# Performance Data

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | Change | **2016** | 2015 | Change |
| (CDN 000s, except per share data) | **($)** | ($) | (%) | **($)** | ($) | (%) |
| Revenue | **48,827** | 59,838 | (18) | **160,446** | 285,148 | (44) |
| Net (loss) income | **(11,325)** | (841) | — | **(40,621)** | (14,612) | — |
| Per share – basic | **(0.13)** | (0.01) | — | **(0.48)** | (0.17) | — |
| Per share – diluted | **(0.13)** | (0.01) | — | **(0.48)** | (0.17) | — |
| EBITDA [(1)] | **(2,291)** | 20,736 | — | **3,472** | 69,630 | (95) |
| As a % of revenue | **(4.7)** | 34.7 | — | **2.2** | 24.4 | — |
| Adjusted EBITDA [(1)] | **15,225** | 20,128 | (24) | **31,005** | 96,460 | (68) |
| As a % of revenue | **31.2** | 33.6 | — | **19.3** | 33.8 | — |
| Funds flow from operations | **15,324** | 17,933 | (15) | **26,815** | 94,263 | (72) |
| Per share – basic | **0.18** | 0.22 | (19) | **0.32** | 1.13 | (72) |
| Per share – diluted | **0.18** | 0.21 | (15) | **0.32** | 1.13 | (72) |
| Cash from operating activities | **665** | 10,911 | (94) | **19,642** | 130,076 | (85) |
| Free cash flow [(1)] | **401** | 4,719 | (92) | **7,184** | 80,138 | (91) |
| Capital expenditures | **(30)** | 6,527 | — | **12,856** | 50,811 | (75) |
| Working capital | **198,419** | 244,972 | (19) | **198,419** | 244,972 | (19) |
| Total assets | **435,251** | 529,625 | (18) | **435,251** | 529,625 | (18) |
| Total long-term debt | **—** | — | — | **—** | — | — |
| Cash dividends declared | **0.17** | 0.17 | — | **0.68** | 0.68 | — |
| Shares outstanding end of period (#) | **84,628** | 84,063 | 1 | **84,628** | 84,063 | 1 |

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

# Q4 2016 vs Q4 2015

The Company generated consolidated revenue of $48.8 million in the fourth quarter of 2016, down 18% from $59.8 million in the same period of 2015. US drilling activity in the fourth quarter of 2016 was down 23% from 2015 levels while Canadian activity was relatively flat. The decline in US activity was partially offset by an increase in market share in the US business unit.

Consolidated EBITDA was a negative $2.3 million in the fourth quarter of 2016, a decrease of $23.0 million from the fourth quarter of 2015. Included in the fourth quarter 2016 results is a non-cash impairment charge of $17.5 million, the majority of which relates to the write-off of intangible assets as a result of the Company's divestiture of the operating assets of 3PS, Inc., a previous wholly-owned subsidiary. Adjusted EBITDA, which adjusts for foreign exchange and certain non-recurring charges, including impairment charges, decreased $4.9 million. Funds flow from operations decreased by 15%.

The Company recorded a net loss of $11.3 million ($0.13 per share) in the fourth quarter of 2016, a decrease of $10.5 million from the net loss of $0.8 million ($0.01 per share) recorded in the same period of 2015. The fourth quarter 2016 results include the impairment charge referred to above while 2015 fourth quarter results include a restructuring charge of $1.0 million. The full benefit of the cost reduction programs previously implemented, combined with a decline in depreciation expense from 2015 levels, as a result of a significant reduction in the capital expenditure program and previously recorded impairment charges relating to excess quantities of equipment, also impacted the comparison of fourth quarter 2016 results to 2015 amounts.

# President’s Message

The environment for oilfield services remained challenging worldwide during the fourth quarter of 2016. However, signs of improvement have started to emerge. US drilling activity, as measured in industry days, dropped 23% from the previous year period, and declined 49% for the full year 2016. Canadian drilling activity was largely unchanged year-over-year for the quarter and was 34% lower for the full year compared to 2015. Most international markets were also negatively affected by challenging industry conditions.

Pason’s fourth quarter results reflect these declines in drilling activity. Revenue for the quarter was $48.8 million, an 18% decline from the previous year. Adjusted EBITDA was $15.2 million, compared to $20.1 million in the previous year. The Company incurred a loss for the quarter of $11.3 million or $0.13 per share. The bottom line was affected by a non-cash impairment charge of $17.5 million related to the write-off of goodwill due to the disposition of the net operating assets of one of the Company’s wholly-owned subsidiaries.

US market share and revenue per EDR day were up in the fourth quarter compared to the previous year. Market share and revenue per EDR day in Canada were down, driven by increased competition and pricing pressure. Internationally, market share and revenue per EDR day were largely unchanged.

At December 31, 2016, our cash position stood at $146 million and working capital at $198 million. There is no debt on our balance sheet. We are maintaining our quarterly dividend at $0.17 share.

Since the beginning of the New Year, growth in drilling activity has exceeded our expectations, especially in the United States’ Permian Basin and in Canada. The outlook for 2017 is more positive than what we experienced in 2016. However, there continues to be a lot of uncertainty around oil company capital spending plans, and therefore for drilling activity, going forward.

Our two main objectives for 2017 are to: 1) fully participate in the industry’s upturn while containing growth of the costs base; and 2) continue making progress to be a key enabler of drilling automation and data analytics strategies aimed at impacting drilling efficiency, effectiveness, and safety. Pason is well-positioned to maximize returns in the industry's upturn. Pason equipment is installed on over 65% of all active land drilling rigs in the Western Hemisphere and we have a growing presence in the Middle East. We are the service provider of choice for the majority of leading operators and drilling contractors. In many regions, we can absorb much higher activity levels without having to add cost proportionally.

We are investing significant resources in future growth and are focusing our product development on products and services that directly improve the efficiency, effectiveness, and safety of drilling operations and wellbore quality. Examples of this include our Enhanced Pit Volume Totalizer (ePVT) Adaptive Alarms and Digital Trip Sheets, AC AutoDriller, abbl Directional Advisor, and the recently announced deployment of the advanced Drilling Advisory System from ExxonMobil.

The acquisition of Verdazo Analytics provides us with a strong analytics platform for oil and gas production and operations that complements Pason’s market leading drilling information ecosystem. Pason aims to provide customers with a holistic platform to analyze drilling, production, and operational data. Moreover, Verdazo will be able to leverage Pason’s established brand and footprint to grow into the US and international markets.

The addition of a significantly updated Live Rig View (LRV) web service to our cloud-based offering enhances the user experience for the many back-office users of Pason data; additional functionality will be added throughout 2017.

The sizeable capital investments we made through 2014 and into 2015 has enabled us to deploy a very capable and flexible rigsite IT and communications platform with the ability to host new Pason and third-party software. Our capital expenditures will be relatively small going forward with a larger portion of our current development efforts focused on software and analytics. For 2017, we intend to spend up to $25 million in capital expenditures.

We feel optimistic about Pason's market position and prospects, and are excited about the potential of our new products and services. We thank all our customers, partners, shareholders, and employees for their continued support.

Marcel Kessler
President and Chief Executive Officer
February 22, 2017

# Management’s Discussion and Analysis

The following discussion and analysis has been prepared by management as of February 22, 2017, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the consolidated financial statements and accompanying notes.

Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements.

All financial measures presented in this report are expressed in Canadian dollars unless otherwise indicated.

## Additional IFRS Measures

In its audited 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, stock-based compensation expense, deferred taxes, and other non-cash items impacting operations.

### Cash from operating activities

Cash from operating activities is defined as funds flow from operations adjusted for changes in working capital items.

## Non-IFRS Financial Measures

These definitions are not recognized measures under IFRS, and accordingly, may not be comparable to measures used by other companies. These Non-IFRS measures provide readers with additional information regarding the Company's ability to generate funds to finance its operations, fund its research and development and capital expenditure program, and pay dividends.

### Revenue per EDR Day

Revenue per EDR day is defined as the daily revenue generated from all products that the Company has on rent on a drilling rig that has the Company’s base EDR installed. This metric provides a key measure on the Company’s ability to increase production adoption and evaluate product pricing.

## EBITDA

EBITDA is defined as net income before interest expense, income taxes, stock-based compensation expense, depreciation and amortization expense, and gains on disposal of investments.

## Adjusted EBITDA

Adjusted EBITDA is defined as EBITDA, adjusted for foreign exchange, impairment of property, plant, and equipment, restructuring costs, and other items which the Company does not consider to be in the normal course of continuing operations.

## Free cash flow

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

# Overall Performance

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | Change | **2016** | 2015 | Change |
| (000s) | **($)** | ($) | (%) | **($)** | ($) | (%) |
| **Revenue** | | | | | | |
| Electronic Drilling Recorder (1) | **19,982** | 24,078 | (17) | **66,799** | 122,092 | (45) |
| Pit Volume Totalizer/ePVT | **8,001** | 9,600 | (17) | **22,833** | 40,279 | (43) |
| Communications (1) | **4,840** | 5,327 | (9) | **15,228** | 24,710 | (38) |
| Software | **3,517** | 4,167 | (16) | **11,104** | 19,420 | (43) |
| AutoDriller | **2,815** | 3,880 | (27) | **9,357** | 20,337 | (54) |
| Gas Analyzer | **3,803** | 4,510 | (16) | **12,084** | 21,021 | (43) |
| Other | **5,869** | 8,276 | (29) | **23,041** | 37,289 | (38) |
| **Total revenue** | **48,827** | 59,838 | (18) | **160,446** | 285,148 | (44) |

(1) A portion of the Company's Communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue. 2015 comparative figures have been reclassified to conform with 2016 presentation. (Q4 2015 - $1,063 and YTD 2015- $4,044).

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

**Canada**

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | Change | **2016** | 2015 | Change |
| | | | (%) | | | (%) |
| EDR rental days (#) | **14,600** | 15,200 | (4) | **44,500** | 66,800 | (33) |
| PVT/ePVT rental days (#) | **13,300** | 13,900 | (4) | **40,900** | 62,500 | (35) |

**United States**

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | Change | **2016** | 2015 | Change |
| | | | (%) | | | (%) |
| EDR rental days (#) | **30,100** | 37,300 | (19) | **97,500** | 196,500 | (50) |
| PVT/ePVT rental days (#) | **24,000** | 28,200 | (15) | **75,500** | 149,300 | (49) |

## Electronic Drilling Recorder

The Pason EDR remains the Company's primary product. The EDR provides a complete system of drilling data acquisition, data networking, and drilling management tools and reports at both the wellsite and customer offices. The EDR is the base product from which all other wellsite instrumentation products are linked. By linking these products, a number of otherwise redundant elements such as data processing, display, storage, and networking are eliminated. This ensures greater reliability and a more robust system of instrumentation for the customer.

Revenue generated from the EDR decreased 17% in the fourth quarter of 2016 compared to the same period in 2015 and 45% for the full year.

The fourth quarter decrease is attributable to a drop of 23% in drilling activity in the US market from 2015 levels, increased competitive pressures in Canada, and continued lower product adoption of certain peripheral devices. This decrease was partially offset by an increase in US market share. Canadian drilling activity was little changed from the fourth quarter of 2015.

For the twelve months ending December 31, 2016, EDR revenue was impacted by a drop in drilling activity in both US and Canada of 49% and 34% respectively . These negative factors were offset by a strengthening US dollar relative to the Canadian dollar.

Canadian EDR days, which include some non-oil and gas-related drilling activity, decreased 4% in the fourth quarter of 2016 from 2015 levels (33% on a year-to-date basis), while US EDR days decreased by 19% in the fourth quarter of 2016 from 2015 levels (50% on a year-to-date basis).

The Canadian business unit continued to see both pricing pressure and increased competition from a number of competitors. For the three months ended December 31, 2016, the Pason EDR was installed on 88% of the active land rigs in Canada (95% for the fourth quarter of 2015). Market share was 96% for both of the twelve month periods ending December 31, 2016, and 2015.

For the three months ended December 31, 2016, the Pason EDR was installed on 59% of the land rigs in the US compared to 56% during the same period in 2015. For the full twelve months of 2016, the EDR was installed on 55% of the land rigs in the US, compared to 57% in the same period of 2015.

For purposes of market share, the Company uses the number of EDR days billed and oil and gas drilling days as reported by accepted industry sources.

The Company's International business unit is experiencing the same market conditions as the North American market except for the Middle East, where the Company is realizing an increase in its share of net income from its Saudi Arabia joint venture as a result of a continuing increases in rig count and market penetration.

## Pit Volume Totalizer (PVT) and Enhanced Pit Volume Totalizer (ePVT)

The ePVT is Pason's proprietary solution for the detection and early warning of “kicks” that are caused by hydrocarbons entering the wellbore under high pressure and expanding as they migrate to the surface. PVT revenue for 2016 was impacted by rig count activity, offset partially with continued customer adoption of the new ePVT. During the three months ended December 31, 2016, the ePVT was installed on 91% of rigs with a Pason EDR in Canada and 80% in the US, compared to 91% and 76% respectively , in the same period in 2015. For the year ended December 31, 2016, the ePVT was installed on 92% of rigs with a Pason EDR in Canada and 78% in the US.

## Communications

Pason's Communications revenue comes from a number of communication service offerings, including providing customers with bandwidth through the Company's automatically-aiming satellite system and terrestrial networks. This system provides reliable high-speed wellsite communications for email and web application management tools. Pason displays all data in standard forms on its DataHub web application, although if customers require greater analysis or desire to have the information transferred to another supplier's database, data is available for export from the Pason DataHub using WITSML (a specification for transferring data among oilfield service companies, drilling contractors, and operators). The Company complements its satellite equipment with High Speed Packet Access (HSPA), a high-speed wireless ground system which provides automatic fail-over between satellite and terrestrial networks to achieve greater reliability in its service offering.

Communications revenue decreased by 9% in the fourth quarter of 2016 compared to the corresponding period in 2015. Revenue was impacted by the decline in drilling activity, offset by a continued increase in customer adoption of new communication solutions rolled out in the Canadian and US markets.

## Software

The Pason DataHub is the Company's data management system that collects, stores, and displays drilling data, reports, and real-time information from drilling operations. The DataHub provides access to data through a number of innovative applications or services, including:

- Live Rig View (LRV), which provides advanced data viewing, directional drilling, and 3D visualization of drilling data in real time via a web browser.
- Live Rig View Mobile, which allows users to access their data on mobile devices, including iPhone, iPad, BlackBerry, and Android.
- WITSML, which provides seamless data sharing with third-party applications, enhancing the value of data hosted by Pason.
- Additional specialized software, including remote directional.

During both the fourth quarter and the twelve months ending December 31, 2016, 97% of the Company's Canadian customers were using all or a portion of the functionality of the DataHub. In the US business unit, the 2016 fourth quarter adoption rate was 91%, and 88% for the entire 2016 year.

## AutoDriller

Pason's AutoDriller is used to maintain constant weight on the drill bit while a well is being drilled. During 2016 the AutoDriller adoption rates continued to decline and the company anticipates this to continue due in most part to the drop in the number of mechanical rigs being deployed.

## Gas Analyzer

The Pason Gas Analyzer measures the total hydrocarbon gases (C1 through C4 and $CO_2$) exiting the wellbore, and then calculates the lag time to show the formation depth where the gases were produced. The Gas Analyzer provides information about the composition of the gas, and further calculates geologic ratios from the gas composition to assist in indicating the type of gas, natural gas liquid, or oil in the formation. For the fourth quarter ended December 31, 2016, the Gas Analyzer was installed on 61% of Canadian and 31% of US land rigs operating with a Pason EDR system (58% and 31% respectively for 2015).

## Other

Other is comprised mostly of the rental of service rig recorders in Latin America, the Electronic Choke Actuator, Hazardous Gas Alarm products, Mobilization revenue, sales of sensors and other systems sold by 3PS.

# Discussion of Operations

## United States Operations

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | Change | **2016** | 2015 | Change |
| (000s) | **($)** | ($) | (%) | **($)** | ($) | (%) |
| **Revenue** | | | | | | |
| Electronic Drilling Recorder [(1)] | **12,057** | 14,888 | (19) | **40,168** | 79,023 | (49) |
| Pit Volume Totalizer/ePVT | **5,235** | 6,182 | (15) | **13,487** | 24,131 | (44) |
| Communications [(1)] | **2,345** | 2,397 | (2) | **6,893** | 11,545 | (40) |
| Software | **2,367** | 2,766 | (14) | **7,291** | 13,087 | (44) |
| AutoDriller | **1,194** | 1,837 | (35) | **3,731** | 10,045 | (63) |
| Gas Analyzer | **1,871** | 2,297 | (19) | **5,974** | 10,639 | (44) |
| Other | **3,563** | 4,375 | (19) | **13,423** | 22,416 | (40) |
| **Total revenue** | **28,632** | 34,742 | (18) | **90,967** | 170,886 | (47) |
| **Rental services and local administration** | **14,324** | 16,222 | (12) | **52,971** | 77,822 | (32) |
| **Depreciation and amortization** | **5,651** | 7,456 | (24) | **23,130** | 33,330 | (31) |
| **Segment operating profit** | **8,657** | 11,064 | (22) | **14,866** | 59,734 | (75) |

(1) A portion of the Company's Communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue. 2015 comparative figures have been reclassified to conform with 2016 presentation. (Q4 2015 - $591 and YTD 2015 - $2,957).

| | Three Months Ended December 31, | | Years Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| Revenue per EDR day - USD | **667** | 645 | **643** | 644 |
| Revenue per EDR day - CAD | **890** | 862 | **852** | 824 |

US segment revenue decreased by 18% in the fourth quarter of 2016 over the 2015 comparable period (17% decrease when measured in USD). For the year, US segment revenue decreased by 47% over the 2015 comparable period (50% decrease when measured in USD).

Industry activity in the US market during the fourth quarter of 2016 decreased by 23% from the prior year and 49% for the full year. EDR rental days decreased by 19% and 50%, respectively, for the three and twelve months ended December 31, 2016 over the same time periods in 2015.

Revenue per EDR day in the fourth quarter of 2016 increased to US$667, an increase of US$22 over the same period in 2015. The increase is due to an uptick on adoption of certain key products. For the year, revenue per EDR day was US$643, relatively flat compared to 2015.

The decrease in industry activity accounted for the majority of the drop  in revenue for both the quarter and twelve months ended December 31, 2016. The fourth quarter benefited from an increase in market share relative to the same period in 2015, while the twelve month results benefited from a favourable movement in the USD/CAD exchange rate.

Operating costs decreased by 12% in the fourth quarter relative to the same period in the prior year. When measured in USD, operating costs decreased 37% on a year-to-date basis as the business unit continues to identify and implement changes to its cost structure. The Company is realizing most of the benefits from the consolidation of its US business unit into one location.

Depreciation expense for the fourth quarter and the full year of 2016 is down significantly from the corresponding periods in 2015 due to the non-cash impairment charges the Company took in prior years, combined with a lower capital expenditure program.

Segment profit decreased by $2.4 million in the fourth quarter of 2016 compared to the corresponding period in 2015. Segment profit of $14.9 million for the twelve months of 2016 is a drop of 75% from the same period in 2015.

# Canadian Operations

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | Change | **2016** | 2015 | Change |
| (000s) | **($)** | ($) | (%) | **($)** | ($) | (%) |
| **Revenue** | | | | | | |
| Electronic Drilling Recorder [1] | **5,481** | 6,081 | (10) | **17,198** | 27,420 | (37) |
| Pit Volume Totalizer/ePVT | **2,254** | 2,603 | (13) | **7,347** | 11,572 | (37) |
| Communications [1] | **2,265** | 2,416 | (6) | **7,129** | 11,117 | (36) |
| Software | **1,060** | 1,299 | (18) | **3,534** | 5,815 | (39) |
| AutoDriller | **1,095** | 1,184 | (8) | **3,296** | 5,853 | (44) |
| Gas Analyzer | **1,604** | 1,729 | (7) | **4,865** | 7,802 | (38) |
| Other | **861** | 1,095 | (21) | **2,831** | 4,251 | (33) |
| **Total revenue** | **14,620** | 16,407 | (11) | **46,200** | 73,830 | (37) |
| **Rental services and local administration** [2] | **4,570** | 6,399 | (29) | **17,706** | 30,128 | (41) |
| **Depreciation and amortization** | **3,920** | 8,590 | (54) | **24,036** | 36,998 | (35) |
| **Segment operating profit** | **6,130** | 1,418 | 332 | **4,458** | 6,704 | (34) |

(1) A portion of the Company's Communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue. The 2015 comparative figures have been reclassified to conform with the 2016 presentation. (Q4 2015 - $149 and YTD 2015 - $729).

(2) Certain expenses previously recorded in Other Expenses are now included as a business unit cost, to better reflect the nature of such costs. The 2015 comparative figures have been reclassified to conform with the 2016 presentation (Q4 2015 - $525 and YTD - $2,295).

| | Three Months Ended December 31, | | Years Ended December 31, | |
|---|---|---|---|---|
| | **2016** | 2015 | **2016** | 2015 |
| | **$** | $ | **$** | $ |
| Revenue per EDR day - CAD | **982** | 1,056 | **1,020** | 1,090 |

Canadian segment revenue declined by 11% for the three months ended December 31, 2016, and 37% for the year as compared to the same periods in 2015. The drop is a result of a selective pricing discounts on certain products, increased competition, and lower product adoption on some products. The full year decline was also impacted by a decline in the number drilling days.

On a year-to-date basis, revenue decreased by 37% while industry days declined 34%.

EDR rental days decreased 4% in the fourth quarter compared to 2015 levels and 33% for the full twelve months of 2016.

The factors above combined to result in a decrease in revenue per EDR day of $74 to $982 during the fourth quarter of 2016 compared to 2015. Revenue per EDR day for the year ended December 31,2016, was $1,020, down $70 from the same period in 2015.

Operating costs decreased by 29% in the fourth quarter of 2016 relative to the same period in 2015 (41% on a year-to-date basis), primarily due to a drop in activity combined with cost control initiatives implemented by the business unit.

Depreciation expense decreased 54% in the fourth quarter of 2016 from 2015 due to the non-cash impairment charges the Company recorded in prior years relating to excess pieces of equipment, combined with the recognition of investment tax credits received during the quarter, which reduces amortization expense.

The fourth quarter 2016 operating profit of $6.1 million is an increase of $4.7 million over the prior year period. Segment operating profit for the twelve months ended December 31, 2016, was down 34% from last year's comparatives.

# International Operations

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | Change | **2016** | 2015 | Change |
| (000s) | **($)** | ($) | (%) | **($)** | ($) | (%) |
| **Revenue** | | | | | | |
| Electronic Drilling Recorder (1) | **2,444** | 3,109 | (21) | **9,433** | 15,649 | (40) |
| Pit Volume Totalizer/ePVT | **512** | 815 | (37) | **1,999** | 4,576 | (56) |
| Communications (1) | **230** | 514 | (55) | **1,206** | 2,048 | (41) |
| Software | **90** | 102 | (12) | **279** | 518 | (46) |
| AutoDriller | **526** | 859 | (39) | **2,330** | 4,439 | (48) |
| Gas Analyzer | **328** | 484 | (32) | **1,245** | 2,580 | (52) |
| Other | **1,445** | 2,806 | (49) | **6,787** | 10,622 | (36) |
| **Total revenue** | **5,575** | 8,689 | (36) | **23,279** | 40,432 | (42) |
| **Rental services and local administration (2)** | **5,077** | 5,787 | (12) | **19,158** | 28,965 | (34) |
| **Depreciation and amortization** | **944** | 3,756 | (75) | **8,218** | 11,053 | (26) |
| **Segment operating (loss) profit** | **(446)** | (854) | (48) | **(4,097)** | 414 | — |

(1) A portion of the Company's Communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue.The 2015 comparative figures have been reclassified to conform with the 2016 presentation. (Q4 2015- $11 and YTD 2015 - $46.)

(2) Certain expenses previously recorded in Other Expenses are now included as a business unit cost, to better reflect the nature of such expenses. The 2015 comparative figures have been reclassified to conform with the 2016 presentation (Q4 2015 - $149 and YTD 2015 - $604).

The industry conditions impacting the Company's US and Canadian segments also exist in the majority of the Company's International markets.

Revenue in the International operations segment decreased 36% in the fourth quarter of 2016 compared to the same period in 2015. For the year ended December 31, 2016, revenue decreased by 42%, or $17.2 million.

The operating loss in the fourth quarter of 2016 of $0.4 million was lower than the loss recorded in the same period in 2015 as a result of a significant decline in depreciation expense. The business unit wrote off obsolete spare parts in the fourth quarter of 2015 and this combined with a significant reduction in capital expenditures led to the lower depreciation expense. Year-to-date profit declined by $4.5 million.

A number of factors influenced these results:

- Impacting the comparison of full year revenue year over year was the devaluation of the Argentinian peso, which occurred in the fourth quarter of 2015.
- In the fourth quarter of 2015 the Company recognized a termination payment of $0.6 million from one of its customers.

# Corporate Expenses

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2016** | 2015 | Change | **2016** | 2015 | Change |
| (000s) | **($)** | ($) | (%) | **($)** | ($) | (%) |
| **Other expenses** | | | | | | |
| Research and development | **5,233** | 6,302 | (17) | **22,848** | 31,733 | (28) |
| Corporate services | **4,398** | 5,000 | (12) | **16,758** | 20,040 | (16) |
| Stock-based compensation | **1,538** | 2,802 | (45) | **6,195** | 7,398 | (16) |
| Other | | | | | | |
| Foreign exchange loss (gain) | **284** | (1,549) | — | **(1,943)** | (3,104) | (37) |
| Impairment loss | **17,474** | — | — | **17,474** | 26,555 | (34) |
| Gain on sale of investment | **—** | — | — | **—** | (2,290) | — |
| Restructuring costs | **—** | 1,024 | — | **10,861** | 3,596 | 202 |
| Other[(1)] | **(242)** | (83) | 192 | **1,141** | (217) | — |
| **Total corporate expenses** | **28,685** | 13,496 | 113 | **73,334** | 83,711 | (12) |

(1) Certain expenses previously recorded in Other Expenses are now included as a business unit cost, to better reflect the nature of such expenses. The 2015 comparative figures have been reclassified to conform with the 2016 presentation (Q4 2015 - $664 and YTD 2015 - $2,899).

During 2016, the Company initiated a review of its investment in 3PS, Inc. (3PS) due to the significant decline in capital spending in the markets 3PS serves, including the oil and gas drilling industry. In the fourth quarter of 2016 a final agreement was entered into for the sale of the net operating assets of 3PS, effective January 2017. As a result of this divestiture, the Company recorded a non-cash impairment loss of $17.5 million in the fourth quarter of 2016, the majority of which is attributable to the write-down of goodwill that arose as a result of the initial acquisition of 3PS.

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 $10.9 million, which is comprised of $6.0 million for employee termination and other staff-related costs, an onerous lease obligation charge of $3.7 million, which is calculated at the present value of the expected net cost of continuing with the lease after adjusting for anticipated sublease rentals, and the write-off of leasehold improvements and other related costs totaling $1.2 million.

In the third quarter of 2015, management concluded that drilling activity was likely to be at depressed levels for a longer period of time than originally anticipated and this resulted in the company updating its assumptions on equipment usage. This review identified additional excess equipment based upon management's best estimate of future drilling activity. The net book value of this excess equipment, totaling $26.6 million, of which $7.7 million related to the Canadian operating segment and $18.9 related to the US operating segment, was recorded as a non-cash impairment loss in the third quarter of 2015.

In the first quarter of 2015, the Company disposed of its investment in a small privately held company and realized a gain of $2.3 million.

## Q4 2016 versus Q3 2016

Consolidated revenue was $48.8 million in the fourth quarter of 2016 compared to $38.6 million in the third quarter of 2016, an increase of $10.2 million. Drilling activity in the Company's major markets increased in the fourth quarter of 2016, with US market activity up 22% while Canada saw an increase of 54%. The Canadian segment earned revenue of $14.6 million in the fourth quarter compared to $10.8 million in the third quarter of 2016. Revenue in the US market increased from $22.3 million in the third quarter to $28.6 in quarter four. The International segment revenue was flat quarter over quarter.

The Company recorded a net loss in the fourth quarter of 2016 of $11.3 million ($0.13 per share) compared to a loss of $7.1 million ($0.08 per share) in the third quarter of 2016. Included in the 2016 fourth quarter results is a non-cash impairment charge of $17.5 million.

Sequentially, adjusted EBITDA increased from $8.5 million in the third quarter of 2016 to $15.2 million in the fourth quarter of 2016, due to the increase in operating profits in all of the Company's operating segments. Funds flow from operations increased by $6.2 million.

# Summary of Quarterly Results

| Three Months Ended | Mar 31, 2015 | Jun 30, 2015 | Sep 30, 2015 | Dec 31, 2015 | Mar 31, 2016 | Jun 30, 2016 | Sept 30, 2016 | **Dec 31, 2016** |
|---|---|---|---|---|---|---|---|---|
| (000s, except per share data) | ($) | ($) | ($) | ($) | ($) | ($) | ($) | ($) |
| **Revenue** | 99,402 | 57,440 | 68,468 | 59,838 | 45,813 | 27,173 | 38,633 | **48,827** |
| **Income (loss)** | 14,191 | (9,404) | (18,558) | (841) | (10,860) | (11,319) | (7,117) | **(11,325)** |
| Per share – basic | 0.17 | (0.11) | (0.22) | (0.01) | (0.13) | (0.13) | (0.08) | **(0.13)** |
| Per share – diluted | 0.17 | (0.11) | (0.22) | (0.01) | (0.13) | (0.13) | (0.08) | **(0.13)** |
| **EBITDA** [1] | 44,126 | 7,485 | (2,717) | 20,736 | (353) | (2,231) | 8,347 | **(2,291)** |
| **Adjusted EBITDA** [1] | 41,679 | 9,911 | 24,742 | 20,128 | 8,763 | (1,470) | 8,487 | **15,225** |
| **Funds flow from (used in) operations** | 43,262 | 9,277 | 23,791 | 17,933 | 3,335 | (974) | 9,130 | **15,324** |
| Per share – basic | 0.52 | 0.11 | 0.28 | 0.21 | 0.04 | (0.01) | 0.11 | **0.18** |
| Per share – diluted | 0.52 | 0.11 | 0.28 | 0.21 | 0.04 | (0.01) | 0.11 | **0.18** |
| **Cash from operating activities** | 71,533 | 31,300 | 16,332 | 10,911 | 11,331 | 2,993 | 4,653 | **665** |
| **Free cash flow** [1] | 48,219 | 21,298 | 5,902 | 4,719 | 4,860 | (1,489) | 3,412 | **401** |
| Per share – basic | 0.58 | 0.25 | 0.07 | 0.05 | 0.06 | (0.02) | 0.04 | **0.00** |
| Per share – diluted | 0.58 | 0.25 | 0.07 | 0.05 | 0.06 | (0.02) | 0.04 | **0.00** |

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

## Reconcile income (loss) to EBITDA

| Three Months Ended | Mar 31, 2015 | Jun 30, 2015 | Sep 30, 2015 | Dec 31, 2015 | Mar 31, 2016 | Jun 30, 2016 | Sept 30, 2016 | **Dec 31, 2016** |
|---|---|---|---|---|---|---|---|---|
| (000s) | ($) | ($) | ($) | ($) | ($) | ($) | ($) | ($) |
| Income (loss) | 14,191 | (9,404) | (18,558) | (841) | (10,860) | (11,319) | (7,117) | **(11,325)** |
| Add: | | | | | | | | |
| Taxes | 12,278 | (9,272) | (4,226) | (1,027) | (6,817) | (6,728) | (922) | **(3,019)** |
| Depreciation and amortization | 21,722 | 20,598 | 19,259 | 19,802 | 16,362 | 13,578 | 14,929 | **10,515** |
| Stock-based compensation | (1,775) | 5,563 | 808 | 2,802 | 962 | 2,238 | 1,457 | **1,538** |
| Gain on sale investment | (2,290) | — | — | — | — | — | — | **—** |
| **EBITDA** [1] | 44,126 | 7,485 | (2,717) | 20,736 | (353) | (2,231) | 8,347 | **(2,291)** |

### Reconcile EBITDA to Adjusted EBITDA

| **Three Months Ended** | Mar 31, 2015 | Jun 30, 2015 | Sep 30, 2015 | Dec 31, 2015 | Mar 31, 2016 | Jun 30, 2016 | Sept 30, 2016 | **Dec 31, 2016** |
|---|---|---|---|---|---|---|---|---|
| (000s) | ($) | ($) | ($) | ($) | ($) | ($) | ($) | **($)** |
| EBITDA | 44,126 | 7,485 | (2,717) | 20,736 | (353) | (2,231) | 8,347 | **(2,291)** |
| Add: | | | | | | | | |
| Impairment charges | — | — | 26,555 | — | — | — | — | **17,474** |
| Restructuring costs | — | 2,572 | — | 1,024 | 10,861 | — | — | **—** |
| Foreign exchange | (2,447) | (12) | 904 | (1,549) | (2,719) | 396 | 96 | **284** |
| Other | — | (134) | — | (83) | 974 | 365 | 44 | **(242)** |
| **Adjusted EBITDA [1]** | 41,679 | 9,911 | 24,742 | 20,128 | 8,763 | (1,470) | 8,487 | **15,225** |

### Reconcile cash from operating activities to free cash flow

| **Three Months Ended** | Mar 31, 2015 | Jun 30, 2015 | Sep 30, 2015 | Dec 31, 2015 | Mar 31, 2016 | Jun 30, 2016 | Sep 30, 2016 | **Dec 31, 2016** |
|---|---|---|---|---|---|---|---|---|
| (000s) | ($) | ($) | ($) | ($) | ($) | ($) | ($) | **($)** |
| Cash from operating activities | 71,533 | 31,300 | 16,332 | 10,911 | 11,331 | 2,993 | 4,653 | **665** |
| Less: | | | | | | | | |
| Additions to property, plant and equipment | (21,236) | (7,595) | (8,333) | (6,219) | (4,774) | (3,465) | (582) | **(1,273)** |
| Deferred development costs | (2,078) | (2,407) | (2,097) | 27 | (1,697) | (1,017) | (659) | **1,009** |
| **Free cash flow [1]** | 48,219 | 21,298 | 5,902 | 4,719 | 4,860 | (1,489) | 3,412 | **401** |

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.

# Liquidity and Capital Resources

| **As at December 31,** | **2016** | 2015 | Change |
|---|---|---|---|
| (000s) | **($)** | ($) | (%) |
| Cash | **146,479** | 195,846 | (25) |
| Working capital | **198,419** | 244,972 | (19) |
| Funds flow from operations (1) | **26,815** | 94,263 | (72) |
| Capital expenditures (1) | **12,856** | 50,811 | (75) |
| As a % of funds flow (2) | **47.9%** | 53.9% | (6) |

(1) For the year ended.

(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 | 15,472 | 15,414 | 4,823 | 35,709 |

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

At December 31, 2016, the Company had no capital lease obligations, and other than the operating leases detailed above, has no off-balance sheet arrangements.

The Company has available a $5.0 million demand revolving credit facility. At December 31, 2016, no amount had been drawn on the facility.

## Disclosure of Outstanding Share and Options Data

As at December 31, 2016, there were 84.6 million common shares and 5.1 million options issued and outstanding.

# Acquisition and Divestiture

### Acquisition

Effective December 31, 2016, the Company purchased all of the existing and outstanding shares of Verdazo Analytics, Inc. (Verdazo), a company located in Calgary, Alberta, for total consideration of $12.3 million. The consideration is comprised of cash of $6.5 million and common shares of the Company of $5.8 million.

On December 31, 2016, the Company issued 67 common shares valued at $18.74 per share ($1.3 million). In January 2017, the Company paid $4.8 million of the cash portion owing. The remaining consideration is deferred over the next three years. The number of common shares issued on any particular date will be calculated based upon the prior twenty day volume weighted average price of the Company's common shares.

In accordance with IFRS 3, a portion of the deferred consideration payable is not considered part of the purchase price but is accounted for as future compensation expense. This amount, which will be accrued over the next three years, totals $4.2 million and is comprised of cash of $1.1 million and $3.1 million of common shares of the Company.

As a result the acquisition cost for accounting purposes is $8.1 million of which $6.8 million is included in trade payables and accruals in the Consolidated Balance Sheets.

Verdazo offers discovery analytics which enables energy producers to make informed decisions on how to enhance production, improve operations, and increase overall profitability. Verdazo's clients include oil and gas producers, financial services companies, and energy services providers. Verdazo's product contains powerful visual analysis tools, pre-built templates, and custom reports that work with multiple public and proprietary data sources. Discovery analytics is a sequence of explorations, each predicated on the discovery and insights of the last. The tool enables the user to take analyses wherever the data leads, powered by dynamic workflows that offer vast analytical possibilities. The addition of Verdazo's strong analytics platform for oil and gas production and operations will complement the Company's market leading drilling information ecosystem. By combining the two entities, the Company aims to provide customers with a holistic platform to analyze drilling, production, and operational data. In addition, Verdazo will be able to leverage the company's established brand and footprint to grow into the US market.

**Divestiture**

During 2016, the Company initiated a review of its investment in 3PS, Inc. (3PS) due to the significant decline in capital spending in the markets 3PS serves, including the oil and gas drilling industry. In the fourth quarter of 2016 a final agreement was entered into for the sale of the net operating assets of 3PS, effective January, 2017. As a result of this divestiture, the Company recorded a non-cash impairment loss of $17.5 million in the fourth quarter of 2016, the majority of which is attributable to the write-down of goodwill that arose as a result of the initial acquisition of 3PS.

The net operating assets sold have been separately identified on the Consolidated Balance Sheets. Cash proceeds of $7.4 million were received in January, 2017. The remaining $0.8 million is held in escrow and will be released twelve months after closing in accordance with the terms of the escrow agreement.

# SEDAR

Additional information relating to the Company can be accessed on the Company's website at www.pason.com and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

# Critical Accounting Estimates

The preparation of the consolidated financial statements requires that certain estimates and judgments be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and management's judgments, and as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired.

## Depreciation and Amortization

The accounting estimate that has the greatest impact on the Company's financial statements is depreciation and amortization. Depreciation of the Company's capital assets includes estimates of useful lives. These estimates may change with experience over time so that actual results could differ significantly from these estimates.

## Carrying Value of Assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. Judgements and assessments are made to determine whether an event has occurred that indicates a possible impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year.

## Stock-Based Payments

The fair value of stock-based payments is calculated using a Black-Scholes option pricing model. There are a number of estimates used in the calculation, such as the future forfeiture rate, expected option life, and the future price volatility of the underlying security, which can vary from actual future events. The factors applied in the calculation are management's best estimates based on historical information and future forecasts.

## Income Taxes

The calculation of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences, tax losses, and other tax credits will reverse. Tax interpretations, regulations, and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change.

The estimation of deferred tax assets and liabilities includes uncertainty with respect to the reversal of temporary differences.

Deferred tax assets are recognized for the carry-forward of unused tax losses and unused tax credits when it is probable that taxable income will be available to utilize unused tax losses and unused tax credits. This requires estimation of future taxable income and usage of tax loss carry-forwards for a considerable period into the future. Income tax expense in future periods may be affected to the extent actual taxable income is not sufficient or available to use the temporary differences giving rise to the deferred tax asset.

# Risk and Uncertainties

Pason has implemented a risk management framework that helps the Company manage the reality that future events, decisions or actions may cause undesirable effects. The framework takes a value-based approach to identifying, prioritizing, communicating, mitigating and monitoring risks, and aligns this with the organization's appetite for risk considering our culture, strategy, and objectives.

Although a framework can help the Company to manage its risks, the Company's performance is subject to a variety of risks and uncertainties. Although the risks described below are the risks that we believe are material, there may also be risks of which we are currently unaware, or that we currently regard as immaterial based upon the information available to us. Interested parties should be aware that the occurrence of the events described in these risk factors could have a material adverse effect on our business, operating results, and financial condition.

## Operating Risks

Pason derives the majority of its revenue from the rental of instrumentation and data services to oil and gas companies and drilling contractors in Canada, the US, Australia, and Latin America. The demand for our products is directly related to land-based or offshore drilling activity funded by energy companies' capital expenditure programs. A substantial or extended decline in energy prices or diversion of funds to large capital programs could adversely affect capital available for drilling activities, directly impacting Pason's revenue.

## Commodity Prices

Prices for crude oil and natural gas fluctuate in response to a number of factors beyond Pason's control. The factors that affect prices include, but are not limited to, the following: the actions of the Organization of Petroleum Exporting Countries, world economic conditions, government regulation, political stability in the Middle East and elsewhere, the foreign supply of crude oil, the price of foreign imports, the availability of alternate fuel sources, and weather conditions. Any of these can reduce the amount of drilling activity.

## Seasonality

Drilling activity in Canada is seasonal due to weather that limits access to leases in the spring and summer, making the first and last quarters of each year the peak level of demand for Pason's services due to the higher level of drilling activity. The length of the drilling season can be shortened due to warmer winter weather or rainy seasons. Pason can offset some of this risk, although not eliminate it, through continued growth in the US and internationally, where activity is less seasonal.

## Proprietary Rights

Pason relies on innovative technologies and products to protect its competitive position in the market. To protect Pason's intellectual property, the company employs trademarks, patents, employment agreements, and other measures to protect trade secrets and confidentiality of information. Pason also believes that due to the rapid pace of technological change in the industry, technical expertise, knowledge, and innovative skill, combined with an ability to rapidly develop, produce, enhance, and market products, also provides protection in maintaining a competitive position.

## Litigation

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in Pason's favour, the Company does not currently believe that the outcome of any pending or threatened proceedings related to these or other matters, or the amounts which the Company may be required to pay by reason thereof, would individually or in the aggregate have a material adverse impact on its day-to-day business operations.

## Credit Risk

Pason is exposed to credit risk to the extent that its customers, operating primarily in the oil and natural gas industry, may experience financial difficulty and be unable to meet their obligations. However, Pason has a large number of customers on both the Operator and Contractor side, which minimizes exposure to any single customer.

## Availability of Qualified Personnel

Due to the specialized and technical nature of Pason's business, Pason is highly dependent on attracting and retaining qualified or key personnel. There is competition for qualified personnel in the areas where Pason operates, and there can be no assurance that qualified personnel can be attracted or retained to meet the growth needs of the business. To mitigate this risk, Pason has a People & Culture department within each significant business unit to support the human resources function.

## Alternative Energies

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

## International Operations

Assets outside of Canada and the US may be adversely affected by changes in governmental policy, social instability, or other political or economic developments beyond the Company's control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and considered warranted. Approximately 85% of the Company's revenues are generated in Canada and the US, which limits exposure to risks and uncertainties in foreign countries.

## Foreign Exchange Exposure

The Company operates internationally and is primarily exposed to exchange risk relative to the US dollar. The Canadian operations are exposed to currency risk on US denominated financial assets and liabilities with fluctuations in the rate recognized as foreign exchange gains or losses in the Consolidated Statements of Operations. The Company's self-sustaining foreign subsidiaries expose the Company to exchange rate risk on the translation of their financial assets and liabilities to Canadian dollars for consolidation purposes.

Adjustments arising when translating the foreign subsidiaries into Canadian dollars are reflected in the Consolidated Statements of Operations and Other Comprehensive Income as unrealized foreign currency translation adjustments. The Company has not hedged either one of these risks.

The Company does not employ any financial instruments to manage risk or hedge its activities. The vast majority of the Company's activities are conducted in Canada and the US, where local revenue is earned against local expenses and the Company is therefore naturally hedged.

# Major Customers

Pason has a large customer base on both the Operator and Contractor side and does not rely on any single customer for a significant portion of its revenue. During the year ended December 31, 2016, no single customer accounted for more than 10% of the consolidated revenues of the company. The loss of one or more customers, or a reduction in the amount of business Pason does with any of its customers, if not offset by obtaining new customers or increasing the amount of business it does with existing customers, could have a detrimental impact on Pason's revenue.

# Key Personnel

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

# Dividends

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

# Taxation

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

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

# Information Security

Pason's business operations utilize 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 take 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.

# Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The preparation and presentation of the Company's consolidated financial statements and the overall reasonableness of the Company's financial reporting are the responsibility of management. The Board of Directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility with the assistance of the Audit Committee of the Board of Directors.

## Management’s Report on Disclosure Controls and Procedures (DC&P)

Disclosure controls and procedures within the Company have been designed to provide reasonable assurance that all relevant information is identified to the President and Chief Executive Officer (CEO), Chief Financial Officer (CFO), and Board of Directors to ensure appropriate and timely decisions are made regarding public disclosure.

An evaluation of the Company’s Disclosure Controls and Procedures was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2016, our DC&P, as defined in National Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings (NI 52-109), was effective.

## Management’s Report on Internal Control over Financial Reporting (ICFR)

Management, under the supervision and participation of the Company’s CEO and CFO, is responsible for establishing and maintaining a system of internal controls over financial reporting to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles. The assessment has been based on criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the Company’s ICFR was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2016, our ICFR, as defined in NI 52-109, was effective. There were no changes in our ICFR during the year ended December 31, 2016 that have materially affected, or are reasonably likely to affect, our ICFR.

# Corporate Information

## Directors

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

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

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

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

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

(1) Audit Committee Chairman
(2) Audit Committee Member
(3) HR and Compensation Committee Chairman
(4) HR and Compensation Committee Member
(5) Corporate Governance and Nominations Committee Chairman
(6) Corporate Governance and Nomination Committee Member
(7) Lead Director

## Officers & Key Personnel

**Marcel Kessler**
President
& Chief Executive Officer

**Jon Faber**
Chief Financial Officer

**David Elliott**
Vice President, Finance

**Timur Kuru**
President and General Manager – United States

**Bryce McLean**
General Manager, Operations – Canada

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

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

**Lars Olesen**
Vice President, Product Management

**Kevin Boston**
Vice President, Sales & Business Development

**Kevin Lo**
Vice President, New Ventures

**Melinda Ando**
General Counsel & Corporate Secretary

## Corporate Head Office

Pason Systems Inc.
6130 Third Street SE
Calgary, Alberta
T2H 1K4
T: 403-301-3400
F: 403-301-3499
InvestorRelations@pason.com
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.

# Annual Meeting

Shareholders are also invited to attend the Company's Annual Meeting on Wednesday, May 3, 2017, at 3:30 pm at the offices of Pason Systems Inc., 6120 Third Street SE, Calgary, Alberta.

# Historical Review

## Selected Financial Data

**Years Ended December 31,**

| | **2016** | 2015 | 2014 | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 |
|---|---|---|---|---|---|---|---|---|---|---|
| (CDN 000s, except per share data) | **($)** | ($) | ($) | ($) | ($) | ($) | ($) | ($) | ($) | ($) |
| **Operating Results** | | | | | | | | | | |
| Revenue | **160,446** | 285,148 | 499,272 | 403,088 | 386,514 | 346,158 | 260,397 | 153,823 | 300,484 | 236,439 |
| Expenses | | | | | | | | | | |
| Rental services | **80,115** | 120,445 | 153,151 | 134,874 | 125,269 | 113,568 | 94,299 | 72,428 | 106,600 | 83,058 |
| Corporate services | **16,758** | 20,040 | 22,243 | 17,373 | 15,723 | 12,975 | 17,770 | 11,611 | 13,250 | 12,708 |
| Research and development | **22,848** | 31,733 | 35,427 | 27,252 | 22,467 | 17,366 | 16,472 | 13,140 | 12,888 | 9,566 |
| Stock-based compensation | **6,195** | 7,398 | 19,471 | 32,511 | 23,792 | 1,309 | 11,233 | 5,684 | 7,525 | 5,248 |
| Depreciation and amortization | **55,384** | 81,381 | 69,201 | 62,171 | 68,213 | 58,565 | 49,108 | 55,842 | 55,719 | 42,797 |
| EBITDA[1] | **3,472** | 71,920 | 251,623 | 136,647 | 151,753 | 171,661 | 110,867 | 46,651 | 144,883 | 128,088 |
| As a % of revenue | **2.2** | 25.2 | 50.4 | 33.9 | 39.3 | 49.6 | 47.1 | 32.0 | 49.5 | 54.2 |
| Funds flow from operations | **26,815** | 94,263 | 224,204 | 134,930 | 158,948 | 145,358 | 93,973 | 41,354 | 124,726 | 103,766 |
| Per share – basic | **0.32** | 1.13 | 2.71 | 1.64 | 1.94 | 1.78 | 1.15 | 0.51 | 1.53 | 1.30 |
| (Loss) income | **(40,621)** | (14,612) | 112,104 | 23,655 | 39,884 | 86,223 | 36,474 | (5,510) | 61,321 | 55,052 |
| Per share – basic | **(0.48)** | (0.17) | 1.36 | 0.29 | 0.49 | 1.05 | 0.45 | (0.07) | 0.75 | 0.69 |
| Capital expenditures | **12,856** | 50,811 | 121,188 | 70,664 | 71,424 | 78,357 | 50,164 | 21,493 | 56,292 | 76,615 |
| **Financial Position** | | | | | | | | | | |
| Total assets | **435,251** | 529,625 | 570,066 | 445,876 | 488,378 | 455,901 | 402,082 | 354,273 | 427,016 | 302,593 |
| Working capital | **198,419** | 244,972 | 206,571 | 127,933 | 163,371 | 126,605 | 105,815 | 108,113 | 152,337 | 77,806 |
| Total equity | **386,651** | 489,448 | 483,523 | 366,469 | 368,696 | 367,269 | 309,684 | 308,335 | 354,589 | 270,717 |
| Return on total equity %[2] | **(9)** | (3) | 26 | 6 | 11 | 25 | 12 | (2) | 20 | 22 |
| **Common Share Data** | | | | | | | | | | |
| Common shares outstanding (#) | | | | | | | | | | |
| At December 31 | **84,628** | 84,063 | 83,363 | 82,158 | 82,049 | 81,904 | 81,714 | 81,487 | 81,456 | 80,346 |
| Weighted average | **84,365** | 83,675 | 82,647 | 82,098 | 81,968 | 81,851 | 81,525 | 81,476 | 81,426 | 79,586 |
| Share trading | | | | | | | | | | |
| High ($) | **20.29** | 23.10 | 35.51 | 23.77 | 18.12 | 16.53 | 14.82 | 14.45 | 18.40 | 17.93 |
| Low ($) | **14.46** | 16.51 | 20.82 | 15.74 | 12.04 | 11.53 | 10.31 | 8.26 | 8.00 | 11.51 |
| Close ($) | **19.64** | 19.39 | 21.89 | 22.98 | 17.15 | 12.00 | 13.96 | 11.65 | 14.05 | 12.49 |
| Volume (#) | **42,898** | 37,476 | 37,538 | 24,105 | 25,053 | 24,658 | 23,793 | 28,605 | 36,505 | 34,560 |
| Dividends ($) | **0.68** | 0.68 | 0.64 | 0.53 | 0.46 | 0.38 | 0.33 | 0.26 | 0.22 | 0.16 |

(1) Non-IFRS financial measures are defined in the Management's Discussion and Analysis section.
(2) Return on total equity is calculated as earnings over the simple average of the beginning and ending total equity.