FIRST QUARTER INTERIM REPORT
For the Three Months Ended March 31, 2017

pason

Performance Data

Three Months Ended March 31,	2017	2016	Change
(CDN 000s, except per share data)	($)	($)	(%)
Revenue	**59,049**	45,813	29
Income (loss)	**7,153**	(10,860)	—
Per share – basic	**0.08**	(0.13)	—
Per share – diluted	**0.08**	(0.13)	—
EBITDA (1)	**23,469**	(353)	—
As a % of revenue	**39.7**	(0.8)	—
Adjusted EBITDA (1)	**24,908**	8,763	184
As a % of revenue	**42.2**	19.1	—
Funds flow from operations	**21,074**	3,335	532
Per share – basic	**0.25**	0.04	525
Per share – diluted	**0.25**	0.04	525
Cash from operating activities	**29,831**	11,331	163
Free cash flow (1)	**28,511**	4,141	589
Capital expenditures	**1,134**	6,580	(83)
Working capital	**203,224**	214,538	(5)
Total assets	**427,075**	482,620	(12)
Total long-term debt	**—**	—	—
Cash dividends declared	**0.17**	0.17	—
Shares outstanding end of period (#000's)	**84,672**	84,108	1

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

Q1 2017 vs Q1 2016

The Company generated consolidated revenue of $59.0 million in the first quarter of 2017, an increase of 29% from the same period in 2016. A modest recovery in commodity prices and increased optimism has led to increased drilling activity in Canada and in the US market. This increase was partially offset by a strengthening Canadian dollar relative to the US dollar and a decline in drilling activity in certain key international markets.

Consolidated EBITDA was $23.5 million in the first quarter, an increase of $23.8 million from the first quarter of 2016. Included in EBITDA in the prior year results are restructuring charges related to the reduction of personnel and consolidation of office space totaling $10.9 million. Adjusted EBITDA, which adjusts for foreign exchange and certain non-recurring charges, including restructuring costs, increased to $24.9 million, up from $8.8 million in the first quarter of 2016.

The Company recorded net income of $7.2 million ($0.08 per share) in the first quarter of 2017, compared to a net loss of $10.9 million ($0.13 per share) recorded in the same period in 2016. The first quarter 2016 results include the restructuring costs referred to above. The increase in Canadian and US revenue combined with cost reduction programs previously implemented and a significant decline in depreciation expense from 2016 levels led to the increase in income from 2016 levels.

President's Message

After two very challenging years, Pason has returned to positive income territory. Income for the first quarter of 2017 was $7.2 million, or $0.08 per share, compared to a loss of $10.9 million in the previous year period. Adjusted EBITDA was $24.9 million, resulting in an adjusted EBITDA margin of 42%. Free Cash Flow for the quarter was $28.5 million. At March 31, 2017, our working capital position stood at $203 million, including cash at $163 million. There is no debt on our balance sheet. We are maintaining our quarterly dividend at $0.17 share.

The key drivers of improved financial performance were: 1) higher drilling activity in Canada as well as certain US regions, especially the Permian; 2) increased US market share; and 3) a significant reduction in operating costs and depreciation. These improvements were partially offset by negative exchange rate effects, lower market share and heightened pricing pressure in Canada, and weakness in certain international markets, especially Argentina and Mexico.

Since the beginning of the New Year, growth in drilling activity in North American land has exceeded our expectations. The outlook for the remainder of 2017 is more positive than what we experienced in 2016. Some analysts are projecting that oil may rally to the mid-$60s by the end of the year. This would likely lead to a sustained growth in North American land drilling activity.

However, inventories of crude oil and refined products continue to be at very high levels. For the optimistic oil price scenario to materialize, OPEC and its allies need to extend their production cuts that went into effect in January. A failure to extend the output agreement at the next OPEC meeting at the end of May could send oil prices much lower. As a result, there continues to be a lot of uncertainty around E&P capital spending plans, and therefore for drilling activity, going forward.

We are more optimistic about the outlook for the oil price for the medium to longer term. The rate of depletion of developed oil reserves in many non-OPEC countries is accelerating. Continued underinvestment in new supply increases the probability of a supply deficit down the road.

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

With our current cost structure, we can absorb higher activity levels without having to add cost proportionally in many regions. We are therefore well-positioned to maximize returns in the industry's continued growth.

At the same time, we continue to invest approximately $30 million annually in R&D and IT. We are focusing our development efforts on products and services that directly improve the efficiency, effectiveness, and safety of drilling operations and wellbore quality. Examples of this include our ePVT Adaptive Alarms and Digital Trip Sheets, AC AutoDriller, abbl Directional Advisor and the deployment of the advanced Exxon Drilling Advisory System. We are building on our acquisition of Verdazo Analytics to provide customers with a holistic platform to analyze drilling, production, and operational data. The addition of an enhanced Live Rig View (LRV) web service to our cloud-based offering benefits office-based users of Pason data.

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

We feel good about Pason's market position and prospects, and are excited about the potential of our new products and services. We are the service provider of choice for many leading operators and drilling contractors with Pason equipment installed on over 65% of all active land drilling rigs in the Western Hemisphere and a growing presence in the Middle East.

Marcel Kessler
President and Chief Executive Officer
May 2, 2017

Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of May 2, 2017, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the consolidated financial statements and accompanying notes.

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

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

Additional IFRS Measures

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

Funds flow from operations

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

Cash from operating activities

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

Non-IFRS Financial Measures

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

Revenue per EDR Day

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

EBITDA

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

Adjusted EBITDA

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

Free cash flow

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

Overall Performance

Three Months Ended March 31,	2017	2016	Change
(000s)	($)	($)	(%)
Revenue			
Electronic Drilling Recorder	**25,656**	19,155	34
Pit Volume Totalizer/ePVT	**8,576**	6,356	35
Communications	**6,923**	4,331	60
Software	**5,016**	3,131	60
AutoDriller	**3,829**	2,766	38
Gas Analyzer	**4,612**	3,624	27
Other	**4,437**	6,450	(31)
Total revenue	**59,049**	45,813	29

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

Canada

Three Months Ended March 31,	2017	2016	Change
	#	#	(%)
EDR rental days	**23,800**	15,000	59
PVT rental days	**21,800**	14,000	56

United States

Three Months Ended March 31,	2017	2016	Change
	#	#	(%)
EDR rental days	**35,300**	25,200	40
PVT rental days	**27,800**	19,000	46

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

Total revenue for the three months ended March 31, 2017, increased 29% over the same period in 2016. This increase is attributable to an increase in drilling activity in the Company's major North American markets, offset by a strengthening Canadian dollar relative to the US dollar.

Industry activity in the US market increased 31% in the first quarter of 2017 compared to the corresponding period in 2016, while first quarter Canadian rig activity increased 80%. Canadian EDR days, which includes some non-oil and gas-related activity, increased 59% in the first quarter of 2017 from 2016 levels, while US EDR days increased by 40% from the first quarter of 2016.

For the three months ended March 31, 2017, the Pason EDR was installed on 55% of the land rigs in the US compared to 52% during the same time period in 2016.

The Canadian business unit continued to see increased competition from a number of competitors. For the three months ended March 31, 2017, the Pason EDR was installed on 90% of the land rigs in the Canadian market; for the same period in 2016 the number of EDR days exceeded the number of reported industry days.

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

The Canadian market saw an increase in pricing pressure during the first quarter of 2017 relative to the same period in 2016.

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

- an increase in product adoption of the ePVT in the US market
- continued increase in customer adoption of the communication solutions previously rolled out in the Canadian and US markets
- increase in AutoDriller rentals in Canada due to the significant increase in drilling activity which led to more mechanical rigs being deployed in the first quarter of 2017 compared to 2016
- a drop in revenue of service rig recorders in Latin America due to the drop in drilling activity which impacted other revenue

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

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

The international rig count was down in most of the Company's major international markets, most notably Argentina, Mexico, and Offshore. In the Middle East, the Company is realizing an increase in its share of net income from its Saudi Arabia joint venture as a result of a continuing increases in rig count and market penetration.

Discussion of Operations

United States Operations

Three Months Ended March 31,	**2017**	2016	Change
(000s)	**($)**	($)	(%)
Revenue			
Electronic Drilling Recorder	**15,124**	10,687	42
Pit Volume Totalizer/ePVT	**4,603**	3,176	45
Communications	**2,583**	1,545	67
Software	**2,468**	1,757	40
AutoDriller	**1,408**	965	46
Gas Analyzer	**1,765**	1,598	10
Other	**2,015**	3,898	(48)
Total revenue	**29,966**	23,626	27
Operating costs	**14,210**	15,245	(7)
Depreciation and amortization	**5,001**	6,773	(26)
Segment operating profit	**10,755**	1,608	569

Three Months Ended March 31,	**2017**	2016
	$	$
Revenue per EDR day - USD	**634**	618
Revenue per EDR day - CAD	**839**	850

US segment revenue increased by 27% in the first quarter of 2017 over the 2016 comparable period. Included in the prior year results was revenue (included in other revenue) from 3PS, the net operating assets of which were sold effective January 1, 2017. Removing 3PS revenue from the comparative figures, revenue increased by 38% (42% increase when measured in USD). The strengthening Canadian dollar relative to the US dollar had a negative impact on revenue when measured in Canadian dollars.

Industry activity in the US market during the first quarter of 2017 increased 31% from the prior year. US market share was 55% for the first quarter of 2017 compared to 52% during the three months ended March 31, 2016, primarily driven by market share growth in key US regions combined with changes in the mix of active customers.

EDR rental days increased by 40% for the quarter ended March 31, 2017, over the same time period in 2016, while revenue per EDR day in the first quarter of 2017 increased to US$634, an increase of US$16 over the same period in 2016. This increase is due to an uptick on adoption of certain key products, including ePVT, combined with continued customer acceptance of enhanced communication solutions, offset by selective pricing discounts on certain products.

Operating costs decreased by 7% in the first quarter relative to the same period in the prior year. When measured in USD, and removing 3PS costs, operating costs increased by 13%, which is a direct result of the business unit investing in field costs to meet the significant increase in drilling activity.

Depreciation expense for the first three months of 2017 decreased 26% over 2016 amounts due to the asset impairment charges recorded in prior years and a significantly lower capital program.

Segment profit increased by $9.1 million in the first quarter of 2017 compared to the corresponding period in 2016.

Canadian Operations

Three Months Ended March 31,	2017	2016	Change
(000s)	**($)**	($)	(%)
Revenue			
Electronic Drilling Recorder	**8,436**	5,834	45
Pit Volume Totalizer/ePVT	**3,477**	2,532	37
Communications	**3,852**	2,429	59
Software	**2,476**	1,295	91
AutoDriller	**1,949**	1,104	77
Gas Analyzer	**2,582**	1,648	57
Other	**1,215**	983	24
Total revenue	**23,987**	15,825	52
Operating costs	**5,794**	5,324	9
Depreciation and amortization	**5,934**	7,582	(22)
Segment operating profit	**12,259**	2,919	320

Three Months Ended March 31,	2017	2016
	$	$
Revenue per EDR day- CAD	**975**	1,039

Canadian segment revenue increased by 52% for the quarter ended March 31, 2017 compared to the same period in 2016. This increase is the result of an 80% increase in the number of drilling industry days in the first quarter compared to 2016 levels. Included in the software category is revenue earned by Verdazo.

EDR rental days increased 59% in the first quarter of 2017 compared to 2016.

Revenue per EDR day decreased by $64 to $975 during the first quarter of 2017 compared to 2016, resulting from selective price discounts on certain products.

Operating costs increased by 9% in the first quarter of 2017 relative to the same period in 2016 due to the inclusion of Verdazo operating costs.

Depreciation expense decreased by approximately 22% for the three months ended March 31, 2017, due to prior year's impairment charges and lower capital expenditures.

The first quarter 2017 operating income of $12.3 million is an increase of $9.3 million from the prior year.

International Operations

Three Months Ended March 31,	2017	2016	Change
(000s)	($)	($)	(%)
Revenue			
Electronic Drilling Recorder	**2,096**	2,634	(20)
Pit Volume Totalizer/ePVT	**496**	648	(23)
Communications	**488**	357	37
Software	**72**	79	(9)
AutoDriller	**472**	697	(32)
Gas Analyzer	**265**	378	(30)
Other	**1,207**	1,569	(23)
Total revenue	**5,096**	6,362	(20)
Operating costs	**4,192**	5,531	(24)
Depreciation and amortization	**1,038**	2,007	(48)
Segment operating loss	**(134)**	(1,176)	—

The international rig count was down in most of the Company's major international markets, most notably Argentina, Mexico, and Offshore. As a result, revenue in the International operations segment decreased 20% in the first quarter of 2017 compared to the same period in 2016.

Operating costs decreased by 24% in the first quarter relative to the same period in the prior year, as the business units continue to identify and implement changes to its cost structure to meet the challenging business environment while maintaining customer service.

Depreciation expense decreased by approximately 48% for the three months ended March 31, 2017, primarily due to lower capital expenditures.

The segment operating loss was $0.1 million for the first quarter of 2017, an improvement from the $1.2 million loss recorded in the corresponding period in 2016.

Corporate Expenses

Three Months Ended March 31,	2017	2016	Change
(000s)	($)	($)	(%)
Other expenses			
Research and development	**5,877**	6,628	(11)
Corporate services	**4,068**	4,322	(6)
Stock-based compensation	**2,547**	962	165
Other			
Restructuring costs	**—**	10,861	—
Foreign exchange loss (gain)	**223**	(2,719)	—
Other	**1,216**	974	25
Total corporate expenses	**13,931**	21,028	(34)

In the first quarter of 2016, the Company initiated additional cost reduction initiatives to address the prolonged downturn in oil and gas drilling activity. These actions included further staff reductions and office space consolidation. As a result, the Company recorded a restructuring charge of $10.9 million in the first quarter of 2016.

Q1 2017 vs Q4 2016

Consolidated revenue was $59.0 million in the first quarter of 2017 compared to $48.8 million in the fourth quarter of 2016, an increase of $10.2 million or 21%. The first quarter of the year is typically the strongest for the Company due to the seasonality of the Canadian drilling activity. Activity in the WCSB showed significant seasonal improvements as a result of a modest recovery in commodity prices. The Canadian segment earned revenue of $24.0 million in the first quarter of 2017 as compared to $14.6 million in the fourth quarter of 2016, an increase of $9.4 million. Revenue in the US market increased by $1.4 million, from $28.6 million in the fourth quarter of 2016 to $30.0 million in the first quarter of 2017. The International segment experienced a revenue decrease of $0.5 million.

The Company recorded a net profit in the first quarter of 2017 of $7.2 million ($0.08 per share) compared to a loss of $11.3 million ($0.13 per share) in the fourth quarter of 2016. The fourth quarter 2016 results includes a $17.5 million impairment charge relating to the write-off of intangible assets as a result of the Company's divestiture of the net operating assets of 3PS, a previous wholly-owned subsidiary.

Sequentially, EBITDA increased from a negative $2.3 million in the fourth quarter of 2016 to $23.5 million in the first quarter of 2017. Adjusted EBITDA, which adjusts for foreign exchange and certain non-recurring charges, including impairment charges, increased from a $15.2 million in the fourth quarter of 2016 to $24.9 million in the first quarter of 2017. Funds flow from operations increased from $15.3 million in the fourth quarter of 2016 to $21.1 million in the first quarter of 2017.

Summary of Quarterly Results

Three Months Ended	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	**Mar 31, 2017**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	57,440	68,468	59,838	45,813	27,173	38,633	48,827	**59,049**
(Loss) income	(9,404)	(18,558)	(841)	(10,860)	(11,319)	(7,117)	(11,325)	**7,153**
Per share – basic	(0.11)	(0.22)	(0.01)	(0.13)	(0.13)	(0.08)	(0.13)	**0.08**
Per share – diluted	(0.11)	(0.22)	(0.01)	(0.13)	(0.13)	(0.08)	(0.13)	**0.08**
EBITDA (1)	7,485	(2,717)	20,736	(353)	(2,231)	8,347	(2,291)	**23,469**
Adjusted EBITDA (1)	9,911	24,742	20,128	8,763	(1,470)	8,487	15,225	**24,908**
Funds flow from (used in) operations	9,277	23,791	17,933	3,335	(974)	9,130	15,324	**21,074**
Per share – basic	0.11	0.28	0.21	0.04	(0.01)	0.11	0.18	**0.25**
Per share – diluted	0.11	0.28	0.21	0.04	(0.01)	0.11	0.18	**0.25**
Cash from operating activities	31,300	16,332	10,911	11,331	2,993	4,653	665	**29,831**
Free cash flow (1)	19,172	6,894	3,878	4,141	(2,461)	4,910	(153)	**28,511**

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

Reconcile income (loss) to EBITDA

Three Months Ended	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	**Mar 31, 2017**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
(Loss) income	(9,404)	(18,558)	(841)	(10,860)	(11,319)	(7,117)	(11,325)	**7,153**
Add:								
Taxes	(9,272)	(4,226)	(1,027)	(6,817)	(6,728)	(922)	(3,019)	**1,796**
Depreciation and amortization	20,598	19,259	19,802	16,362	13,578	14,929	10,515	**11,973**
Stock-based compensation	5,563	808	2,802	962	2,238	1,457	1,538	**2,547**
EBITDA (1)	7,485	(2,717)	20,736	(353)	(2,231)	8,347	(2,291)	**23,469**

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sept 30, 2016	Dec 31, 2016	**Mar 31, 2017**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	7,485	(2,717)	20,736	(353)	(2,231)	8,347	(2,291)	**23,469**
Add:								
Impairment charges	—	26,555	—	—	—	—	17,474	**—**
Restructuring costs	2,572	—	1,024	10,861	—	—	—	**—**
Foreign exchange	(12)	904	(1,549)	(2,719)	396	96	284	**223**
Other	(134)	—	(83)	974	365	44	(242)	**1,216**
Adjusted EBITDA (1)	9,911	24,742	20,128	8,763	(1,470)	8,487	15,225	**24,908**

Reconcile cash from operating activities to free cash flow

Three Months Ended	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	Dec 31, 2016	**Mar 31, 2017**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	31,300	16,332	10,911	11,331	2,993	4,653	665	**29,831**
Less:								
Additions to property, plant and equipment (net of proceeds and working capital)	(9,721)	(7,341)	(7,060)	(5,493)	(4,437)	916	(1,827)	**(1,027)**
Deferred development costs	(2,407)	(2,097)	27	(1,697)	(1,017)	(659)	1,009	**(293)**
Free cash flow [(1)]	19,172	6,894	3,878	4,141	(2,461)	4,910	(153)	**28,511**

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

Liquidity and Capital Resources

As at March 31,	2017	2016	Change
(000s)	($)	($)	(%)
Cash and cash equivalents	**163,346**	176,093	(7)
Working capital	**203,224**	214,538	(5)
Funds flow from operations (1)	**21,074**	3,335	532
Capital expenditures (1)	**1,134**	6,580	(83)
As a % of funds flow (1) (2)	**5.4%**	197.3%	(97)

(1) Figures are for the Three months ended March 31.

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

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

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

In addition, during the first quarter of 2017, the Company received a tax refund of $4.6 million relating to the refiling of prior years' tax returns.

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	($)	($)	($)	($)
Operating leases and other contracts	14,637	12,833	4,823	32,293

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

At March 31, 2017, the Company had no capital lease obligations, and other than the operating leases detailed above, and the onerous lease obligation recorded, has no off-balance sheet arrangements.

The Company has available a $5.0 million demand revolving credit facility. At March 31, 2017, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at March 31, 2017, there were 84.7 million common shares and 4.8 million options issued and outstanding.

SEDAR

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

Critical Accounting Estimates

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

Depreciation and Amortization

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

Carrying Value of Assets

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

Stock-Based Payments

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

Income Taxes

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

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

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

Risk and Uncertainties

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

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

Operating Risks

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

Commodity Prices

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

Seasonality

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

Proprietary Rights

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

Litigation

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

Credit Risk

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

Availability of Qualified Personnel

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

Alternative Energies

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

International Operations

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

Foreign Exchange Exposure

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

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

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

Major Customers

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

Key Personnel

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

Dividends

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

Taxation

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

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

Information Security

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

Corporate Information

Directors

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

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

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

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

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

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

Officers & Key Personnel

Marcel Kessler
President
& Chief Executive Officer

Jon Faber
Chief Financial Officer

David Elliott
Vice President, Finance

Timur Kuru
President and General Manager – United States

Bryce McLean
General Manager, Operations – Canada

Russell Smith
Vice President, Operations – International & Offshore

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

Lars Olesen
Vice President, Product Management

Kevin Boston
Vice President, Sales & Business Development

Kevin Lo
Vice President, New Ventures

Melinda Ando
General Counsel & Corporate Secretary

Corporate Head Office

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Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI.TO

Eligible Dividend Designation

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