

# FIRST QUARTER INTERIM REPORT

For the three months ended March 31, 2018



## Performance Data

Three Months Ended March 31,	2018	2017 (Restated)	Change
(CDN 000s, except per share data)	(\$)	(\$)	(%)
Revenue	<b>73,813</b>	59,049	25
Net Income <sup>(1)</sup>	<b>12,359</b>	6,804	82
Per share – basic <sup>(1)</sup>	<b>0.15</b>	0.08	81
Per share – diluted <sup>(1)</sup>	<b>0.14</b>	0.08	81
EBITDA <sup>(2)</sup>	<b>32,220</b>	23,469	37
As a % of revenue	<b>43.7</b>	39.7	4
Adjusted EBITDA <sup>(2)</sup>	<b>34,753</b>	24,908	40
As a % of revenue	<b>47.1</b>	42.2	5
Funds flow from operations	<b>33,958</b>	21,074	61
Per share – basic	<b>0.40</b>	0.25	60
Per share – diluted	<b>0.40</b>	0.25	60
Cash from operating activities	<b>24,344</b>	29,831	(18)
Free cash flow <sup>(2)</sup>	<b>18,906</b>	28,511	(34)
Capital expenditures	<b>5,797</b>	1,134	411
Working capital	<b>211,703</b>	203,224	4
Total assets	<b>413,931</b>	427,075	(3)
Total long-term debt	—	—	—
Cash dividends declared	<b>0.17</b>	0.17	—
Shares outstanding end of period (#000's)	<b>85,172</b>	84,672	1

(1) As disclosed in Note 2 to the consolidated financial statements, in 2017 the Company identified an immaterial non-cash re-classification error with respect to a component of its deferred income tax expense associated with accounting for the deferred tax on its net investment in foreign operations related to an inter-company financing. The reclassification is between the deferred tax provision in the statement of operations and foreign currency translation reserve in equity. This adjustment has been corrected on a retrospective basis with all prior period comparative figures being restated.

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

### Q1 2018 vs Q1 2017

The Company generated consolidated revenue of \$73.8 million in the first quarter of 2018, an increase of 25% from the same period in 2017. Stabilized oil prices have resulted in increased number of active drilling rigs in the US. In Canada, the weak natural gas prices and uncertainty within the industry have led to declines in activity compared to the prior year. The International business unit saw increases in activity in each of the Company's major markets.

Consolidated adjusted EBITDA increased to \$34.8 million in the first quarter, up from \$24.9 million in the first quarter of 2017. Significant increases in operating profit in the US business unit led to the improvement in this key measure.

The Company recorded net income of \$12.4 million (\$0.14 per share) in the first quarter of 2018, compared to a net income of \$6.8 million (\$0.08 per share) recorded in the same period in 2017. The increase in US revenue and a significant decline in depreciation expense from prior year levels led to the increase in income from 2017. These factors were partially offset by a strengthening Canadian dollar relative to the US dollar and higher recorded foreign exchange losses.

## President's Message

Pason achieved solid first quarter 2018 results. We generated revenue of \$73.8 million in the period, an increase of 25% from the prior year quarter and up 11% from the fourth quarter 2017. The main drivers of revenue growth were increased drilling activity and market share gains in the United States and higher product penetration in both Canada and the United States. Revenue from the International business unit was up 23% year over year, driven by activity improvements in Argentina and Australia.

Adjusted EBITDA was \$34.8 million for the quarter, an increase of 40% from the prior year quarter and up 26% sequentially. Adjusted EBITDA as a percentage of revenue increased to 47%. The biggest driver of this improvement was the significant increase in revenue with high incremental margins

Pason recorded net income of \$12.4 million (\$0.14 per share) compared to \$6.8 million (\$0.08 per share) in the prior year quarter, an increase of 82%. Capital expenditures for the quarter were \$5.8 million and free cash flow was \$18.9 million.

At March 31, 2018, our working capital position stood at \$211.7 million, including cash of \$162.8 million. There is no debt on our balance sheet. We are maintaining our quarterly dividend at \$0.17 share.

Starting this quarter, we are breaking down our revenue along five product categories to better reflect the changing nature of Pason's business, aligned with how we think about our investments in new products and services:

- *Drilling Data* contains all products and services associated with acquiring, displaying, storing, and delivering drilling data. This includes our core product, the Electronic Drilling Recorder (and all its peripherals); Pason Live / DataHub, various data feed services; and the Electronic Service Recorder. The Drilling Data segment currently accounts for about half of Pason's total revenue.
- *Mud Management & Safety* includes products such as the Pit Volume Totalizer (PVT), Gas Analyzer, Hazardous Gas Alarm, and the Electronic Choke Actuator. In the first quarter, Mud Management & Safety generated 29% of total revenue.
- The *Communications* segment includes satellite and terrestrial Internet bandwidth, Wireless Rigsite, VOIP, and Intercom services and accounted for 11% of total revenue.
- The *Drilling Intelligence* segment bundles Pason's offers targeted at enabling our customers' drilling optimization and automation efforts. It contains product such as AutoDrillers, abbl Directional Advisor™ and the deployment of the advanced ExxonMobil Drilling Advisory System™. In the first quarter, Drilling Intelligence generated 6% of total revenue.
- Finally, *Analytics & Other* includes our Verdazo Discovery Analytics product suite, various types of reports, and other, which accounted for 4% of revenue.

Our level of confidence in the successful commercialization of new products and services has steadily grown through the first quarter of 2018 as the number of successful technical and commercial trials has increased. During the peak of the winter drilling season, we had over 70 concurrent installations of new Drilling Intelligence products in Canada, resulting in a year-over-year increase of Revenue per EDR Day of 10%.

We have increased our investment in R&D and IT in the first quarter compared to the previous year period, with a particular focus on machine learning algorithms, with some further growth planned during the remainder of 2018.

Our capital expenditures will be relatively modest going forward with a larger portion of development efforts focused on software and analytics. We intend to spend up to \$25 million in capital expenditures in 2018. Our highly capable and flexible IT and communications platform can host additional new Pason and third-party software at the rig site and in the cloud.

Supported by the OPEC- and Russia-led production cuts, there were no increases in global oil stocks during the first quarter. In addition, after three years of underinvestment in global E&P spending, the worldwide

production base has started to show signs of decline with year-over-year production decreases in several countries. This has led to higher oil prices and confirms that the oil market is now coming into balance. It is becoming increasingly likely that the industry will face supply challenges over the coming years and a significant increase in global E&P investment will be required to minimize the impending deficit. The only major sources of short-term supply growth to address global production decline are Saudi Arabia, Kuwait, the UAE, Russia, and the US shale oil industry.

Pason's market positions remain 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. We are uniquely positioned to participate in the industry's growth.



Marcel Kessler  
President and Chief Executive Officer  
May 2, 2018

# Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of May 2, 2018, 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 March 31,	2018	2017	Change
(000s)	(\$)	(\$)	(%)
<b>Revenue</b>			
Drilling Data	37,295	28,768	30
Mud Management and Safety	21,260	17,514	21
Communications	7,798	6,493	20
Drilling Intelligence	4,581	3,993	15
Analytics and Other	2,879	2,281	26
<b>Total revenue</b>	<b>73,813</b>	<b>59,049</b>	<b>25</b>

The Pason Electronic Drilling Recorder (EDR) remains the Company's primary product. The EDR provides a complete system of drilling data acquisition, data networking, and drilling management tools and reports at both the wellsite and 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.

EDR rental day performance for Canada and the United States is reported below:

Pason Electronic Drilling Recorder (EDR )Rental Days			
Three Months Ended March 31,	2018	2017	Change
	#	#	(%)
Canada	21,100	23,800	(11)
United States	50,900	35,300	44

Total revenue increased 25% for the three months ending March 2018, over the same period in 2017. This increase is attributable to an increase in drilling activity in the Company's US and certain International markets, partially offset by lower Canadian activity. The first quarter 2018 results were negatively impacted from a stronger Canadian dollar relative to the US dollar.

Industry activity in the US market increased 32% in the first quarter of 2018 compared to the corresponding period in 2017, while first quarter Canadian rig activity decreased 9%. Canadian EDR days, which includes some non-oil and gas-related activity, decreased 11% in the first quarter of 2018 from 2017 levels, while US EDR days increased by 44% from the first quarter of 2017.

For the first three months of 2018, the Pason EDR was installed on 60% of the land rigs in the US compared to 55% during the same time period in 2017.

For the three months ended March 31, 2018, the Pason EDR was installed on 88% of the land rigs in the Canadian market; for the same time period in 2017 the Pason EDR was installed on 90% of the land rigs. For the purposes of market share, the Company uses the number of EDR days billed and oil and gas drilling days as reported by accepted industry sources.

Revenue generated from the Company's other wellsite instrumentation products was largely driven by the increases in drilling activity. The Company also benefited from increased adoption of certain EDR peripherals and higher-tiered communications offerings. In Canada, despite the decrease in industry activity, the Company saw increased revenue from its Drilling Intelligence products, including the Company's implementation of the Drilling Advisory System™ technology licensed from ExxonMobil™.

For the first quarter of 2018, the Company saw an increase in activity in all major regions of the International segment with the largest increases in Australia and Argentina.

# Discussion of Operations

## United States Operations

Three Months Ended March 31,	2018	2017	Change
(000s)	(\$)	(\$)	(%)
<b>Revenue</b>			
Drilling Data	23,698	15,276	55
Mud Management and Safety	13,236	9,499	39
Communications	3,698	2,597	42
Drilling Intelligence	2,144	1,484	44
Analytics and Other	1,332	1,110	20
<b>Total revenue</b>	<b>44,108</b>	29,966	47
<b>Rental services and local administration</b>	<b>16,885</b>	14,210	19
<b>Depreciation and amortization</b>	<b>3,828</b>	5,001	(23)
<b>Segment gross profit</b>	<b>23,395</b>	10,755	118

Three Months Ended March 31,	2018	2017
	\$	\$
Revenue per EDR day - USD	678	634
Revenue per EDR day - CAD	857	839

US land-based drilling continued its sequential increase quarter over quarter resulting from the improvement of global commodity price fundamentals and the continued WTI pricing in excess of \$60 USD. These fundamentals continue to support an increase in rig count in all the major regions.

US segment revenue increased by 47% in the first quarter of 2018 over the 2017 comparable period (54% 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 first quarter of 2018 compared to the first quarter of 2017.

Industry activity in the US market during the first quarter of 2018 increased 32% from the prior year. US market share was 60% for the first quarter of 2018 compared to 55% during the same period of 2017, primarily driven by market share growth in key US regions combined with changes in the mix of active customers.

EDR rental days increased by 44% for the quarter ended March 31, 2018 over the same time period in 2017, while revenue per EDR day in the first quarter of 2018 increased to US\$678, an increase of US\$44 over the same period in 2017. The increase was driven by higher adoption of certain peripheral products and selective price increases on certain products.

Operating costs increased by 19% in the 2018 first quarter relative to the same period in the prior year. When measured in USD, operating costs increased by 27%, with the increase attributable higher field staff levels and higher direct costs to support additional activity.

Depreciation expense for the first quarter of 2018 decreased 23% over 2017 amounts due to the reduction in the capital program since 2014.

Segment profit increased by \$12.6 million in the first quarter of 2018 compared to the corresponding period in 2017.

## Canadian Operations

Three Months Ended March 31,	2018	2017	Change
(000s)	(\$)	(\$)	(%)
<b>Revenue</b>			
Drilling Data	9,920	10,445	(5)
Mud Management and Safety	6,661	6,992	(5)
Communications	3,769	3,683	2
Drilling Intelligence	2,118	2,032	4
Analytics and Other	956	835	14
<b>Total revenue</b>	<b>23,424</b>	<b>23,987</b>	<b>(2)</b>
<b>Rental services and local administration</b>	<b>7,328</b>	<b>5,794</b>	<b>26</b>
<b>Depreciation and amortization</b>	<b>4,385</b>	<b>5,934</b>	<b>(26)</b>
<b>Segment gross profit</b>	<b>11,711</b>	<b>12,259</b>	<b>(4)</b>

Three Months Ended March 31,	2018	2017
	\$	\$
Revenue per EDR day- CAD	1,070	975

The first quarter Canadian rig activity showed year-over-year decrease in activity. Industry uncertainty and lower natural gas prices caused a reduction of activity compared to the prior year.

Canadian segment revenue decreased by 2% for the quarter ended March 31, 2018 compared to the same period in 2017. This decrease is the result of a 9% decrease in the number of drilling industry days in the first quarter compared to 2017 levels.

EDR rental days decreased 11% in the first quarter of 2018 compared to 2017.

Revenue per EDR day increased by \$95 to \$1,070 during the first quarter of 2018 compared to 2017. The increase is driven by higher adoption of certain communication solutions and the successful introduction of ExxonMobil DAS™ in the Canadian market.

Operating costs increased by 26% in the first quarter of 2018 relative to the same period in 2017, with repair costs and other direct field costs responsible for the increase.

Depreciation and amortization expense decreased by approximately 26% for the three months ended March 31, 2018. The decrease is a result of lower capital programs since 2014.

Operating profit for the first quarter of 2018 was \$11.7million, down \$0.5 million from the same quarter in 2017.

## International Operations

Three Months Ended March 31,	2018	2017	Change
(000s)	(\$)	(\$)	(%)
<b>Revenue</b>			
Drilling Data	3,677	3,047	21
Mud Management and Safety	1,363	1,023	33
Communications	331	213	55
Drilling Intelligence	319	477	(33)
Analytics and Other	591	336	76
	<b>6,281</b>	5,096	23
<b>Rental services and local administration</b>	<b>4,683</b>	4,192	12
<b>Depreciation and amortization</b>	<b>962</b>	1,038	(7)
<b>Segment gross profit (loss)</b>	<b>636</b>	(134)	—

The international rig count was up in all of the Company's major International markets with the largest increases in Australia and Argentina. The increase in activity in Argentina was offset by a weaker Argentinian Peso compared to the prior year. Revenue in the International operations segment increased in the first quarter of 2018 by 23% compared to the same period in 2017.

Operating costs increased by 12% in the first quarter relative to the same period as a result of increased field costs in certain regions.

Depreciation expense decreased by approximately 7% for the three months ended March 31, 2018.

The segment operating profit was \$0.6 million for the first quarter of 2018, an improvement from the \$0.1 million loss recorded in the corresponding period in 2017.

## Corporate Expenses

Three Months Ended March 31,	2018	2017	Change
(000s)	(\$)	(\$)	(%)
<b>Other expenses</b>			
Research and development	6,359	5,877	8
Corporate services	3,805	4,068	(6)
Stock-based compensation	2,534	2,547	(1)
Other			
Foreign exchange loss	2,404	223	978
Other	129	1,216	(89)
<b>Total corporate expenses</b>	<b>15,231</b>	13,931	9

### Q1 2018 vs Q4 2017

Consolidated revenue was \$73.8 million in the first quarter of 2018 compared to \$66.2 million in the fourth quarter of 2017, an increase of \$7.6 million or 11%. The first quarter of the year is typically the strongest for the Company due to the seasonality of Canadian drilling activity. An increase in US activity also contributed to the increase in revenue.

The Canadian segment earned revenue of \$23.4 million in the first quarter of 2018 compared to \$17.7 million in the fourth quarter of 2017, an increase of \$5.7 million. Revenue in the US market increased by \$2.0 million; from \$42.1 million in the fourth quarter of 2017 to \$44.1 million in the first quarter of 2018, as both industry activity and revenue per EDR day increased. The International segment realized a revenue decrease of \$0.1 million.

The Company recorded a net profit in the first quarter of 2018 of \$12.4 million (\$0.14 per share) compared to a profit of \$5.0 million (\$0.06 per share) in the fourth quarter of 2017. The increase in net income is mainly attributable to improved operating results in both the Canadian and US business segments compared to the fourth quarter of 2017 and a higher effective tax rate in the fourth quarter of 2017 due to a one-time tax adjustment relating to the Company's change in transfer pricing methodology.

Sequentially, EBITDA increased from \$26.7 million in the fourth quarter of 2017 to \$32.2 million in the first quarter of 2018. Adjusted EBITDA, which adjusts for foreign exchange and certain non-recurring charges, increased from \$27.8 million in the fourth quarter of 2017 to \$34.8 million in the first quarter of 2018. Funds flow from operations increased from \$27.4 million in the fourth quarter of 2017 to \$34.0 million in the first quarter of 2018.

# Summary of Quarterly Results

Three Months Ended	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018
(000s, except per share data)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Revenue</b>	27,173	38,633	48,827	59,049	55,792	64,576	66,226	<b>73,813</b>
<b>(Loss) income restated <sup>(1)</sup></b>	(11,472)	(6,550)	(10,446)	6,804	5,968	7,404	5,014	<b>12,359</b>
Per share – basic restated <sup>(1)</sup>	(0.13)	(0.07)	(0.12)	0.08	0.07	0.08	0.06	<b>0.15</b>
Per share – diluted restated <sup>(1)</sup>	(0.13)	(0.07)	(0.12)	0.08	0.07	0.08	0.06	<b>0.14</b>
<b>EBITDA <sup>(2)</sup></b>	(2,231)	8,347	(2,291)	23,469	21,050	25,493	26,651	<b>32,220</b>
<b>Adjusted EBITDA <sup>(2)</sup></b>	(1,470)	8,487	15,225	24,908	19,361	26,158	27,797	<b>34,753</b>
<b>Funds flow (used in) from operations</b>	(974)	9,130	15,324	21,074	18,795	19,896	27,356	<b>33,958</b>
Per share – basic	(0.01)	0.11	0.18	0.25	0.22	0.23	0.32	<b>0.40</b>
Per share – diluted	(0.01)	0.11	0.18	0.25	0.22	0.23	0.32	<b>0.40</b>
<b>Cash from operating activities</b>	2,993	4,653	665	29,831	24,201	15,128	16,637	<b>24,344</b>
<b>Free cash flow <sup>(2)</sup></b>	(2,461)	4,404	(153)	28,511	19,628	11,002	6,690	<b>18,906</b>

(1) As disclosed in Note 2 to the consolidated financial statements, in 2017 the Company identified an immaterial non-cash re-classification error with respect to a component of its deferred income tax expense associated with accounting for the deferred tax on its net investment in foreign operations related to an inter-company financing. The reclassification is between the deferred tax provision in the statement of operations and foreign currency translation reserve in equity. This adjustment has been corrected on a retrospective basis with all prior period comparative figures being restated. Refer to table below on the impact of the restatement on prior period figures.

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

## Restatement of Prior Period Error (refer to Note 2 to the consolidated financial statements)

Three Months Ended	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Previously reported (Loss) income</b>	(11,319)	(7,117)	(11,325)	7,153	6,895	8,813	5,014	<b>12,359</b>
Per share – basic	(0.13)	(0.08)	(0.13)	0.08	0.08	0.10	0.06	<b>0.15</b>
Per share – diluted	(0.13)	(0.08)	(0.13)	0.08	0.08	0.10	0.06	<b>0.14</b>
Increase (decrease) in tax provision	153	(567)	(879)	349	927	1,409	—	—
<b>Restated (Loss) income</b>	(11,472)	(6,550)	(10,446)	6,804	5,968	7,404	5,014	<b>12,359</b>
Per share – basic	(0.13)	(0.07)	(0.12)	0.08	0.07	0.08	0.06	<b>0.15</b>
Per share – diluted	(0.13)	(0.07)	(0.12)	0.08	0.07	0.08	0.06	<b>0.14</b>

## Reconcile (Loss) income to EBITDA

Three Months Ended	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
(Loss) income restated <sup>(1)</sup>	(11,472)	(6,550)	(10,446)	6,804	5,968	7,404	5,014	<b>12,359</b>
Add:								
Taxes restated <sup>(1)</sup>	(6,575)	(1,489)	(3,898)	2,145	1,082	3,760	7,043	<b>8,152</b>
Depreciation and amortization	13,578	14,929	10,515	11,973	10,823	11,184	11,701	<b>9,175</b>
Stock-based compensation	2,238	1,457	1,538	2,547	3,177	3,145	2,893	<b>2,534</b>
<b>EBITDA <sup>(2)</sup></b>	<b>(2,231)</b>	<b>8,347</b>	<b>(2,291)</b>	<b>23,469</b>	<b>21,050</b>	<b>25,493</b>	<b>26,651</b>	<b>32,220</b>

## Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
EBITDA	(2,231)	8,347	(2,291)	23,469	21,050	25,493	26,651	<b>32,220</b>
Add:								
Impairment charges	—	—	17,474	—	—	—	—	—
Foreign exchange	396	96	284	223	(689)	113	1,459	<b>2,404</b>
Other	365	44	(242)	1,216	(1,000)	552	(313)	<b>129</b>
<b>Adjusted EBITDA <sup>(2)</sup></b>	<b>(1,470)</b>	<b>8,487</b>	<b>15,225</b>	<b>24,908</b>	<b>19,361</b>	<b>26,158</b>	<b>27,797</b>	<b>34,753</b>

## Reconcile cash from operating activities to free cash flow

Three Months Ended	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Cash from operating activities	2,993	4,653	665	29,831	24,201	15,128	16,637	<b>24,344</b>
Less:								
Additions to property, plant and equipment	(4,437)	410	(1,827)	(1,027)	(3,913)	(3,881)	(8,749)	<b>(4,452)</b>
Deferred development costs	(1,017)	(659)	1,009	(293)	(660)	(245)	(1,198)	<b>(986)</b>
<b>Free cash flow <sup>(2)</sup></b>	<b>(2,461)</b>	<b>4,404</b>	<b>(153)</b>	<b>28,511</b>	<b>19,628</b>	<b>11,002</b>	<b>6,690</b>	<b>18,906</b>

Pason's quarterly financial results vary quarter to quarter due in part to the seasonality of the oil and gas service industry in Canada, which is somewhat offset by the less seasonal nature of US and International operations. The first quarter is generally the strongest quarter for the Company due to strong activity in Canada, where location access is best during the winter. The second quarter is typically the slowest due to spring break-up in Canada, when many areas are not accessible due to ground conditions, and, therefore, do not permit the movement of heavy equipment. Activity generally increases in the third quarter, depending on the year, as ground conditions have often improved and location access becomes available; however, a rainy summer can have a significant adverse effect on drilling activity. By the fourth quarter, 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 March 31,	2018	2017	Change
(000s)	(\$)	(\$)	(%)
Cash and cash equivalents	<b>162,842</b>	163,346	—
Working capital	<b>211,703</b>	203,224	4
Funds flow from operations <sup>(1)</sup>	<b>33,958</b>	21,074	61
Capital expenditures <sup>(1)</sup>	<b>5,797</b>	1,134	411
As a % of funds flow <sup>(1) (2)</sup>	<b>17.1%</b>	5.4%	12

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

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

## Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	(\$)	(\$)	(\$)	(\$)
Operating leases and other contracts	11,651	7,385	4,195	23,231

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

At March 31, 2018, 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 March 31, 2018, no amount had been drawn on the facility.

## Disclosure of Outstanding Share and Options Data

As at March 31, 2018, there were 85.2 million common shares and 5.5 million options issued and outstanding.

## SEDAR

Additional information relating to the Company can be accessed on the Company's website at [www.pason.com](http://www.pason.com) and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) at [www.sedar.com](http://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, 2017, 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*	March 31, 2018	December 31, 2017
(CDN 000s) (unaudited)		(\$)	(\$)
<b>Assets</b>			
Current			
Cash and cash equivalents	9	162,842	154,129
Trade and other receivables		64,999	55,069
Income tax recoverable other		17,881	17,881
Prepaid expenses		3,594	4,028
Income taxes recoverable		4,014	3,946
<b>Total current assets</b>		<b>253,330</b>	<b>235,053</b>
Non-current			
Property, plant and equipment		127,095	127,685
Intangible assets and goodwill		33,506	34,318
Deferred tax assets		—	1,390
<b>Total non-current assets</b>		<b>160,601</b>	<b>163,393</b>
<b>Total assets</b>		<b>413,931</b>	<b>398,446</b>
<b>Liabilities and equity</b>			
Current			
Trade payables and accruals		19,615	20,391
Income taxes payable other		17,881	17,881
Stock-based compensation liability	6	4,131	3,089
<b>Total current liabilities</b>		<b>41,627</b>	<b>41,361</b>
Non-current			
Stock-based compensation liability	6	3,104	2,758
Onerous lease obligation		2,323	2,326
Deferred tax liabilities		11,369	4,515
<b>Total non-current liabilities</b>		<b>16,796</b>	<b>9,599</b>
<b>Equity</b>			
Share capital	6	151,156	150,887
Share-based benefits reserve		25,508	24,425
Foreign currency translation reserve		49,149	40,358
Retained earnings		129,695	131,816
<b>Total equity</b>		<b>355,508</b>	<b>347,486</b>
<b>Total liabilities and equity</b>		<b>413,931</b>	<b>398,446</b>

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

## Condensed Consolidated Interim Statements of Operations

Three Months Ended March 31,	Note*	2018	2017 (Restated-Note 2)
(CDN 000s, except per share data) (unaudited)		(\$)	(\$)
<b>Revenue</b>		<b>73,813</b>	59,049
<b>Operating expenses</b>			
Rental services		26,039	21,483
Local administration		2,857	2,713
Depreciation and amortization		9,175	11,973
		<b>38,071</b>	36,169
<b>Gross profit</b>		<b>35,742</b>	22,880
<b>Other expenses</b>			
Research and development		6,359	5,877
Corporate services		3,805	4,068
Stock-based compensation expense	6	2,534	2,547
Other expense	8	2,533	1,439
		<b>15,231</b>	13,931
<b>Income before income taxes</b>		<b>20,511</b>	8,949
Income tax provision		8,152	2,145
<b>Net income</b>		<b>12,359</b>	6,804
<b>Income per share</b>	7		
Basic		0.15	0.08
Diluted		0.14	0.08

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

## Condensed Consolidated Interim Statements of Other Comprehensive Income

Three Months Ended March 31,		2018	2017 (Restated-Note 2)
(CDN 000s) (unaudited)		(\$)	(\$)
<b>Net income</b>		<b>12,359</b>	6,804
Items that may be reclassified subsequently to net income:			
Tax expense (recovery) on net investment in foreign operations related to an inter-company financing	2	(989)	349
Foreign currency translation adjustment		9,780	(1,005)
<b>Other comprehensive gain (loss)</b>		<b>8,791</b>	(656)
<b>Total comprehensive income</b>		<b>21,150</b>	6,148

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

## Condensed Consolidated Interim Statements of Changes in Equity

(CDN 000s) (unaudited)	Note*	Share Capital (\$)	Share-Based Benefits Reserve (\$)	Foreign Currency Translation Reserve (\$)	Retained Earnings (\$)	Total Equity (\$)
<b>Balance at January 1, 2017 - Previously reported</b>		139,730	23,026	69,443	154,452	386,651
Correction of error	2	—	—	(9,871)	9,871	—
<b>Balance at January 1, 2017 - Currently reported</b>		139,730	23,026	59,572	164,323	386,651
Net income - as restated	2	—	—	—	6,804	6,804
Dividends	6	—	—	—	(14,394)	(14,394)
Other comprehensive loss - as restated	2	—	—	(656)	—	(656)
Exercise of stock options		953	(247)	—	—	706
Expense related to vesting of options		—	837	—	—	837
<b>Balance at March 31, 2017</b>		140,683	23,616	58,916	156,733	379,948
Net income - as restated	2	—	—	—	18,386	18,386
Dividends		—	—	—	(43,303)	(43,303)
Other comprehensive income		—	—	(18,558)	—	(18,558)
Exercise of stock options		8,454	(2,000)	—	—	6,454
Expense related to vesting of options		—	2,809	—	—	2,809
Verdazo Acquisition		1,750	—	—	—	1,750
<b>Balance at December 31, 2017</b>		150,887	24,425	40,358	131,816	347,486
Net income		—	—	—	12,359	12,359
Dividends	6	—	—	—	(14,480)	(14,480)
Other comprehensive loss		—	—	8,791	—	8,791
Exercise of stock options		269	(41)	—	—	228
Expense related to vesting of options		—	1,124	—	—	1,124
<b>Balance at March 31, 2018</b>		<b>151,156</b>	<b>25,508</b>	<b>49,149</b>	<b>129,695</b>	<b>355,508</b>

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

# Condensed Consolidated Interim Statements of Cash Flows

Three Months Ended March 31,	Note*	2018	2017 (Restated-Note 2)
(CDN 000s) (unaudited)		(\$)	(\$)
<b>Cash from (used in) operating activities</b>			
Net income		12,359	6,804
Adjustment for non-cash items:			
Depreciation and amortization		9,175	11,973
Stock-based compensation	6	2,534	2,547
Deferred income taxes		7,303	(540)
Unrealized foreign exchange loss and other		2,587	290
<b>Funds flow from operations</b>		<b>33,958</b>	<b>21,074</b>
Movements in non-cash working capital items:			
Increase in trade and other receivables		(8,897)	(1,843)
Decrease (increase) in prepaid expenses		481	(442)
Decrease in income taxes recoverable		65	6,792
(Decrease) increase in trade payables, accruals and stock-based compensation liability		(1,365)	3,914
Effects of exchange rate changes		234	1,507
<b>Cash generated from operating activities</b>		<b>24,476</b>	<b>31,002</b>
Income tax paid		(132)	(1,171)
<b>Net cash from operating activities</b>		<b>24,344</b>	<b>29,831</b>
<b>Cash flows from (used in) financing activities</b>			
Proceeds from issuance of common shares	6	228	706
Payment of dividends	6	(14,480)	(14,394)
<b>Net cash used in financing activities</b>		<b>(14,252)</b>	<b>(13,688)</b>
<b>Cash flows (used in) from investing activities</b>			
Additions to property, plant and equipment		(4,811)	(841)
Development costs		(986)	(293)
Proceeds on disposal of investment and property, plant and equipment		20	3
Acquisition		—	(4,750)
Proceeds on sale of net operating assets		—	7,123
Changes in non-cash working capital		339	(189)
<b>Net cash (used in) from investing activities</b>		<b>(5,438)</b>	<b>1,053</b>
Effect of exchange rate on cash and cash equivalents		4,059	(329)
<b>Net increase in cash and cash equivalents</b>		<b>8,713</b>	<b>16,867</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>154,129</b>	<b>146,479</b>
<b>Cash and cash equivalents, end of period</b>	9	<b>162,842</b>	<b>163,346</b>

\*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, 2017.

### Correction of Error

During the fourth quarter of 2017, the Company adjusted for an immaterial non-cash error in the recognition of a component of its deferred income tax expense. The error was a result of the Company recognizing in the statement of operations the deferred income tax effect of the future taxable foreign exchange gain adjustment associated with its net investment in foreign operations related to an inter-company financing, when the amount should have been adjusted through the foreign currency translation reserve within equity.

Accordingly, this adjustment has been corrected on a retrospective basis with all prior period comparative figures being restated. The cumulative impact of this error as of January 1, 2017 was to increase retained earnings and reduce Foreign Currency Translation Reserve by \$9,871.

	As previously reported	Correction	As restated
(CDN 000s, except per share data)	(\$)	(\$)	(\$)
<b>Consolidated Statement of Operations for the Quarter Ended March 31, 2017</b>			
Income taxes	1,796	349	2,145
Net income	7,153	(349)	6,804
Net income per share			
Basic	0.08	—	0.08
Diluted	0.08	—	0.08
<b>Consolidated Statements of Other Comprehensive Income (loss)</b>			
Other comprehensive loss	(1,005)	349	(656)

### 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, 2017.

#### Adoption of new and amended standards

##### *IFRS 9, Financial Instruments*

The Company has adopted IFRS 9, Financial Instruments, on January 1, 2018. 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 adoption did not have any impact on the Company's consolidated financial statements.

##### *IFRS 15, Revenue from Contracts with Customers*

The Company has also adopted IFRS 15, Revenue from Contracts with Customers, on January 1, 2018 using the modified retrospective method. IFRS 15 establishes a single comprehensive model to address how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures in order to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. It replaces existing revenue recognition guidance including IAS 18 Revenue and IAS 11 Construction Contracts.

To determine revenue recognition for arrangements that an entity determines are within the scope of IFRS 15, the Company performs the following five steps: (i) identifies the contract(s) with a customer, (ii) identifies the performance obligations in the contract, (iii) determines the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognizes revenue when (or as) the entity satisfies a performance obligation. The Company applies the five-step model to arrangements that meet the definition of a contract under IFRS 15, including when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it provides to the customer. Products and services are comprised of specialized data management systems provided on a rental basis. The Company satisfies its performance obligations and recognizes rental revenue during the reporting period based on completion of each rental day. Revenue transactions do not contain significant financing components or variable considerations. Payment terms with customers are 30 days from invoice date; however, industry practice can extend these terms.

As a result of applying the requirements of IFRS 15, including the application of certain practical expedients, such as the right to invoice method of measuring the Company's progress towards complete satisfaction of its performance obligations, no changes or adjustments to the Company's comparative consolidated financial statements were required. There was no impact to the Company's financial position, results of operations, or cash flows as a result of the adoption. Additional disclosures on disaggregation of revenues are presented in Note 5.

#### **Future Accounting Policy Changes**

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 is currently assessing the impacts and transition provisions of the new standard, and 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.

## **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 gross profit as included in the internal management reports. Segment gross 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 on an arm's length basis. Intra-group balances and transactions are eliminated.

The Group operates in three geographic segments: Canada, the United States, and International (Latin America, Offshore, the Eastern Hemisphere, and the Middle East). The following table represents a disaggregation of revenue from contracts with customers along with the reportable segment for each category:

<b>Three Months Ended March 31, 2018</b>	<b>Canada</b>	<b>United States</b>	<b>International</b>	<b>Total</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Revenue				
Drilling Data	9,920	23,698	3,677	37,295
Mud Management and Safety	6,661	13,236	1,363	21,260
Communications	3,769	3,698	331	7,798
Drilling Intelligence	2,118	2,144	319	4,581
Analytics and Other	956	1,332	591	2,879
<b>Total Revenue</b>	<b>23,424</b>	<b>44,108</b>	<b>6,281</b>	<b>73,813</b>
Rental services and local administration	7,328	16,885	4,683	28,896
Depreciation and amortization	4,385	3,828	962	9,175
<b>Segment gross profit</b>	<b>11,711</b>	<b>23,395</b>	<b>636</b>	<b>35,742</b>
Research and development				6,359
Corporate services				3,805
Stock-based compensation				2,534
Other expenses				2,533
Income tax expense				8,152
<b>Net Income</b>				<b>12,359</b>
Capital expenditures	1,963	3,263	571	5,797
<b>As at March 31, 2018</b>				
Property plant and equipment	43,086	67,724	16,285	127,095
Goodwill	1,259	7,358	2,600	11,217
Intangible assets	22,210	79	—	22,289
<b>Segment assets</b>	<b>123,253</b>	<b>243,962</b>	<b>46,716</b>	<b>413,931</b>
<b>Segment liabilities</b>	<b>44,253</b>	<b>9,399</b>	<b>4,771</b>	<b>58,423</b>

**Three Months Ended March 31, 2017 (Restated - Note 2)**

Revenue				
Drilling Data	10,445	15,276	3,047	28,768
Mud Management and Safety	6,992	9,499	1,023	17,514
Communications	3,683	2,597	213	6,493
Drilling Intelligence	2,032	1,484	477	3,993
Analytics and Other	835	1,110	336	2,281
<b>Total Revenue</b>	<b>23,987</b>	<b>29,966</b>	<b>5,096</b>	<b>59,049</b>
Rental services and local administration	5,794	14,210	4,192	24,196
Depreciation and amortization	5,934	5,001	1,038	11,973
<b>Segment gross profit (loss)</b>	<b>12,259</b>	<b>10,755</b>	<b>(134)</b>	<b>22,880</b>
Research and development				5,877
Corporate services				4,068
Stock-based compensation				2,547
Other expenses				1,439
Income tax expense				2,145
<b>Net Income</b>				<b>6,804</b>
Capital expenditures	(53)	1,286	(99)	1,134
<b>As at March 31, 2017</b>				
Property plant and equipment	50,186	70,227	20,398	140,811
Goodwill	1,259	7,181	2,600	11,040
Intangible assets	29,771	709	—	30,480
<b>Segment assets</b>	<b>122,216</b>	<b>253,754</b>	<b>51,105</b>	<b>427,075</b>
<b>Segment liabilities</b>	<b>20,429</b>	<b>11,795</b>	<b>14,903</b>	<b>47,127</b>

## 6. Share Capital

Common Shares				
	Three Months Ended March 31, 2018		Year Ended December 31, 2017	
	(\$)	(#)	(\$)	(#)
Balance, beginning of period	150,887	85,158	139,730	84,628
Exercise of stock options:	269	14	9,407	431
Verdazo Acquisition	—	—	1,750	99
<b>Balance, end of period</b>	<b>151,156</b>	<b>85,172</b>	<b>150,887</b>	<b>85,158</b>

### Common shares

At March 31, 2018, the Company was authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

The holders of common shares are entitled to receive dividends, as declared, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

The 99 shares issued pursuant to the acquisition of Verdazo were issued out of treasury in January 2018. For financial reporting purposes these shares were assumed to be issued on December 31, 2017 to align with the dates in the share purchase agreement.

### Stock option plan

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

At March 31, 2018, 5,463 (2017: 4,811) stock options were outstanding for common shares at exercise prices ranging from \$15.94 to \$27.96 per share, expiring between 2018 and 2022 as follows:

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
<b>Outstanding, beginning of period</b>	<b>5,514</b>	<b>20.07</b>	5,075	20.52
Granted	—	—	89	19.32
Equity settled	(14)	15.94	(44)	16.04
Expired or forfeited	(37)	19.52	(309)	23.17
<b>Outstanding, end of period</b>	<b>5,463</b>	<b>20.08</b>	4,811	20.37
<b>Exercisable, end of period</b>	<b>2,657</b>	<b>22.95</b>	2,194	22.56
<b>Available for grant, end of period</b>	<b>523</b>		1,116	

### Stock-based compensation expense and liability

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

## Expense

Three Months Ended March 31,	2018	2017
	(\$)	(\$)
Stock options	1,123	837
RSUs	499	504
DSUs	(8)	50
PSUs	650	449
Deferred compensation expense	270	707
Stock-based compensation	2,534	2,547

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	March 31, 2018	December 31, 2017
	(\$)	(\$)
RSUs	1,216	935
PSUs	1,566	1,075
Deferred compensation expense	1,349	1,079
Current portion of stock-based compensation liability	4,131	3,089
RSUs	585	390
DSUs	1,943	1,951
PSUs	576	417
Non-current portion of stock-based compensation liability	3,104	2,758
Total stock-based compensation liability	7,235	5,847

## Common share dividends

During the quarter ended March 31, 2018, the Company declared and paid dividends of \$14,480 (2017: \$14,394) or \$0.17 per common share (2017: \$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 March 31,	2018	2017
	(#)	(#)
Issued common shares outstanding, beginning of period	85,158	84,628
Effect of exercised options	8	27
Weighted average number of common shares outstanding for the period	85,166	84,655

### 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 March 31,	2018	2017
	(#)	(#)
Weighted average number of common shares (basic)	85,166	84,655
Effect of share options	172	232
Weighted average number of common shares (diluted)	85,338	84,887

Options (4,020) are excluded from the above calculation as 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 was based on quoted market prices during the period.

## 8. Other Expenses

Three Months Ended March 31,	2018	2017
	(\$)	(\$)
Foreign exchange loss	2,404	223
Other	129	1,216
Other expenses	2,533	1,439

## 9. Cash and Cash Equivalents

As at	March 31, 2018	December 31, 2017
	(\$)	(\$)
Cash	49,889	74,902
Cash equivalents	112,953	79,227
Cash and cash equivalents	162,842	154,129

Cash equivalents are made up mostly of cash invested in money market funds with interest rates of approximately 1.30%, 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.

<b>Financial Assets at Fair Value</b>				
	Level 1	Level 2	Level 3	<b>March 31, 2018</b>
	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	162,842	—	—	<b>162,842</b>
Total financial assets at fair value	162,842	—	—	<b>162,842</b>

## **11. Approval of Interim Financial Statements**

The condensed unaudited consolidated interim financial statements were approved by the Board of Directors on May 2, 2018.

## **12. Events After the Reporting Period**

On May 2, 2018, the Company announced a quarterly dividend of \$0.17 per share on the Company's common shares. The dividend will be paid on June 29, 2018 to shareholders of record at the close of business on June 15, 2018.

# Corporate Information

## Directors

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

**James B. Howe**<sup>(1)(4)(6)(7)</sup>  
President  
Bragg Creek Financial  
Consultants Ltd.  
Calgary, Alberta

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

**T. Jay Collins**<sup>(2)(3)(6)</sup>  
Director  
Oceaneering International Inc.  
Houston, Texas

**Judi Hess**<sup>(2)(4)(5)</sup>  
CEO & Director  
Copperleaf Technologies Inc.  
Vancouver, British Columbia

(1) Audit Committee Chairman

(2) Audit Committee Member

(3) HR and Compensation Committee  
Chairman

(4) HR and Compensation Committee  
Member

(5) Corporate Governance and Nominations  
Committee Chairman

(6) Corporate Governance and Nomination  
Committee Member

(7) Lead Director

## Officers & Key Personnel

**Marcel Kessler**  
President  
& Chief Executive Officer

**Jon Faber**  
Chief Financial Officer

**David Elliott**  
Vice President, Finance

**Timur Kuru**  
Vice President, Operations – United  
States

**Bryce McLean**  
Vice President, Operations – Canada

**Russell Smith**  
Vice President, Operations –  
International & Offshore

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

**Lars Olesen**  
Vice President, Product Management

**Kevin Boston**  
Vice President, Business Development

**Kevin Lo**  
Vice President, New Ventures

**Melinda Ando**  
General Counsel & Corporate  
Secretary

## Corporate Head Office

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T2H 1K4  
T: 403-301-3400  
F: 403-301-3499  
InvestorRelations@pason.com  
[www.pason.com](http://www.pason.com)

## 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.