Press Release

**Pason Reports Fourth Quarter and Year End 2012 Results**

**FOR IMMEDIATE RELEASE**

**CALGARY, Alberta (February 21, 2013)** – Pason Systems Inc. (PSI.TO) announced today its 2012 fourth quarter and year end results.

# Performance Data

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 (reclassified) | Change | **2012** | 2011 (reclassified) | Change |
| (CDN 000s, except per share data) | ($) | ($) | (%) | ($) | ($) | (%) |
| Revenue [1] | **90,995** | 100,933 | (10) | **386,514** | 346,158 | 12 |
| EBITDA [2] | **8,286** | 47,920 | (83) | **151,753** | 171,661 | (12) |
| As a % of revenue | **9.1** | 47.5 | (81) | **39.3** | 49.6 | (21) |
| Per share – basic | **0.10** | 0.59 | (83) | **1.85** | 2.10 | (12) |
| Per share – diluted | **0.10** | 0.58 | (83) | **1.84** | 2.08 | (12) |
| Funds flow from operations [2] | **36,278** | 42,089 | (14) | **158,948** | 145,358 | 9 |
| Per share – basic | **0.44** | 0.51 | (14) | **1.94** | 1.78 | 9 |
| Per share – diluted | **0.44** | 0.51 | (14) | **1.92** | 1.76 | 9 |
| (Loss) earnings | **(13,703)** | 31,702 | N/A | **39,884** | 86,223 | (54) |
| Per share – basic | **(0.17)** | 0.39 | N/A | **0.49** | 1.05 | (54) |
| Per share – diluted | **(0.17)** | 0.38 | N/A | **0.48** | 1.04 | (54) |
| Capital expenditures | **13,602** | 21,927 | (38) | **69,780** | 78,357 | (11) |
| Working capital | **163,371** | 126,605 | 29 | **163,371** | 126,605 | 29 |
| Total assets | **488,378** | 455,901 | 7 | **488,378** | 455,901 | 7 |
| Total long-term debt | **--** | -- | -- | **--** | -- | -- |
| Total equity | **368,696** | 367,269 | -- | **368,696** | 367,269 | -- |
| Market capitalization | **1,407,141** | 982,848 | 43 | **1,407,141** | 982,848 | 43 |
| Cash dividends declared | **0.24** | 0.20 | 20 | **0.46** | 0.38 | 21 |
| Common shares outstanding (#) | | | | | | |
| Basic | **82,035** | 81,903 | -- | **81,968** | 81,851 | -- |
| Diluted | **83,056** | 82,077 | 2 | **82,679** | 82,572 | 2 |
| Shares outstanding end of period (#) | **82,049** | 81,904 | -- | **82,049** | 81,904 | -- |

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly. This change has no impact on reported EBITDA, funds flow from operations or earnings.

(2) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense, and depreciation and amortization expense. Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, impairment losses, stock-based compensation expense, deferred income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. These definitions are not recognized measures under International Financial Reporting Standards, and accordingly, may not be comparable to measures used by other companies.

# President’s Message

Drilling days and active rig counts in North America were lower in the fourth quarter of 2012 than in the fourth quarter of the previous year, with the decline in Canadian activity being steeper than in the United States. International markets continued their steady activity increase. Strong revenue growth in the International markets was more than offset by a decline in revenue in both the United States and Canada. As a result, total revenue decreased 10% to $91.0 million in the fourth quarter of 2012. For the full year, however, revenue increased 12% to $386.5 million.

All product categories generated revenue growth above drilling industry activity during the quarter with the exception of the Pit Volume Totalizer and Communications. As in previous quarters, the Software segment demonstrated the highest year-over-year growth rate at 33%, followed by the Hazardous Gas Alarm at 30% and the Gas Analyzer at 8%. These three product categories also led growth for the full year, with 68% for Software, 40% for Hazardous Gas Alarm and 28% for Gas Analyzer.

Funds flow from operations decreased 14% to $36.3 million for the fourth quarter, however for the full year it grew 9% to $158.9 million.

EBITDA for the quarter dropped by 83% to $8.3 million. EBITDA, as a percentage of revenue, was 9% in the fourth quarter compared to 47% in the fourth quarter of the previous year, and 39% versus 50% for the full year. The Company generated a net loss for the quarter of $13.7 million, or $0.17 per share, compared to net earnings of $31.7 million, or $0.39 per share, in the fourth quarter of 2011. Fourth quarter net earnings were negatively impacted by a number of significant factors:

- A non-cash accrual of an additional $32.5 million for the liability related to the ongoing patent litigation. Management continues to be confident in its defenses in the three cases, namely that the asserted claims of the 142 patent are not valid, and/or the Company does not infringe on any valid claims. Nevertheless, in light of the cumulative effect of the progress on these cases in 2012, including the appeal of the Colorado case, the fact that the Texas case has been filed, the reopening of the Canadian case, and a recent mediation that did not result in a voluntary resolution, the Company decided to accrue, in accordance with accounting guidelines, this additional amount;

- A $9.8 million increase in stock-based compensation due to an increase in the Company’s stock price;

- A non-cash impairment loss of $4.7 million charged against our Torque and Tension Sub program. While interest in sold systems has been robust, progress on the rental side has been slow. The impairment relates primarily to certain peripheral equipment that is required for the rental fleet but not for sold systems;

- A final non-cash impairment loss of $0.6 million charged against the US water treatment business as we sold our plant in Colorado;

- A $1.7 million increase in R&D costs as we completed the hiring of staff to support our Electronic Drilling Recorder (EDR) evolution project.

Capital expenditures for the quarter were $13.6 million, down from $21.9 million the previous year, as the North American roll-out of the new Gas Analyzer was completed over the summer. For the full year, capital expenditures were $69.8 million compared to $78.4 million in 2011.

On December 31, our cash position stood at $157.9 million and our working capital stood at $163.4 million. We are increasing our quarterly dividend by 8% to $0.13 per share. The Pason Board of Directors previously made the decision to adopt a quarterly dividend policy starting in 2013.

### United States

The US segment includes our US rental business, 3PS Inc., our Austin-based equipment manufacturer, and the water treatment business, which we shut down during 2012.

Drilling activity in the United States continued its downward trend. While industry days were down 11% in the fourth quarter 2012 compared to the fourth quarter of 2011, revenue in the US segment was down 10% to $49.0 million. For the full year, revenue was up 18% to $223.1 million. On average, 936 US land rigs were operating Pason equipment during the fourth quarter of 2012, compared to 1,089 in the same period of 2011. Our EDR market share for the fourth quarter of 2012 was 54%, compared to 55% in the third quarter.

Revenue growth above industry day growth was achieved through higher product penetration and a price increase at the beginning of 2012, resulting in a 13% increase in average daily revenue per rig from US$507 in the fourth quarter of 2011 to US$574 in 2012. The Software, Gas Analyzer, and Hazardous Gas Alarm products again achieved above-average revenue growth.

Operating costs decreased 18% and depreciation and amortization increased by 39%. As a result, our US business unit was able to generate an operating profit of $23.2 million in the fourth quarter, a decrease of 13% over 2011. For the full year, operating profit increased 18% to $104.9 million.

### Canada

Drilling activity in Canada was significantly lower in the fourth quarter of 2012 than in the previous year, with industry days down 24%. Our Canadian business unit was able to partially offset this significant reduction in activity levels through new product adoption and more products on each rig.

Revenue for the fourth quarter was down 19% to $32.0 million. On average, 308 Canadian land rigs were operating Pason equipment compared to 443 the year before. EDR market share was 92% compared to 91% in the previous quarter. For the full year, revenue was down 2% to $125.7 million.

Average daily revenue generated on each rig with a Pason product installed grew 16% to $1,120 in the fourth quarter of 2012 from $963 in 2011. As in the United States, the Software, Gas Analyzer, and Hazardous Gas Alarm products showed above average growth rates during the period.

Operating costs decreased by 18% and depreciation and amortization decreased by 9%. As a result, our Canadian business unit was able to generate an operating profit of $16.9 million for the quarter, compared to $22.1 million for the same period in 2011, a decrease of 23%. For the full year, operating profit increased 5% to $62.5 million.

### International

Our International business unit, which includes our businesses in Latin America, Australia, and offshore, had another excellent quarter. Revenue increased 45% to $9.9 million for the quarter. This represents 11% of Pason's total revenue. We realized gains in all major international markets with notable gains in Argentina, Brazil, Australia, and Mexico. For the full year, revenue was up 32% to a record $37.7 million.

Operating costs were down 11% and depreciation and amortization decreased by 35%. As a result, the International business unit was able to generate a quarterly operating profit of $1.3 million, up from a loss of $3.9 million the previous year. For the full year, an operating profit of $5.8 million was realized compared to a loss of $1.5 million in 2011.

### Outlook

There is significant uncertainty regarding the outlook for North American drilling activity in 2013 at this point in time. Many operating companies have started reducing CAPEX budgets. The natural gas glut generated by unconventional plays does limit gas-directed drilling activity, challenging our ability to significantly grow revenue in the short term. As with every year, the timing of spring break-up in Canada will be a key driver of first quarter 2013 results. We expect the International business unit to continue to realize robust profitable growth this year.

Our capital expenditure budget for the next 12 months is $84.3 million, $57.5 million of which is directed towards equipment that can generate incremental revenue or save operating costs, $13.0 million for maintenance capital, and $13.8 million for capitalized R&D.

Our cash-generating capacity, a cash position at $157.9 million, and working capital of $163.4 million are strong enough to comfortably cover new business development, planned equipment upgrades, our dividend, and any probable adverse outcome in the patent litigation.

As the industry leader in field services, with outstanding technical support, a competitive product suite, and a promising R&D project pipeline, Pason is well positioned to weather a period of lower North American drilling activity and to capitalize on growth opportunities.

Marcel Kessler
President and Chief Executive Officer
February 21, 2013

# Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of February 21, 2013 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.

## Overview of the 2012 Fourth Quarter

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 (reclassified) | 2010 (reclassified) | **2012** | 2011 (reclassified) | 2010 (reclassified) |
| (000s, except per share data) | ($) | ($) | ($) | ($) | ($) | ($) |
| **Revenue** (1) | **90,995** | 100,933 | 76,390 | **386,514** | 346,158 | 260,397 |
| **EBITDA** (2) | **8,286** | 47,920 | 29,359 | **151,753** | 171,661 | 110,867 |
| As a % of revenue | **9.1** | 47.5 | 38.4 | **39.3** | 49.6 | 42.6 |
| Per share – basic | **0.10** | 0.59 | 0.36 | **1.85** | 2.10 | 1.36 |
| Per share – diluted | **0.10** | 0.58 | 0.36 | **1.84** | 2.08 | 1.36 |
| **Funds flow from operations** (2) | **36,278** | 42,089 | 27,899 | **158,948** | 145,358 | 93,973 |
| Per share – basic | **0.44** | 0.51 | 0.34 | **1.94** | 1.78 | 1.15 |
| Per share – diluted | **0.44** | 0.51 | 0.34 | **1.92** | 1.76 | 1.15 |
| **(Loss) earnings** | **(13,703)** | 31,702 | 10,525 | **39,884** | 86,223 | 36,474 |
| Per share – basic | **(0.17)** | 0.39 | 0.13 | **0.49** | 1.05 | 0.45 |
| Per share – diluted | **(0.17)** | 0.38 | 0.13 | **0.48** | 1.04 | 0.45 |
| **Total assets** | **488,378** | 455,901 | 402,082 | **488,378** | 455,901 | 402,082 |
| **Total long-term debt** | **--** | -- | -- | **--** | -- | -- |

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly. This change has no impact on reported EBITDA, funds flow from operations or earnings.

(2) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense, and depreciation and amortization expense. Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, impairment losses, stock-based compensation expense, deferred income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. These definitions are not recognized measures under International Financial Reporting Standards, and accordingly, may not be comparable to measures used by other companies.

# Overall Performance

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 (reclassified) | Change | **2012** | 2011 (reclassified) | Change |
| (000s) | ($) | ($) | (%) | ($) | ($) | (%) |
| **Revenue** | | | | | | |
| Electronic Drilling Recorder (1) | **38,448** | 42,905 | (10) | **159,607** | 145,771 | 9 |
| Pit Volume Totalizer | **14,100** | 16,888 | (17) | **59,220** | 58,591 | 1 |
| Communications (1)(2) | **7,533** | 9,196 | (18) | **32,227** | 32,209 | -- |
| Software (2) | **6,188** | 4,662 | 33 | **24,916** | 14,798 | 68 |
| Automatic Driller | **9,410** | 11,520 | (18) | **40,399** | 39,395 | 3 |
| Gas Analyzer/Total Gas System | **6,898** | 6,413 | 8 | **27,304** | 21,306 | 28 |
| Hazardous Gas Alarm System | **1,932** | 1,490 | 30 | **7,345** | 5,258 | 40 |
| Mobilization | **3,098** | 2,481 | 25 | **12,265** | 9,523 | 29 |
| Other (2) | **3,388** | 5,378 | (37) | **23,231** | 19,307 | 20 |
| **Total revenue** | **90,995** | 100,933 | (10) | **386,514** | 346,158 | 12 |

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly.

(2) 2011 revenue associated with the Company's software applications has been reclassified from Communications to Software.

### Change in Accounting Classification

In the fourth quarter of 2012, the Company changed the way it records expenses associated with data transmission costs. Previously, the Company recorded these costs as a reduction in revenue. Effective for 2012, these costs have been reclassified to rental services expense. This change, which does not impact EBITDA or net income, was applied retroactively, with all comparative figures being restated accordingly. All revenue and operating cost figures, as well as key metrics based upon revenue, in the following Management and Discussion and Analysis, have been calculated based upon this new presentation.

The impact of this reclassification on the 2011 comparative figures presented above is as follows:

| | Three Months Ended December 31, 2011 | | | Year Ended December 31,2011 | | |
|---|---|---|---|---|---|---|
| | **Reported** | Previously Disclosed | Change | **Reported** | Previously Disclosed | Change |
| (000s) | **($)** | ($) | ($) | **($)** | ($) | ($) |
| **Revenue** | | | | | | |
| Electronic Drilling Recorder (1) | **42,905** | 40,079 | 2,826 | **145,771** | 134,935 | 10,836 |
| Communications (1)(2) | **9,196** | 8,711 | 485 | **32,209** | 30,407 | 1,802 |
| **Total revenue** | **100,933** | 97,622 | 3,311 | **346,158** | 333,520 | 12,638 |

**Canada**

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | Change | **2012** | 2011 | Change |
| | | | (%) | | | (%) |
| EDR rental days (#) | **28,300** | 40,800 | (31) | **115,800** | 141,200 | (18) |
| PVT rental days (#) | **27,900** | 37,900 | (26) | **114,100** | 135,400 | (16) |

**United States**

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | Change | **2012** | 2011 | Change |
| | | | (%) | | | (%) |
| EDR rental days (#) | **86,100** | 100,200 | (14) | **378,800** | 381,700 | (1) |
| PVT rental days (#) | **62,100** | 70,100 | (11) | **267,800** | 264,200 | 1 |

## Electronic Drilling Recorder

The Pason Electronic Drilling Recorder (EDR) remains the Company's primary product. The EDR provides a complete system of drilling data acquisition, data networking, and drilling management tools and reports at both the wellsite and customer offices. The EDR is the base product from which all other wellsite instrumentation products are linked. By linking these products, a number of otherwise redundant elements such as data processing, display, storage, and networking are eliminated. This ensures greater reliability and a more robust system of instrumentation for the customer. Revenue generated from the EDR declined 10% for the fourth quarter of 2012 compared to the same period in 2011; however, for the year ended December 2012, EDR revenue increased 9% over 2011 levels. The decrease in the fourth quarter is attributable to a decrease in rig activity in both the United States (US) and Canadian markets, offset by an increase in the Company's International markets. The year to date increase in revenue is due to previous price increases, continued demand by customers for EDR peripheral devices in all of its markets, and a strong increase in International rentals, reduced by an 18% drop in EDR days in Canada.

During 2012, the Pason EDR was installed on 93% of all active land rigs in Canada and 56% of the land rigs in the US.

## Pit Volume Totalizer

The Pit Volume Totalizer (PVT) 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 both the quarter and year to date were impacted by an increase in product penetration in all of the Company's markets as well as changes to rig activity and price increases previously described above. During the 2012 fiscal year, the PVT was installed on 99% of rigs with a Pason EDR in Canada and 71% in the US, compared to 96% and 69%, respectively, in 2011.

## Communications

Pason's communications rental revenue is derived from the Company's automatic aiming satellite system. This system provides 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 amongst oilfield service companies, drilling contractors, and operators). The Company continues to complement its satellite equipment with High Speed Packet Access (HSPA), a high-speed wireless ground system that requires lower capital cost, less service, and lower cost per Internet kilobyte, benefiting company margins. In Canada, HSPA has been installed on all rigs, and the majority of the rigs running will benefit from the investment in HSPA given the growth in cellular coverage. In the US, field coverage tests for HSPA are continuing with positive results.

## 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. DataHub provides access to data through a number of innovative applications or services including:

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

During the 2012 year, 98% of the Company's Canadian customers and 87% of customers in the US were using all or a portion of the functionality of the DataHub, compared to 94% and 76%, respectively, in 2011. The 2012 revenue generated from customers using the applications included with the DataHub rose 68% over comparable 2011 levels, even though rig activity was relatively flat in the US and down significantly in Canada.

## Gas Analyzer and Total Gas System

The Pason Gas Analyzer, which has replaced the Total Gas System (TGAS) in the Company's major markets, measures the total hydrocarbon gases (C1 through C4[1]) exiting the wellbore, and then calculates the lag time to show the formation depth where the gases were produced. The new Gas Analyzer increases the functionality that was found in the TGAS product to include the actual composition of the gas, much like a gas chromatograph, 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 twelve months ended December 2012, the Gas Analyzer generated $21.3 million of revenue compared to $6.0 million for TGAS. The Company has now completed the deployment of the Gas Analyzer in both Canada and the US and is realizing increased product penetration as compared to TGAS in both markets. For 2012, both of these systems combined were installed on 52% of Canadian and 19% of US land rigs operating with a Pason EDR system. The combined market penetration of both products in Canada is an increase of approximately 9% over 2011 levels while the US has seen an increase of 2%. The roll out of the Gas Analyzer in the International markets started in 2012, and will accelerate in 2013.

## Automatic Driller

Pason's Automatic Driller (AutoDriller) is used to maintain constant weight on the drill bit while a well is being drilled. During 2012, Pason's AutoDriller was installed on 78% of Canadian and 49% of US land rigs operating with a Pason EDR system, compared to 78% and 47%, respectively, in 2011.

## Hazardous Gas Alarm System

The Pason Hazardous Gas Alarm System (HGAS) monitors lower explosive limit (LEL) gases and displays the readings on the EDR. If a hazardous rig atmosphere is detected, the system reacts immediately, sounding an alarm and flashing a strobe light. The Hazardous Gas Alarm System was installed on 21% of Canadian rigs in 2012, up from 18% for the same period in 2011, and 9% of US land rigs operating with a Pason EDR system, an increase from 6% in 2011. This increase in product penetration, along with price increases in particular markets, led to an increase in revenue of 30% for the fourth quarter of 2012 over 2011 levels, and an increase of 40% for the full year.

[1] C4 also includes nC5

# Discussion of Operations

## United States Operations

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 (reclassified) | Change | **2012** | 2011 (reclassified) | Change |
| (000s) | ($) | ($) | (%) | ($) | ($) | (%) |
| **Revenue** | | | | | | |
| Electronic Drilling Recorder [1] | **22,552** | 25,154 | (10) | **97,816** | 89,634 | 9 |
| Pit Volume Totalizer | **7,685** | 8,959 | (14) | **33,459** | 32,623 | 3 |
| Communications [1][2] | **3,112** | 3,931 | (21) | **14,367** | 13,916 | 3 |
| Software [2] | **4,075** | 2,266 | 80 | **16,741** | 7,761 | 116 |
| Automatic Driller | **5,073** | 6,230 | (19) | **23,222** | 21,900 | 6 |
| Gas Analyzer/Total Gas System | **2,667** | 2,134 | 25 | **11,312** | 7,906 | 43 |
| Hazardous Gas Alarm System | **800** | 565 | 42 | **3,169** | 1,620 | 96 |
| Mobilization | **2,299** | 1,924 | 19 | **9,233** | 6,939 | 33 |
| Other [2] | **746** | 3,147 | (76) | **13,735** | 6,992 | 96 |
| **Total revenue** | **49,009** | 54,310 | (10) | **223,054** | 189,291 | 18 |
| **Operating costs** | **18,073** | 21,988 | (18) | **85,811** | 78,105 | 10 |
| **Depreciation and amortization** | **7,713** | 5,538 | 39 | **32,381** | 22,535 | 44 |
| **Segment operating profit** | **23,223** | 26,784 | (13) | **104,862** | 88,651 | 18 |

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly.

(2) 2011 revenue associated with the Company's software applications has been reclassified from Communications to Software.

The impact of the accounting reclassification of data transmission costs from revenue to operating costs previously discussed had the following impact on the 2011 comparative figures presented above:

| | Three Months Ended December 31, 2011 | | | Year Ended December 31,2011 | | |
|---|---|---|---|---|---|---|
| | **Reported** | Previously Disclosed | Change | **Reported** | Previously Disclosed | Change |
| (000s) | **($)** | ($) | ($) | **($)** | ($) | ($) |
| **Revenue** | | | | | | |
| Electronic Drilling Recorder [1] | **25,154** | 23,685 | 1,469 | **89,634** | 84,040 | 5,594 |
| Communications [1][2] | **3,931** | 3,834 | 97 | **13,916** | 13,609 | 307 |
| **Total revenue** | **54,310** | 52,744 | 1,566 | **189,291** | 183,390 | 5,901 |
| **Operating costs** | **21,988** | 20,422 | 1,566 | **78,105** | 72,204 | 5,901 |
| **Revenue per EDR day** | **517** | 495 | 22 | **484** | 473 | 11 |
| **Revenue per Industry day** | **289** | 280 | 9 | **278** | 266 | 12 |

US segment revenue decreased by 10% in the fourth quarter of 2012 over the 2011 comparable period (7% decrease when measured in US dollars). Rental service revenue decreased 6% for the quarter (USD 3%) while the remaining difference is a result of a drop in sales at 3PS, Inc. and a drop in revenue from Auxsol.

For the full year 2012, US segment revenue increased by 18% (USD 17%), which includes $7.8 million of sales by 3PS, Inc., included in Other revenue.

As expected, the number of US drilling days were down approximately 11% in the fourth quarter of 2012 versus the fourth quarter of 2011 due to a pullback in drilling for both natural gas and oil. However, revenue from the rental of instrumentation compared very favourably to the drop in activity, with a decrease of only 6% (USD 3%) over 2011 levels. On a year to date basis, rental instrumentation revenue increased 15% (USD 14%) over 2011 levels, compared to only a very modest increase in industry days of 2%.

Revenue was impacted by the following factors:

- More products on each rig, new product adoption, and better pricing. Revenue was increased by additional product penetration on each rig, primarily with gains in EDR peripheral devices, AutoDriller rentals, customer acceptance of the Company's Enhanced Live Rig View (eLRV) real-time data software, and increased adoption of the Gas Analyzer compared to the previous TGAS system. Mobilization income, which represents the cost recovery of the labour incurred by the Company for a field technician visit to a rig, was up 33% for the full year due to an increased number of "rig ups" and "rig downs" as a result of higher rig turnover compared to 2011. In addition, prices on specific products increased at the beginning of 2012. These factors combined resulted in an increase in revenue per EDR day in the fourth quarter of 2012 over 2011 levels of $51 (USD $67). On a year to date basis revenue per EDR day increased 16% or $77 (USD $73).
- A decrease in EDR rental days of 14% for the three months ended December 2012, over the same time period in 2011, and a small drop of 1% on a year to date basis over 2011 levels. This compares to a drop in industry days of 11% and an increase in industry days of 1% for the similar time period.

The factors explained above resulted in the US segment being able to realize revenue per EDR day during the fourth quarter of 2012 of $568 (USD $574) compared to $517 (USD $507) during the same time period in 2011. For the full year of 2012, revenue per EDR day was $561 (USD $562) compared to $484 (USD $489) in 2011.

Revenue per industry day for the fourth quarter of the year was $305 (USD $308) compared to $289 (USD $283) in 2011. Year to date figures were $314 (USD $314) compared to 2011 amounts of $278 (USD $281).

The majority of the increase in "Other" revenue relates to the Company realizing an entire year of sales of 3PS,Inc. compared to only approximately five months in 2011.Segment profit, as a percentage of revenue, was 47% for the fourth quarter of 2012 and 47% year to date, compared to 49% and 47% for the respective periods in 2011.

The US business unit was able to maintain its operating margin year over year, even with a significant increase in depreciation and amortization costs, by leveraging its fixed cost structure while at the same time continuing to control variable costs and implementing changes to operations to adapt to changing market conditions. The 2012 segment profit percentage was impacted by the following factors (all amounts in $CDN):

- Field technician-related costs and repair costs in the fourth quarter of 2012 compared to 2011 increased approximately $0.3 million. On a year to date basis, these costs increased by approximately $2.7 million. This increased consists of a 7% increase in field costs (attributed to an increase in health care-related costs and other field technician-related costs), offset by a reduction in repair costs of $1.0 million (associated with the phased out TGAS system).
- As disclosed in prior quarters, the US business unit made a concerted effort in 2012 to strengthen its sales presence. This led to an increase in sales and marketing costs of $1.5 million for the twelve months ended December, 2012 over 2011 amounts.
- Fourth quarter 2012 depreciation and amortization expense was up $2.2 million compared to the same period in 2011. On a year to date basis, these costs were up $9.8 million, due in large part to
    - The accelerated depreciation on the Company's original EDR system as a result of the EDR evolution project, which will make obsolete a portion of the Company's base EDR system,
    - A full twelve months depreciation on 3PS, Inc. assets,

- Depreciation on the new Gas Analyzer system, and
- Depreciation costs relating to the vehicle fleet as vehicles are now purchased rather than leased.

- Legal fees associated with the Automatic Driller lawsuit decreased $0.3 million in the fourth quarter of 2012 and $0.9 million for the year compared to the respective 2011 periods.
- Year-to-date 2012 figures include a full year's results of 3PS, Inc., which generates a lower margin than the US rental business.

# Canadian Operations

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 (reclassified) | Change | **2012** | 2011 (reclassified) | Change |
| (000s) | ($) | ($) | (%) | ($) | ($) | (%) |
| **Revenue** | | | | | | |
| Electronic Drilling Recorder [1] | **11,864** | 14,715 | (19) | **46,632** | 46,163 | 1 |
| Pit Volume Totalizer | **4,929** | 6,445 | (24) | **19,921** | 21,649 | (8) |
| Communications [1][2] | **4,308** | 5,443 | (21) | **17,323** | 18,193 | (5) |
| Software [2] | **1,938** | 2,303 | (16) | **7,662** | 6,721 | 14 |
| Automatic Driller | **3,368** | 4,678 | (28) | **13,500** | 15,175 | (11) |
| Gas Analyzer/Total Gas System | **3,357** | 3,405 | (1) | **12,303** | 11,252 | 9 |
| Hazardous Gas Alarm System | **609** | 682 | (11) | **2,443** | 2,603 | (6) |
| Mobilization | **178** | 198 | (10) | **638** | 781 | (18) |
| Other [2] | **1,488** | 1,893 | (21) | **5,316** | 5,795 | (8) |
| **Total revenue** | **32,039** | 39,762 | (19) | **125,738** | 128,332 | (2) |
| **Operating costs** | **8,858** | 10,788 | (18) | **36,291** | 42,616 | (15) |
| **Depreciation and amortization** | **6,246** | 6,897 | (9) | **26,964** | 25,934 | 4 |
| **Segment operating profit** | **16,935** | 22,077 | (23) | **62,483** | 59,782 | 5 |

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly.

(2) 2011 revenue associated with the Company's software applications has been reclassified from Communications to Software.

The impact of the accounting reclassification of data transmission costs from revenue to operating costs previously discussed had the following impact on the 2011 comparative figures presented above:

| | Three Months Ended December 31, 2011 | | | Year Ended December 31,2011 | | |
|---|---|---|---|---|---|---|
| | **Reported** | Previously Disclosed | Change | **Reported** | Previously Disclosed | Change |
| (000s) | **($)** | ($) | ($) | **($)** | ($) | ($) |
| **Revenue** | | | | | | |
| Electronic Drilling Recorder [1] | **14,715** | 13,464 | 1,251 | **46,163** | 41,130 | 5,033 |
| Communications [1][2] | **5,443** | 5,055 | 388 | **18,193** | 16,698 | 1,495 |
| **Total revenue** | **39,762** | 38,123 | 1,639 | **128,332** | 121,804 | 6,528 |
| **Operating costs** | **10,788** | 9,149 | 1,639 | **42,616** | 36,088 | 6,528 |
| **Revenue per EDR day** | **963** | 923 | 40 | **897** | 850 | 47 |
| **Revenue per Industry day** | **968** | 927 | 41 | **872** | 827 | 45 |

Canadian segment revenue decreased 19% for the three months ended December 2012, compared to the fourth quarter of 2011. This decrease is a result of a 24% decrease in the number of Canadian drilling industry days from 2011 levels. On a year to date basis, revenue decreased only 2% when compared to a decline in the number of Canadian drilling days of 14%.

EDR rental days declined 31% in the fourth quarter of 2012 over the fourth quarter of 2011. On a year to date basis, EDR rental days declined by 18% over 2011 levels.

The Canadian business unit was able to lessen the impact of the significant reduction in activity levels in Canada, due to current weak oil and natural gas prices and uncertainty around future pricing, through better pricing, new product adoption, and more products on each rig. The business unit increased pricing on most of its key products in the fourth quarter of 2011 and this combined with increased market penetration of the Gas Analyzer and Hazardous Gas Alarm System, customer acceptance of the Company's Enhanced Live Rig View (eLRV) real-time data software, and more products on each rig, primarily with gains in EDR peripheral devices, lessened the impact of the significant drop in the number of wells being drilled.

The factors above combined to result in:

- An increase in revenue per EDR day during the fourth quarter of 2012 compared to 2011 of 16% ($157) to $1,120. For 2012, revenue per EDR day increased by $177 to $1,073.
- Fourth quarter revenue per industry day of $1,025 in 2012 compared to $968 in 2011. For the entire year, revenue per industry day increased 14% to $997.

The segment profit for the fourth quarter of 2012 of $16.9 million is a decrease of $5.1 million over the 2011 amount. Factors impacting the fourth quarter results include:

- The weak drilling activity in the Western Canadian Sedimentary Basin (WCSB), together with a slight decrease in the Company's market share, resulted in 12,500 fewer EDR days during the fourth quarter of 2012 compared to 2011, resulting in much lower revenue.
- A decrease in the loss on the disposal of assets of $0.8 million, which is included in depreciation and amortization, offset by an increase in amortization costs relating to capitalized research and development costs, as a result of the deployment of new software applications to customers.
- A decrease in most repair cost categories due to a drop in drilling activity, combined with a reduction in costs associated with the new Gas Analyzer as compared to the TGAS system.
- In the fourth quarter of 2011, $1.3 million of legal fees were incurred, mostly relating to the Automatic Driller litigation. These costs were minimal in the fourth quarter of 2012.

The segment profit, as a percent of revenue, was 50% for the year ended December 2012, compared to 47% for 2011. Factors impacting the year results include:

- An increase in depreciation and amortization charges relating to the accelerated depreciation on the Company's EDR systems, the depreciation on the new Gas Analyzer system and increased amortization of previously deferred research and development costs. These increases were offset by a reduction in depreciation relating to the previously disposed water treatment business and a decline in the loss relating to the scrapping of obsolete equipment.
- An increase in field costs of $1.2 million, which is mostly attributable to the expansion of the work force. This was deemed necessary given the shift in drilling activity in the WCSB, anticipation of additional product opportunities, and an adjustment to the field technician shift schedule.
- A decrease in repair costs of $2.8 million, mostly attributable to the roll out of the new Gas Analyzer, resulting in a decline in repair costs for this category, combined with a decline in other repair costs due to lower drilling activity.
- In 2011, the Canadian business unit incurred $4.5 million in legal costs, mostly related with the Automatic Driller litigation. Total legal expense for 2012 was approximately $0.7 million.

- $1.5 million of net expenses relating to the water treatment business were recorded in the 2011. This business unit was disposed of in the fourth quarter of 2011.

# International Operations

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 (reclassified) | Change | **2012** | 2011 (reclassified) | Change |
| (000s) | ($) | ($) | (%) | ($) | ($) | (%) |
| **Revenue** | | | | | | |
| Electronic Drilling Recorder [1] | **4,032** | 3,036 | 33 | **15,159** | 9,974 | 52 |
| Pit Volume Totalizer | **1,486** | 1,484 | -- | **5,840** | 4,319 | 35 |
| Communications [1][2] | **113** | (178) | N/A | **537** | 100 | 437 |
| Software [2] | **175** | 93 | 88 | **513** | 316 | 62 |
| Automatic Driller | **969** | 612 | 58 | **3,677** | 2,320 | 58 |
| Gas Analyzer/Total Gas System | **874** | 874 | -- | **3,689** | 2,148 | 72 |
| Hazardous Gas Alarm System | **523** | 243 | 115 | **1,733** | 1,035 | 67 |
| Mobilization | **621** | 359 | 73 | **2,394** | 1,803 | 33 |
| Other [2] | **1,154** | 338 | 241 | **4,180** | 6,520 | (36) |
| **Total revenue** | **9,947** | 6,861 | 45 | **37,722** | 28,535 | 32 |
| **Operating costs** | **6,152** | 6,897 | (11) | **23,073** | 19,967 | 16 |
| **Depreciation and amortization** | **2,518** | 3,903 | (35) | **8,868** | 10,096 | (12) |
| **Segment operating profit (loss)** | **1,277** | (3,939) | N/A | **5,781** | (1,528) | N/A |

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly.

(2) 2011 revenue associated with the Company's software applications has been reclassified from Communications to Software.

The impact of the accounting reclassification of data transmission costs from revenue to operating costs previously discussed had the following impact on the 2011 comparative figures presented above:

| | Three Months Ended December 31, 2011 | | | Year Ended December 31,2011 | | |
|---|---|---|---|---|---|---|
| | **Reported** | Previously Disclosed | Change | **Reported** | Previously Disclosed | Change |
| (000s) | **($)** | ($) | ($) | **($)** | ($) | ($) |
| **Revenue** | | | | | | |
| Electronic Drilling Recorder [1] | **3,036** | 2,930 | 106 | **9,974** | 9,765 | 209 |
| Communications [1][2] | **(178)** | (178) | -- | **100** | 100 | -- |
| **Total revenue** | **6,861** | 6,755 | 106 | **28,535** | 28,326 | 209 |
| **Operating costs** | **6,897** | 6,791 | 106 | **19,967** | 19,758 | 209 |

Revenue in the International operations improved 45% in the fourth quarter of 2012 from the same period in 2011. On a year-over-year basis, revenue increased approximately $9.2 million or 32% over 2011 amounts. The Company realized gains in all of its major markets, with notable gains in both revenue and segment profit in Argentina, Brazil, Australia, and Mexico.

Operating profit increased by $5.2 million for the fourth quarter of 2012 and by $7.3 million for the twelve months ending December 31, over 2011 results.

A number of factors influenced these results:

- Increased market share combined with price increases in Argentina contributed to significant gains in both revenue and operating profit. Year over year operating profit has increased $1.9 million.
- Triple-digit revenue growth in Brazil as a result of an increase in the number of rigs deploying the Company's equipment, resulting in an increase in the year to date revenue of $2.1 million and an increase in operating profit of $2.0 million over 2011 levels.
- An increase in drilling activity in both Mexico and Australia has led to these two business units realizing increases in operating profit from 2011 levels of $2.2 million and $2.1 million, respectively.
- The Company's International segment includes our Offshore business unit which generated a triple digit increase in its rental revenue for the twelve months ended December, 2012 over the same period in 2011. These gains are as a result of the deployment of Pason hardware onto offshore drilling rigs in the Gulf of Mexico and internationally.
- Depreciation expense is down in large part due to a decrease in capital expenditures as a result of a concerted effort to increase the utilization of equipment within this market.

## Consolidated Results

| | Three Months Ended December 31, | | | Years Ended December 31, | | |
|---|---|---|---|---|---|---|
| | **2012** | 2011 | Change | **2012** | 2011 | Change |
| (000s) | ($) | ($) | (%) | ($) | ($) | (%) |
| **Other expenses** | | | | | | |
| Research and development | **7,033** | 5,371 | 31 | **22,467** | 17,366 | 29 |
| Corporate services | **4,326** | 3,816 | 13 | **15,723** | 12,975 | 21 |
| Stock-based compensation | **7,237** | (2,561) | N/A | **23,792** | 1,309 | 1,718 |
| Other | | | | | | |
| Litigation provision | **32,500** | -- | N/A | **37,913** | -- | N/A |
| Foreign exchange loss (gain) | **10** | 690 | (99) | **4,573** | (2,713) | N/A |
| Impairment loss | **5,282** | 2,780 | 90 | **7,918** | 4,580 | 73 |
| Other | **475** | 683 | (30) | **992** | 1,601 | (38) |
| | **56,863** | 10,779 | 527 | **113,378** | 35,118 | 223 |

## Q4 2012 versus Q4 2011

The active rig count in both the US and Canadian markets declined from the fourth quarter of 2011, with the Canadian drop in activity much more severe than the US decline. The International market saw an increase in drilling days. The increased revenue and profitability in the International markets were not sufficient to offset the drop in operating results in both Canada and the US. Revenue decreased 10%, while EBITDA dropped by 83% and funds flow from operations was down 14%.

The company incurred a net loss of $13.7 million or $0.17 per share compared to net earnings of $31.7 million or $0.39 per share in the fourth quarter of 2011. The fourth quarter consolidated results, when compared to 2011 figures, were impacted by the following significant items:

- A non-cash accrual of an additional $32.5 million for the liability related to the ongoing patent litigation. Management continues to be confident in its defenses in the three cases, namely that the asserted claims of the 142 patent are not valid, and/or the Company does not infringe on any valid claims. Nevertheless, in light of the cumulative effect of the progress on these cases in 2012, including the appeal of the Colorado case, the fact that the Texas case has been filed, the reopening of the Canadian case, and a recent mediation that did not result in a voluntary resolution, the Company decided to accrue, in accordance with accounting guidelines, this additional amount;

- Increase in research and development costs in the fourth quarter of 2012 of $1.7 million as the Company completed the hiring of additional staff to support the EDR evolution project and other product developments.
- Stock-based compensation increased by $9.8 million compared to the fourth quarter of 2011 due to an increase in the Company's stock price, which impacts the valuation under the Black-Scholes pricing model. The Company's stock price increased approximately 5% during the fourth quarter of 2012 compared to a decline in the corresponding period in 2011.
- During the fourth quarter of 2012, the Company recorded a non-cash impairment loss of $4.7 million against its Torque and Tension Sub (TTS) program, and an additional $0.6 million against the US water treatment business. In 2012, the Company initiated the roll-out of the (TTS), and initial field trials were promising; the TTS was able to provide measurements that were more accurate than indirect readings. However, due to a number of complications, including deployment issues and sales and marketing challenges due to the fact that the TTS is different than the Company's traditional products, customer acceptance and the resulting revenue was lower than the Company initially anticipated. As a result, the Company made the decision in the fourth quarter of 2012 to alter its business model. Management made the decision to supplement the rental model by providing its customers the option of sold units and at the same time identified new markets within the oil and gas industry. The Canadian and US business units will continue to rent these assets while 3PS, Inc. will offer to sell the units to a wider range of customers. The Company believes that this change in strategy, which expands the customer base and allows for more options to the customer, will result in an increase in demand from current levels. As a result of this change the Company identified raw materials that are no longer required and that some of the TTS accessories are obsolete, which led the Company to record the non-cash impairment loss. In the fourth quarter of 2011, a non-cash impairment loss of $2.8 million was recorded against the US water treatment business.
- Decrease in the foreign exchange loss recorded in the fourth quarter of 2012 of $0.5 million
- An increase in corporate service costs of $0.9 million due in most part to staff restructuring costs.

## Q4 2012 versus Q3 2012

Revenue was lower in the fourth quarter of 2012 versus the third quarter by $5.3 million. The Canadian business unit realized an increase in revenue of $1.7 million but this was offset by a drop of $4.5 million in the US rental market. The Canadian business unit realized a profit of $16.9 million for the three months ended December 2012 compared to a $14.6 million profit in the third quarter. The US business unit profit declined from a profit of $27.0 million in the previous quarter to a profit of $23.2 million in the current quarter, due to a drop in drilling days.

The following items also impacted the comparison to the 2012 third quarter results:

- Increase in the litigation accrual described above of $32.5 million.
- An increase in research and development costs of $1.7 million.
- During the third quarter of 2012, the Company recorded a non-cash impairment loss of $2.6 million on its US water treatment assets. During the fourth quarter of 2012, the Company recorded a non-cash impairment loss of $4.7 million against its Torque and Tension Sub program and an additional $0.6 million on the US water treatment asset.
- An increase in corporate service costs of $0.9 million due in most part to staff restructuring costs.
- An increase in stock-based compensation expense of $1.8 million.
- A decrease in foreign exchange loss of $1.5 million.

# Summary of Quarterly Results

| Three Months Ended | Mar 31, 2011 | Jun 30, 2011 | Sep 30, 2011 | Dec 31, 2011 | Mar 31, 2012 | Jun 30, 2012 | Sep 30, 2012 | **Dec 31, 2012** |
|---|---|---|---|---|---|---|---|---|
| (000s, except per share data) | ($) | ($) | ($) | ($) | ($) | ($) | ($) | **($)** |
| **Revenue** (1) | 88,218 | 65,546 | 91,461 | 100,933 | 115,145 | 84,112 | 96,262 | **90,995** |
| **EBITDA** (2) | 44,729 | 25,850 | 53,162 | 47,920 | 64,146 | 31,656 | 47,665 | **8,286** |
| Per share – basic | 0.55 | 0.31 | 0.65 | 0.59 | 0.78 | 0.39 | 0.58 | **0.10** |
| Per share – diluted | 0.55 | 0.30 | 0.64 | 0.58 | 0.78 | 0.38 | 0.58 | **0.10** |
| **Funds flow from operations** (2) | 39,082 | 22,917 | 41,270 | 42,089 | 51,707 | 30,132 | 40,831 | **36,278** |
| Per share – basic | 0.48 | 0.28 | 0.50 | 0.51 | 0.63 | 0.37 | 0.50 | **0.44** |
| Per share – diluted | 0.48 | 0.27 | 0.50 | 0.51 | 0.63 | 0.37 | 0.50 | **0.44** |
| **Earnings (loss)** (3) | 17,757 | 8,217 | 28,547 | 31,702 | 29,073 | 6,772 | 17,742 | **(13,703)** |
| Per share – basic | 0.22 | 0.10 | 0.35 | 0.39 | 0.35 | 0.08 | 0.22 | **(0.17)** |
| Per share – diluted | 0.22 | 0.09 | 0.35 | 0.39 | 0.35 | 0.08 | 0.21 | **(0.17)** |

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly. This change has no impact on reported EBITDA, funds flow from operations or earnings.

(2) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense, and depreciation and amortization expense. Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, impairment losses, stock-based compensation expense, deferred income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. These definitions are not recognized measures under International Financial Reporting Standards, and accordingly, may not be comparable to measures used by other companies.

(3) Earnings for the quarters ended March 31, June 30, and September 30, 2012 have been reduced to correct a non-cash error in the statement of operations related to stock-based compensation of $400, $1,700, and $1,600 respectively. Per share amounts have been recalculated accordingly.

| Three Months Ended | Mar 31, 2011 | Jun 30, 2011 | Sep 30, 2011 | Dec 31, 2011 | Mar 31, 2012 | Jun 30, 2012 | Sep 30, 2012 | **Dec 31, 2012** |
|---|---|---|---|---|---|---|---|---|
| (000s) | ($) | ($) | ($) | ($) | ($) | ($) | ($) | **($)** |
| Income (loss) before taxes (3) | 26,337 | 11,833 | 39,474 | 34,143 | 40,329 | 10,425 | 24,422 | **(15,428)** |
| Depreciation and amortization | 12,945 | 14,247 | 15,035 | 16,338 | 16,897 | 16,987 | 17,852 | **16,477** |
| Stock-based compensation (3) | 5,447 | (230) | (1,347) | (2,561) | 6,920 | 4,244 | 5,391 | **7,237** |
| **EBITDA** (2) | 44,729 | 25,850 | 53,162 | 47,920 | 64,146 | 31,656 | 47,665 | **8,286** |

Variations in Pason's quarterly financial results are 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 when location access is best during the winter. The second quarter is always 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 become available with ground freezing. Consequently, the performance of the Company may not be comparable quarter to consecutive quarter and 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.

# Fourth Quarter & Year End Conference Call

Pason will be conducting a conference call for interested analysts, brokers, investors and media representatives to review its fourth quarter and year-end results at 9:00 a.m. (MST) on Friday, February 22, 2013. The conference call dial-in number is 1-888-231-8191 or 1-647-427-7450. You can access the seven-day replay by dialing 1-855-859-2056 or 1-416-849-0833, using password 85698063.

Pason Systems Inc. is a leading provider of instrumentation systems to land-based and offshore drilling rigs worldwide. The company's rental solutions, which include data acquisition, wellsite reporting, remote communications, and web-based information management, maximize rig uptime, improve work efficiency, and minimize operating costs. Pason's common shares trade on the Toronto Stock Exchange under the symbol PSI.TO.

Additional information, including the Company's Annual Report and Annual Information Form for the year ended December 31, 2012, is available on SEDAR at www.sedar.com or on the Company's website at www.pason.com.

Shareholders are also invited to attend the Company's Annual General Meeting on Thursday, May 2, 2013, at 3:30 pm at the offices of Pason Systems Inc., 6120 Third Street SE, Calgary, Alberta.

# Consolidated Financial Statements

## Consolidated Balance Sheets

| As at | December 31, 2012 | December 31,2011 |
|---|---|---|
| (CDN 000s) (unaudited) | ($) | ($) |
| **Assets** | | |
| Current | | |
| Cash and cash equivalents | **157,944** | 104,993 |
| Trade and other receivables | **84,506** | 102,321 |
| Prepaid expenses | **2,920** | 1,970 |
| **Total current assets** | **245,370** | 209,284 |
| Non-current | | |
| Property, plant and equipment | **174,651** | 183,007 |
| Intangible assets | **59,593** | 58,071 |
| Deferred tax assets | **8,764** | 5,539 |
| **Total non-current assets** | **243,008** | 246,617 |
| **Total assets** | **488,378** | 455,901 |
| **Liabilities and equity** | | |
| Current | | |
| Trade payables and accruals | **25,674** | 40,668 |
| Litigation provision | **19,533** | 14,543 |
| Income taxes payable | **3,313** | 5,318 |
| Stock-based compensation liability | **13,788** | 5,770 |
| Dividend payable | **19,691** | 16,380 |
| **Total current liabilities** | **81,999** | 82,679 |
| Non-current | | |
| Stock-based compensation liability | **2,583** | 1,030 |
| Deferred tax liabilities | **2,600** | 4,923 |
| Litigation provision | **32,500** | -- |
| **Total non-current liabilities** | **37,683** | 5,953 |
| **Equity** | | |
| Share capital | **79,393** | 77,613 |
| Employee benefits reserve | **12,927** | 12,927 |
| Foreign currency translation reserve | **(8,348)** | (5,835) |
| Retained earnings | **284,724** | 282,564 |
| **Total equity** | **368,696** | 367,269 |
| **Total liabilities and equity** | **488,378** | 455,901 |

# Consolidated Statements of Operations

| | Three Months Ended December 31, | | Years Ended December 31, | |
|---|---|---|---|---|
| | **2012** | 2011 (reclassified) | **2012** | 2011 (reclassified) |
| (CDN 000s, except per share data) (unaudited) | **($)** | ($) | **($)** | ($) |
| **Revenue** | | | | |
| Equipment rentals and other | **90,995** | 100,933 | **386,514** | 346,158 |
| **Operating expenses** | | | | |
| Rental services | **28,652** | 33,503 | **125,269** | 119,342 |
| Local administration | **4,431** | 6,170 | **19,906** | 21,346 |
| Depreciation and amortization | **16,477** | 16,338 | **68,213** | 58,565 |
| | **49,560** | 56,011 | **213,388** | 199,253 |
| **Operating profit** | **41,435** | 44,922 | **173,126** | 146,905 |
| **Other expenses** | | | | |
| Research and development | **7,033** | 5,371 | **22,467** | 17,366 |
| Corporate services | **4,326** | 3,816 | **15,723** | 12,975 |
| Stock-based compensation (recovery) | **7,237** | (2,561) | **23,792** | 1,309 |
| Other expenses | **38,267** | 4,153 | **51,396** | 3,468 |
| | **56,863** | 10,779 | **113,378** | 35,118 |
| **(Loss) income before income taxes** | **(15,428)** | 34,143 | **59,748** | 111,787 |
| Income taxes | **(1,725)** | 2,441 | **19,864** | 25,564 |
| **Net (loss) income** | **(13,703)** | 31,702 | **39,884** | 86,223 |
| **(Loss) earnings per share** | | | | |
| Basic | **(0.17)** | 0.39 | **0.49** | 1.05 |
| Diluted | **(0.17)** | 0.38 | **0.48** | 1.04 |

### Change in Accounting Classification

In the fourth quarter of 2012, the Company changed the way in which it records expenses associated with data transmission costs. Previously, the Company recorded these costs as a reduction in revenue. Effective for 2012, these costs have been reclassified to rental services expense. This change, which does not impact EBITDA or net income, was applied retroactively, with all comparative figures being restated accordingly.

# Consolidated Statements of Other Comprehensive Income

| | Three Months Ended December 31, | | Years Ended December 31, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| (CDN 000s) (unaudited) | **($)** | ($) | **($)** | ($) |
| **Net (loss) income** | **(13,703)** | 31,702 | **39,884** | 86,223 |
| Other comprehensive income (loss) | | | | |
| Foreign currency translation adjustment | **2,681** | (6,049) | **(2,513)** | 213 |
| **Total comprehensive income** | **(11,022)** | 25,653 | **37,371** | 86,436 |

# Consolidated Statements of Changes in Equity

| | Share Capital | Employee Benefits Reserve | Foreign Currency Translation Reserve | Retained Earnings | Total Equity |
|---|---|---|---|---|---|
| (CDN 000s) (unaudited) | ($) | ($) | ($) | ($) | ($) |
| **Balance at December 31, 2010** | 75,040 | 13,228 | (6,048) | 227,464 | 309,684 |
| Net income | -- | -- | -- | 86,223 | 86,223 |
| Dividends | -- | -- | -- | (31,123) | (31,123) |
| Other comprehensive income | -- | -- | 213 | -- | 213 |
| Exercise of stock options | 2,265 | -- | -- | -- | 2,265 |
| Options exercised that were previously expensed | 308 | (308) | -- | -- | -- |
| Stock-based compensation | -- | 7 | -- | -- | 7 |
| **Balance at December 31, 2011** | **77,613** | **12,927** | **(5,835)** | **282,564** | **367,269** |
| Net income | -- | -- | -- | 39,884 | 39,884 |
| Dividends | -- | -- | -- | (37,724) | (37,724) |
| Other comprehensive loss | -- | -- | (2,513) | -- | (2,513) |
| Exercise of stock options | 1,780 | -- | -- | -- | 1,780 |
| **Balance at December 31, 2012** | **79,393** | **12,927** | **(8,348)** | **284,724** | **368,696** |

# Consolidated Statements of Cash Flows

| | Three Months Ended December 31, | | Years Ended December 31, | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| (CDN 000s) (unaudited) | **($)** | ($) | **($)** | ($) |
| **Cash flows from operating activities** | | | | |
| Net (loss) income | **(13,703)** | 31,702 | **39,884** | 86,223 |
| Adjustment for non-cash items: | | | | |
| Depreciation and amortization | **16,477** | 16,338 | **68,213** | 58,565 |
| Litigation provision | **32,500** | -- | **32,500** | -- |
| Impairment loss | **5,282** | 2,780 | **7,918** | 4,580 |
| Stock-based compensation (recovery) | **5,541** | (3,048) | **16,067** | (2,112) |
| Deferred income taxes | **(8,223)** | (6,660) | **(6,019)** | 1,329 |
| Unrealized foreign exchange (gain) loss | **(1,596)** | 977 | **385** | (3,227) |
| **Funds flow from operations** | **36,278** | 42,089 | **158,948** | 145,358 |
| Movements in non-cash working capital | | | | |
| Decrease (increase) in trade and other receivables | **7,391** | (6,376) | **16,376** | (19,896) |
| Decrease (increase) in prepaid expenses | **1,853** | 2,481 | **(994)** | (446) |
| Increase in income taxes payable | **3,513** | 3,448 | **18,072** | 13,819 |
| (Decrease) increase in trade payables, accruals and provisions | **(10,076)** | (221) | **(7,101)** | 5,444 |
| (Decrease) increase in stock-based compensation liability | **(3,564)** | (3,524) | **2,312** | (732) |
| Effects of exchange rate changes | **2,808** | (46) | **1,778** | 832 |
| **Changes in non-cash working capital** | **1,925** | (4,238) | **30,443** | (979) |
| Cash generated from operating activities | **38,203** | 37,851 | **189,391** | 144,379 |
| Income tax paid | **(3,988)** | (1,400) | **(20,213)** | (18,050) |
| **Net cash from operating activities** | **34,215** | 36,451 | **169,178** | 126,329 |
| **Cash flows (used in) from financing activities** | | | | |
| Proceeds from issuance of common shares | **558** | 33 | **1,780** | 2,265 |
| Purchase of stock options | **(3,532)** | (89) | **(8,772)** | (3,355) |
| Payment of dividends | **--** | -- | **(34,413)** | (28,631) |
| **Net cash used in financing activities** | **(2,974)** | (56) | **(41,405)** | (29,721) |
| **Cash flows (used in) from investing activities** | | | | |
| Additions to property, plant and equipment | **(10,173)** | (20,647) | **(58,640)** | (71,382) |
| Additions to intangibles | **(414)** | (184) | **(1,644)** | (184) |
| Deferred development costs | **(3,429)** | (1,280) | **(11,140)** | (6,975) |
| Proceeds on disposal of property, plant and equipment | **586** | 505 | **586** | 505 |
| Acquisitions, net of cash acquired | **--** | (841) | **--** | (24,410) |
| Changes in non-cash working capital | **(35)** | 2,249 | **(2,646)** | (520) |
| **Net cash used in investing activities** | **(13,465)** | (20,198) | **(73,484)** | (102,966) |
| Effect of exchange rate on cash and cash equivalents | **356** | (1,096) | **(1,338)** | 951 |
| **Net increase (decrease) in cash and cash equivalents** | **18,132** | 15,101 | **52,951** | (5,407) |
| **Cash and cash equivalents, beginning of period** | **139,812** | 89,892 | **104,993** | 110,400 |
| **Cash and cash equivalents, end of period** | **157,944** | 104,993 | **157,944** | 104,993 |

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

| **Three Months Ended December 31, 2012** | **Canada** | **United States** | **International** | **Total** |
|---|---|---|---|---|
| (unaudited) | **($)** | **($)** | **($)** | **($)** |
| Revenue | **32,039** | **49,009** | **9,947** | **90,995** |
| Operating costs | **8,858** | **18,073** | **6,152** | **33,083** |
| Depreciation and amortization | **6,246** | **7,713** | **2,518** | **16,477** |
| Segment operating profit | **16,935** | **23,223** | **1,277** | **41,435** |
| Research and development | | | | **7,033** |
| Corporate services | | | | **4,326** |
| Stock-based compensation | | | | **7,237** |
| Other expenses | | | | **38,267** |
| Income taxes (recovery) | | | | **(1,725)** |
| Net loss | | | | **(13,703)** |
| Capital expenditures and acquisitions | **5,006** | **5,926** | **2,670** | **13,602** |
| Goodwill | **--** | **18,414** | **2,600** | **21,014** |
| Intangible assets | **25,583** | **9,711** | **3,285** | **38,579** |
| Segment assets | **182,458** | **241,391** | **64,529** | **488,378** |
| Segment liabilities | **96,780** | **13,120** | **9,782** | **119,682** |

| Three Months Ended December 31, 2011 | | | | |
|---|---|---|---|---|
| Revenue | 39,762 | 54,310 | 6,861 | 100,933 |
| Operating costs | 10,788 | 21,988 | 6,897 | 39,673 |
| Depreciation and amortization | 6,897 | 5,538 | 3,903 | 16,338 |
| Segment operating profit (loss) | 22,077 | 26,784 | (3,939) | 44,922 |
| Research and development | | | | 5,371 |
| Corporate services | | | | 3,816 |
| Stock-based compensation (recovery) | | | | (2,561) |
| Other expenses | | | | 4,153 |
| Income taxes | | | | 2,441 |
| Net income | | | | 31,702 |
| Capital expenditures and acquisitions | 9,245 | 11,844 | 838 | 21,927 |
| Goodwill | -- | 18,823 | 2,600 | 21,423 |
| Intangible assets | 20,188 | 11,890 | 4,570 | 36,648 |
| Segment assets | 149,453 | 243,423 | 63,025 | 455,901 |
| Segment liabilities | 64,194 | 15,433 | 9,005 | 88,632 |

| **Year Ended December 31, 2012** | **Canada** | **United States** | **International** | **Total** |
|---|---|---|---|---|
| (unaudited) | **($)** | **($)** | **($)** | **($)** |
| Revenue | **125,738** | **223,054** | **37,722** | **386,514** |
| Operating costs | **36,291** | **85,811** | **23,073** | **145,175** |
| Depreciation and amortization | **26,964** | **32,381** | **8,868** | **68,213** |
| Segment operating profit | **62,483** | **104,862** | **5,781** | **173,126** |
| Research and development | | | | **22,467** |
| Corporate services | | | | **15,723** |
| Stock-based compensation | | | | **23,792** |
| Other expenses | | | | **51,396** |
| Income taxes | | | | **19,864** |
| Net income | | | | **39,884** |
| Capital expenditures and acquisitions | **25,682** | **37,850** | **7,892** | **71,424** |
| Goodwill | **--** | **18,414** | **2,600** | **21,014** |
| Intangible assets | **25,583** | **9,711** | **3,285** | **38,579** |
| Segment assets | **182,458** | **241,391** | **64,529** | **488,378** |
| Segment liabilities | **96,780** | **13,120** | **9,782** | **119,682** |

| Year Ended December 31, 2011 | | | | |
|---|---|---|---|---|
| Revenue | 128,332 | 189,291 | 28,535 | 346,158 |
| Operating costs | 42,616 | 78,105 | 19,967 | 140,688 |
| Depreciation and amortization | 25,934 | 22,535 | 10,096 | 58,565 |
| Segment operating profit (loss) | 59,782 | 88,651 | (1,528) | 146,905 |
| Research and development | | | | 17,366 |
| Corporate services | | | | 12,975 |
| Stock-based compensation | | | | 1,309 |
| Other expenses | | | | 3,468 |
| Income taxes | | | | 25,564 |
| Net income | | | | 86,223 |
| Capital expenditures and acquisitions | 29,488 | 64,249 | 9,214 | 102,951 |
| Goodwill | -- | 18,823 | 2,600 | 21,423 |
| Intangible assets | 20,188 | 11,890 | 4,570 | 36,648 |
| Segment assets | 149,453 | 243,423 | 63,025 | 455,901 |
| Segment liabilities | 64,194 | 15,433 | 9,005 | 88,632 |

## Pason Systems Inc.

Pason Systems Inc. is a leading provider of instrumentation systems to land-based and offshore drilling rigs worldwide. The company's rental solutions, which include data acquisition, wellsite reporting, remote communications, and web-based information management, maximize rig uptime, improve work efficiency, and minimize operating costs. Pason's common shares trade on the Toronto Stock Exchange under the symbol PSI.TO.

For more information about Pason Systems Inc., visit the company's website at www.pason.com or contact:


| | |
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Forward-looking information and 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 information and statements. Risk factors that could cause actual results or events to differ materially from current expectations include, among others, the ability of Pason to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of Pason's assets and businesses, the price of energy commodities, competitive factors in the energy industry, changes in laws and regulations affecting Pason's businesses, technological developments, and general economic conditions.

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