Performance Data

	Three Months Ended December 31,			Year Ended December 31,		
	2018	2017	Change	**2018**	2017	Change
(CDN 000s, except per share data)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**81,965**	66,226	24	**306,393**	245,643	25
Net Income	**20,720**	5,014	313	**62,944**	25,190	150
Per share – basic	**0.24**	0.06	310	**0.74**	0.30	148
Per share – diluted	**0.24**	0.06	309	**0.73**	0.30	147
EBITDA (1)	**38,803**	26,651	46	**139,270**	96,663	44
As a % of revenue	**47.3**	40.2	710 bps	**45.5**	39.4	610 bps
Adjusted EBITDA (1)	**39,303**	27,797	41	**145,987**	98,224	49
As a % of revenue	**48.0**	42.0	600 bps	**47.6**	40.0	760 bps
Funds flow from operations	**30,711**	27,356	12	**128,544**	87,121	48
Per share – basic	**0.36**	0.32	12	**1.51**	1.03	46
Per share – diluted	**0.36**	0.32	12	**1.50**	1.02	46
Cash from operating activities	**23,407**	16,637	41	**107,177**	85,797	25
Free cash flow (1)	**16,603**	6,690	148	**85,522**	65,831	30
Capital expenditures	**8,450**	9,160	(8)	**23,876**	20,764	15
Working capital	**256,153**	193,692	32	**256,153**	193,692	32
Total assets	**461,716**	398,446	16	**461,716**	398,446	16
Total long-term debt	**—**	—	—	**—**	—	—
Cash dividends declared	**0.18**	0.17	6	**0.70**	0.68	3
Shares outstanding end of period (#000's)	**85,783**	85,158	1	**85,783**	85,158	1

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

Q4 2018 vs Q4 2017

The Company generated consolidated revenue of $82.0 million in the fourth quarter of 2018, an increase of 24% from the same period in 2017. In the US business unit, industry activity increased by 16% while market share remained at 61%. In Canada, industry activity decreased by 15% while market share increased. The International business unit saw increases in activity in each of the Company's major markets. Fourth quarter revenue was positively impacted by the strengthening of the US dollar to the Canadian dollar.

Consolidated adjusted EBITDA increased to $39.3 million in the fourth quarter, an increase of 41% from the same period in 2017. The increase in consolidated adjusted EBITDA is driven by the increase in activity in both the US and International business units, combined with the Company's continued operating leverage. The Canadian business unit contributed a modest increase due to a reduction in expenditures.

The Company recorded net income of $20.7 million ($0.24 per share) in the fourth quarter of 2018, compared to net income of $5.0 million ($0.06 per share) recorded in the same period in 2017. Net income was positively impacted from the increased level of activity, reduction in depreciation expense due to lower capital expenditures in prior years, a smaller foreign exchange loss, and a lower effective income tax rate.

President’s Message

Pason achieved strong results in the fourth quarter of 2018 and our teams continue to perform very well in all geographies. We generated revenue of $82.0 million in the period, an increase of 24% compared to the same quarter last year. The main drivers of revenue growth were increased industry activity in the United States, higher activity levels in all Pason’s international markets, and a significant increase in the penetration of new Drilling Intelligence products.

Adjusted EBITDA was $39.3 million for the quarter, an increase of 41%. Adjusted EBITDA as a percentage of revenue was 48% compared to 42% one year ago. The driver of this improvement was the significant increase in revenue with high incremental margins. Pason recorded net income for the quarter of $20.7 million ($0.24 per share) compared to $5.0 million ($0.06 per share) in the prior year quarter.

Capital expenditures for the quarter were $8.5 million and free cash flow was $16.6 million. At December 31, 2018, our working capital position stood at $256 million, including cash and short-term investments of $204 million. We are maintaining our quarterly dividend at $0.18 share.

For the full year 2018 compared to 2017 revenue increased 25% to $306.4 million, adjusted EBITDA increased 49% to $146.0 million, and net income grew 150% to $62.9 million.

At the beginning of 2018, we began reporting our revenue along five product categories to better reflect the changing nature of Pason’s business as follows:

- ***Drilling Data*** contains all products and services associated with acquiring, displaying, storing, and delivering drilling data. Revenue in this segment increased 29% in the fourth quarter compared to the prior year period and accounted for 52% of our total revenue. The increase was driven by a 16% increase in total US land drilling activity and partially offset by a 15% decline in Canadian drilling activity. Internationally, drilling activity increased in all major markets with the largest increases in Argentina and Australia.
- ***Mud Management & Safety*** includes products such as the Pit Volume Totalizer, Smart Alarms, Gas Analyzer, Hazardous Gas Alarm, and the Electronic Choke Actuator. In the fourth quarter, Mud Management & Safety revenue increased 16% and generated 28% of total revenue.
- ***Communications*** includes satellite and terrestrial Internet bandwidth, Wireless Rigsite, VoIP and Intercom services and accounted for 8% of total revenue. Revenue in this segment is showing no growth because of the transition from satellite to terrestrial bandwidth with lower pricing, but better user experience, for our customers.
- ***Drilling Intelligence*** bundles Pason’s product offerings targeted at enabling our customers’ drilling optimization and automation efforts. It contains products such as autodrillers, abbl Directional Advisor™, the ExxonMobil Drilling Advisory System™ and Pivot, a pipe oscillation system for improving slide drilling. Drilling Intelligence is our highest growth segment as revenue increased 74% in the fourth quarter compared to the prior year and accounted for 8% of our total revenue. There currently are 200 active drilling rig installations of new Drilling Intelligence software.
- ***Analytics & Other*** includes our Verdazo Discovery Analytics product suite, various reports, and other revenue streams. This segment is not as directly correlated to drilling activity, grew 9% and accounted for 4% of total revenue in the fourth quarter.

We have increased our investment in R&D in 2018 compared to the previous year with a focus on machine learning algorithms. IT expenses also increased as we are transitioning towards a more cloud-based IT infrastructure.

Our capital expenditures will be relatively modest going forward with a larger portion of development efforts focused on software and analytics. Our highly capable and flexible IT and communications platform can host additional new Pason and third-party software at the rigsite and in the cloud. We spent $24 million in capital expenditures in 2018 and intend to spend up to $30 million in 2019.

From a macro perspective, the significant fall in oil prices in the fourth quarter was driven by US shale production surprising to the upside and geopolitics negatively impacting the global demand/supply-balance sentiments. This has introduced more uncertainty for the E&P spending outlook for 2019, with operators generally taking a more conservative approach at the start of the year. This will once again push out in time a broad-based recovery in E&P spending. For North American land E&P operators, this means that investments will likely be closer to the level that can be covered by free cash flow, making the outlook for drilling activity more uncertain. Conversely, in the international markets, after four years of underinvestment, the NOCs and independents are starting to see the need to invest in their resource base simply to maintain production at current levels.

Based on what we can see today, we expect industry activity in North America to trend lower in 2019, with declines of about 5% in the United States and steeper declines in Canada. Drilling activity in most international markets should continue to pick up. In this environment, we have built flexibility into our plans for 2019, which gives us the means and confidence to address any activity scenario.

Our market positions remain strong, and we expect to be able to deliver growth through higher product adoption going forward. 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.

Marcel Kessler
President and Chief Executive Officer
February 26, 2019

Management’s Discussion and Analysis

The following discussion and analysis has been prepared by management as of February 26, 2019, 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 Consolidated Financial Statements, the Company 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.

Management believes that EBITDA and Adjusted EBITDA are useful supplemental measures as they provide an indication of the results generated by the Company's principal business activities prior to the consideration of how these results are taxed in multiple jurisdictions, how the results are impacted by foreign exchange or how the results are impacted by the Company's accounting policies for equity-based compensation plans.

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 (including changes to non-cash working capital associated with capital expenditures), and deferred development costs. This metric provides a key measure on the Company's ability to generate cash from it's principal business activities after funding the capital expenditure program, and provides an indication of the amount of cash available to finance, among other items, the Company's dividend and other investment opportunities.

Overall Performance

	Three Months Ended December 31,			Year Ended December 31,		
	2018	2017	Change	**2018**	2017	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**42,357**	32,893	29	**157,162**	121,867	29
Mud Management and Safety	**23,089**	19,862	16	**85,952**	73,087	18
Communications	**6,764**	6,827	(1)	**28,177**	25,267	12
Drilling Intelligence	**6,720**	3,867	74	**22,786**	15,180	50
Analytics and Other	**3,035**	2,777	9	**12,316**	10,242	20
Total revenue	**81,965**	66,226	24	**306,393**	245,643	25

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 at 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.

EDR rental day performance for Canada and the United States is reported below:

Pason Electronic Drilling Recorder (EDR) Rental Days

	Three Months Ended December 31,			Year Ended December 31,		
	2018	2017	Change	**2018**	2017	Change
	#	#	(%)	#	#	(%)
Canada	**14,500**	15,900	(9)	**60,000**	65,800	(9)
United States	**58,900**	50,800	16	**223,500**	179,300	25

Total revenue increased 24% and 25% for the three and twelve months ending December 2018, over the same period in 2017. This increase is attributable to an increase in revenue per EDR day in all three operating segments combined with an increase in the activity in the US and International operating segment.

Industry activity in the US market increased 16% in the fourth quarter of 2018 compared to the corresponding period in 2017, while fourth quarter Canadian industry activity decreased by 15% in the fourth quarter of 2018 compared to the corresponding period in 2017.

US EDR days increased by 16% in the fourth quarter of 2018 compared to the corresponding period in 2017, while fourth quarter Canadian EDR days, which includes non-oil and gas-related activity, decreased 9% from 2017 levels.

In the fourth quarter of 2018, the Pason EDR was installed on 61% of the land rigs in the US market, consistent with the same time period in 2017.

In the fourth quarter of 2018, the Pason EDR was installed on 91% of the land rigs in the Canadian market compared to 85% during the same period of 2017. 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.

Revenue generated from the Company's other wellsite instrumentation products was largely driven by the increase in drilling activity in the US market combined with increases in the adoption of certain EDR peripherals, most notably the alarms and sensors, and an increase in revenue from the Company's drilling intelligence products.

For the fourth quarter of 2018, the Company saw an increase in activity in all major regions of the International operating segment with the largest increases in Australia and Argentina.

Discussion of Operations

United States Operations

	Three Months Ended December 31,			Year Ended December 31,		
	2018	2017	Change	**2018**	2017	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**29,918**	21,705	38	**110,229**	78,335	41
Mud Management and Safety	**16,268**	13,347	22	**59,421**	47,699	25
Communications	**3,733**	3,630	3	**15,730**	13,073	20
Drilling Intelligence	**3,866**	2,174	78	**12,693**	7,897	61
Analytics and Other	**1,546**	1,290	20	**5,813**	4,981	17
Total revenue	**55,331**	42,146	31	**203,886**	151,985	34
Rental services and local administration	**19,364**	16,519	17	**72,021**	64,161	12
Depreciation and amortization	**4,121**	3,981	4	**16,249**	17,303	(6)
Segment gross profit	**31,846**	21,646	47	**115,616**	70,521	64

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Revenue per EDR day - USD	**705**	645	**697**	648
Revenue per EDR day - CAD	**932**	820	**903**	841

Revenue from the US operations increased by 31% in the fourth quarter of 2018 over the 2017 comparable period (27% when measured in USD). On a year to date basis, revenue increased 34% compared to the prior period (34% when measured in USD).

Industry activity in the US market increased by 16% in the fourth quarter of 2018 over the 2017 comparable period. On a year to date basis, industry activity increased by 19% compared to the prior period. US market share was 61% for the fourth quarter of 2018, consistent with the same period in 2017. On a year to date basis, US market share was 61% during 2018 compared to 58% during 2017. The increase in market share is driven by market share growth in key US regions combined with changes in the mix of active customers.

EDR rental days increased by 16% in the fourth quarter of 2018 over the 2017 comparable period. Revenue per EDR day increased to US$705 in the fourth quarter of 2018, an increase of US$60 over the same period in 2017. The increase in revenue per EDR day was driven by higher adoption of certain peripheral products and selective price increases on certain products.

On a year to date basis, revenue per EDR day was US$697, an increase of US$49 from 2017.

Rental services and local administration increased by 17% in the fourth quarter of 2018 over the 2017 comparative period (12% when measured in USD). On a year to date basis, rental services and local administration increased 12% over the 2017 comparative period (8% when measured in USD). The increase in operating costs is attributable higher field staff levels and higher direct costs to support additional activity.

Depreciation expense increased by 4% in the fourth quarter of 2018 over the 2017 comparative period. On a year to date basis, depreciation expense decreased 6% over the 2017 comparative period.

Segment gross profit increased by $10.2 million or 47% in the fourth quarter of 2018 over the 2017 comparative period. On a year to date basis, segment gross profit was $115.6 million. This represents an increase of 64% over the 2017 comparative period.

Canadian Operations

	Three Months Ended December 31,			Year Ended December 31,		
	2018	2017	Change	**2018**	2017	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**7,191**	7,556	(5)	**29,095**	29,921	(3)
Mud Management and Safety	**4,766**	5,188	(8)	**19,722**	20,663	(5)
Communications	**2,641**	2,871	(8)	**10,944**	11,093	(1)
Drilling Intelligence	**2,519**	1,312	92	**8,623**	5,504	57
Analytics and Other	**776**	818	(5)	**3,613**	3,350	8
Total revenue	**17,893**	17,745	1	**71,997**	70,531	2
Rental services and local administration	**6,864**	7,109	(3)	**26,374**	24,935	6
Depreciation and amortization	**2,519**	6,618	(62)	**15,027**	24,250	(38)
Segment gross profit	**8,510**	4,018	112	**30,596**	21,346	43

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Revenue per EDR day - CAD	**1,183**	1,072	**1,145**	1,024

Canadian drilling activity in the fourth quarter of 2018 decreased by 15% relative to the same period in 2017. On a year to date basis, drilling activity decreased by 8% compared to the same period in 2017. Rig activity reflected the challenging industry outlook and takeaway capacity issues in the WCSB.

Canadian segment revenue increased by 1% in the fourth quarter of 2018 over the 2017 comparative period. On a year to date basis, revenue increased by 2% compared to the prior period.

Canadian market share was 91% for the fourth quarter of 2018 compared to 85% during the same period of 2017. On a year to date basis, Canadian market share was 88%, consistent with the same period in 2017.

EDR rental days decreased 9% in the fourth quarter of 2018 compared to 2017. On a year to date basis EDR rental days decreased 9% over 2017 levels. Revenue per EDR day increased by $111 to $1,183 during the fourth quarter of 2018 compared to 2017. On a year to date basis, revenue per EDR day increased by $121 to $1,145. The increase is driven by the successful introduction of drilling intelligence products as well as a higher adoption of certain EDR peripherals.

Rental services and local administration decreased by 3% in the fourth quarter of 2018 relative to the same period in 2017. On a year to date basis, rental services and local administration increased 6% compared to the same period in 2017.

Depreciation and amortization expense decreased by 62% in the fourth quarter of 2018 over the 2017 comparative period. The decrease is due to the amortization of investment tax credits received during the quarter. On a year to date basis, depreciation and amortization decreased by 38% compared to 2017. The decrease is a result of lower capital programs from 2014 to 2017 as well as as a greater proportion of research and development project costs being expensed for accounting purposes.

Segment gross profit for the fourth quarter of 2018 increased 112% to $8.5 million compared to $4.0 million in segment gross profit in the 2017 comparative period.

International Operations

	Three Months Ended December 31,			Year Ended December 31,		
	2018	2017	Change	**2018**	2017	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**5,248**	3,632	44	**17,838**	13,611	31
Mud Management and Safety	**2,055**	1,327	55	**6,809**	4,725	44
Communications	**390**	326	20	**1,503**	1,101	37
Drilling Intelligence	**335**	381	(12)	**1,470**	1,779	(17)
Analytics and Other	**713**	669	7	**2,890**	1,911	51
Total revenue	**8,741**	6,335	38	**30,510**	23,127	32
Rental services and local administration	**5,227**	4,681	12	**19,109**	17,963	6
Depreciation and amortization	**916**	1,102	(17)	**3,579**	4,128	(13)
Segment gross profit	**2,598**	552	371	**7,822**	1,036	655

Drilling activity increased in all of the Company's major international markets, although the majority of the absolute gains were seen in Australia, Argentina, and the Andean region.

Revenue in the International segment increased by 38% in the fourth quarter of 2018 compared to the same period in 2017. On a year to date basis, revenue increased by 32% compared to the prior period.

Rental services and local administration expenses increased by 12% in the fourth quarter of 2018 compared to the same period in 2017. On a year to date basis, rental services and local administration expense increased by 6% compared to the prior period.

Depreciation expense decreased by 17% in the fourth quarter of 2018 compared to the same period in 2017.

Segment gross profit was $2.6 million for the fourth quarter of 2018, an improvement from the $0.6 million profit recorded in the corresponding period in 2017. On a year to date basis, segment gross profit was $7.8 million compared to $1.0 million in 2017.

Corporate Expenses

	Three Months Ended December 31,			Year Ended December 31,		
	2018	2017	Change	**2018**	2017	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Other expenses						
Research and development	**7,310**	6,136	19	**26,997**	25,219	7
Corporate services	**3,897**	3,984	(2)	**15,905**	15,141	5
Stock-based compensation	**3,335**	2,893	15	**12,313**	11,762	5
Other						
Foreign exchange loss	**1,007**	1,459	(31)	**7,682**	1,106	595
Other	**(507)**	(313)	62	**(965)**	455	—
Total corporate expenses	**15,042**	14,159	6	**61,932**	53,683	15

Research and development expenses increased in the fourth quarter of 2018 over the 2017 comparative period due to additions to the R&D personnel and the Company's continued transition towards more Cloud-based IT infrastructure, focusing on maximizing uptime service to customers and enhancing disaster recovery and business continuity capabilities.

In 2017, the Company's Argentina subsidiary initiated repayment of advances made to it by the Canadian operating company. As a result, beginning in the third quarter of 2017, any foreign exchange gains and losses from these advances are recorded in profit or loss for the period. Previously, these advances were considered to be part of the net investment and gains or losses arising from these advances were recorded in the Consolidated Statements of Other Comprehensive Income.

Q4 2018 vs Q3 2018

Consolidated revenue was $82.0 million in the fourth quarter of 2018 compared to $82.3 million in the third quarter of 2018, a decrease of $0.3 million. Drilling activity in the US and international markets continued to increase, offset by a 17% drop in activity in the Canadian market.

Revenue in the US segment was $55.3 million in the fourth quarter of 2018 compared to $54.2 million in the third quarter of 2018. The Canadian segment earned revenue of $17.9 million in the fourth quarter of 2018 compared to $20.0 million in the third quarter of 2018, a decrease of $2.1 million or 11%. The International segment earned revenue of $8.7 million in the fourth quarter of 2018 compared to $8.2 million in the third quarter of 2018, an increase of $0.5 million or 6%.

Adjusted EBITDA, which adjusts EBITDA for foreign exchange and certain non-recurring charges, was $39.3 million in the fourth quarter of 2018 compared to $42.5 million in the third quarter of 2018. Funds flow from operations was $30.7 million in the fourth quarter of 2018 compared to $36.0 million in the third quarter of 2018, due to the drop in operating gross profit and current income tax expense being a higher amount relative to total income tax expense.

The Company recorded net income in the fourth quarter of 2018 of $20.7 million ($0.24 per share) compared to net income of $24.4 million ($0.28 per share) in the third quarter of 2018. The Company recorded an unrealized foreign exchange loss in the fourth quarter of 2018 compared to an unrealized foreign exchange gain in the third quarter of 2018.

Summary of Quarterly Results

Three Months Ended	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	**Dec 31, 2018**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	59,049	55,792	64,576	66,226	73,813	68,271	82,344	**81,965**
Net Income	6,804	5,968	7,404	5,014	12,359	5,479	24,386	**20,720**
Per share – basic	0.08	0.07	0.08	0.06	0.15	0.06	0.29	**0.24**
Per share – diluted	0.08	0.07	0.08	0.06	0.14	0.06	0.28	**0.24**
EBITDA (1)	23,469	21,050	25,493	26,651	32,220	23,614	44,633	**38,803**
Adjusted EBITDA (1)	24,908	19,361	26,158	27,797	34,753	29,458	42,473	**39,303**
Funds flow from operations	21,074	18,795	19,896	27,356	33,958	27,836	36,039	**30,711**
Per share – basic	0.25	0.22	0.23	0.32	0.40	0.33	0.42	**0.36**
Per share – diluted	0.25	0.22	0.23	0.32	0.40	0.32	0.42	**0.36**
Cash from operating activities	29,831	24,201	15,128	16,637	24,344	27,617	31,809	**23,407**
Free cash flow (1)	28,511	19,628	11,002	6,690	18,906	23,133	26,880	**16,603**

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

Reconcile Income to EBITDA

Three Months Ended	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	**Dec 31, 2018**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Net Income	6,804	5,968	7,404	5,014	12,359	5,479	24,386	**20,720**
Add:								
Income taxes	2,145	1,082	3,760	7,043	8,152	5,060	8,754	**7,192**
Depreciation and amortization	11,973	10,823	11,184	11,701	9,175	9,220	8,904	**7,556**
Stock-based compensation	2,547	3,177	3,145	2,893	2,534	3,855	2,589	**3,335**
EBITDA (1)	23,469	21,050	25,493	26,651	32,220	23,614	44,633	**38,803**

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

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	**Dec 31, 2018**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	23,469	21,050	25,493	26,651	32,220	23,614	44,633	**38,803**
Add:								
Foreign exchange	223	(689)	113	1,459	2,404	5,787	(1,516)	**1,007**
Other	1,216	(1,000)	552	(313)	129	57	(644)	**(507)**
Adjusted EBITDA (1)	24,908	19,361	26,158	27,797	34,753	29,458	42,473	**39,303**

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

Reconcile cash from operating activities to free cash flow

Three Months Ended	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	**Dec 31, 2018**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	29,831	24,201	15,128	16,637	24,344	27,617	31,809	**23,407**
Less:								
Net additions to property, plant and equipment	(1,027)	(3,913)	(3,881)	(8,749)	(4,452)	(3,227)	(3,890)	**(5,621)**
Deferred development costs	(293)	(660)	(245)	(1,198)	(986)	(1,257)	(1,039)	**(1,183)**
Free cash flow (1)	28,511	19,628	11,002	6,690	18,906	23,133	26,880	**16,603**

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

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 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, 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 December 31,	2018	2017	Change
(000s)	($)	($)	(%)
Cash and cash equivalents	**203,838**	154,129	32
Working capital	**256,153**	193,692	32
Funds flow from operations (1)	**128,544**	87,121	48
Capital expenditures (1)	**23,876**	20,764	15
As a % of funds flow (1) (2)	**18.6%**	23.8%	(526) bps

(1) Figures are for the Year ended December 31.

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

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	($)	($)	($)	($)
Operating leases and other contracts	5,579	9,447	3,235	18,261

Contractual obligations relate primarily to minimum future lease payments required primarily for operating leases of certain facilities.

At December 31, 2018, 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 December 31, 2018, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at December 31, 2018, there were 85,783 common shares and 5,534 options issued and outstanding.

Normal Course Issuer Bid (NCIB)

During the fourth quarter of 2018, the Company implemented a NCIB program. Under the NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 6,556 common shares, which represents 10% of the public float.

The actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 32 common shares.

The NCIB commenced on December 18, 2018 and expires on December 17, 2019. In the fourth quarter the Company purchased 50 common shares for cancellation, for a total cash consideration of $921.

Under an automatic purchase plan agreement with an independent broker (APP), the Company recorded a liability of $4,079 for share repurchases that could take place during its internal blackout period. The total accrual is included in the Consolidated Balance Sheet under trade payables and accruals as at December 31, 2018.

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 Human Resources department within each significant business unit to support that 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 90% of the Company's revenues are generated in Canada and the US, which limits exposure to risks and uncertainties in foreign countries. The Company's Argentinian subsidiary is operating in a highly inflationary economy and its operating results are being impacted by a weakening Argentina peso relative to the Canadian dollar.

Foreign Exchange Exposure

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

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

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

Major Customers

Pason has a large customer base, consisting of both operators and contractors, and does not rely on any single customer for a significant portion of its revenue. 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 person" insurance on any of its key employees. As such, the loss of services of one or more of these key employees could have a material adverse effect on Pason’s business, operating results, or financial condition.

Dividends

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

Taxation

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

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

Information Security

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The preparation and presentation of the Company's consolidated financial statements and the overall reasonableness of the Company's financial reporting are the responsibility of management. The Board of Directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility with the assistance of the Audit Committee of the Board of Directors.

Management's Report on Disclosure Controls and Procedures (DC&P)

Disclosure controls and procedures within the Company have been designed to provide reasonable assurance that all relevant information is identified to the President and Chief Executive Officer (CEO), Chief Financial Officer (CFO), and Board of Directors to ensure appropriate and timely decisions are made regarding public disclosure.

An evaluation of the Company's Disclosure Controls and Procedures was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2018, our DC&P, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was effective.

Management's Report on Internal Control over Financial Reporting (ICFR)

Management, under the supervision and participation of the Company's CEO and CFO, is responsible for establishing and maintaining a system of internal controls over financial reporting to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles. The assessment has been based on criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the Company's ICFR was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2018, our ICFR, as defined in NI 52-109, was effective. There were no changes in our ICFR during the year ended December 31, 2018 that have materially affected, or are reasonably likely to affect, our ICFR.

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
Vice President, Operations – United States

Bryce McLean
Vice President, Operations – Canada

Russell Smith
Vice President, Operations – International & Offshore

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

Lars Olesen
Vice President, Product Management

Kevin Boston
Vice President, Business Development

Kevin Lo
Vice President, New Ventures

Corporate Head Office

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InvestorRelations@pason.com
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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.

Annual Meeting

Shareholders are invited to attend the Company's Annual General Meeting on Thursday, May 2, 2019 at 3:30 pm at the offices of Pason Systems Inc., 6120 Third Street SE, Calgary, Alberta.

Historical Review

Selected Financial Data

Years Ended December 31,

	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
(CDN 000s, except per share data)	**($)**	($)	($)	($)	($)	($)	($)	($)	($)	($)
Operating Results										
Revenue	**306,393**	245,643	160,446	285,148	499,272	403,088	386,514	346,158	260,397	153,823
Expenses										
Rental services	**104,398**	95,912	80,115	120,445	153,151	134,874	125,269	113,568	94,299	72,428
Corporate services	**15,905**	15,141	16,758	20,040	22,243	17,373	15,723	12,975	17,770	11,611
Research and development	**26,997**	25,219	22,848	31,733	35,427	27,252	22,467	17,366	16,472	13,140
Stock-based compensation	**12,313**	11,762	6,195	7,398	19,471	32,511	23,792	1,309	11,233	5,684
Depreciation and amortization	**34,855**	45,681	55,384	81,381	69,201	62,171	68,213	58,565	49,108	55,842
EBITDA[1]	**139,270**	96,663	3,472	71,920	251,623	136,647	151,753	171,661	110,867	46,651
As a % of revenue	**45.5**	39.4	2.2	25.2	50.4	33.9	39.3	49.6	47.1	32.0
Funds flow from operations	**128,544**	87,121	26,815	94,263	224,204	134,930	158,948	145,358	93,973	41,354
Per share – basic	**1.51**	1.03	0.32	1.13	2.71	1.64	1.94	1.78	1.15	0.51
Income (loss)	**62,944**	25,190	(41,792)	(7,917)	114,637	25,458	39,895	86,223	36,474	(5,510)
Per share – basic	**0.74**	0.30	(0.49)	(0.09)	1.39	0.31	0.49	1.05	0.45	(0.07)
Capital expenditures	**23,876**	20,764	12,856	50,811	121,188	70,664	71,424	78,357	50,164	21,493
Financial Position										
Total assets	**461,716**	398,446	435,251	529,625	570,066	445,876	488,378	455,901	402,082	354,273
Working capital	**256,153**	193,692	198,419	244,972	206,571	127,933	163,371	126,605	105,815	108,113
Total equity	**386,077**	347,486	386,651	489,448	483,523	366,469	368,696	367,269	309,684	308,335
Return on total equity %[2]	**17**	7	(9)	(3)	26	6	11	25	12	(2)
Common Share Data										
Common shares outstanding (#)										
At December 31	**85,783**	85,158	84,628	84,063	83,363	82,158	82,049	81,904	81,714	81,487
Weighted average	**85,357**	84,821	84,365	83,675	82,647	82,098	81,968	81,851	81,525	81,476
Share trading										
High ($)	**24.57**	22.36	20.29	23.10	35.51	23.77	18.12	16.53	14.82	14.45
Low ($)	**16.05**	16.65	14.46	16.51	20.82	15.74	12.04	11.53	10.31	8.26
Close ($)	**18.29**	18.19	19.64	19.39	21.89	22.98	17.15	12.00	13.96	11.65
Volume (#)	**31,598**	24,503	42,898	37,476	37,538	24,105	25,053	24,658	23,793	28,605
Dividends ($)	**0.70**	0.68	0.68	0.68	0.64	0.53	0.46	0.38	0.33	0.26

(1) Non-IFRS financial measures are defined in the Management's Discussion and Analysis section.
(2) Return on total equity is calculated as earnings over the simple average of the beginning and ending total equity.