52,803	30,617	72
Pit Volume Totalizer/ePVT	7,723	3,465	123	16,299	9,821	66
Communications	4,926	2,258	118	11,849	6,589	80
Software	4,887	1,791	173	9,903	4,922	101
AutoDriller	3,021	1,517	99	6,850	4,283	60
Gas Analyzer	3,679	1,853	99	8,291	5,477	51
Other	4,409	4,827	(9)	8,846	11,277	(22)
Total revenue	55,792	27,173	105	114,841	72,986	57

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

	Canada					
	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
	#	#	(%)	#	#	(%)
EDR rental days	9,200	4,400	109	33,000	19,400	70
PVT rental days	8,800	4,000	120	30,600	18,000	70

	United States					
	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
	#	#	(%)	#	#	(%)
EDR rental days	43,700	18,400	138	79,000	43,600	81
PVT rental days	34,900	14,400	142	62,600	33,400	87

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 105% and 57% for the three and six months ending June 2017, over the same period in 2016. This increase is attributable to an increase in drilling activity in the Company's North American markets. The second quarter 2017 results benefited from a weaker Canadian dollar relative to the US dollar.

Industry activity in the US market increased 118% in the second quarter of 2017 compared to the corresponding period in 2016 (68% on a year-to-date basis), while second quarter Canadian rig activity increased 141% (93% on a year-to-date basis). Canadian EDR days, which includes some non-oil and gas-related activity, increased 109% in the second quarter of 2017 from 2016 levels (70% on a year-to-date

basis), while US EDR days increased by 138% from the second quarter of 2016 (81% on a year-to-date basis).

For the first half of 2017, the Pason EDR was installed on 55% of the land rigs in the US compared to 51% during the same time period in 2016.

The Canadian business unit continued to see increased competition from a number of competitors. For the first half of 2017, the Pason EDR was installed on 89% of the land rigs in the Canadian market; for the same 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.

The Canadian market saw continued pricing pressure during the second quarter of 2017 relative to the same period in 2016.

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
- continued increase in customer adoption of the communication solutions previously rolled out in the Canadian and US markets
- 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 second quarter of 2017, the Company saw an increase in rig count in its Australian and Andean operating areas, compared to the corresponding period in 2016. Rig count continues to be depressed in Argentina and Mexico. In the Middle East, the Company is realizing an increase in its share of net income from its Saudi Arabia joint venture as a result of a continuing increases in rig count and market penetration.

Discussion of Operations

United States Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Electronic Drilling Recorder	20,400	7,383	176	35,524	18,070	97
Pit Volume Totalizer/ePVT	5,594	2,174	157	10,197	5,350	91
Communications	3,389	1,172	189	5,972	2,717	120
Software	3,331	1,338	149	5,799	3,095	87
AutoDriller	1,816	617	194	3,224	1,582	104
Gas Analyzer	2,278	1,077	112	4,043	2,675	51
Other	2,387	2,630	(9)	4,402	6,528	(33)
Total revenue	39,195	16,391	139	69,161	40,017	73
Operating costs	16,302	10,749	52	30,512	25,994	17
Depreciation and amortization	4,170	5,463	(24)	9,171	12,236	(25)
Segment operating profit	18,723	179	10,360	29,478	1,787	1,550

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue per EDR day - USD	661	624	649	621
Revenue per EDR day - CAD	889	804	866	827

Momentum in the US land-based drilling count continued in the second quarter of 2017. Although the majority of the absolute rig count gains were seen in the Permian and certain plays in Oklahoma, the Eagle Ford and Bakken participated in the increase.

US segment revenue increased by 139% in the second quarter of 2017 over the 2016 comparable period. For the first six months, revenue increased 73% 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 165% in the second quarter of 2017 compared to 2016 (151% increase when measured in USD). The value of the Canadian dollar relative to the US dollar had a positive impact on revenue when measured in Canadian dollars in the second quarter of 2017. For the first half of 2017, revenue increased by 90% (89% when measured in USD) when removing 3PS revenue.

Industry activity in the US market during the second quarter of 2017 increased 118% from the prior year, and 68% for the first six months. US market share was 55% for the second quarter of 2017 compared to 51% 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 138% for the quarter ended June 30, 2017, over the same time period in 2016, while revenue per EDR day in the second quarter of 2017 increased to US\$661, an increase of US \$37 over the same period in 2016. This increase is due to an uptick on adoption of certain key products,

combined with continued customer acceptance of enhanced communication solutions. Pricing discounts were similar to 2016 levels.

Revenue per EDR day for the first half of 2017 was US\$649, up US\$28 from the same period in 2016.

Operating costs increased by 52% in the second quarter relative to the same period in the prior year. When measured in USD, and removing 3PS costs, operating costs increased by 68%, which is a direct result of the business unit investing in field costs to meet the significant increase in drilling activity with the largest increases in labour costs and repairs.

Depreciation expense for the second quarter of 2017 decreased 24% over 2016 amounts due to the reduction in the capital program.

Segment profit increased by \$18.5 million in the second quarter of 2017 compared to the corresponding period in 2016.

Canadian Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Electronic Drilling Recorder	3,769	1,853	103	12,205	7,687	59
Pit Volume Totalizer/ePVT	1,502	827	82	4,979	3,359	48
Communications	1,489	759	96	5,341	3,188	68
Software	1,458	401	264	3,934	1,696	132
AutoDriller	709	301	136	2,658	1,405	89
Gas Analyzer	1,079	502	115	3,661	2,150	70
Other	473	357	32	1,688	1,340	26
Total revenue	10,479	5,000	110	34,466	20,825	66
Operating costs	5,559	3,995	39	11,353	9,319	22
Depreciation and amortization	5,645	6,331	(11)	11,579	13,913	(17)
Segment operating (loss) profit	(725)	(5,326)	86	11,534	(2,407)	—

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	\$	\$	\$	\$
Revenue per EDR day- CAD	1,044	1,103	994	1,053

The second quarter showed significant improvement in WCSB rig count, with virtually all operators increasing their activity.

Canadian segment revenue increased by 110% for the quarter ended June 30, 2017 compared to the same period in 2016. This increase is the result of a 141% increase in the number of drilling industry days in the second quarter compared to 2016 levels. Included in the software category is revenue earned by Verdazo.

EDR rental days increased 109% in the second quarter of 2017 compared to 2016 (70% for the first six months of 2017).

Revenue per EDR day decreased by \$59 to \$1,044 during the second quarter of 2017 compared to 2016, resulting from selective price discounts on certain products. Revenue per EDR day for the first half of 2017 was \$994, down \$59 from the same period in 2017. The Canadian business unit continues to see competitive pricing pressure relative to prior periods.

Operating costs increased by 39% in the second quarter of 2017 relative to the same period in 2016 (22% on a year-to-date basis), due to increased repair costs combined with the inclusion of Verdazo operating costs.

Depreciation and amortization expense decreased by approximately 11% for the three months ended June 30, 2017. The 2017 amounts include the amortization of investment tax credits received in the second quarter of 2017, offset by the amortization of intangibles that were recognized on the acquisition of Verdazo.

The second quarter 2017 operating loss of \$0.7 million is an improvement of \$6.1 million from the prior year. Segment operating profit for the first six months of 2017 is \$11.5 million compared to a loss of \$2.4 million in the prior year.

International Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Electronic Drilling Recorder	2,703	2,226	21	5,074	4,860	4
Pit Volume Totalizer/ePVT	627	464	35	1,123	1,112	1
Communications	323	327	(1)	536	684	(22)
Software	98	52	88	170	131	30
AutoDriller	496	599	(17)	968	1,296	(25)
Gas Analyzer	322	274	18	587	652	(10)
Other	1,549	1,840	(16)	2,756	3,409	(19)
Total revenue	6,118	5,782	6	11,214	12,144	(8)
Operating costs	4,773	4,188	14	8,965	9,719	(8)
Depreciation and amortization	1,008	1,784	(43)	2,046	3,791	(46)
Segment operating profit (loss)	337	(190)	—	203	(1,366)	—

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. As a result, revenue in the International operations segment increased 6% in the second quarter of 2017 compared to the same period in 2016. For the first half of 2017 revenue decreased by 8% from prior years levels as a result of lower activity in the Company's Argentina and Mexico markets.

Operating costs increased by 14% in the second quarter relative to the same period in the prior year as result of increased operating costs in certain key markets. The Company anticipates that future pricing arrangements will reflect these price increases.

Depreciation expense decreased by approximately 43% for the three months ended June 30, 2017.

The segment operating profit was \$0.3 million for the second quarter of 2017, an improvement from the \$0.1 million loss recorded in the corresponding period in 2016. The year-to-date profit was \$0.2 million compared to a loss of \$1.4 million in the prior year.

Corporate Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Other expenses						
Research and development	6,261	5,629	11	12,138	12,257	(1)
Corporate services	3,536	4,082	(13)	7,604	8,404	(10)
Stock-based compensation	3,177	2,238	42	5,724	3,200	79
Other						
Restructuring costs	—	—	—	—	10,861	—
Foreign exchange (gain) loss	(689)	396	—	(466)	(2,323)	80
Other	(1,000)	365	—	216	1,339	(84)
Total corporate expenses	11,285	12,710	(11)	25,216	33,738	(25)

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.

Q2 2017 vs Q1 2017

Consolidated revenue was \$55.8 million in the second quarter of 2017 compared to \$59.0 million in the first quarter of 2017, a decrease of \$3.2 million, or 5%. The second quarter is usually the Company's weakest due to the spring break-up in Canada. US activity levels continued to increase from first quarter 2017 levels. The Canadian segment earned revenue of \$10.5 million in the second quarter of 2017 compared to \$24.0 million in the first quarter of 2017, a decrease of \$13.5 million. Revenue in the US market increased by \$9.2 million, from \$30.0 million in the first quarter of 2017 to \$39.2 million in the second quarter of 2017. The International segment experienced a revenue increase of \$1.0 million.

The Company recorded a net profit in the second quarter of 2017 of \$6.9 million (\$0.08 per share) compared to a profit of \$7.2 million (\$0.08 per share) in the first quarter of 2017.

Sequentially, EBITDA decreased from \$23.5 million in the first quarter of 2017 to \$21.1 million in the second quarter of 2017. Adjusted EBITDA, which adjusts for foreign exchange and certain non-recurring charges, decreased from \$24.9 million in the first quarter of 2017 to \$19.4 million in the second quarter of 2017. Funds flow from operations decreased from \$21.1 million in the first quarter of 2017 to \$18.8 million in the second quarter of 2017.

Summary of Quarterly Results

Three Months Ended	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017
(000s, except per share data)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue	68,468	59,838	45,813	27,173	38,633	48,827	59,049	55,792
(Loss) income	(18,558)	(841)	(10,860)	(11,319)	(7,117)	(11,325)	7,153	6,895
Per share – basic	(0.22)	(0.01)	(0.13)	(0.13)	(0.08)	(0.13)	0.08	0.08
Per share – diluted	(0.22)	(0.01)	(0.13)	(0.13)	(0.08)	(0.13)	0.08	0.08
EBITDA ⁽¹⁾	(2,717)	20,736	(353)	(2,231)	8,347	(2,291)	23,469	21,050
Adjusted EBITDA ⁽¹⁾	24,742	20,128	8,763	(1,470)	8,487	15,225	24,908	19,361
Funds flow from (used in) operations	23,791	17,933	3,335	(974)	9,130	15,324	21,074	18,795
Per share – basic	0.28	0.21	0.04	(0.01)	0.11	0.18	0.25	0.22
Per share – diluted	0.28	0.21	0.04	(0.01)	0.11	0.18	0.25	0.22
Cash from operating activities	16,332	10,911	11,331	2,993	4,653	665	29,831	24,201
Free cash flow ⁽¹⁾	6,894	3,878	4,141	(2,461)	4,910	(153)	28,511	19,628

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

Reconcile income (loss) to EBITDA

Three Months Ended	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
(Loss) income	(18,558)	(841)	(10,860)	(11,319)	(7,117)	(11,325)	7,153	6,895
Add:								
Taxes	(4,226)	(1,027)	(6,817)	(6,728)	(922)	(3,019)	1,796	155
Depreciation and amortization	19,259	19,802	16,362	13,578	14,929	10,515	11,973	10,823
Stock-based compensation	808	2,802	962	2,238	1,457	1,538	2,547	3,177
EBITDA ⁽¹⁾	(2,717)	20,736	(353)	(2,231)	8,347	(2,291)	23,469	21,050

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
EBITDA	(2,717)	20,736	(353)	(2,231)	8,347	(2,291)	23,469	21,050
Add:								
Impairment charges	26,555	—	—	—	—	17,474	—	—
Restructuring costs	—	1,024	10,861	—	—	—	—	—
Foreign exchange	904	(1,549)	(2,719)	396	96	284	223	(689)
Other	—	(83)	974	365	44	(242)	1,216	(1,000)
Adjusted EBITDA ⁽¹⁾	24,742	20,128	8,763	(1,470)	8,487	15,225	24,908	19,361

Reconcile cash from operating activities to free cash flow

Three Months Ended	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Cash from operating activities	16,332	10,911	11,331	2,993	4,653	665	29,831	24,201
Less:								
Additions to property, plant and equipment (net of proceeds and working capital)	(7,341)	(7,060)	(5,493)	(4,437)	916	(1,827)	(1,027)	(3,913)
Deferred development costs	(2,097)	27	(1,697)	(1,017)	(659)	1,009	(293)	(660)
Free cash flow ⁽¹⁾	6,894	3,878	4,141	(2,461)	4,910	(153)	28,511	19,628

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

Liquidity and Capital Resources

As at June 30,	2017	2016	Change
(000s)	(\$)	(\$)	(%)
Cash and cash equivalents	166,520	161,982	3
Working capital	197,191	197,843	—
Funds flow from operations ⁽¹⁾	39,869	2,361	1,589
Capital expenditures ⁽¹⁾	6,233	11,509	(46)
As a % of funds flow ^{(1) (2)}	15.6%	487.5%	(97)

(1) Figures are for the Six months ended June 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 the six months of 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	13,634	9,926	4,823	28,383

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

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

Disclosure of Outstanding Share and Options Data

As at June 30, 2017, there were 84.8 million common shares and 4.5 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 People & Culture department within each significant business unit to support the human resources function.

Alternative Energies

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

International Operations

Assets outside of Canada and the US may be adversely affected by changes in governmental policy, social instability, or other political or economic developments beyond the Company's control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and considered warranted. Approximately 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 man" 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*	June 30, 2017	December 31, 2016
(CDN 000s) (unaudited)		(\$)	(\$)
Assets			
Current			
Cash and cash equivalents	9	166,520	146,479
Trade and other receivables		47,414	50,721
Prepaid expenses		3,473	3,826
Income taxes recoverable		7,101	15,066
Assets held for sale	11	—	8,413
Total current assets		224,508	224,505
Non-current			
Property, plant and equipment		134,220	150,504
Intangible assets and goodwill		39,655	43,698
Deferred tax assets		14,608	16,544
Total non-current assets		188,483	210,746
Total assets		412,991	435,251
Liabilities and equity			
Current			
Trade payables and accruals		22,889	24,347
Stock-based compensation liability	6	4,428	1,516
Liabilities held for sale	11	—	223
Total current liabilities		27,317	26,086
Non-current			
Stock-based compensation liability	6	3,829	2,941
Onerous lease obligation		2,697	2,917
Deferred tax liabilities		13,282	16,656
Total non-current liabilities		19,808	22,514
Equity			
Share capital	6	143,795	139,730
Share-based benefits reserve		23,679	23,026
Foreign currency translation reserve		58,705	69,443
Retained earnings		139,687	154,452
Total equity		365,866	386,651
Total liabilities and equity		412,991	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 June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016
(CDN 000s, except per share data) (unaudited)					
		(\$)	(\$)	(\$)	(\$)
Revenue		55,792	27,173	114,841	72,986
Operating expenses					
Rental services		24,099	16,986	45,582	40,757
Local administration		2,535	1,946	5,248	4,275
Depreciation and amortization		10,823	13,578	22,796	29,940
		37,457	32,510	73,626	74,972
Operating profit (loss)		18,335	(5,337)	41,215	(1,986)
Other expenses					
Research and development		6,261	5,629	12,138	12,257
Corporate services		3,536	4,082	7,604	8,404
Stock-based compensation expense	6	3,177	2,238	5,724	3,200
Other (income) expense	8	(1,689)	761	(250)	9,877
		11,285	12,710	25,216	33,738
Income (loss) before income taxes		7,050	(18,047)	15,999	(35,724)
Income tax provision (recovery)		155	(6,728)	1,951	(13,545)
Net income (loss)		6,895	(11,319)	14,048	(22,179)
Income (loss) per share	7				
Basic		0.08	(0.13)	0.17	(0.26)
Diluted		0.08	(0.13)	0.17	(0.26)

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

Condensed Consolidated Interim Statements of Other Comprehensive Income

		Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016
(CDN 000s) (unaudited)					
		(\$)	(\$)	(\$)	(\$)
Net income (loss)		6,895	(11,319)	14,048	(22,179)
Items that may be reclassified subsequently to net income:					
Foreign currency translation adjustment		(9,733)	262	(11,328)	(24,865)
Reclassification of foreign currency translation gain on disposition of 3PS assets	11	—	—	590	—
Other comprehensive (loss) gain		(9,733)	262	(10,738)	(24,865)
Total comprehensive (loss) income		(2,838)	(11,057)	3,310	(47,044)

*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		—	—	—	(22,179)	(22,179)
Dividends	6	—	—	—	(28,621)	(28,621)
Other comprehensive loss		—	—	(24,865)	—	(24,865)
Exercise of stock options	6	4,546	(1,424)	—	—	3,122
Expense related to vesting of options	6	—	1,417	—	—	1,417
Balance at June 30, 2016		132,613	23,360	60,738	201,611	418,322
Net loss		—	—	—	(18,442)	(18,442)
Dividends	6	—	—	—	(28,717)	(28,717)
Other comprehensive income		—	—	8,705	—	8,705
Exercise of stock options	6	5,867	(1,913)	—	—	3,954
Expense related to vesting of options	6	—	1,579	—	—	1,579
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		—	—	—	14,048	14,048
Dividends	6	—	—	—	(28,813)	(28,813)
Other comprehensive loss		—	—	(10,738)	—	(10,738)
Exercise of stock options	6	4,065	(985)	—	—	3,080
Expense related to vesting of options	6	—	1,638	—	—	1,638
Balance at June 30, 2017		143,795	23,679	58,705	139,687	365,866

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

Condensed Consolidated Interim Statements of Cash Flows

	Note*	Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
Cash from (used in) operating activities					
Net income (loss)		6,895	(11,319)	14,048	(22,179)
Adjustment for non-cash items:					
Depreciation and amortization		10,823	13,578	22,796	29,940
Stock-based compensation	6	3,177	2,238	5,724	3,200
Non-cash restructuring costs		—	—	—	4,833
Deferred income taxes		(1,052)	(5,688)	(1,941)	(10,976)
Unrealized foreign exchange (gain) loss and other		(1,048)	217	(758)	(2,457)
Funds flow from (used in) operations		18,795	(974)	39,869	2,361
Movements in non-cash working capital items:					
Decrease in trade and other receivables		3,659	6,826	1,816	18,090
Decrease in prepaid expenses		700	868	258	1,004
Decrease (increase) in income taxes recoverable		2,774	(840)	9,566	(3,583)
(Decrease) increase in trade payables, accruals and stock-based compensation liability		(780)	(5,641)	3,134	461
Effects of exchange rate changes		(522)	3,212	985	2,306
Cash generated from operating activities		24,626	3,451	55,628	20,639
Income tax paid		(425)	(458)	(1,596)	(6,315)
Net cash from operating activities		24,201	2,993	54,032	14,324
Cash flows from (used in) financing activities					
Proceeds from issuance of common shares	6	2,374	2,512	3,080	3,122
Payment of dividends	6	(14,419)	(14,327)	(28,813)	(28,621)
Net cash used in financing activities		(12,045)	(11,815)	(25,733)	(25,499)
Cash flows (used in) from investing activities					
Additions to property, plant and equipment		(4,439)	(3,912)	(5,280)	(8,795)
Development costs		(660)	(1,017)	(953)	(2,714)
Proceeds on disposal of investment and property, plant and equipment		11	447	14	556
Acquisition	6	—	—	(4,750)	—
Proceeds on sale of net operating assets	11	—	—	7,123	—
Changes in non-cash working capital		515	(972)	326	(1,691)
Net cash from (used in) investing activities		(4,573)	(5,454)	(3,520)	(12,644)
Effect of exchange rate on cash and cash equivalents		(4,409)	165	(4,738)	(10,045)
Net increase (decrease) in cash and cash equivalents		3,174	(14,111)	20,041	(33,864)
Cash and cash equivalents, beginning of period		163,346	176,093	146,479	195,846
Cash and cash equivalents, end of period	9	166,520	161,982	166,520	161,982

*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 lessees' 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 leased asset and liability on the Consolidated Balance Sheets. Leases with durations of twelve months or less and leases for low-value assets are both 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 June 30, 2017	Canada	United States	International	Total
	(\$)	(\$)	(\$)	(\$)
Revenue	10,479	39,195	6,118	55,792
Rental services and local administration	5,559	16,302	4,773	26,634
Depreciation and amortization	5,645	4,170	1,008	10,823
Segment operating (loss) profit	(725)	18,723	337	18,335
Research and development				6,261
Corporate services				3,536
Stock-based compensation				3,177
Other income				(1,689)
Income taxes				155
Net income				6,895
Capital expenditures	171	4,929	(1)	5,099
Goodwill	1,259	6,995	2,600	10,854
Intangible assets	28,146	655	—	28,801
Segment assets	119,681	240,334	52,976	412,991
Segment liabilities	22,209	10,182	14,734	47,125

Three Months Ended June 30, 2016

Revenue	5,000	16,391	5,782	27,173
Rental services and local administration	3,995	10,749	4,188	18,932
Depreciation and amortization	6,331	5,463	1,784	13,578
Segment operating (loss) profit	(5,326)	179	(190)	(5,337)
Research and development				5,629
Corporate services				4,082
Stock-based compensation				2,238
Other expense				761
Income taxes				(6,728)
Net loss				(11,319)
Capital expenditures	966	3,884	79	4,929
Goodwill	—	24,218	2,600	26,818
Intangible assets	26,666	171	414	27,251
Segment assets	130,076	271,808	55,010	456,894
Segment liabilities	24,800	8,363	5,409	38,572

Six Months Ended June 30, 2017	Canada	United States	International	Total
	(\$)	(\$)	(\$)	(\$)
Revenue	34,466	69,161	11,214	114,841
Rental services and local administration	11,353	30,512	8,965	50,830
Depreciation and amortization	11,579	9,171	2,046	22,796
Segment operating profit	11,534	29,478	203	41,215
Research and development				12,138
Corporate services				7,604
Stock-based compensation				5,724
Other expenses				(250)
Income tax expense				1,951
Net Income				14,048
Capital expenditures	118	6,215	(100)	6,233
Goodwill	1,259	6,995	2,600	10,854
Intangible assets	28,146	655	—	28,801
Segment assets	119,681	240,334	52,976	412,991
Segment liabilities	22,209	10,182	14,734	47,125

Six Months Ended June 30, 2016

Revenue	20,825	40,017	12,144	72,986
Rental services and local administration	9,319	25,994	9,719	45,032
Depreciation and amortization	13,913	12,236	3,791	29,940
Segment operating (loss) profit	(2,407)	1,787	(1,366)	(1,986)
Research and development				12,257
Corporate services				8,404
Stock-based compensation				3,200
Other expenses				9,877
Income tax recovery				(13,545)
Net loss				(22,179)
Capital expenditures	2,683	8,658	168	11,509
Goodwill	—	24,218	2,600	26,818
Intangible assets	26,666	171	414	27,251
Segment assets	130,076	271,808	55,010	456,894
Segment liabilities	24,800	8,363	5,409	38,572

6. Share Capital

Common Shares

	Six Months Ended June 30, 2017		Year Ended December 31, 2016	
	(\$)	(#)	(\$)	(#)
Balance, beginning of period	139,730	84,628	128,067	84,063
Exercise of stock options:	4,065	186	10,413	498
Shares issued pursuant to business acquisition	—	—	1,250	67
Balance, end of period	143,795	84,814	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 June 30, 2017, 4,490 (2016: 4,074) 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:

	Six Months Ended June 30, 2017		Six Months Ended June 30, 2016	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
Outstanding, beginning of period	5,075	20.52	4,862	21.77
Granted	89	19.32	17	17.93
Equity settled	(187)	16.52	(217)	14.41
Expired or forfeited	(487)	22.27	(588)	23.24
Outstanding, end of period	4,490	20.47	4,074	21.93
Exercisable, end of period	2,007	22.95	1,807	20.70
Available for grant, end of period	1,447		1,825	

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(\$)	(\$)	(\$)	(\$)
Stock options	801	778	1,638	1,417
RSUs	690	687	1,194	722
DSUs	125	301	175	172
PSUs	853	472	1,302	889
Deferred compensation expense	708	—	1,415	—
Stock-based compensation	3,177	2,238	5,724	3,200

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	June 30, 2017	December 31, 2016
	(\$)	(\$)
RSUs	1,450	867
PSUs	1,563	649
Deferred compensation expense	1,415	—
Current portion of stock-based compensation liability	4,428	1,516
RSUs	794	306
DSUs	2,359	2,348
PSUs	676	287
Non-current portion of stock-based compensation liability	3,829	2,941
Total stock-based compensation liability	8,257	4,457

Common share dividends

During the quarter ended June 30, 2017, the Company declared and paid dividends of \$14,419 (2016: \$14,327) 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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(#)	(#)	(#)	(#)
Issued common shares outstanding, beginning of period	84,655	84,108	84,628	84,063
Effect of exercised options	101	55	82	84
Weighted average number of common shares outstanding for the period	84,756	84,163	84,710	84,147

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(#)	(#)	(#)	(#)
Weighted average number of common shares (basic)	84,756	84,163	84,710	84,147
Effect of share options	283	—	255	—
Weighted average number of common shares (diluted)	85,039	84,163	84,965	84,147

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 (Income) Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
	(\$)	(\$)	(\$)	(\$)
Foreign exchange loss (gain)	(689)	396	(466)	(2,323)
Restructuring costs	—	—	—	10,861
Other	(1,000)	365	216	1,339
Other (income) expenses	(1,689)	761	(250)	9,877

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	June 30, 2017	December 31, 2016
	(\$)	(\$)
Cash	77,714	55,317
Cash equivalents	88,806	91,162
Cash and cash equivalents	166,520	146,479

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

10. Financial Instruments

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

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

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

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

Financial Assets at Fair Value				
	Level 1	Level 2	Level 3	June 30, 2017
	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	166,520	—	—	166,520
Total financial assets at fair value	166,520	—	—	166,520

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 August 9, 2017.

13. Events After the Reporting Period

On August 9, 2017, the Company announced a quarterly dividend of \$0.17 per share on the Company's common shares. The dividend will be paid on September 29, 2017 to shareholders of record at the close of business on September 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.