

Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	June 30, 2016	December 31, 2015
(CDN 000s) (unaudited)		(\$)	(\$)
Assets			
Current			
Cash and cash equivalents	9	161,982	195,846
Trade and other receivables		25,279	48,613
Prepaid expenses		2,611	3,719
Income taxes recoverable		27,216	17,468
Total current assets		217,088	265,646
Non-current			
Property, plant and equipment		173,971	201,436
Intangible assets and goodwill		54,069	57,643
Deferred tax assets		11,766	4,900
Total non-current assets		239,806	263,979
Total assets		456,894	529,625
Liabilities and equity			
Current			
Trade payables and accruals	8	16,092	18,454
Stock-based compensation liability	6	3,153	2,220
Total current liabilities		19,245	20,674
Non-current			
Stock-based compensation liability	6	3,673	3,059
Onerous lease obligation	8	2,856	—
Deferred tax liabilities		12,798	16,444
Total non-current liabilities		19,327	19,503
Equity			
Share capital	6	132,613	128,067
Share-based benefits reserve		23,360	23,367
Foreign currency translation reserve		60,738	85,603
Retained earnings		201,611	252,411
Total equity		418,322	489,448
Total liabilities and equity		456,894	529,625

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

Condensed Consolidated Interim Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(CDN 000s, except per share data) (unaudited)	(\$)	(\$)	(\$)	(\$)
Revenue	27,173	57,440	72,986	156,842
Operating expenses				
Rental services	16,986	29,735	40,757	68,026
Local administration	1,946	4,261	4,275	9,177
Depreciation and amortization	13,578	20,598	29,940	42,320
	32,510	54,594	74,972	119,523
Operating (loss) profit	(5,337)	2,846	(1,986)	37,319
Other expenses				
Research and development	5,629	8,813	12,257	18,143
Corporate services	4,082	4,720	8,404	9,906
Stock-based compensation expense	6	5,563	3,200	3,788
Restructuring and other expense (income)	8	2,426	9,877	(2,311)
	12,710	21,522	33,738	29,526
(Loss) income before income taxes	(18,047)	(18,676)	(35,724)	7,793
Income tax (recovery) expense	(6,728)	(9,272)	(13,545)	3,006
Net (loss) income	(11,319)	(9,404)	(22,179)	4,787
(Loss) income per share	7			
Basic	(0.13)	(0.11)	(0.26)	0.06
Diluted	(0.13)	(0.11)	(0.26)	0.06

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Condensed Consolidated Interim Statements of Other Comprehensive Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Net (loss) income	(11,319)	(9,404)	(22,179)	4,787
Items that may be reclassified subsequently to net income:				
Foreign currency translation adjustment	262	(6,829)	(24,865)	24,130
Total comprehensive (loss) income	(11,057)	(16,233)	(47,044)	28,917

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Condensed Consolidated Interim Statements of Changes in Equity

	Note*	Share Capital	Share-Based Benefits Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)	(\$)
Balance at January 1, 2015		113,827	12,927	32,807	323,962	483,523
Net income		—	—	—	4,787	4,787
Dividends		—	—	—	(28,412)	(28,412)
Other comprehensive income		—	—	24,130	—	24,130
Exercise of stock options		5,840	(306)	—	—	5,534
Expense related to vesting of options		—	576	—	—	576
Reclassification of equity settled options		—	11,673	—	—	11,673
Balance at June 30, 2015		119,667	24,870	56,937	300,337	501,811
Net loss		—	—	—	(19,399)	(19,399)
Dividends		—	—	—	(28,527)	(28,527)
Other comprehensive income		—	—	28,666	—	28,666
Exercise of stock options		8,400	(2,865)	—	—	5,535
Expense related to vesting of options		—	1,362	—	—	1,362
Balance at December 31, 2015		128,067	23,367	85,603	252,411	489,448
Net loss		—	—	—	(22,179)	(22,179)
Dividends	6	—	—	—	(28,621)	(28,621)
Other comprehensive loss		—	—	(24,865)	—	(24,865)
Exercise of stock options	6	4,546	(1,424)	—	—	3,122
Expense related to vesting of options		—	1,417	—	—	1,417
Balance at June 30, 2016		132,613	23,360	60,738	201,611	418,322

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Condensed Consolidated Interim Statements of Cash Flows

	Note*	Three Months Ended June 30,		Six Months Ended June 30,	
		2016	2015	2016	2015
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
Cash from (used in) operating activities					
Net (loss) income		(11,319)	(9,404)	(22,179)	4,787
Adjustment for non-cash items:					
Depreciation and amortization		13,578	20,598	29,940	42,320
Gain on sale of investment	8	—	—	—	(2,290)
Stock-based compensation	6	2,238	5,563	3,200	3,788
Non-cash restructuring costs	8	—	—	4,833	—
Deferred income taxes		(5,688)	(7,591)	(10,976)	431
Unrealized foreign exchange loss (gain) and other		217	111	(2,457)	3,503
Funds flow from operations		(974)	9,277	2,361	52,539
Movements in non-cash working capital items:					
Decrease in trade and other receivables		6,826	33,594	18,090	78,184
Decrease in prepaid expenses		868	1,455	1,004	2,716
(Increase)/decrease in income taxes recoverable		(840)	(3,868)	(3,583)	620
(Decrease) increase in trade payables, accruals and stock-based compensation liability		(5,641)	(8,360)	461	(21,407)
Effects of exchange rate changes		3,212	831	2,306	(2,358)
Cash generated from operating activities		3,451	32,929	20,639	110,294
Income tax paid		(458)	(1,629)	(6,315)	(7,461)
Net cash from operating activities		2,993	31,300	14,324	102,833
Cash flows from (used in) financing activities					
Proceeds from issuance of common shares	6	2,512	1,348	3,122	4,041
Payment of dividends	6	(14,327)	(14,219)	(28,621)	(28,412)
Net cash used in financing activities		(11,815)	(12,871)	(25,499)	(24,371)
Cash flows (used in) from investing activities					
Additions to property, plant and equipment		(3,912)	(7,595)	(8,795)	(29,030)
Development costs		(1,017)	(2,407)	(2,714)	(4,485)
Proceeds on disposal of investment and property, plant and equipment		447	—	556	3,288
Changes in non-cash working capital		(972)	(2,126)	(1,691)	(7,253)
Net cash used in investing activities		(5,454)	(12,128)	(12,644)	(37,480)
Effect of exchange rate on cash and cash equivalents		165	(2,833)	(10,045)	9,414
Net (decrease) increase in cash and cash equivalents		(14,111)	3,468	(33,864)	50,396
Cash and cash equivalents, beginning of period		176,093	191,786	195,846	144,858
Cash and cash equivalents, end of period	9	161,982	195,254	161,982	195,254

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

Notes to Condensed Consolidated Interim Financial Statements

(\$CDN 000s, except per share data) (unaudited)

1. Description of Business

Pason Systems Inc. (the "Company") is a leading global provider of instrumentation and data management systems for drilling rigs.

The Company headquarters are located at 6130 Third Street SE, Calgary, Alberta, Canada. The Company is a publicly traded company listed on the Toronto Stock Exchange under the symbol PSI. The condensed consolidated interim financial statements of the Company are comprised of the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The accompanying consolidated financial statements include the accounts of Pason Systems Inc. and its wholly owned subsidiaries.

2. Basis of Preparation

These unaudited condensed consolidated interim financial statements have been prepared in accordance with the requirements of International Accounting Standard ("IAS") 34, Interim Financial Reporting and include the accounts of Pason and its wholly owned subsidiaries. All significant inter-company balances and transactions including revenue and expenses have been eliminated. These unaudited condensed consolidated interim financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2015.

Change in accounting classification

In the first quarter of 2016, the Company changed the accounting policy for the classification of certain expenses. Expenses that were previously recorded as other costs are now included as rental services in the respective business unit, to better reflect the nature of the expense. The 2015 comparative quarterly financial statements have been adjusted to reflect this change in accounting classification. Rental service costs and other costs for the second quarter of 2015 have been adjusted by \$788 (2015 year-to-date - \$1,583).

3. Significant Accounting Policies

There have been no significant accounting policy changes; refer to the audited annual consolidated financial statements as at and for the year ended December 31, 2015.

4. Seasonality

Though the Company has seen a significant deterioration in its operating results as a result of the decline in drilling activity, Pason's quarterly financial results still vary quarter to quarter due in part to the seasonality of the oil and gas service industry in Canada, which is somewhat offset by the less seasonal nature of US and International operations. The first quarter is generally the strongest quarter for the Company due to strong activity in Canada, where location access is best during the winter. The second quarter is typically the slowest due to spring break-up in Canada, when many areas are not accessible due to ground conditions, and, therefore, do not permit the movement of heavy equipment. Activity generally increases in the third quarter, depending on the year, as ground conditions have often

improved and location access becomes available; however, a rainy summer can have a significant adverse effect on drilling activity. By the fourth quarter, often the Company's second strongest quarter, access to most areas in Canada becomes available when the ground freezes. Consequently, the performance of the Company may not be comparable quarter to consecutive quarter, but should be considered on the basis of results for the whole year, or by comparing results in a quarter with results in the same quarter for the previous year.

5. Operating Segments

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer the same services, but are managed separately. For each of the strategic business units, the Group's senior management reviews internal management reports on a monthly basis.

Information regarding the results of each reportable segment is included below. Performance is measured based on operating profit as included in the internal management reports. Operating profit is used to measure performance, as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined with reference to arm's length pricing.

There have been no changes in operating segments from the year-ended December 31, 2015.

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

Three Months Ended June 30, 2016	Canada	United States	International	Total
	(\$)	(\$)	(\$)	(\$)
Revenue	5,000	16,391	5,782	27,173
Rental services and local administration	3,995	10,749	4,188	18,932
Depreciation and amortization	6,331	5,463	1,784	13,578
Segment operating (loss) profit	(5,326)	179	(190)	(5,337)
Research and development				5,629
Corporate services				4,082
Stock-based compensation				2,238
Other expenses				761
Income taxes				(6,728)
Net Loss				(11,319)
Capital expenditures	966	3,884	79	4,929
Goodwill	—	24,218	2,600	26,818
Intangible assets	26,666	171	414	27,251
Segment assets	130,076	271,808	55,010	456,894
Segment liabilities	24,800	8,363	5,409	38,572

Three Months Ended June 30, 2015

Revenue	9,241	38,478	9,721	57,440
Rental services and local administration	7,396	19,375	7,225	33,996
Depreciation and amortization	9,332	8,254	3,012	20,598
Segment operating (loss) profit	(7,487)	10,849	(516)	2,846
Research and development				8,813
Corporate services				4,720
Stock-based compensation				5,563
Other expense				2,426
Income taxes				(9,272)
Net loss				(9,404)
Capital expenditures	4,981	3,347	1,674	10,002
Goodwill	—	23,087	2,600	25,687
Intangible assets	31,394	1,600	1,765	34,759
Segment assets	139,763	333,969	75,578	549,310
Segment liabilities	10,284	16,859	20,356	47,499

Six Months Ended June 30, 2016	Canada	United States	International	Total
	(\$)	(\$)	(\$)	(\$)
Revenue	20,825	40,017	12,144	72,986
Rental services and local administration	9,319	25,994	9,719	45,032
Depreciation and amortization	13,913	12,236	3,791	29,940
Segment operating (loss) profit	(2,407)	1,787	(1,366)	(1,986)
Research and development				12,257
Corporate services				8,404
Stock-based compensation				3,200
Other expenses				9,877
Income taxes				(13,545)
Net Loss				(22,179)
Capital expenditures	2,683	8,658	168	11,509
Goodwill	—	24,218	2,600	26,818
Intangible assets	26,666	171	414	27,251
Segment assets	130,076	271,808	55,010	456,894
Segment liabilities	24,800	8,363	5,409	38,572

Six Months Ended June 30, 2015

Revenue	38,600	95,993	22,249	156,842
Rental services and local administration	16,908	44,350	15,945	77,203
Depreciation and amortization	18,961	18,012	5,347	42,320
Segment operating profit	2,731	33,631	957	37,319
Research and development				18,143
Corporate services				9,906
Stock-based compensation				3,788
Other income				(2,311)
Income taxes				3,006
Net Income				4,787
Capital expenditures	10,905	15,169	7,441	33,515
Goodwill	—	23,087	2,600	25,687
Intangible assets	31,394	1,600	1,765	34,759
Segment assets	139,763	333,969	75,578	549,310
Segment liabilities	10,284	16,859	20,356	47,499

6. Share Capital

Common Shares

	Six Months Ended June 30, 2016		Year Ended December 31, 2015	
	(\$)	(#)	(\$)	(#)
Balance, beginning of period	128,067	84,063	113,827	83,363
Exercise of stock options:	4,546	217	14,240	700
Balance, end of period	132,613	84,280	128,067	84,063

Stock option plan

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

At June 30, 2016, 4,074 (2015: 4,062) stock options were outstanding for common shares at exercise prices ranging from \$12.49 to \$27.96 per share, expiring between 2016 and 2021 as follows:

	Six Months Ended June 30, 2016		Six Months Ended June 30, 2015	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
Outstanding, beginning of period	4,862	21.77	4,490	21.06
Granted	17	17.93	15	22.25
Equity settled	(217)	14.41	(293)	13.68
Expired or forfeited	(588)	23.24	(150)	15.95
Outstanding, end of period	4,074	21.93	4,062	21.46
Exercisable, end of period	1,807	20.70	1,486	16.61
Available for grant, end of period	1,825		1,793	

Stock-based compensation expense and liability

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

Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(\$)	(\$)	(\$)	(\$)
Stock options	778	3,256	1,417	522
RSUs	687	1,522	722	2,113
DSUs	301	389	172	395
PSUs	472	396	889	758
Stock-based compensation	2,238	5,563	3,200	3,788

Liability

As at	June 30, 2016	December 31, 2015
	(\$)	(\$)
RSUs	1,968	1,641
PSUs	1,185	579
Current portion of stock-based compensation liability	3,153	2,220
RSUs	610	333
DSUs	2,177	2,124
PSUs	886	602
Non-current portion of stock-based compensation liability	3,673	3,059
Total stock-based compensation liability	6,826	5,279

Common share dividends

During the quarter ended June 30, 2016, the Company declared and paid dividends of \$14,327 (2015: \$14,219) or \$0.17 per common share (2015: \$0.17).

7. Income Per Share

Basic income per share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(#)	(#)	(#)	(#)
Issued common shares outstanding, beginning of period	84,108	83,559	84,063	83,363
Effect of exercised options	55	55	84	200
Weighted average number of common shares for the period	84,163	83,614	84,147	83,563

Diluted income per share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(#)	(#)	(#)	(#)
Weighted average number of common shares (basic)	84,163	83,614	84,147	83,563
Effect of share options	—	—	—	—
Weighted average number of common shares (diluted)	84,163	83,614	84,147	83,563

Options are excluded from the above calculation if their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

8. Other Expenses (Income)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
	(\$)	(\$)	(\$)	(\$)
Foreign exchange loss (gain)	396	(12)	(2,323)	(2,459)
Gain on sale of investment	—	—	—	(2,290)
Restructuring costs	—	2,572	10,861	2,572
Other	365	(134)	1,339	(134)
Other expenses (income)	761	2,426	9,877	(2,311)

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

9. Cash and Cash Equivalents

As at	June 30, 2016	December 31, 2015
	(\$)	(\$)
Cash	49,080	92,649
Cash equivalents	112,902	103,197
Cash and cash equivalents	161,982	195,846

Cash equivalents are made up mostly of cash invested in money market funds with interest rates of approximately 0.5%, and maturities from 1–30 days.

10. Financial Instruments

The carrying values of financial assets and liabilities approximate their fair value due to the short-term nature of these items. Pason's financial instruments include cash and cash equivalents, trade and other receivables, trade payables and accruals, and stock-based compensation liability.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data.

Financial Assets at Fair Value				
	Level 1	Level 2	Level 3	June 30, 2016
	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	161,982	—	—	161,982
Total financial assets at fair value	161,982	—	—	161,982

11. Approval of Interim Financial Statements

The condensed unaudited consolidated interim financial statements were approved by the Board of Directors on August 10, 2016.

12. Events After the Reporting Period

On August 10, 2016, the Company announced a quarterly dividend of \$0.17 per share on the Company's common shares. The dividend will be paid on September 30, 2016 to shareholders of record at the close of business on September 16, 2016.