Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	**September 30, 2016**	December 31, 2015
(CDN 000s) (unaudited)		**($)**	($)
Assets			
Current			
Cash and cash equivalents	9	**154,598**	195,846
Trade and other receivables		**37,208**	48,613
Prepaid expenses		**4,302**	3,719
Income taxes recoverable		**13,770**	17,468
Total current assets		**209,878**	265,646
Non-current			
Property, plant and equipment		**165,378**	201,436
Intangible assets and goodwill		**52,733**	57,643
Deferred tax assets		**10,682**	4,900
Total non-current assets		**228,793**	263,979
Total assets		**438,671**	529,625
Liabilities and equity			
Current			
Trade payables and accruals	8	**14,524**	18,454
Stock-based compensation liability	6	**3,569**	2,220
Total current liabilities		**18,093**	20,674
Non-current			
Stock-based compensation liability	6	**3,891**	3,059
Onerous lease obligation	8	**2,811**	—
Deferred tax liabilities		**11,592**	16,444
Total non-current liabilities		**18,294**	19,503
Equity			
Share capital	6	**134,474**	128,067
Share-based benefits reserve		**23,639**	23,367
Foreign currency translation reserve		**64,019**	85,603
Retained earnings		**180,152**	252,411
Total equity		**402,284**	489,448
Total liabilities and equity		**438,671**	529,625

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

Condensed Consolidated Interim Statements of Operations

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note*	**2016**	2015	**2016**	2015
(CDN 000s, except per share data) (unaudited)		**($)**	($)	**($)**	($)
Revenue		**38,633**	68,468	**111,619**	225,310
Operating expenses					
Rental services		**18,087**	27,534	**58,844**	95,560
Local administration		**2,745**	3,770	**7,020**	12,947
Depreciation and amortization		**14,929**	19,259	**44,869**	61,579
		35,761	50,563	**110,733**	170,086
Operating profit		**2,872**	17,905	**886**	55,224
Other expenses					
Research and development		**5,358**	7,288	**17,615**	25,431
Corporate services		**3,956**	5,134	**12,360**	15,040
Stock-based compensation expense	6	**1,457**	808	**4,657**	4,596
Restructuring and other expense (income)	8	**140**	27,459	**10,017**	25,148
		10,911	40,689	**44,649**	70,215
Loss before income taxes		**(8,039)**	(22,784)	**(43,763)**	(14,991)
Income tax recovery		**(922)**	(4,226)	**(14,467)**	(1,220)
Net loss		**(7,117)**	(18,558)	**(29,296)**	(13,771)
Loss per share	7				
Basic		**(0.08)**	(0.22)	**(0.35)**	(0.16)
Diluted		**(0.08)**	(0.22)	**(0.35)**	(0.16)

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

Condensed Consolidated Interim Statements of Other Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
(CDN 000s) (unaudited)	**($)**	**($)**	**($)**	($)
Net loss	**(7,117)**	(18,558)	**(29,296)**	(13,771)
Items that may be reclassified subsequently to net income:				
Foreign currency translation adjustment	**3,281**	25,119	**(21,584)**	49,249
Total comprehensive (loss) income	**(3,836)**	6,561	**(50,880)**	35,478

*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 ($)
Balance at January 1, 2015		113,827	12,927	32,807	323,962	483,523
Net loss		—	—	—	(13,771)	(13,771)
Dividends		—	—	—	(42,650)	(42,650)
Other comprehensive income		—	—	49,249	—	49,249
Exercise of stock options		8,230	(1,128)	—	—	7,102
Expense related to vesting of options		—	1,158	—	—	1,158
Reclassification of equity settled options		—	11,673	—	—	11,673
Balance at September 30, 2015		122,057	24,630	82,056	267,541	496,284
Net loss		—	—	—	(841)	(841)
Dividends		—	—	—	(14,289)	(14,289)
Other comprehensive income		—	—	3,547	—	3,547
Exercise of stock options		6,010	(2,043)	—	—	3,967
Expense related to vesting of options		—	780	—	—	780
Balance at December 31, 2015		128,067	23,367	85,603	252,411	489,448
Net loss		—	—	—	(29,296)	(29,296)
Dividends	6	—	—	—	(42,963)	(42,963)
Other comprehensive loss		—	—	(21,584)	—	(21,584)
Exercise of stock options	6	6,407	(1,954)	—	—	4,453
Expense related to vesting of options		—	2,226	—	—	2,226
Balance at September 30, 2016		**134,474**	**23,639**	**64,019**	**180,152**	**402,284**

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

Condensed Consolidated Interim Statements of Cash Flows

	Note*	Three Months Ended September 30, 2016	Three Months Ended September 30, 2015	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2015
(CDN 000s) (unaudited)		**($)**	($)	**($)**	($)
Cash from (used in) operating activities					
Net loss		**(7,117)**	(18,558)	**(29,296)**	(13,771)
Adjustment for non-cash items:					
Depreciation and amortization		**14,929**	19,259	**44,869**	61,579
Impairment loss	8	**—**	26,555	**—**	26,555
Gain on sale of investment	8	**—**	—	**—**	(2,290)
Stock-based compensation	6	**1,457**	808	**4,657**	4,596
Non-cash restructuring costs	8	**—**	—	**4,833**	—
Deferred income taxes		**35**	(3,488)	**(10,941)**	(3,057)
Unrealized foreign exchange (gain) loss and other		**(174)**	(785)	**(2,631)**	2,718
Funds flow from operations		**9,130**	23,791	**11,491**	76,330
Movements in non-cash working capital items:					
(Increase)/decrease in trade and other receivables		**(12,470)**	(2,665)	**5,620**	75,519
(Increase) decrease in prepaid expenses		**(1,713)**	(2,432)	**(709)**	284
Decrease in income taxes recoverable		**13,927**	188	**10,344**	808
Decrease in trade payables, accruals and stock-based compensation liability		**(2,575)**	(452)	**(2,114)**	(21,859)
Effects of exchange rate changes		**(1,148)**	6,222	**1,158**	3,864
Cash generated from operating activities		**5,151**	24,652	**25,790**	134,946
Income tax paid		**(498)**	(8,320)	**(6,813)**	(15,781)
Net cash from operating activities		**4,653**	16,332	**18,977**	119,165
Cash flows from (used in) financing activities					
Proceeds from issuance of common shares	6	**1,331**	1,568	**4,453**	5,609
Payment of dividends	6	**(14,342)**	(14,238)	**(42,963)**	(42,650)
Net cash used in financing activities		**(13,011)**	(12,670)	**(38,510)**	(37,041)
Cash flows (used in) from investing activities					
Additions to property, plant and equipment		**(718)**	(8,672)	**(9,513)**	(37,702)
Development costs		**(659)**	(2,097)	**(3,373)**	(6,582)
Proceeds on disposal of investment and property, plant and equipment		**136**	339	**692**	3,627
Changes in non-cash working capital		**992**	1,489	**(699)**	(5,764)
Net cash used in investing activities		**(249)**	(8,941)	**(12,893)**	(46,421)
Effect of exchange rate on cash and cash equivalents		**1,223**	8,140	**(8,822)**	17,554
Net (decrease) increase in cash and cash equivalents		**(7,384)**	2,861	**(41,248)**	53,257
Cash and cash equivalents, beginning of period		**161,982**	195,254	**195,846**	144,858
Cash and cash equivalents, end of period	9	**154,598**	198,115	**154,598**	198,115

*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, 2015.

Change in accounting classification

In the first quarter of 2016 , the Company changed the accounting policy for the classification of certain expenses. Expenses that were previously recorded as other costs are now included as rental services in the respective business unit, to better reflect the nature of the expense. The 2015 comparative quarterly financial statements have been adjusted to reflect this change in accounting classification. Rental service costs and other costs for the third quarter of 2015 have been adjusted by $642 (2015 year to date - $2,225).

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, 2015.

4. Seasonality

Though the Company has seen a significant deterioration in its operating results as a result of 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.

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, 2015.

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

Three Months Ended September 30, 2016	**Canada**	**United States**	**International**	**Total**
	($)	**($)**	**($)**	**($)**
Revenue	**10,755**	**22,318**	**5,560**	**38,633**
Rental services and local administration	**3,817**	**12,653**	**4,362**	**20,832**
Depreciation and amortization	**6,203**	**5,243**	**3,483**	**14,929**
Segment operating profit (loss)	**735**	**4,422**	**(2,285)**	**2,872**
Research and development				**5,358**
Corporate services				**3,956**
Stock-based compensation				**1,457**
Other expenses				**140**
Income tax recovery				**(922)**
Net Loss				**(7,117)**
Capital expenditures	**247**	**1,148**	**(18)**	**1,377**
Goodwill	**—**	**24,634**	**2,600**	**27,234**
Intangible assets	**25,141**	**158**	**200**	**25,499**
Segment assets	**128,006**	**259,184**	**51,481**	**438,671**
Segment liabilities	**25,165**	**5,845**	**5,377**	**36,387**

Three Months Ended September 30, 2015				
Revenue	18,823	40,151	9,494	68,468
Rental services and local administration	6,821	17,250	7,233	31,304
Depreciation and amortization	9,447	7,862	1,950	19,259
Segment operating profit	2,555	15,039	311	17,905
Research and development				7,288
Corporate services				5,134
Stock-based compensation				808
Other expense				27,459
Income tax recovery				(4,226)
Net loss				(18,558)
Capital expenditures	8,562	813	1,394	10,769
Goodwill	—	24,790	2,600	27,390
Intangible assets	30,175	698	1,481	32,354
Segment assets	203,411	291,788	46,077	541,276
Segment liabilities	25,624	13,435	5,933	44,992

Nine Months Ended September 30, 2016	**Canada**	**United States**	**International**	**Total**
	($)	**($)**	**($)**	**($)**
Revenue	**31,580**	**62,335**	**17,704**	**111,619**
Rental services and local administration	**13,136**	**38,647**	**14,081**	**65,864**
Depreciation and amortization	**20,116**	**17,479**	**7,274**	**44,869**
Segment operating (loss) profit	**(1,672)**	**6,209**	**(3,651)**	**886**
Research and development				**17,615**
Corporate services				**12,360**
Stock-based compensation				**4,657**
Other expenses				**10,017**
Income tax recovery				**(14,467)**
Net Loss				**(29,296)**
Capital expenditures	**2,930**	**9,806**	**150**	**12,886**
Goodwill	**—**	**24,634**	**2,600**	**27,234**
Intangible assets	**25,141**	**158**	**200**	**25,499**
Segment assets	**128,006**	**259,184**	**51,481**	**438,671**
Segment liabilities	**25,165**	**5,845**	**5,377**	**36,387**

Nine Months Ended September 30, 2015				
Revenue	57,423	136,144	31,743	225,310
Rental services and local administration	23,729	61,600	23,178	108,507
Depreciation and amortization	28,408	25,874	7,297	61,579
Segment operating profit	5,286	48,670	1,268	55,224
Research and development				25,431
Corporate services				15,040
Stock-based compensation				4,596
Other income				25,148
Income tax recovery				(1,220)
Net loss				(13,771)
Capital expenditures	19,467	15,982	8,835	44,284
Goodwill	—	24,790	2,600	27,390
Intangible assets	30,175	698	1,481	32,354
Segment assets	203,411	291,788	46,077	541,276
Segment liabilities	25,624	13,435	5,933	44,992

6. Share Capital

	Common Shares			
	Nine Months Ended September 30, 2016		Year Ended December 31, 2015	
	($)	**(#)**	($)	(#)
Balance, beginning of period	**128,067**	**84,063**	113,827	83,363
Exercise of stock options:	**6,407**	**304**	14,240	700
Balance, end of period	**134,474**	**84,367**	128,067	84,063

Stock option plan

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

At September 30, 2016, 3,908 (2015: 3,873) stock options were outstanding for common shares at exercise prices ranging from $12.49 to $27.96 per share, expiring between 2016 and 2021 as follows:

	Nine Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
	Share Options	**Weighted Average Exercise Price**	Share Options	Weighted Average Exercise Price
	(#)	**($)**	(#)	($)
Outstanding, beginning of period	**4,862**	**21.77**	4,490	21.06
Granted	**17**	**17.93**	15	22.25
Equity settled	**(304)**	**14.67**	(409)	13.63
Expired or forfeited	**(667)**	**23.29**	(223)	24.47
Outstanding, end of period	**3,908**	**21.93**	3,873	21.46
Exercisable, end of period	**1,691**	**20.70**	1,368	17.01
Available for grant, end of period	**1,998**		1,991	

Stock-based compensation expense and liability

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

Expense

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016	2015	**2016**	2015
	($)	($)	**($)**	($)
Stock options	**810**	583	**2,227**	1,105
RSUs	**268**	(284)	**990**	1,829
DSUs	**(58)**	(120)	**114**	275
PSUs	**437**	629	**1,326**	1,387
Stock-based compensation	**1,457**	808	**4,657**	4,596

Liability

As at	**September 30, 2016**	December 31, 2015
	($)	($)
RSUs	**2,110**	1,641
PSUs	**1,459**	579
Current portion of stock-based compensation liability	**3,569**	2,220
RSUs	**722**	333
DSUs	**2,120**	2,124
PSUs	**1,049**	602
Non-current portion of stock-based compensation liability	**3,891**	3,059
Total stock-based compensation liability	**7,460**	5,279

Common share dividends

During the quarter ended September 30, 2016, the Company declared and paid dividends of $14,342 (2015: $14,238) or $0.17 per common share (2015: $0.17).

7. Income Per Share

Basic income per share

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016	2015	**2016**	2015
	(#)	(#)	**(#)**	(#)
Issued common shares outstanding, beginning of period	**84,280**	83,656	**84,063**	83,363
Effect of exercised options	**31**	55	**136**	200
Weighted average number of common shares for the period	**84,311**	83,711	**84,199**	83,563

Diluted income per share

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

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2016	2015	**2016**	2015
	(#)	(#)	**(#)**	(#)
Weighted average number of common shares (basic)	**84,311**	83,711	**84,199**	83,563
Effect of share options	**—**	—	**—**	—
Weighted average number of common shares (diluted)	**84,311**	83,711	**84,199**	83,563

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 was based on quoted market prices for the period during which the options were outstanding.

8. Other Expenses (Income)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	**2016**	2015
	($)	($)	**($)**	($)
Foreign exchange loss (gain)	**96**	904	**(2,227)**	(1,555)
Impairment charge	**—**	26,555	**—**	26,555
Gain on sale of investment	**—**	—	**—**	(2,290)
Restructuring costs	**—**	—	**10,861**	2,572
Other	**44**	—	**1,383**	(134)
Other expenses (income)	**140**	27,459	**10,017**	25,148

In the first quarter of 2016, the Company initiated additional cost reduction initiatives to address the prolonged downturn in oil and gas drilling activity. These actions included further staff reductions and office space consolidation. As a result, the Company recorded a restructuring charge of $10,861 in the first quarter, which is comprised of $6,028 for employee termination and other staff-related costs, an onerous lease obligation charge of $3,682, which is calculated at the present value of the expected net cost of continuing with the lease after adjusting for sublease rentals, and the write-off of leasehold improvements and other related costs totaling $1,151. The current portion of the onerous lease provision is included in trade payables and accruals while the non-current portion is separately disclosed on the Condensed Consolidated Interim Balance Sheet. A similar initiative was completed in the second quarter of 2015 and a restructuring charge of $2,572 was recorded. In addition, the third quarter 2015 results include an impairment charge related to excess quantities of equipment totaling $26,555.

9. Cash and Cash Equivalents

As at	**September 30, 2016**	December 31, 2015
	($)	($)
Cash	**56,266**	92,649
Cash equivalents	**98,332**	103,197
Cash and cash equivalents	**154,598**	195,846

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	**September 30, 2016**
	($)	($)	($)	**($)**
Cash and cash equivalents	154,598	—	—	**154,598**
Total financial assets at fair value	154,598	—	—	**154,598**

11. Approval of Interim Financial Statements

The condensed unaudited consolidated interim financial statements were approved by the Board of Directors on November 9, 2016.

12. Events After the Reporting Period

On November 9, 2016, the Company announced a quarterly dividend of $0.17 per share on the Company's common shares. The dividend will be paid on December 30, 2016 to shareholders of record at the close of business on December 16, 2016.