Performance Data

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

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

Q2 2017 vs Q2 2016

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

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

The Company recorded net income of $6.9 million ($0.08 per share) in the second quarter of 2017, compared to a net loss of $11.3 million ($0.13 per share) recorded in the same period in 2016. The increase in Canadian and US revenue combined with cost reduction programs previously implemented and a significant decline in depreciation expense from prior year levels led to the increase in income from 2016 levels. In addition, the strengthening Canadian dollar toward the end of the second quarter of 2017 led to a lower effective tax rate for the second quarter of 2017.

President’s Message

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

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

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

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

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

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

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

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

Examples of this include our ePVT Adaptive Alarms and Digital Trip Sheets, AC AutoDriller, abbl Directional Advisor and the deployment of the advanced Exxon Drilling Advisory System. We are building on our acquisition of Verdazo Analytics to provide customers with a holistic platform to analyze drilling, production, and operational data. The deployment of an enhanced Live Rig View (LRV) web service to our cloud-based offering benefits office-based users of Pason data.

Our capital expenditures will be relatively modest going forward with a larger portion of our current development efforts focused on software and analytics. Our very capable and flexible rigsite IT and communications platform can host new Pason and third party software. For 2017, we intend to spend up to $25 million in capital expenditures.

Pason's market position remains very strong and the outlook for our new products and services looks promising. We are the service provider of choice for many leading operators and drilling contractors with Pason equipment installed on over 65% of all active land drilling rigs in the Western Hemisphere and a growing presence in the Middle East.

Marcel Kessler
President and Chief Executive Officer
August 9, 2017

Management’s Discussion and Analysis

The following discussion and analysis has been prepared by management as of August 9, 2017, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the consolidated financial statements and accompanying notes.

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

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

Additional IFRS Measures

In its interim condensed consolidated financial statements, the Corporation uses certain additional IFRS measures. Management believes these measures provide useful supplemental information to readers.

Funds flow from operations

Management believes that funds flow from operations, as reported in the Consolidated Statements of Cash Flows, is a useful additional measure as it represents the cash generated during the period, regardless of the timing of collection of receivables and payment of payables. Funds flow from operations represents the cash flow from continuing operations, excluding non-cash items. Funds flow from operations is defined as net income adjusted for depreciation and amortization expense, non-cash stock-based compensation expense, deferred taxes, and other non-cash items impacting operations.

Cash from operating activities

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

Non-IFRS Financial Measures

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

Revenue per EDR Day

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

EBITDA

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

Adjusted EBITDA

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

Free cash flow

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

Overall Performance

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

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

Canada

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

United States

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

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

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

Industry activity in the US market increased 118% in the second quarter of 2017 compared to the corresponding period in 2016 (68% on a year-to-date basis), while second quarter Canadian rig activity increased 141% (93% on a year-to-date basis). Canadian EDR days, which includes some non-oil and gas-related activity, increased 109% in the second quarter of 2017 from 2016 levels (70% on a year-to-date basis), while US EDR days increased by 138% from the second quarter of 2016 (81% on a year-to-date basis).

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

The Canadian business unit continued to see increased competition from a number of competitors. For the first half of 2017, the Pason EDR was installed on 89% of the land rigs in the Canadian market; for the same period in 2016 the number of EDR days exceeded the number of reported industry days.

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

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

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

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

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

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

For the second quarter of 2017, the Company saw an increase in rig count in its Australian and Andean operating areas, compared to the corresponding period in 2016. Rig count continues to be depressed in Argentina and Mexico. In the Middle East, the Company is realizing an increase in its share of net income from its Saudi Arabia joint venture as a result of a continuing increases in rig count and market penetration.

Discussion of Operations

United States Operations

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

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

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

US segment revenue increased by 139% in the second quarter of 2017 over the 2016 comparable period. For the first six months, revenue increased 73% compared to the prior year. Included in the prior year results was revenue (included in other revenue) from 3PS, the net operating assets of which were sold effective January 1, 2017. Removing 3PS revenue from the comparative figures, revenue increased by 165% in the second quarter of 2017 compared to 2016 (151% increase when measured in USD). The value of the Canadian dollar relative to the US dollar had a positive impact on revenue when measured in Canadian dollars in the second quarter of 2017. For the first half of 2017, revenue increased by 90% (89% when measured in USD) when removing 3PS revenue.

Industry activity in the US market during the second quarter of 2017 increased 118% from the prior year, and 68% for the first six months. US market share was 55% for the second quarter of 2017 compared to 51% during the same period of 2016, primarily driven by market share growth in key US regions combined with changes in the mix of active customers.

EDR rental days increased by 138% for the quarter ended June 30, 2017, over the same time period in 2016, while revenue per EDR day in the second quarter of 2017 increased to US$661, an increase of US $37 over the same period in 2016. This increase is due to an uptick on adoption of certain key products, combined with continued customer acceptance of enhanced communication solutions. Pricing discounts were similar to 2016 levels.

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

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

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

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

Canadian Operations

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

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

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

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

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

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

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

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

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

International Operations

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

The international rig count was up in several of the Company's international markets, most notably Australia and portions of the Andean region in South America. As a result, revenue in the International operations segment increased 6% in the second quarter of 2017 compared to the same period in 2016. For the first half of 2017 revenue decreased by 8% from prior years levels as a result of lower activity in the Company's Argentina and Mexico markets.

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

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

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

Corporate Expenses

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

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

Q2 2017 vs Q1 2017

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

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

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

Summary of Quarterly Results

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

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

Reconcile income (loss) to EBITDA

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

Reconcile EBITDA to Adjusted EBITDA

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

Reconcile cash from operating activities to free cash flow

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

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

Liquidity and Capital Resources

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

(1) Figures are for the Six months ended June 30.

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

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

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

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

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	($)	($)	($)	($)
Operating leases and other contracts	13,634	9,926	4,823	28,383

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

At June 30, 2017, the Company had no capital lease obligations, and other than the operating leases detailed above, and the onerous lease obligation recorded, has no off-balance sheet arrangements.

The Company has available a $5.0 million demand revolving credit facility. At June 30, 2017, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at June 30, 2017, there were 84.8 million common shares and 4.5 million options issued and outstanding.

SEDAR

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

Critical Accounting Estimates

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

Depreciation and Amortization

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

Carrying Value of Assets

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

Stock-Based Payments

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

Income Taxes

The calculation of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences, tax losses, and other tax credits will reverse. Tax interpretations, regulations, and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change. See note 2 to the Condensed Consolidated Interim Financial Statements for additional information.

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

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

Risk and Uncertainties

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

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

Operating Risks

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

Commodity Prices

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

Seasonality

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

Proprietary Rights

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

Litigation

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

Credit Risk

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

Availability of Qualified Personnel

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

Alternative Energies

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

International Operations

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

Foreign Exchange Exposure

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

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

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

Major Customers

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

Key Personnel

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

Dividends

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

Taxation

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

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

Information Security

Pason's business operations use an extensive network of communications and computer hardware and software systems. In addition, Pason's equipment captures, transmits, and stores significant quantities of drilling data on behalf of its customers. The Company takes measures to protect the security and integrity of its information systems and data, however, there is a risk that these measures may not fully protect against a potential security breach, which could have a negative impact on the Company's ability to operate or its reputation with existing and potential customers.

Corporate Information

Directors

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

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

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

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

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

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

Officers & Key Personnel

Marcel Kessler
President
& Chief Executive Officer

Jon Faber
Chief Financial Officer

David Elliott
Vice President, Finance

Timur Kuru
President and General Manager – United States

Bryce McLean
General Manager, Operations – Canada

Russell Smith
Vice President, Operations – International & Offshore

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

Lars Olesen
Vice President, Product Management

Kevin Boston
Vice President, Business Development

Kevin Lo
Vice President, New Ventures

Melinda Ando
General Counsel & Corporate Secretary

Corporate Head Office

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Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI.TO

Eligible Dividend Designation

Pursuant to the Canadian Income Tax Act, dividends paid by the Company to Canadian residents are considered to be “eligible” dividends.