Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	March 31, 2018	December 31, 2017
(CDN 000s) (unaudited)		($)	($)
Assets			
Current			
Cash and cash equivalents	9	**162,842**	154,129
Trade and other receivables		**64,999**	55,069
Income tax recoverable other		**17,881**	17,881
Prepaid expenses		**3,594**	4,028
Income taxes recoverable		**4,014**	3,946
Total current assets		**253,330**	235,053
Non-current			
Property, plant and equipment		**127,095**	127,685
Intangible assets and goodwill		**33,506**	34,318
Deferred tax assets		**—**	1,390
Total non-current assets		**160,601**	163,393
Total assets		**413,931**	398,446
Liabilities and equity			
Current			
Trade payables and accruals		**19,615**	20,391
Income taxes payable other		**17,881**	17,881
Stock-based compensation liability	6	**4,131**	3,089
Total current liabilities		**41,627**	41,361
Non-current			
Stock-based compensation liability	6	**3,104**	2,758
Onerous lease obligation		**2,323**	2,326
Deferred tax liabilities		**11,369**	4,515
Total non-current liabilities		**16,796**	9,599
Equity			
Share capital	6	**151,156**	150,887
Share-based benefits reserve		**25,508**	24,425
Foreign currency translation reserve		**49,149**	40,358
Retained earnings		**129,695**	131,816
Total equity		**355,508**	347,486
Total liabilities and equity		**413,931**	398,446

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

Condensed Consolidated Interim Statements of Operations

Three Months Ended March 31,	Note*	2018	2017 (Restated-Note 2)
(CDN 000s, except per share data) (unaudited)		**($)**	($)
Revenue		**73,813**	59,049
Operating expenses			
Rental services		**26,039**	21,483
Local administration		**2,857**	2,713
Depreciation and amortization		**9,175**	11,973
		38,071	36,169
Gross profit		**35,742**	22,880
Other expenses			
Research and development		**6,359**	5,877
Corporate services		**3,805**	4,068
Stock-based compensation expense	6	**2,534**	2,547
Other expense	8	**2,533**	1,439
		15,231	13,931
Income before income taxes		**20,511**	8,949
Income tax provision		**8,152**	2,145
Net income		**12,359**	6,804
Income per share	7		
Basic		**0.15**	0.08
Diluted		**0.14**	0.08

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

Condensed Consolidated Interim Statements of Other Comprehensive Income

Three Months Ended March 31,		2018	2017 (Restated-Note 2)
(CDN 000s) (unaudited)		**($)**	($)
Net income		**12,359**	6,804
Items that may be reclassified subsequently to net income:			
Tax expense (recovery) on net investment in foreign operations related to an inter-company financing	**2**	**(989)**	349
Foreign currency translation adjustment		**9,780**	(1,005)
Other comprehensive gain (loss)		**8,791**	(656)
Total comprehensive income		**21,150**	6,148

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

Condensed Consolidated Interim Statements of Changes in Equity

(CDN 000s) (unaudited)	Note*	Share Capital ($)	Share-Based Benefits Reserve ($)	Foreign Currency Translation Reserve ($)	Retained Earnings ($)	Total Equity ($)
Balance at January 1, 2017 - Previously reported		139,730	23,026	69,443	154,452	386,651
Correction of error	2	—	—	(9,871)	9,871	—
Balance at January 1, 2017 - Currently reported		139,730	23,026	59,572	164,323	386,651
Net income - as restated	2	—	—	—	6,804	6,804
Dividends	6	—	—	—	(14,394)	(14,394)
Other comprehensive loss - as restated	2	—	—	(656)	—	(656)
Exercise of stock options		953	(247)	—	—	706
Expense related to vesting of options		—	837	—	—	837
Balance at March 31, 2017		140,683	23,616	58,916	156,733	379,948
Net income - as restated	2	—	—	—	18,386	18,386
Dividends		—	—	—	(43,303)	(43,303)
Other comprehensive income		—	—	(18,558)	—	(18,558)
Exercise of stock options		8,454	(2,000)	—	—	6,454
Expense related to vesting of options		—	2,809	—	—	2,809
Verdazo Acquisition		1,750	—	—	—	1,750
Balance at December 31, 2017		150,887	24,425	40,358	131,816	347,486
Net income		—	—	—	12,359	12,359
Dividends	6	—	—	—	(14,480)	(14,480)
Other comprehensive loss		—	—	8,791	—	8,791
Exercise of stock options		269	(41)	—	—	228
Expense related to vesting of options		—	1,124	—	—	1,124
Balance at March 31, 2018		**151,156**	**25,508**	**49,149**	**129,695**	**355,508**

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

Condensed Consolidated Interim Statements of Cash Flows

Three Months Ended March 31,	Note*	2018	2017 (Restated-Note 2)
(CDN 000s) (unaudited)		($)	($)
Cash from (used in) operating activities			
Net income		**12,359**	6,804
Adjustment for non-cash items:			
Depreciation and amortization		**9,175**	11,973
Stock-based compensation	6	**2,534**	2,547
Deferred income taxes		**7,303**	(540)
Unrealized foreign exchange loss and other		**2,587**	290
Funds flow from operations		**33,958**	21,074
Movements in non-cash working capital items:			
Increase in trade and other receivables		**(8,897)**	(1,843)
Decrease (increase) in prepaid expenses		**481**	(442)
Decrease in income taxes recoverable		**65**	6,792
(Decrease) increase in trade payables, accruals and stock-based compensation liability		**(1,365)**	3,914
Effects of exchange rate changes		**234**	1,507
Cash generated from operating activities		**24,476**	31,002
Income tax paid		**(132)**	(1,171)
Net cash from operating activities		**24,344**	29,831
Cash flows from (used in) financing activities			
Proceeds from issuance of common shares	6	**228**	706
Payment of dividends	6	**(14,480)**	(14,394)
Net cash used in financing activities		**(14,252)**	(13,688)
Cash flows (used in) from investing activities			
Additions to property, plant and equipment		**(4,811)**	(841)
Development costs		**(986)**	(293)
Proceeds on disposal of investment and property, plant and equipment		**20**	3
Acquisition		**—**	(4,750)
Proceeds on sale of net operating assets		**—**	7,123
Changes in non-cash working capital		**339**	(189)
Net cash (used in) from investing activities		**(5,438)**	1,053
Effect of exchange rate on cash and cash equivalents		**4,059**	(329)
Net increase in cash and cash equivalents		**8,713**	16,867
Cash and cash equivalents, beginning of period		**154,129**	146,479
Cash and cash equivalents, end of period	9	**162,842**	163,346

*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, 2017.

Correction of Error

During the fourth quarter of 2017, the Company adjusted for an immaterial non-cash error in the recognition of a component of its deferred income tax expense. The error was a result of the Company recognizing in the statement of operations the deferred income tax effect of the future taxable foreign exchange gain adjustment associated with its net investment in foreign operations related to an inter-company financing, when the amount should have been adjusted through the foreign currency translation reserve within equity.

Accordingly, this adjustment has been corrected on a retrospective basis with all prior period comparative figures being restated. The cumulative impact of this error as of January 1, 2017 was to increase retained earnings and reduce Foreign Currency Translation Reserve by $9,871.

	As previously reported	Correction	As restated
(CDN 000s, except per share data)	($)	($)	($)
Consolidated Statement of Operations for the Quarter Ended March 31, 2017			
Income taxes	1,796	349	2,145
Net income	7,153	(349)	6,804
Net income per share			
Basic	0.08	—	0.08
Diluted	0.08	—	0.08
Consolidated Statements of Other Comprehensive Income (loss)			
Other comprehensive loss	(1,005)	349	(656)

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, 2017.

Adoption of new and amended standards

IFRS 9, Financial Instruments

The Company has adopted IFRS 9, Financial Instruments, on January 1, 2018. The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The adoption did not have any impact on the Company's consolidated financial statements.

IFRS 15, Revenue from Contracts with Customers

The Company has also adopted IFRS 15, Revenue from Contracts with Customers, on January 1, 2018 using the modified retrospective method. IFRS 15 establishes a single comprehensive model to address how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures in order to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. It replaces existing revenue recognition guidance including IAS 18 Revenue and IAS 11 Construction Contracts.

To determine revenue recognition for arrangements that an entity determines are within the scope of IFRS 15, the Company performs the following five steps: (i) identifies the contract(s) with a customer, (ii) identifies the performance obligations in the contract, (iii) determines the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognizes revenue when (or as) the entity satisfies a performance obligation. The Company applies the five-step model to arrangements that meet the definition of a contract under IFRS 15, including when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it provides to the customer. Products and services are comprised of specialized data management systems provided on a rental basis. The Company satisfies its performance obligations and recognizes rental revenue during the reporting period based on completion of each rental day. Revenue transactions do not contain significant financing components or variable considerations. Payment terms with customers are 30 days from invoice date; however, industry practice can extend these terms.

As a result of applying the requirements of IFRS 15, including the application of certain practical expedients, such as the right to invoice method of measuring the Company's progress towards complete satisfaction of its performance obligations, no changes or adjustments to the Company's comparative consolidated financial statements were required. There was no impact to the Company's financial position, results of operations, or cash flows as a result of the adoption. Additional disclosures on disaggregation of revenues are presented in Note 5.

Future Accounting Policy Changes

In January 2016 the International Accounting Standards Board released IFRS 16, Leases, which is required to be applied for years beginning on or after January 1, 2019, and which supersedes IAS 17, Leases; earlier application is allowed, but not before the application of IFRS 15, Revenue from Contracts with Customers.

This new pronouncement introduces a single lessee accounting model by eliminating a lessees' classification of leases as either operating leases or finance leases.

The most significant change will be the lessee's recognition of the initial present value of unavoidable future lease payments as a leased asset and liability on the Consolidated Balance Sheets. Leases with durations of twelve months or less and leases for low-value assets are both exempted.

The measurement of the total lease expense over the term of a lease will be unaffected by the new standard. The presentation on the Consolidated Statement of Operations will result in most lease expenses being presented as amortization of leased assets and financing costs arising from lease liabilities rather than as being a part of either local administration expense or corporate service expenses.

The lessee's actual cash flows will be unaffected, however relative to the current standard, the lessee's statement of cash flows will reflect increased operating activity cash flows offset by a corresponding decrease in financing activity cash flows due to the payment of the "principal" component of leases.

Management is currently assessing the impacts and transition provisions of the new standard, and expects that the Company's Consolidated Balance Sheets will be materially affected. At this time it is not possible to make reasonable estimates of the effects of the new standard.

4. Seasonality

Pason's quarterly financial results 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 often improve 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 gross profit as included in the internal management reports. Segment gross 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 on an arm's length basis. Intra-group balances and transactions are eliminated.

The Group operates in three geographic segments: Canada, the United States, and International (Latin America, Offshore, the Eastern Hemisphere, and the Middle East). The following table represents a disaggregation of revenue from contracts with customers along with the reportable segment for each category:

Three Months Ended March 31, 2018	Canada	United States	International	Total
	($)	($)	($)	($)
Revenue				
Drilling Data	**9,920**	**23,698**	**3,677**	**37,295**
Mud Management and Safety	**6,661**	**13,236**	**1,363**	**21,260**
Communications	**3,769**	**3,698**	**331**	**7,798**
Drilling Intelligence	**2,118**	**2,144**	**319**	**4,581**
Analytics and Other	**956**	**1,332**	**591**	**2,879**
Total Revenue	**23,424**	**44,108**	**6,281**	**73,813**
Rental services and local administration	**7,328**	**16,885**	**4,683**	**28,896**
Depreciation and amortization	**4,385**	**3,828**	**962**	**9,175**
Segment gross profit	**11,711**	**23,395**	**636**	**35,742**
Research and development				**6,359**
Corporate services				**3,805**
Stock-based compensation				**2,534**
Other expenses				**2,533**
Income tax expense				**8,152**
Net Income				**12,359**
Capital expenditures	**1,963**	**3,263**	**571**	**5,797**
As at March 31, 2018				
Property plant and equipment	**43,086**	**67,724**	**16,285**	**127,095**
Goodwill	**1,259**	**7,358**	**2,600**	**11,217**
Intangible assets	**22,210**	**79**	**—**	**22,289**
Segment assets	**123,253**	**243,962**	**46,716**	**413,931**
Segment liabilities	**44,253**	**9,399**	**4,771**	**58,423**

Three Months Ended March 31, 2017 (Restated - Note 2)	Canada	United States	International	Total
Revenue				
Drilling Data	10,445	15,276	3,047	28,768
Mud Management and Safety	6,992	9,499	1,023	17,514
Communications	3,683	2,597	213	6,493
Drilling Intelligence	2,032	1,484	477	3,993
Analytics and Other	835	1,110	336	2,281
Total Revenue	23,987	29,966	5,096	59,049
Rental services and local administration	5,794	14,210	4,192	24,196
Depreciation and amortization	5,934	5,001	1,038	11,973
Segment gross profit (loss)	12,259	10,755	(134)	22,880
Research and development				5,877
Corporate services				4,068
Stock-based compensation				2,547
Other expenses				1,439
Income tax expense				2,145
Net Income				6,804
Capital expenditures	(53)	1,286	(99)	1,134
As at March 31, 2017				
Property plant and equipment	50,186	70,227	20,398	140,811
Goodwill	1,259	7,181	2,600	11,040
Intangible assets	29,771	709	—	30,480
Segment assets	122,216	253,754	51,105	427,075
Segment liabilities	20,429	11,795	14,903	47,127

6. Share Capital

	Common Shares			
	Three Months Ended March 31, 2018		Year Ended December 31, 2017	
	($)	**(#)**	($)	(#)
Balance, beginning of period	**150,887**	**85,158**	139,730	84,628
Exercise of stock options:	**269**	**14**	9,407	431
Verdazo Acquisition	**—**	**—**	1,750	99
Balance, end of period	**151,156**	**85,172**	150,887	85,158

Common shares

At March 31, 2018, the Company was authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

The holders of common shares are entitled to receive dividends, as declared, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

The 99 shares issued pursuant to the acquisition of Verdazo were issued out of treasury in January 2018. For financial reporting purposes these shares were assumed to be issued on December 31, 2017 to align with the dates in the share purchase agreement.

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 March 31, 2018, 5,463 (2017: 4,811) stock options were outstanding for common shares at exercise prices ranging from $15.94 to $27.96 per share, expiring between 2018 and 2022 as follows:

	Three Months Ended March 31, 2018		Three Months Ended March 31, 2017	
	Share Options	**Weighted Average Exercise Price**	Share Options	Weighted Average Exercise Price
	(#)	**($)**	(#)	($)
Outstanding, beginning of period	**5,514**	**20.07**	5,075	20.52
Granted	**—**	**—**	89	19.32
Equity settled	**(14)**	**15.94**	(44)	16.04
Expired or forfeited	**(37)**	**19.52**	(309)	23.17
Outstanding, end of period	**5,463**	**20.08**	4,811	20.37
Exercisable, end of period	**2,657**	**22.95**	2,194	22.56
Available for grant, end of period	**523**		1,116	

Stock-based compensation expense and liability

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

Expense

Three Months Ended March 31,	**2018**	2017
	($)	($)
Stock options	**1,123**	837
RSUs	**499**	504
DSUs	**(8)**	50
PSUs	**650**	449
Deferred compensation expense	**270**	707
Stock-based compensation	**2,534**	2,547

On December 31, 2016, the Company purchased all of the existing and outstanding shares of Verdazo Analytics, Inc. (Verdazo). In accordance with IFRS, a portion of the deferred compensation payable was not considered part of the purchase price but is accounted for as future stock-based compensation expense over the vesting period. This amount, which will be accrued over the three year period ending December 31, 2019, totals $4,201.

Liability

As at	**March 31, 2018**	December 31, 2017
	($)	($)
RSUs	**1,216**	935
PSUs	**1,566**	1,075
Deferred compensation expense	**1,349**	1,079
Current portion of stock-based compensation liability	**4,131**	3,089
RSUs	**585**	390
DSUs	**1,943**	1,951
PSUs	**576**	417
Non-current portion of stock-based compensation liability	**3,104**	2,758
Total stock-based compensation liability	**7,235**	5,847

Common share dividends

During the quarter ended March 31, 2018, the Company declared and paid dividends of $14,480 (2017: $14,394) or $0.17 per common share (2017: $0.17).

7. Income Per Share

Basic income per share

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

Three Months Ended March 31,	**2018**	2017
	(#)	(#)
Issued common shares outstanding, beginning of period	**85,158**	84,628
Effect of exercised options	**8**	27
Weighted average number of common shares outstanding for the period	**85,166**	84,655

Diluted income per share

The calculation of diluted income per share is 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 March 31,	2018	2017
	(#)	(#)
Weighted average number of common shares (basic)	85,166	84,655
Effect of share options	172	232
Weighted average number of common shares (diluted)	85,338	84,887

Options (4,020) are excluded from the above calculation as 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 during the period.

8. Other Expenses

Three Months Ended March 31,	2018	2017
	($)	($)
Foreign exchange loss	2,404	223
Other	129	1,216
Other expenses	2,533	1,439

9. Cash and Cash Equivalents

As at	March 31, 2018	December 31, 2017
	($)	($)
Cash	49,889	74,902
Cash equivalents	112,953	79,227
Cash and cash equivalents	162,842	154,129

Cash equivalents are made up mostly of cash invested in money market funds with interest rates of approximately 1.30%, 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	**March 31, 2018**
	($)	($)	($)	**($)**
Cash and cash equivalents	162,842	—	—	**162,842**
Total financial assets at fair value	162,842	—	—	**162,842**

11. Approval of Interim Financial Statements

The condensed unaudited consolidated interim financial statements were approved by the Board of Directors on May 2, 2018.

12. Events After the Reporting Period

On May 2, 2018, the Company announced a quarterly dividend of $0.17 per share on the Company's common shares. The dividend will be paid on June 29, 2018 to shareholders of record at the close of business on June 15, 2018.