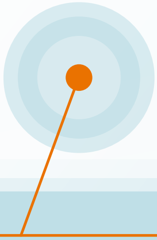
Pason Systems Inc.
2014 Annual Report

Providing Seamless Collaboration from the Rig to the Office



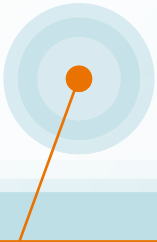
MISSION STATEMENT

Our mission is to provide technologies, information, and services that improve the effectiveness, efficiency, and safety of drilling operations.

Why we do this by:

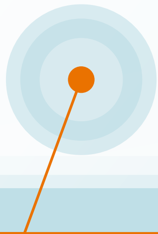
- Deploying innovative, simple-to-use, rig-tough technologies that are supported by the industry's most advanced service organization.
- Providing the most flexible data and applications to enable effective collaboration between the field and the office.

Our corporate position and financial strength directly benefit four key stakeholders: our customers, investors, employees, and communities.



QUICK FACTS

- Over 2,000 rigs worldwide with Pason rental instrumentation
- Over 10,000 users of Pason data per day
- Record revenue of $499 million
- Record earnings of $112 million
- Headquartered in Calgary, Alberta
- US offices in Denver, Houston, and Austin
- International offices in Argentina, Bolivia, Brazil, Colombia, Ecuador, Peru, Mexico, Australia, and Saudi Arabia
- Listed on the Toronto Stock Exchange under the symbol PSI



PASON OFFICES

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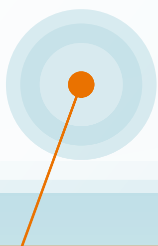

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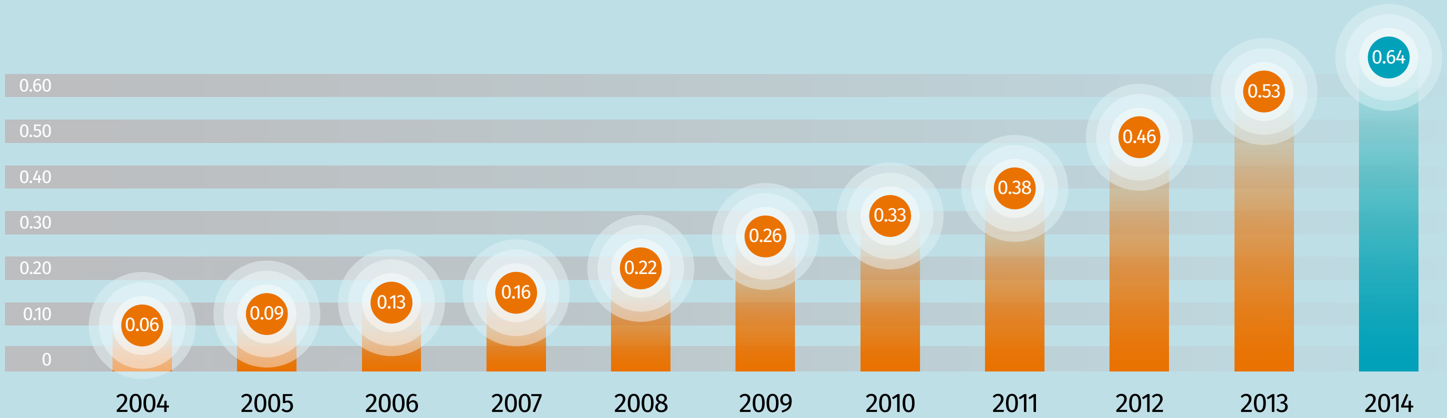
FINANCIALS AT A GLANCE 2014

*All dollar amounts are in $CDN unless otherwise indicated.

Shareholder Returns

DIVIDENDS PER SHARE ($)

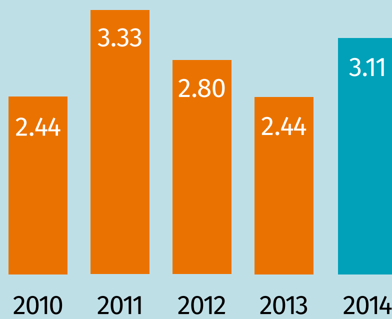


DIVIDEND INCREASE OF

21%

Represents an unbroken track record of annual dividend increases since 2003.

DIVIDEND YIELD*
(%)

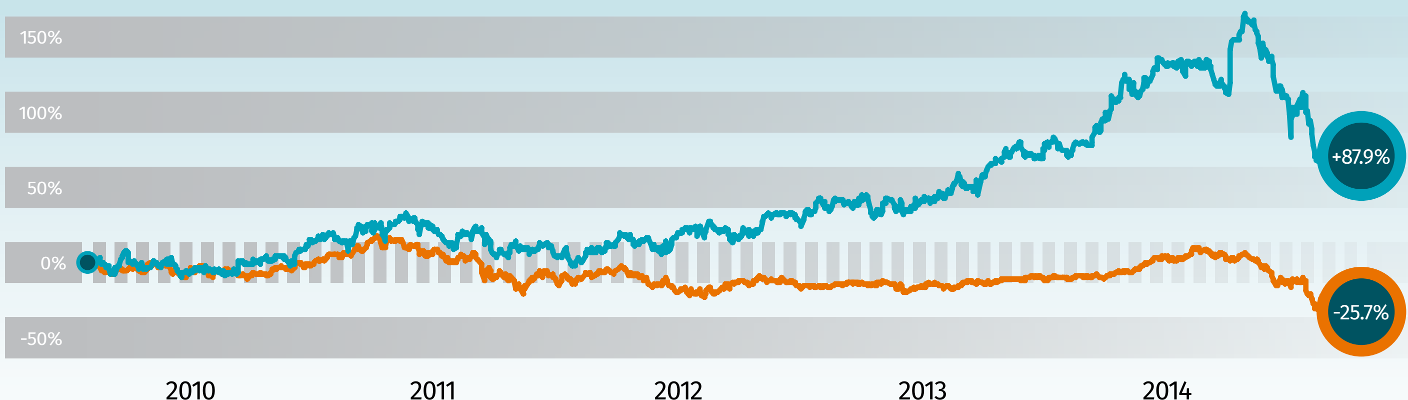


* At year end.

38%

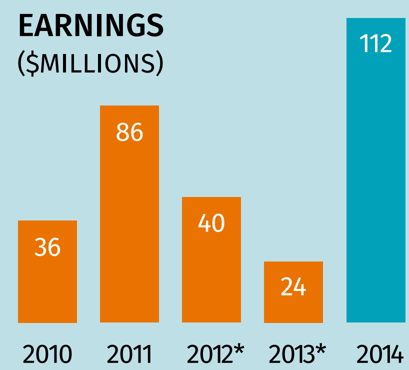
INCREASE IN OPERATING PROFIT FOR THE YEAR

SHARE PRICE PERFORMANCE

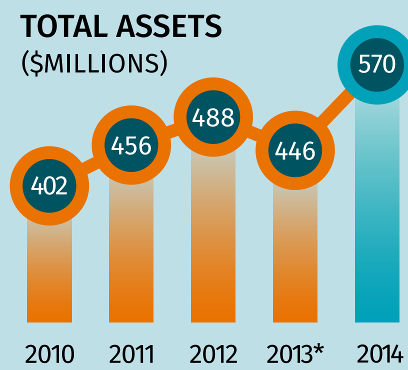


Key Financial Metrics

EARNINGS ($MILLIONS)



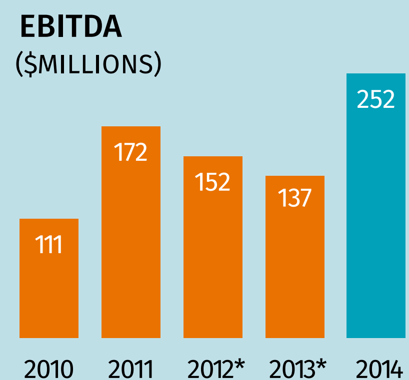
TOTAL ASSETS ($MILLIONS)



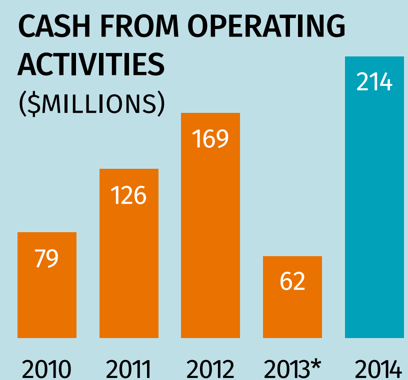
24%

INCREASE IN REVENUE IN 2014

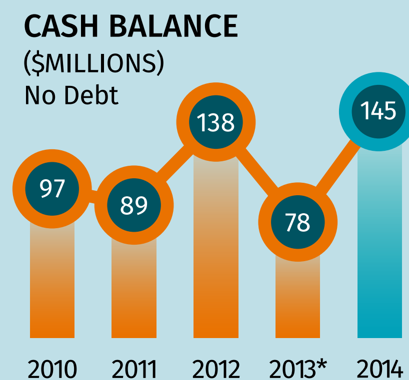
EBITDA ($MILLIONS)



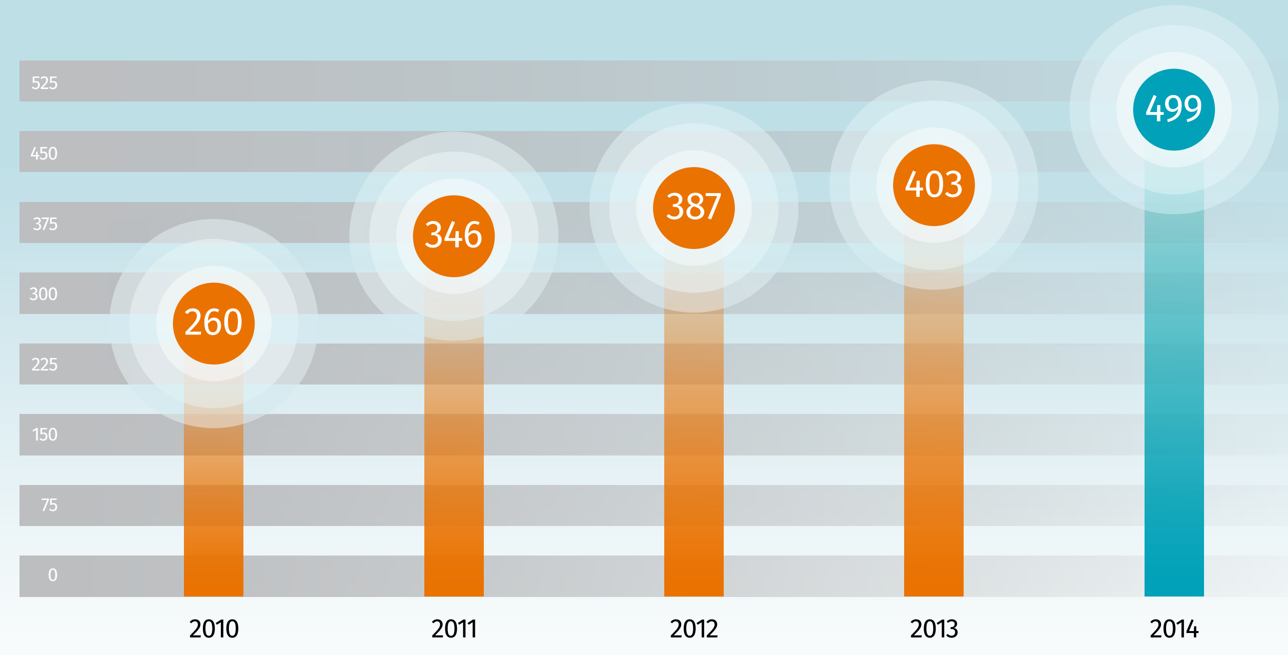
CASH FROM OPERATING ACTIVITIES ($MILLIONS)



CASH BALANCE ($MILLIONS) No Debt

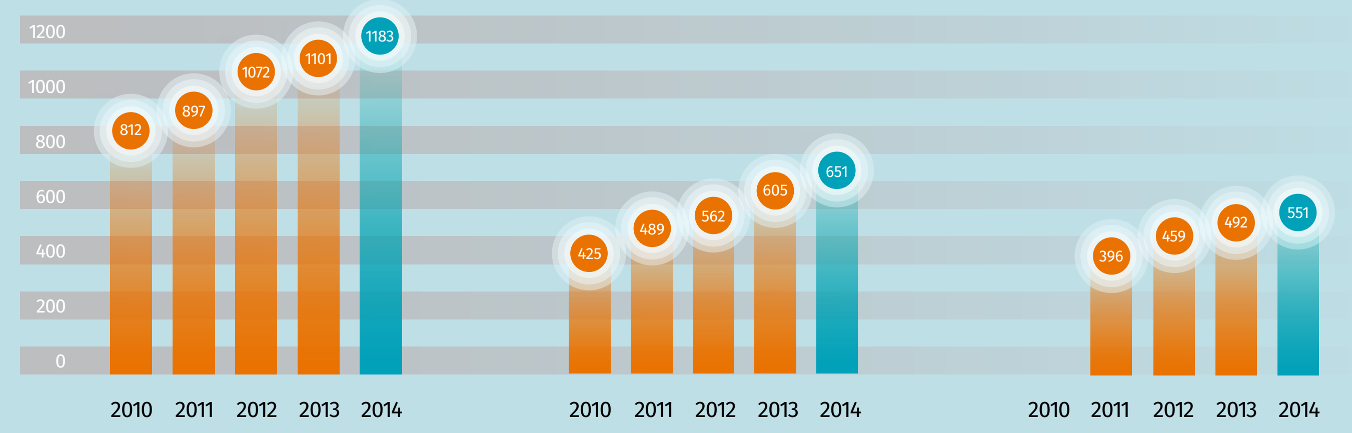


TOTAL REVENUE ($MILLIONS)

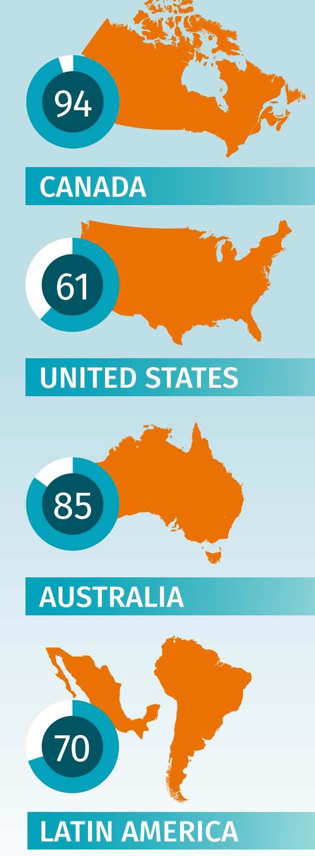


Key Operational Metrics

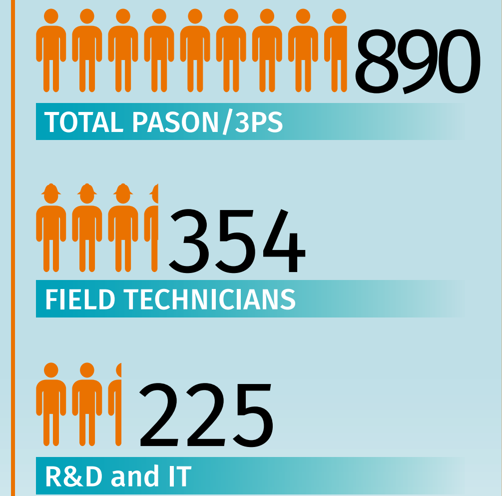
RENTAL REVENUE PER EDR DAY ($)



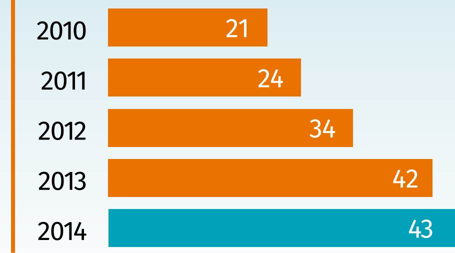
MARKET SHARE (%)



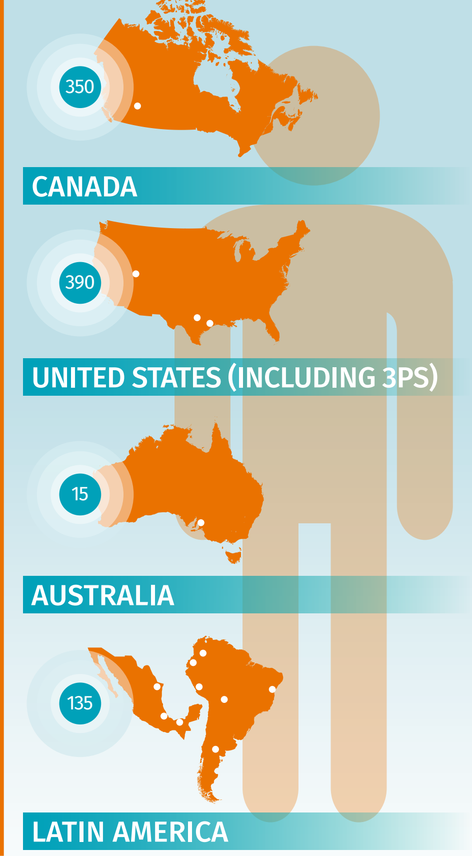
EMPLOYEE HEADCOUNT



ANNUAL R&D SPEND ($MILLIONS)



EMPLOYEE HEADCOUNT BY REGION



*Impacted by litigation provision and settlement. Refer to 2013 financial statements for more details.

Pason Real-Time Drilling Data Solutions

Providing seamless collaboration from the rig to the office.

Pason is the industry's only specialist with a full ecosystem of data intelligence solutions that make it fast, flexible, and easy for our clients to access their critical drilling information anytime, anywhere.

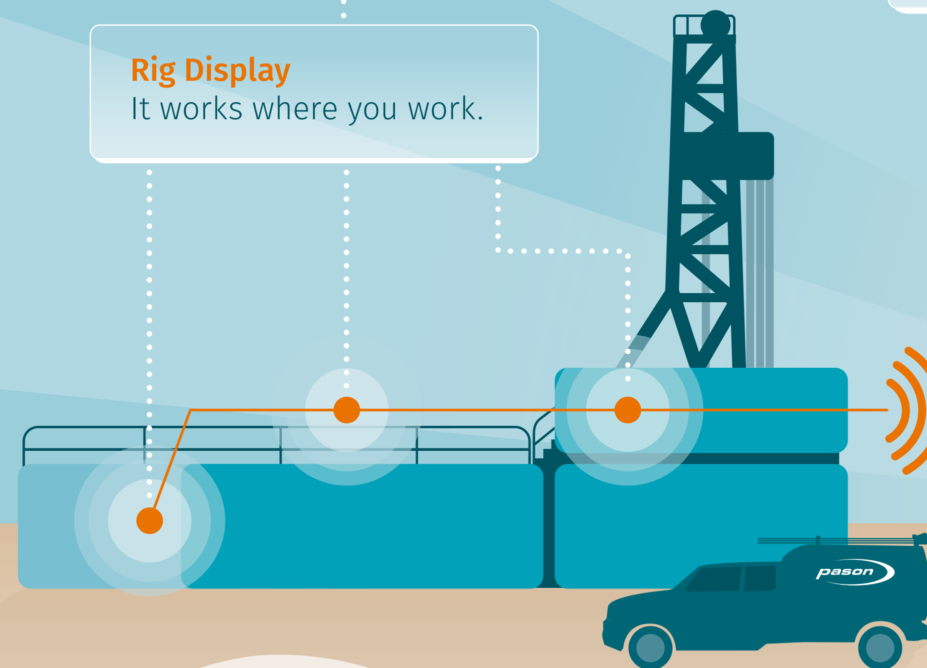
Our end-to-end product portfolio enables users to collect, manage, report, and analyze drilling data in order to optimize the performance and the cost-efficiency of their operations.

Pason creates synergies between drilling contractors, service companies, and oil and gas companies by facilitating communication and collaboration like never before. And our rigsite products are designed to withstand the harshest environments across the globe for maximum reliability.

We've built our company on robust products and best-in-class service. And, we continue to innovate the next industry game-changer.

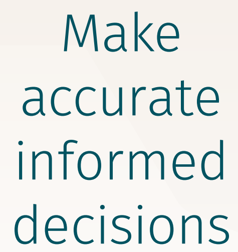
Enhanced Pit Volume Totalizer
Pason's next generation Pit Volume Totalizer.

Communications
Provides automatic failover with terrestrial and satellite communications.



Save time, money, and improve safety

Live Rig View Mobile
See your real-time rig data. Anytime, anywhere.



Make accurate informed decisions

Rig Display

RIG DISPLAY

It works where you work.

A ruggedized, touch screen computer specifically engineered for use outdoors and in hazardous locations. Pason Rig Display enables rig personnel to access services and applications on and around the rig floor.

The Rig Display is:

Efficient

Saves customers time and reduces mistakes by enabling them to enter data where they work.

Effective

Enables access to Electronic Drilling Recorder, Enhanced Pit Volume Totalizer, Directional System, and third party well construction applications anywhere on the rig.

Safe

Provides targeted delivery of Standard Operating Procedures, Job Safety Alerts, and other safety material.

Rig Floor

"I can view traces, set the AutoDriller, update the tour sheet, and update the tally on the floor."

– Driller

Doghouse

"Now I can access both the EDR and ePVT on one display which makes it easier to get information and reduces distractions."

– Driller

Mud Tanks

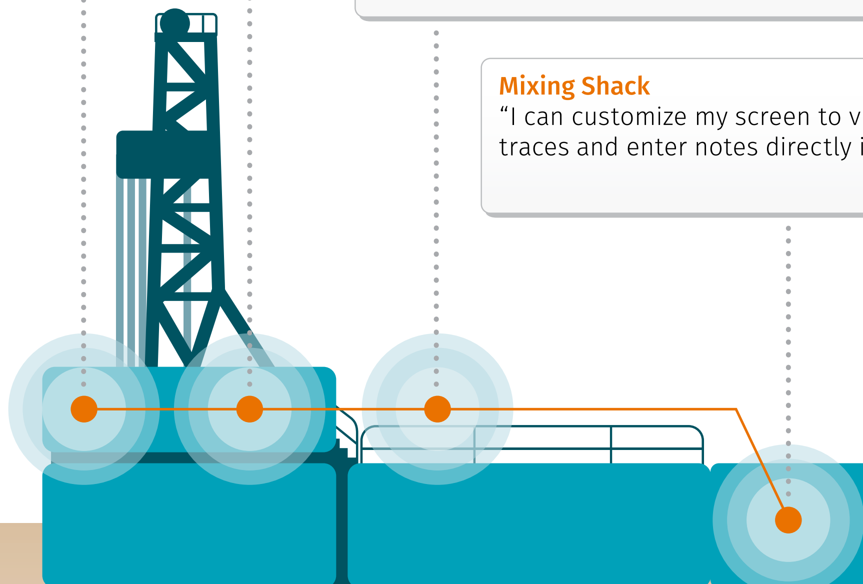
"It's extremely beneficial during well control situations when I'm constantly on the tanks."

– Mud Engineer

Mixing Shack

"I can customize my screen to view a variety of traces and enter notes directly into the tour sheet."

– Derrick Hand



ePVT

ENHANCED PIT VOLUME TOTALIZER

Pason's next generation PVT.

A critical component of a comprehensive well control system, the Pason Enhanced Pit Volume Totalizer (ePVT) builds on over 20 years of success and reliability of the original Pason PVT.

The Enhanced Pit Volume Totalizer is:

Efficient

Provides drilling crews with access to critical data about the mud system where they work.

Effective

Enables collaboration with more eyes on well control issues.

Safe

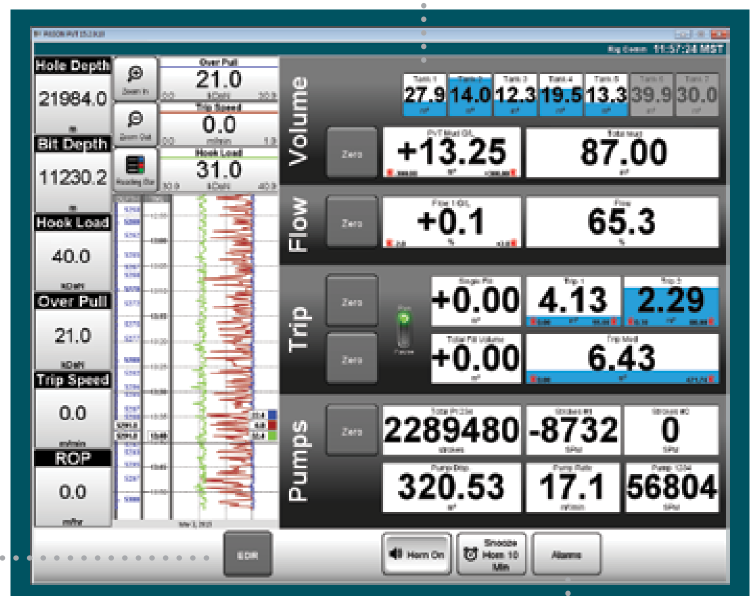
Is specifically designed to help identify the early warning signs of a kick or loss event.

Highly visual interface
Enables users to see trends, tank levels, and verify alarms at a glance.

EDR view
Provides one-touch access to the EDR for features like the tour sheet, pipe tally, and AutoDriller.

Easy to install
Installable in multiple locations on the lease.

Detect kicks and lost circulation
Users can set advanced alarms and use the snooze feature.



LRV Mobile

LIVE RIG VIEW MOBILE

See your real-time rig data. Anytime, anywhere.

Pason Live Rig View (LRV) Mobile delivers one-second data to mobile devices enabling real-time decision-making from anywhere. It provides fast and secure data access enabling customers to make time-sensitive decisions about their active wells when it matters most.

Live Rig View Mobile is:

Efficient
Access real-time well information securely via one-second updates.

Effective
Increases rig and office collaboration by making real-time data available anytime, anywhere. Also enables drilling team members to remain informed and be productive when away from their computer.

Safe
Keeps data secure with encrypted data transmission.

Geologists
Know where the crew is and what formations are coming up.

Drilling Superintendents
Know the rig status and where they need to pay attention.

Drilling Engineers
See what the rig is seeing so they can help address any problems.

PRESIDENT'S MESSAGE

Pason demonstrated very strong operational and financial performance in 2014. Revenue for the year was just shy of half a billion dollars. EBITDA was 50% of revenue, net income was $112.1 million, or $1.34 per share, and return on equity was 26%. Pason paid a dividend of $0.64 per share, an increase of 21% from the previous year. This represents an unbroken track record of annual dividend increases since 2003. On December 31, 2014, our cash position stood at $144.9 million. There is no debt on the balance sheet.

"Pason paid a dividend of $0.64 per share, an increase of 21% from the previous year. This represents an unbroken track record of annual dividend increases since 2003."

Drilling activity in North American land was higher in 2014 than the previous year with industry days increasing by 6% in the United States and by 9% in Canada. Market share for the Electronic Drilling Recorder (EDR), Pason's core product, was up 7% in the United States and essentially unchanged in Canada. Revenue per EDR, (the average daily rental revenue Pason is able to generate per drilling rig) increased by 8% in the United States and by 7% in Canada. These increases were driven primarily by continued success of the new Pason Rig Display and growth in the Communications segment. All international businesses, including Latin America, Australia, the Middle East, and North Africa demonstrated solid growth in 2014. Revenue per EDR increased in all geographies and we were able to defend or grow market share. As a consequence, all business units generated strong financial results in 2014. Operating profit for the United States was $164.4 million, for Canada $75.5 million, and for International $18.3 million.

"...all business units generated strong financial results in 2014."

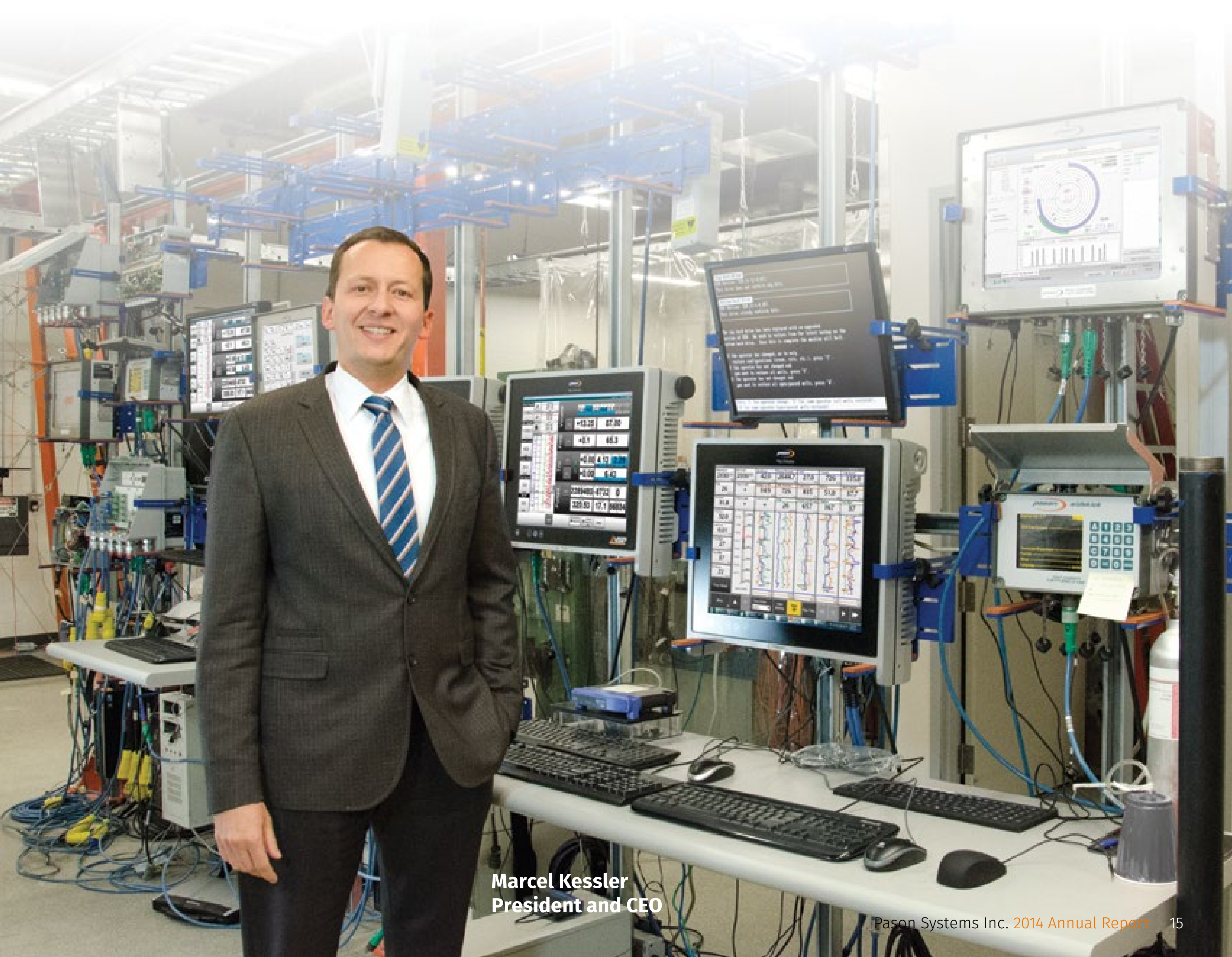
We continued to make important investments in product development, our technical infrastructure, and support capabilities. R&D, IT, and Corporate Service costs increased. Capital expenditures for the year were $121.2 million, the bulk of which was directed toward new hardware that is generating incremental revenue or save operating costs for our customers. This includes the deployment of the Pason Rig Display and the the Versatile Services Platform (VSP), the evolution of Pason's communications and computing infrastructure at the rig site.

Outlook

In light of the severe market downturn, the short-term outlook is, of course, less optimistic. The declines in E&P capital spending and drilling activity are significant. The contraction of land rig counts in North America continues to accelerate and is more dramatic than in 2009. Pricing pressure is mounting. The supply and demand imbalance that caused the decline in oil prices continues to persist. In fact, oil production is still increasing, led by US shale. Absent a shock to the supply side, it may take some time for this imbalance to work itself out. We anticipate that drilling activity, especially in North American land, will continue to fall and may remain at much lower levels for an extended period of time. The quick recovery we experienced after 2009 looks unlikely in this environment.

Pason is not immune to these forces. We will experience a contraction in revenue and margins going forward. Given that there will be significantly fewer active drilling rigs, we are reducing our 2015 capital expenditure budget to $65.0 million. $31.0 million of this budget is directed toward new hardware that can generate incremental revenue or save operating costs for our customers, $24.4 million for maintenance capital, and $9.6 million for capitalized R&D.

To lay the foundation for future growth, we will continue to make targeted investments in new product development, service capabilities, and technical infrastructure. We are, therefore, not planning for a significant reduction in R&D and IT spending at this point.



Marcel Kessler
President and CEO

“We will continue to make targeted investments in new product development, service capabilities, and technical infrastructure.”

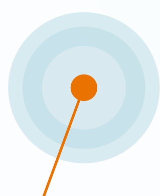
With our excellent product suite, distinctive service model, technical capabilities and pristine balance sheet, Pason is well positioned to weather this storm and emerge even stronger.

Signed on behalf of the Board of Directors,

Marcel Kessler, President and Chief Executive Officer

MANAGEMENT'S DISCUSSION & ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS & NOTES



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Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of February 26, 2015, 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.

Performance Data

	Three Months Ended December 31,			Years Ended December 31,		
	2014	2013	Change	**2014**	2013	Change
(CDN 000s, except per share data)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**138,206**	107,418	29	**499,272**	403,088	24
Income	**47,211**	24,288	94	**112,104**	23,655	374
Per share – basic	**0.57**	0.30	90	**1.36**	0.29	371
Per share – diluted	**0.57**	0.29	97	**1.34**	0.29	362
EBITDA [(1)]	**59,065**	54,543	8	**251,623**	136,647	84
As a % of revenue	**42.7**	50.8	(16)	**50.4**	33.9	49
Funds flow from operations	**59,947**	46,403	29	**224,204**	134,930	66
Per share – basic	**0.73**	0.57	29	**2.71**	1.64	65
Per share – diluted	**0.72**	0.56	29	**2.68**	1.63	64
Cash from (used in) operating activities	**42,460**	(75,220)	—	**213,583**	62,047	244
Free cash flow [(1)]	**(4,144)**	(95,090)	96	**92,691**	(8,035)	—
Per share – basic	**(0.05)**	(1.16)	96	**1.12**	(0.10)	—
Per share – diluted	**(0.05)**	(1.15)	96	**1.10**	(0.10)	—
Capital expenditures	**46,654**	20,127	132	**121,188**	70,664	71
Working capital	**206,571**	127,933	61	**206,571**	127,933	61
Total assets	**570,066**	445,876	28	**570,066**	445,876	28
Total long-term debt	**—**	—	—	**—**	—	—
Cash dividends declared	**0.17**	0.14	21	**0.64**	0.53	21
Shares outstanding end of period (#)	**83,363**	82,158	1	**83,363**	82,158	1

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

Q4 2014 vs Q4 2013

The Company generated consolidated revenue of $138.2 million in the fourth quarter of 2014, up 29% from $107.4 million in the same period of 2013. Growth in US market share, increased rig activity in all of its major markets, continued robust growth in Communications, strong market acceptance of the new Pason Rig Display (PRD), and a strengthening of the US dollar relative to the Canadian dollar all contributed to revenue growth in the fourth quarter.

Consolidated EBITDA was $59.1 million in the fourth quarter, an increase of $4.5 million from the fourth quarter of 2013, due to strong operational performance and the strengthening of the US dollar relative to the Canadian dollar, offset by an impairment loss on excess rental assets of $14.9 million. Funds flow from operations increased by 29%.

Net income increased by $22.9 million to $47.2 million ($0.57 per share) in the fourth quarter of 2014 from net income of $24.3 million ($0.29 per share) in the prior year period. Earnings were positively impacted by market share growth in the US, increased rig activity, the appreciation of the US dollar relative to the Canadian dollar, and a recovery of stock-based compensation expense of $20.6 million, offset by the impairment loss on excess rental assets.

In the fourth quarter of 2014, the Company changed its dividend policy whereby the dividend is now paid in the same quarter as the record date. As a result, there were two dividend payments made in the fourth quarter of 2014.

Additional IFRS Measures

In its audited 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, 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.

EBITDA

EBITDA is defined as net income before interest expense, income taxes, stock-based compensation expense, and depreciation and amortization expense.

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 December 31,			Years Ended December 31,		
	2014	2013	Change	**2014**	2013	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder	**61,444**	46,551	32	**218,963**	175,120	25
Pit Volume Totalizer/ePVT	**20,043**	15,931	26	**72,684**	60,589	20
Communications	**12,440**	7,844	59	**42,018**	28,597	47
Software	**9,062**	7,294	24	**33,076**	27,651	20
AutoDriller	**11,814**	9,896	19	**44,102**	37,445	18
Gas Analyzer	**10,387**	8,585	21	**37,870**	31,501	20
Other	**13,016**	11,317	15	**50,559**	42,185	20
Total revenue	**138,206**	107,418	29	**499,272**	403,088	24

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 December 31,			Years Ended December 31,		
	2014	2013	Change	**2014**	2013	Change
			(%)			(%)
EDR rental days (#)	**31,800**	30,600	4	**122,900**	113,600	8
PVT rental days (#)	**31,300**	29,700	5	**120,300**	111,100	8

United States						
	Three Months Ended December 31,			Years Ended December 31,		
	2014	2013	Change	**2014**	2013	Change
			(%)			(%)
EDR rental days (#)	**104,500**	88,500	18	**394,700**	351,300	12
PVT rental days (#)	**81,300**	66,700	22	**304,200**	263,700	15

Electronic Drilling Recorder

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. Revenue generated from the EDR increased 32% for the fourth quarter of 2014 compared to the same period in 2013 and 25% for the year. These increases are attributable to continued growth in demand for EDR peripheral devices, the roll-out of the Pason Rig Display (PRD) in Canadian and US markets, an increase in US market share in 2014 over the fourth quarter of 2013 (62% versus 57%), a strengthening US dollar relative to the Canadian dollar, and increased revenue in International markets. Industry activity in the US market increased 9% in the fourth quarter of 2014 (6% on a year-to-date basis), while fourth quarter and year to date Canadian rig activity increased 4% and 9% respectively compared to the same periods in 2013. Canadian EDR days increased 4% in the fourth quarter of 2014 and 8% for the year compared to the same periods in 2013, while US EDR days increased by 18% for the fourth quarter of 2014 and 12% for the year.

In the fourth quarter, the Pason EDR was installed on 94% of all active land rigs in Canada and 62% of the land rigs in the US, compared to 94% and 57% respectively in the fourth quarter of 2013. On a year-to-date basis, the Pason EDR was installed on 94% of all active land rigs in Canada and 61% of the land rigs in the US, compared to 95% and 57% respectively in the same period of 2013.

In addition, the Company continues to increase revenue in its International business unit.

Pit Volume Totalizer

The PVT is Pason's proprietary solution for the detection and early warning of “kicks” that are caused by hydrocarbons entering the wellbore under high pressure and expanding as they migrate to the surface. PVT revenue for 2014 was impacted by rig count activity combined with an increase in product penetration in both the US market and International markets. For the year ended 2014, the PVT was installed on 98% of rigs with a Pason EDR in Canada and 75% in the US, which was consistent with 2013. During the latter part of 2014, the company's new Enhanced PVT (ePVT) reached commercial status and is in the process of being rolled out in the company's major markets.

Communications

Pason's Communications revenue is derived from the provision of communications services including the provision of bandwidth through the Company's automatically-aiming satellite system and terrestrial networks. This system provides reliable high-speed wellsite communications for email and web application management tools. Pason displays all data in standard forms on its DataHub web application, although if customers require greater analysis or desire to have the information transferred to another supplier's database, data is available for export from the Pason DataHub using WITSML (a specification for transferring data among oilfield service companies, drilling contractors, and operators). The Company complements its satellite equipment with High-Speed Packet Access (HSPA), a high-speed wireless ground system which provides automatic fail-over between satellite and terrestrial networks to achieve greater reliability in its service offering.

Communications revenue increased by 59% in the fourth quarter and 47% for the year compared to 2013 in large part due to increased usage of the Company's premium product offerings in both the US and Canadian markets, and the strengthening of the US dollar relative to the Canadian dollar.

Software

The Pason DataHub is the Company's data management system that collects, stores, and displays drilling data, reports, and real-time information from drilling operations. The DataHub provides access to data through a number of innovative applications or services, including:

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

In 2014, 98% of the Company's Canadian customers and 91% of customers in the US were using all or a portion of the functionality of the DataHub, compared to 97% and 90%, respectively, in 2013.

AutoDriller

Pason's AutoDriller is used to maintain constant weight on the drill bit while a well is being drilled. For the year ended December 31, 2014, the AutoDriller was installed on 75% of Canadian and 46% of US land rigs operating with a Pason EDR system, compared to 73% and 45%, respectively, in 2013.

Gas Analyzer

The Pason Gas Analyzer measures the total hydrocarbon gases (C1 through C4) exiting the wellbore, and then calculates the lag time to show the formation depth where the gases were produced. The Gas Analyzer provides information about the composition of the gas, and further calculates geologic ratios from the gas composition to assist in indicating the type of gas, natural gas liquid, or oil in the formation. For the year ended 2014, the Gas Analyzer was installed on 63% of Canadian and 24% of US land rigs operating with a Pason EDR system. The penetration in Canada is an increase of approximately 6% in market share over 2013 levels while the US experienced an increase of 1%.

Other

Other is comprised mainly of the rental of service rig recorders in Latin America, the Electronic Choke Actuator, Hazardous Gas Alarm, Mobilization revenue, sales of sensors and other systems sold by 3PS, and spare parts sold by Pason Offshore. The increase in Other is due mostly to increased sales of sensors by 3PS Inc. and mobilization revenue in the US business unit.

Discussion of Operations

United States Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2014	2013	Change	**2014**	2013	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder	**39,429**	27,883	41	**139,651**	108,021	29
Pit Volume Totalizer/ePVT	**11,862**	8,755	35	**42,487**	33,959	25
Communications	**6,242**	3,417	83	**21,032**	11,997	75
Software	**5,903**	4,548	30	**21,759**	17,586	24
AutoDriller	**6,749**	5,124	32	**24,849**	20,467	21
Gas Analyzer	**4,605**	3,461	33	**16,578**	13,285	25
Other	**8,285**	6,574	26	**32,012**	26,645	20
Total revenue	**83,075**	59,762	39	**298,368**	231,960	29
Operating costs	**28,391**	21,661	31	**100,858**	88,697	14
Depreciation and amortization	**9,703**	7,221	34	**33,142**	29,366	13
Segment operating profit	**44,981**	30,880	46	**164,368**	113,897	44

	Three Months Ended December 31,			
		2014		2013
	USD	**CAD**	USD	CAD
	$	**$**	$	$
Revenue per EDR day	**672**	**761**	611	641
Revenue per industry day	**417**	**472**	350	367

	Years Ended December 31,			
		2014		2013
	USD	**CAD**	USD	CAD
	$	**$**	$	$
Revenue per EDR day	**651**	**719**	605	623
Revenue per industry day	**395**	**437**	345	356

US segment revenue increased by 39% in the fourth quarter over the 2013 comparable period (30% increase when measured in USD). For the year, US segment revenue increased by 29% over the 2013 comparable period (21% increase when measured in USD).

Industry activity in the US market during the fourth quarter of 2014 increased by 9% from the prior year and 6% for the year while revenue from the rental of instrumentation equipment increased by 40% and 30% for the three and twelve month periods respectively over 2013 levels. EDR rental days increased by 18% and 12%, respectively, for the three and twelve months ended December 31, 2014 over the same time periods in 2013, while revenue per EDR day in the fourth quarter of 2014 increased to US$672, an increase of US

$61 over the same period in 2013. For the year, revenue per EDR day increased to US$651, an increase of US$46 as compared to 2013.

Market share gains, increased usage of premium communication services, and a favourable movement in the exchange rate all contributed to revenue growth in the US segment. US market share was 61% during the year ended December 31, 2014, up from 57% in the same period of 2013.

Operating costs increased by 31% in the fourth quarter relative to the same period in the prior year primarily due to a weakening of the Canadian dollar combined with an increase in field support-related costs, as new equipment continues to be deployed in the field.

Segment profit, as a percentage of revenue, was 54% for the fourth quarter of 2014 compared to 52% for the corresponding period in 2013, an increase of $14.1 million. For the year, segment profit as a percentage of revenue was 55% compared to 49% for the corresponding period in 2013, an increase of $50.5 million. The US business unit was able to increase its operating margin primarily by leveraging its fixed cost structure and controlling variable costs.

Canadian Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2014	2013	Change	**2014**	2013	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder	**15,918**	13,621	17	**57,475**	48,943	17
Pit Volume Totalizer/ePVT	**5,891**	5,343	10	**22,109**	19,706	12
Communications	**5,631**	4,034	40	**19,052**	15,077	26
Software	**2,824**	2,620	8	**10,349**	9,631	7
AutoDriller	**3,642**	3,475	5	**13,801**	12,522	10
Gas Analyzer	**4,394**	3,913	12	**16,296**	13,618	20
Other	**1,981**	1,847	7	**7,489**	7,125	5
Total revenue	**40,281**	34,853	16	**146,571**	126,622	16
Operating costs	**12,211**	10,228	19	**43,047**	37,116	16
Depreciation and amortization	**8,873**	7,757	14	**28,033**	26,088	7
Segment operating profit	**19,197**	16,868	14	**75,491**	63,418	19

	Three Months Ended December 31,	
	2014	2013
	CAD	CAD
	$	$
Revenue per EDR day	**1,258**	1,121
Revenue per Industry day	**1,186**	1,055

	Years Ended December 31,	
	2014	2013
	CAD	CAD
	$	$
Revenue per EDR day	**1,183**	1,103
Revenue per Industry day	**1,111**	1,043

Canadian segment revenue grew by 16% for the three months ended December 31, 2014, and 16% for the year as compared to the same periods in 2013. This positive growth is a result of an 4% increase in the number of drilling industry days in the fourth quarter compared to 2013 levels, continued strong adoption of the PRD in conjunction with the rollout of the ePVT, higher Communications revenue, and greater penetration of the Gas Analyzer. EDR rental days increased 4% in the fourth quarter and 8% for the year compared to 2013 levels.

The Canadian business unit was able to increase its revenue for the year due to a shorter spring break up period in the second quarter, along with increased product adoption, notably EDR peripherals, the Gas Analyzer, and Communications revenue.

The factors above combined to result in an increase in revenue per EDR day of $137 to $1,258 during the fourth quarter of 2014 compared to 2013. For the year, revenue per EDR day increased $80 to $1,183.

Operating costs increased by 19% in the fourth quarter of 2014 relative to the same period in 2013, primarily due to an increase in field support-related costs similar to the United States. Segment operating profit for the fourth quarter of 2014 of $19.2 million is an increase of $2.3 million over the same period in 2013. On a year-to-date basis, operating costs increased by 16%, which was attributable to the increase in satellite bandwidth costs to improve the customer experience at the rig and field support-related costs. Year-to-date segment operating profit of $75.5 million is an increase of 19% over the prior year.

International Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2014	2013	Change	**2014**	2013	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder	**6,097**	5,047	21	**21,837**	18,156	20
Pit Volume Totalizer/ePVT	**2,290**	1,833	25	**8,088**	6,924	17
Communications	**567**	393	44	**1,934**	1,523	27
Software	**335**	127	164	**968**	434	123
AutoDriller	**1,423**	1,297	10	**5,452**	4,456	22
Gas Analyzer	**1,388**	1,211	15	**4,996**	4,598	9
Other	**2,750**	2,895	(5)	**11,058**	8,415	31
Total revenue	**14,850**	12,803	16	**54,333**	44,506	22
Operating costs	**7,634**	6,715	14	**27,999**	27,702	1
Depreciation and amortization	**2,568**	1,534	67	**8,026**	6,717	19
Segment operating profit	**4,648**	4,554	2	**18,308**	10,087	82

Revenue in the International operations segment increased 16% in the fourth quarter of 2014 and 22% for the year ended compared to the same periods in 2013, with increased revenue from each of the Company's rental products.

Operating profit increased by $0.1 million for the fourth quarter of 2014 over 2013, an increase of 2%. For the year ended, operating profit increased by $8.2 million, an increase of 82% from the same period in 2013.

A number of factors influenced these results:

- Latin America revenue increased 19% in the fourth quarter and 18% year-to-date compared to prior periods as the Company saw increased activity in the majority of its major markets.
- The Company continues to increase its customer base in areas the Company has identified as "frontier markets" including the Middle East and North Africa (MENA) regions. These new markets, combined with increases in rig activity in the Gulf of Mexico, resulted in an increase in fourth quarter revenue of 17% over the same period in 2013 and 49% on a year-to-date basis.
- Australia revenue increased 8% in the fourth quarter and 19% for the year as a result of increased penetration of the company's rental products.

Corporate Expenses

	Three Months Ended December 31,			Years Ended December 31,		
	2014	2013	Change	**2014**	2013	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Other expenses						
Research and development	**10,653**	6,820	56	**35,427**	27,252	30
Corporate services	**6,014**	4,319	39	**22,243**	17,373	28
Stock-based compensation	**(20,600)**	6,144	—	**19,471**	32,511	(40)
Other						
Litigation provision	**—**	—	—	**—**	61,614	(100)
Foreign exchange (gain) loss	**(1,498)**	2,797	—	**729**	2,175	(66)
Earn-out provision	**—**	—	—	**—**	3,071	(100)
Impairment loss	**14,884**	—	—	**14,884**	—	—
Other	**852**	335	154	**2,462**	1,441	71
Total corporate expenses	**10,305**	20,415	(50)	**95,216**	145,437	(35)

During the fourth quarter of 2014, the Company reviewed the level of rental equipment deployed in each respective business unit versus the anticipated decline in utilization rates of such equipment due to the reduction in drilling activity as a result of the drop in oil and gas prices. This review resulted in the Company identifying what it believes is excess equipment based upon management's best estimate of future drilling activity. The net book value of this excess equipment, totaling $14.9 million, was recorded as an impairment loss in the fourth quarter of 2014.

The significant drop in the share price during Q4 of 2014 resulted in a recovery of stock-based compensation expense of $20.6 million.

Q4 2014 versus Q3 2014

Consolidated revenue was $138.2 million in the fourth quarter of 2014 compared to $134.0 million in the third quarter of 2014, an increase of $4.2 million or 3%. The Canadian segment earned revenue of $40.3 million in the fourth quarter as compared to $38.6 million in the third quarter of 2014, an increase of $1.7 million. The US market experienced revenue growth of $3.7 million and the International segment had a revenue decrease of $1.2 million.

Sequentially, EBITDA decreased 22% from $76.1 million in the third quarter of 2014 to $59.1 million in the fourth quarter of 2014 due in most part to the impairment loss on excess rental assets of $14.9 million, while funds flow from operations decreased to $59.9 million in the fourth quarter from $63.7 million in the third quarter of 2014.

Net income increased by 78% to $47.2 million ($0.57 per share) in the fourth quarter of 2014 from $26.5 million ($0.31 per share) in the prior quarter due to the large stock-based compensation recovery and a lower effective tax rate for the fourth quarter of 2014, offset by the impairment loss on rental assets that was recognized in the fourth quarter.

Summary of Quarterly Results

Three Months Ended	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	**Dec 31, 2014**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	109,267	82,387	104,016	107,418	123,174	103,851	134,041	**138,206**
Income (loss)	29,608	(39,376)	9,135	24,288	20,821	17,606	26,466	**47,211**
Per share – basic	0.36	(0.48)	0.11	0.30	0.25	0.21	0.32	**0.57**
Per share – diluted	0.36	(0.48)	0.11	0.29	0.25	0.21	0.31	**0.57**
EBITDA [(1)]	59,790	(27,817)	50,131	54,543	70,469	45,999	76,090	**59,065**
Funds flow from operations	50,090	(22,172)	60,192	46,403	56,311	44,255	63,691	**59,947**
Per share – basic	0.61	(0.27)	0.73	0.57	0.68	0.54	0.77	**0.73**
Per share – diluted	0.60	(0.27)	0.72	0.56	0.67	0.53	0.75	**0.72**
Cash from (used in) operating activities	46,194	51,236	39,837	(75,220)	64,385	55,980	50,758	**42,460**
Free cash flow [(1)]	32,294	37,059	17,702	(95,090)	47,962	37,763	11,110	**(4,144)**
Per share – basic	0.39	0.45	0.22	(1.16)	0.58	0.46	0.13	**(0.05)**
Per share – diluted	0.39	0.45	0.21	(1.15)	0.57	0.45	0.13	**(0.05)**

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

Reconcile income (loss) to EBITDA

Three Months Ended	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	**Dec 31, 2014**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Income (loss)	29,608	(39,376)	9,135	24,288	20,821	17,606	26,466	**47,211**
Add:								
Taxes	11,498	(9,718)	8,931	7,599	16,238	5,353	17,946	**11,310**
Depreciation and amortization	14,934	14,406	16,319	16,512	15,742	15,904	16,411	**21,144**
Stock-based compensation	3,750	6,871	15,746	6,144	17,668	7,136	15,267	**(20,600)**
EBITDA [(1)]	59,790	(27,817)	50,131	54,543	70,469	45,999	76,090	**59,065**

Reconcile cash from operating activities to free cash flow

Three Months Ended	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	Dec 31, 2013	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	**Dec 31, 2014**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from (used in) operating activities	46,194	51,236	39,837	(75,220)	64,385	55,980	50,758	**42,460**
Less:								
Additions to property, plant and equipment	(10,157)	(10,604)	(17,820)	(17,008)	(14,367)	(17,111)	(37,290)	**(44,615)**
Deferred development costs	(3,743)	(3,573)	(4,315)	(2,862)	(2,056)	(1,106)	(2,358)	**(1,989)**
Free cash flow [(1)]	32,294	37,059	17,702	(95,090)	47,962	37,763	11,110	**(4,144)**

Variations in Pason's quarterly financial results are due in part to the seasonality of the oil and gas service industry in Canada, which is somewhat offset by the less seasonal nature of US and International operations.

The first quarter is generally the strongest quarter for the Company due to strong activity in Canada, where location access is best during the winter. The second quarter is always the slowest due to spring break-up in Canada, when many areas are not accessible due to ground conditions, and, therefore, do not permit the movement of heavy equipment. Activity generally increases in the third quarter, depending on the year, as ground conditions have often improved and location access becomes available; however, a rainy summer can have a significant adverse effect on drilling activity. By the fourth quarter, often the Company's second strongest quarter, access to most areas in Canada 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,	2014	2013	Change
(000s)	($)	($)	(%)
Cash	**144,858**	78,018	86
Working capital	**206,571**	127,933	61
Funds flow from operations	**224,204**	134,930	66
Capital expenditures	**121,188**	70,664	71
As a % of funds flow [(1)]	**54.1%**	52.4%	3

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

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	($)	($)	($)	($)
Operating leases	5,372	11,775	10,063	27,210

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

At December 31, 2014, the Company had no capital lease obligations, and other than the operating leases detailed above, has no off-balance sheet arrangements.

The Company has available a $5.0 million demand revolving credit facility. At December 31, 2014, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at December 31, 2014, there were 83.4 million common shares and 4.5 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 90% 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.

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, 2014, 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 Company uses a control framework based on the Internal Control - Integrated Framework 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, 2014, our ICFR, as defined in NI 52-109, was effective. There were no changes in our ICFR during the year ended December 31, 2014 that have materially affected, or are reasonably likely to affect, our ICFR.

Consolidated Financial Statements and Notes

Management's Report to Shareholders

To the Shareholders of Pason Systems Inc.,

The consolidated financial statements are the responsibility of management and are prepared and presented in accordance with International Financial Reporting Standards (IFRS). Financial statements will, by necessity, include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis so that the consolidated financial statements are presented fairly in all material respects. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has prepared the Management's Discussion and Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2014 and 2013.

The Audit Committee of the Board of Directors, which is comprised of three independent directors, has reviewed the consolidated financial statements, including the notes thereto, with management and the external auditors. The Audit Committee meets regularly with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements, and to recommend approval of the financial statements to the Board. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Deloitte LLP, the independent auditors appointed by the shareholders at the last annual general meeting, have audited Pason Systems Inc.'s consolidated financial statements in accordance with Canadian Generally Accepted Auditing Standards. The independent auditors have full and unrestricted access to the Audit Committee to discuss the audit and their related findings as to the integrity of the financial reporting process. The independent auditor's report outlines the scope of their examination and sets forth their opinion.

Marcel Kessler

President & Chief Executive Officer
Calgary, Alberta
February 26, 2015

Jon Faber

Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Pason Systems Inc.,

We have audited the accompanying consolidated financial statements of Pason Systems Inc., which comprise the consolidated balance sheets as at December 31, 2014 and 2013, and the consolidated statements of operations, the consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pason Systems Inc. as at December 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Chartered Accountants

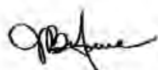
Calgary, Canada
February 26, 2015

Consolidated Balance Sheets

As at	Note*	December 31, 2014	December 31, 2013
(CDN 000s)		($)	($)
Assets			
Current			
Cash and cash equivalents	12	**144,858**	78,018
Cash held in trust	8	**—**	11,502
Trade and other receivables	13	**122,494**	87,469
Prepaid expenses		**5,811**	3,121
Income taxes recoverable		**491**	15,752
Total current assets		**273,654**	195,862
Non-current			
Property, plant and equipment	6	**234,344**	183,601
Intangible assets and goodwill	7	**62,068**	65,261
Deferred tax assets	11	**—**	1,152
Total non-current assets		**296,412**	250,014
Total assets		**570,066**	445,876
Liabilities and equity			
Current			
Trade payables and accruals	15	**47,414**	30,485
Income taxes payable		**3,544**	—
Stock-based compensation liability	8	**16,125**	25,942
Dividend payable	8	**—**	11,502
Total current liabilities		**67,083**	67,929
Non-current			
Stock-based compensation liability	8	**3,018**	3,905
Deferred tax liabilities	11	**16,442**	7,573
Total non-current liabilities		**19,460**	11,478
Equity			
Share capital	8	**113,827**	80,725
Share-based benefits reserve		**12,927**	12,927
Foreign currency translation reserve		**32,807**	7,958
Retained earnings		**323,962**	264,859
Total equity		**483,523**	366,469
Total liabilities and equity		**570,066**	445,876
Commitments (Notes 17 and 18)			
Contingencies (Note 20)			

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

Approved by the Board of Directors



James B. Howe
Director

Murray Cobbe
Director

Consolidated Statements of Operations

Years Ended December 31,	Note*	**2014**	2013
(CDN 000s, except per share data)		**($)**	($)
Revenue		**499,272**	403,088
Operating expenses			
Rental services		**153,151**	134,874
Local administration		**18,753**	18,641
Depreciation and amortization	6,7	**69,201**	62,171
		241,105	215,686
Operating profit		**258,167**	187,402
Other expenses			
Research and development		**35,427**	27,252
Corporate services		**22,243**	17,373
Stock-based compensation	8	**19,471**	32,511
Other expenses	10	**18,075**	68,301
		95,216	145,437
Income before income taxes		**162,951**	41,965
Income taxes	11	**50,847**	18,310
Net income		**112,104**	23,655
Income per share	9		
Basic		**1.36**	0.29
Diluted		**1.34**	0.29

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

Consolidated Statements of Other Comprehensive Income

Years Ended December 31,	**2014**	2013
(CDN 000s)	**($)**	($)
Net income	**112,104**	23,655
Items that may be reclassified subsequently to net income:		
Foreign currency translation adjustment	**24,849**	16,306
Total comprehensive income	**136,953**	39,961

Consolidated Statements of Changes in Equity

	Note*	Share Capital	Share-Based Benefits Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
(CDN 000s)		($)	($)	($)	($)	($)
Balance at January 1, 2013		79,393	12,927	(8,348)	284,724	368,696
Net income		—	—	—	23,655	23,655
Dividends	8	—	—	—	(43,520)	(43,520)
Other comprehensive income		—	—	16,306	—	16,306
Exercise of stock options	8	1,332	—	—	—	1,332
Balance at December 31, 2013		80,725	12,927	7,958	264,859	366,469
Net income		—	—	—	112,104	112,104
Dividends	8	—	—	—	(53,001)	(53,001)
Other comprehensive income		—	—	24,849	—	24,849
Exercise of stock options	8	33,102	—	—	—	33,102
Balance at December 31, 2014		**113,827**	**12,927**	**32,807**	**323,962**	**483,523**

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

Consolidated Statements of Cash Flows

Years Ended December 31,	Note*	**2014**	2013
(CDN 000s)		**($)**	($)
Cash from operating activities			
Net income		**112,104**	23,655
Adjustment for non-cash items:			
Depreciation and amortization		**69,201**	62,171
Impairment loss	6	**14,884**	—
Stock-based compensation	8	**19,471**	32,511
Deferred income taxes	11	**9,958**	12,899
Unrealized foreign exchange (gain) loss		**(1,414)**	3,694
Funds flow from operations		**224,204**	134,930
Movements in non-cash working capital items:			
Increase in trade and other receivables		**(30,580)**	(999)
Increase in prepaid expenses		**(2,542)**	(125)
Increase (decrease) in income taxes		**30,732**	(8,020)
Decrease in litigation provision		**—**	(52,033)
Decrease in trade payables, accruals and stock-based compensation liability		**(1,248)**	(3,484)
Effects of exchange rate changes		**5,134**	3,079
Cash generated from operating activities		**225,700**	73,348
Income tax paid		**(12,117)**	(11,301)
Net cash from operating activities		**213,583**	62,047
Cash flows from (used in) financing activities			
Proceeds from issuance of common shares	8	**16,741**	1,332
Settlement of stock options	8	**(2,589)**	(10,153)
Payment of dividends	8	**(64,502)**	(51,709)
Net cash used in financing activities		**(50,350)**	(60,530)
Cash flows (used in) from investing activities			
Additions to property, plant and equipment	6	**(113,679)**	(56,171)
Capitalized development costs	7	**(7,509)**	(14,493)
Proceeds on disposal of property, plant and equipment	6	**296**	582
Changes in non-cash working capital		**6,152**	(989)
Net cash used in investing activities		**(114,740)**	(71,071)
Effect of exchange rate on cash and cash equivalents		**6,845**	1,130
Net increase (decrease) in cash and cash equivalents		**55,338**	(68,424)
Cash and cash equivalents, beginning of year		**89,520**	157,944
Cash and cash equivalents, end of year		**144,858**	89,520

Cash and cash equivalents consists of:			
Cash and cash equivalents	12	**144,858**	78,018
Cash held in trust	8	**—**	11,502
Cash and cash equivalents, end of year		**144,858**	89,520

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

Notes to Consolidated Financial Statements

($CDN 000s, except per share data)

1. Description of Business

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

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

2. Basis of Preparation

Statement of compliance

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS).

The consolidated financial statements have been prepared on the historical cost basis except for certain assets, including financial instruments, that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

The consolidated financial statements were authorized for issue by the Board of Directors on February 26, 2015.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for liabilities for share-based payment arrangements which are measured at fair value (Note 4).

Functional and presentation currency

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Financial statements of the Company's US and International subsidiaries have a functional currency different from Canadian dollars and are translated to Canadian dollars using the exchange rate in effect at the period end date for all assets and liabilities, and at average monthly year to date rates of exchange during the period for revenues and expenses. All changes resulting from these translation adjustments are recognized in other comprehensive income. All financial information presented in Canadian dollars has been rounded to the nearest thousand except for per share amounts.

Critical Accounting Judgments and Key Sources of Estimation Uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based upon historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Critical Accounting Judgments

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 estimated 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.

Determination of functional currency

The determination of the functional currency is a matter of determining the primary economic environment in which an entity operates. Pason uses judgment in the ultimate determination of each subsidiary's functional currency based on factors in International Accounting Standards (IAS) 21 – The Effects of Changes in Foreign Exchange Rates. The functional currency of the Canadian and US operations were determined to be the Canadian and US dollars, respectively.

Key sources of estimation uncertainty

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Depreciation of property, plant, and equipment, and amortization of intangible assets

When calculating depreciation of property, plant and equipment, and amortization of intangible assets, the Company estimates the useful lives and residual values of the related assets. The estimates made by management regarding the useful lives and residual values affect the carrying amounts of the property and equipment and intangible assets on the balance sheet and the related depreciation and amortization expenses recognized in the statement of operations. Assessing the reasonableness of the estimated useful lives of property and equipment and intangible assets requires judgment and is based on available information. The Company periodically, and at least annually, evaluates its depreciation and amortization methods and rates for consistency against those methods and rates used by its peers, or may revise initial estimates for changes in circumstances, such as technological advancements. A change in the estimated remaining useful life or the residual value will affect the depreciation or amortization expense prospectively.

Cash generating units (CGU)

For purposes of determining if any impairment exists, the Group has determined that the assets of each of its geographic segments are an appropriate basis for its CGUs. The Company uses judgment in the determination of the CGUs.

Recoverable amounts of property and equipment, intangible assets, and goodwill

At each reporting period, management assesses whether there are indicators of impairment of the Company's property and equipment, intangible assets, and goodwill. If an indication of impairment exists, the property and equipment, intangible assets, and goodwill are tested for impairment. Goodwill is tested for impairment at least annually. In order to determine if impairment exists and to measure the potential impairment charge, the carrying amounts of the Company's CGUs are compared to their recoverable amounts, which is the greater of fair value less costs to sell and value in use (VIU). An impairment charge is recognized to the extent the carrying amount exceeds the recoverable amount.

VIU is calculated as the present value of the expected future cash flows specific to each CGU. In calculating VIU, significant judgment is required in making assumptions with respect to discount rates, the market outlook, and future net cash flows associated with the CGU. Any changes in these assumptions will have an impact on the measurement of the recoverable amount and could result in adjustments to impairment charges already recorded.

Intangible assets and goodwill acquired in business combinations

Accounting for business combinations involves the allocation of the cost of an acquisition to the underlying net assets acquired based on estimated fair values. As part of this allocation process, the Company identifies and attributes values and estimated lives to identifiable intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and the weighted average cost of capital used by a market participant. These estimates and assumptions determine the amount allocated to identifiable separable intangible assets and goodwill, as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges.

Provisions and contingencies

The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated.

The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter. This determines whether a provision or disclosure in the financial statements is needed.

Viability of new product development projects

New product development projects are capitalized, and include the cost of materials and direct labour costs that are directly attributable to preparing the asset for its intended use. Subsequent changes in facts or circumstances could result in the balance of the related deferred costs expensed in profit or loss. Results could differ if new product development projects become unprofitable due to changes in technology or if actual rental rates differ materially from forecasted pricing.

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 when it is probable that taxable income will be available against which the temporary differences or tax losses giving rise to the deferred tax asset can be utilized. This requires estimation of future taxable income and use 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.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

The accounting policies have been applied consistently by the Group entities.

Basis of consolidation

(a) Business combinations

For acquisitions, the Group measures goodwill as the fair value of the consideration transferred less the net recognized amount, at fair value, of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Contingent consideration is measured at fair value at the acquisition date; subsequent adjustments to the consideration are recognized against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or liability are recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(b) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Intra-group balances and transactions are eliminated in preparing the consolidated financial statements.

Foreign currency

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at average monthly year-to-date exchange rates.

Gains and losses arising from the translation of the financial statements of foreign operations are included in the Consolidated Statements of Other Comprehensive Income, and such differences have been accumulated in Foreign Currency Translation Reserve. Advances made to subsidiaries for which the settlement is not planned or anticipated in the foreseeable future are considered part of the net investment. Accordingly, unrealized gains and losses from these advances are recorded in the Consolidated Statements of Other Comprehensive Income.

Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in profit or loss for the period.

Financial instruments

(a) Non-derivative financial assets

The Group initially recognizes trade and other receivables on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset, and the net amount is presented on the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

(b) Non-derivative financial liabilities

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

The Group has the following non-derivative financial liabilities: bank overdrafts and trade payables, accruals, and provisions. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss. The Group's only financial asset classified as fair value through profit or loss is cash.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs less any impairment losses.

Loans and receivables comprise trade and other receivables (Note 13).

Cash and cash equivalents

Cash is comprised of cash on deposit, cash held in trust, bank indebtedness, and investments with maturities of 90 days or less at the date of investment. Bank overdrafts that are repayable on demand are included as a component of cash for the purpose of the statement of cash flows.

Share capital

Common shares are classified as equity.

Property, plant and equipment

(a) Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Property, plant and equipment include parts and raw materials awaiting assembly. These assets are recorded at cost and no depreciation is taken.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and any other costs directly attributable to bringing the assets to a working condition for their intended use and the costs of dismantling and removing the items.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Proprietary software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within depreciation and amortization.

(b) Subsequent costs

The cost of replacing a part of an item of property, plant and equipment is recognized in the carrying amount of the item only when it is probable that the future economic benefits will flow to the Group, the economic life is greater than one year, and its cost can be measured reliably. All other replacement costs, as well as the repair and maintenance of property, plant and equipment, are recognized in profit or loss as incurred.

(c) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, with no residual value.

Depreciation is recognized in profit or loss either on a straight-line or declining balance basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative year are as follows:

	Straight-Line	Declining Balance Rate
Rental equipment	—	20%
Other	3 years	—

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

Parts awaiting assembly are recorded at cost in property, plant and equipment and no depreciation is taken.

Intangible assets

(a) Goodwill

Goodwill represents the excess of purchase price for business acquisitions over the fair value of the acquired net assets. Goodwill is allocated as of the date of the business acquisition.

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

Goodwill is measured at cost less accumulated impairment losses.

(b) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use the asset. The expenditure capitalized includes the cost of materials and direct labour costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Capitalized development expenditures are amortized in the year in which the new products begin generating revenue. However, if at any time a product is deemed no longer commercially viable, the balance of the related deferred costs is expensed in profit or loss.

Investment tax credits are recorded only when received, as the timing and amounts are dependent upon the acceptance of the claim by the respective tax authorities, and are netted against the related development costs.

(c) Other intangible assets

Other intangible assets that are acquired by the Group have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized when they are available for use on a straight-line basis over their estimated economic lives.

(d) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(e) Amortization

Amortization is calculated over the cost of the asset with no residual value.

The estimated useful lives for intangible assets are as follows:

Customer contracts and technology	6 years
Non-compete agreements	5 years
Distribution rights	6 years
Trademarks and software	3 years
Patents and research and development costs	3 years

Amortization methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

Impairment

(a) Financial assets (including trade and other receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(b) Non-financial assets

The carrying amounts of the Group'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.

For purposes of determining if any impairment exists, the Group assesses it at a CGU level. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, referred to as the CGU.

For goodwill impairment testing, goodwill acquired in a business combination is allocated to the group of CGUs that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit on a pro-rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Employee benefits

(a) Stock option plan

The Company's stock option plan allows qualified employees and directors to elect to receive either a cash settlement or common shares in exchange for stock options exercised, subject to approval by the Board of Directors.

The grant date fair value of stock option awards granted is recognized as compensation expense, over the graded vesting period of three years, with a corresponding increase in a liability, as the benefit could be settled in cash.

The grant date fair value is calculated using the Black-Scholes option pricing model and the fair value is remeasured at each reporting period.

Any consideration received on the exercise of stock options for common shares is credited to share capital.

(b) Restricted share unit (RSU) plan and Phantom Stock Full Value (PSFV) plan

The Company has a RSU and a PSFV plan for qualified employees whereby holders receive a cash settlement based upon the number of outstanding units multiplied by the prevailing market price of the Company's common shares on the vesting date. A liability is accrued and adjusted each quarter based upon the current market price of the Company's common shares.

Compensation expense for the plans is accrued on a graded basis over the respective three-year vesting period.

Any changes in the fair value of the liability are recognized in profit or loss.

(c) Deferred share unit (DSU) plan

The Company has a DSU plan for non-management directors. The DSUs are granted annually and represent rights to share values based on the number of DSUs issued. When a DSU holder ceases to be a member of the Board, the holder is entitled to receive a cash settlement based upon the number of outstanding DSUs multiplied by the prevailing market price of the Company's common shares on the redemption date. A DSU liability is accrued and adjusted each quarter on vested DSUs based upon the current market price of the Company's common shares.

Compensation expense for the DSU plan is accrued evenly over the respective one-year vesting period.

Any changes in the fair value of the liability are recognized in profit or loss.

(d) Performance share unit (PSU) plan

The Company has a PSU plan for Executive Officers of the Company. Under the terms of the Plan, the number of PSU's awarded to an employee shall be equal to one PSU for each $1.00 of Grant Value awarded on such date. The Grant Value awarded to an employee shall be determined by the Board of Directors. PSU's are awarded annually and entitle the employee to receive, upon vesting, a cash payment dependent upon the total shareholder return on the Company's common shares relative to two prescribed benchmark indices. If the return is below a specified level compared to the indices, the units awarded will be forfeited with no payment made. The maximum payout is 200% of the initial grant value. PSU grants vest in three equal portions on the first, second and third anniversary of the grant date. The fair value of the PSU's are accrued on a graded basis over the respective three-year vesting period.

Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Revenue

Revenue is recognized during the reporting period based on completion of each rental day for products and services, provided collectability is reasonably assured. Equipment sales are recognized in revenue upon shipment from the Company's warehouse to the customer.

Lease payments

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

Finance income, finance costs, and foreign exchange

Finance income comprises interest income on excess funds invested. Interest income is recognized as it accrues in profit or loss.

Finance costs include interest expense on bank borrowing and changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets.

Foreign currency gains and losses are reported on a net basis.

Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available to use unused tax losses and unused tax credits. Deferred tax assets are reviewed at each reporting date and the valuation allowance is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Dividends

Dividends on common shares are recognized in the Group's consolidated financial statements in the period in which the Board of Directors approves the dividend.

Income per share

The Group presents basic and diluted income per share data for its common shares. Basic income per share is calculated by dividing the net income or loss available to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted income per share is determined by adjusting the net income or loss available to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise stock options granted.

Segment reporting

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' results are reviewed regularly by the Group's senior management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, costs that benefit more than one operating unit which cannot be reasonably allocated, and amounts relating to current and deferred taxes as these amounts can be impacted by tax strategies implemented at the corporate level that benefit the Group as a whole.

Segment capital expenditures are the total cost incurred during the period to acquire property, plant and equipment and intangible assets other than goodwill.

Standards and interpretations adopted in the year ended December 31, 2014

As of January 1, 2014, the Company adopted several new IFRS interpretations and amendments in accordance with the transitional provisions of each standard. A brief description of each new accounting policy and its impact on the Company's financial statements follows below:

IAS 36 "Impairment of Assets" has been amended to reduce the circumstances in which the recoverable amount of cash generating units "CGUs" is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The retrospective adoption of these amendments did not have an impact on Pason's disclosures in the notes to the financial statements.

IAS 39 "Financial Instruments: Recognition and Measurement" has been amended to clarify that there would be no requirement to discontinue hedge accounting if a hedging derivative was updated, provided certain criteria are met. The retrospective adoption of the amendments does not have any impact on Pason's financial statements.

IFRIC 21 "Levies" was developed by the IFRS Interpretations Committee ("IFRIC") and is applicable to all levies imposed by governments under legislation, other than outflows that are within the scope of other standards (e.g., IAS 12 "Income Taxes") and fines or other penalties for breaches of legislation. The interpretation clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. Lastly, the interpretation clarifies that a liability should not be recognized before the specified minimum threshold to trigger that levy is reached. The retrospective adoption of this interpretation does not have any impact on Pason's financial statements.

Future Accounting Policy Changes

In May 2014, the IASB issued IFRS 15 "Revenue from Contracts with Customers," which replaces IAS 18 "Revenue," IAS 11 "Construction Contracts," and related interpretations. The standard is required to be adopted either retrospectively or using a modified transition approach for fiscal years beginning on or after January 1, 2017, with earlier adoption permitted. IFRS 15 will be applied by the Company on January 1, 2017 and the Company is currently evaluating the impact of the standard on its financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The Standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The Standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by the Company on January 1, 2018 and the Company is currently evaluating the impact of the standard on its financial statements.

4. Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement or disclosure purposes based on the methods below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Property, plant and equipment

The fair value of property, plant and equipment recognized as a result of a business combination is based on market values. The best value in use of property is the estimated amount for which a property could be exchanged on the date of valuation between a willing buyer and a willing seller in an arm's length transaction. The fair value of items of rental equipment, plants, and fixtures is based on either the market approach or revaluation approach using quoted market prices for similar items when available and replacement cost when appropriate.

Intangible assets

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use of the assets.

Share-based payment transactions

Employee stock options are valued using the Black-Scholes option pricing model, while RSUs, DSUs and PSUs are measured using the fair value method. Measurement inputs for Black-Scholes include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience), the expected dividends, the risk-free interest rate (based on government bonds), and estimated forfeiture rates.

Fair value is measured as the market price of the Company's common shares on the reporting date.

5. Operating Segments

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

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

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

Year Ended December 31, 2014	**Canada**	**United States**	**International**	**Total**
	($)	**($)**	**($)**	**($)**
Revenue	**146,571**	**298,368**	**54,333**	**499,272**
Operating costs	**43,047**	**100,858**	**27,999**	**171,904**
Depreciation and amortization	**28,033**	**33,142**	**8,026**	**69,201**
Segment operating profit	**75,491**	**164,368**	**18,308**	**258,167**
Research and development				**35,427**
Corporate services				**22,243**
Stock-based compensation				**19,471**
Other expenses				**18,075**
Income taxes				**50,847**
Net income				**112,104**
Capital expenditures	**55,284**	**53,917**	**11,987**	**121,188**
Goodwill	**—**	**21,471**	**2,600**	**24,071**
Intangible assets	**31,910**	**4,319**	**1,768**	**37,997**
Segment assets	**173,932**	**321,842**	**74,292**	**570,066**
Segment liabilities	**47,220**	**26,786**	**12,537**	**86,543**
Year Ended December 31, 2013				
Revenue	126,622	231,960	44,506	403,088
Operating costs	37,116	88,697	27,702	153,515
Depreciation and amortization	26,088	29,366	6,717	62,171
Segment operating profit	63,418	113,897	10,087	187,402
Research and development				27,252
Corporate services				17,373
Stock-based compensation				32,511
Other expenses				68,301
Income taxes				18,310
Net income				23,655
Capital expenditures	37,709	26,101	6,854	70,664
Goodwill	—	19,685	2,600	22,285
Intangible assets	32,343	7,773	2,860	42,976
Segment assets	173,947	210,764	61,165	445,876
Segment liabilities	46,495	23,621	9,291	79,407

6. Property, Plant, and Equipment

	Spare Parts	Rental Equipment	Other	Total
	($)	($)	($)	($)
Property, plant and equipment				
Balance at January 1, 2013	9,512	380,900	57,187	447,599
Additions	40,582	8,423	6,963	55,968
Derecognition of assets	(39)	(26,921)	(2,911)	(29,871)
Parts and raw materials consumed	(38,842)	38,842	—	—
Effects of exchange rate changes	245	13,998	1,604	15,847
Balance at December 31, 2013	11,458	415,242	62,843	489,543
Additions	75,829	23,655	7,429	106,913
Derecognition of assets	—	(24,528)	(8,344)	(32,872)
Parts and raw materials consumed	(77,362)	77,362	—	—
Effects of exchange rate changes	385	22,652	7,834	30,871
Balance at December 31, 2014	**10,310**	**514,383**	**69,762**	**594,455**
Depreciation and impairment losses				
Balance at January 1, 2013	—	241,353	31,595	272,948
Provisions	—	39,991	7,025	47,016
Derecognition of assets	—	(21,671)	(2,872)	(24,543)
Effects of exchange rate changes	—	9,779	742	10,521
Balance at December 31, 2013	—	269,452	36,490	305,942
Provisions	—	39,719	7,419	47,138
Derecognition of assets	—	(21,434)	(7,396)	(28,830)
Impairment loss recognized in income	—	14,884	—	14,884
Effects of exchange rate changes	—	19,788	1,189	20,977
Balance at December 31, 2014	**—**	**322,409**	**37,702**	**360,111**
Carrying Amounts				
At December 31, 2013	11,458	145,790	26,353	183,601
At December 31, 2014	**10,310**	**191,974**	**32,060**	**234,344**

Other property, plant, and equipment includes computer equipment, leasehold improvements, and vehicles.

Impairment of Rental Assets

During the fourth quarter of 2014, the Company reviewed the level of rental equipment deployed versus the anticipated decline in utilization rates of such equipment due to the reduction in drilling activity as a result of the drop in oil and gas prices. This review resulted in the Company identifying what it believes is excess equipment based upon management's best estimate of future drilling activity. The net book value of this excess equipment, totaling $14,884 (2013: nil), of which $2,305 related to the Canadian segment and $12,579 to the US operating segment, was recorded as a non-cash impairment loss and is included in other expenses in the Consolidated Statements of Operations.

Derecognition of Assets

Included in depreciation and amortization expense are losses on the derecognition of assets and spare parts obsolescence reserves in the amount of $5,738 (2013: $5,572) for the year ended December 31, 2014.

7. Intangible Assets

	Goodwill	Research & Development	Technology	Distribution Rights	Other	Total
	($)	($)	($)	($)	($)	($)
Intangible assets						
Balance at January 1, 2013	21,488	39,572	11,011	17,285	6,612	95,968
Internally developed	—	15,508	—	—	—	15,508
Investment tax credits received	—	(1,015)	—	—	—	(1,015)
Additions	—	—	—	—	203	203
Acquisitions	—	—	(1,963)	—	(47)	(2,010)
Effects of exchange rate	1,303	—	737	316	206	2,562
Balance at December 31, 2013	22,791	54,065	9,785	17,601	6,974	111,216
Internally developed	—	9,375	—	—	460	9,835
Investment tax credits received	—	(1,828)	—	—	—	(1,828)
Effects of exchange rate	1,833	7	888	433	248	3,409
Balance at December 31, 2014	**24,624**	**61,619**	**10,673**	**18,034**	**7,682**	**122,632**
Amortization						
Balance at January 1, 2013	474	16,618	6,950	7,624	4,709	36,375
Amortization	—	7,167	1,370	2,360	199	11,096
Dispositions	—	—	(1,963)	—	—	(1,963)
Effects of exchange rate	32	—	500	(174)	89	447
Balance at December 31, 2013	506	23,785	6,857	9,810	4,997	45,955
Amortization	—	7,907	1,792	3,915	90	13,704
Effects of exchange rate	47	—	712	24	122	905
Balance at December 31, 2014	**553**	**31,692**	**9,361**	**13,749**	**5,209**	**60,564**
Carrying amounts						
At December 31, 2013	22,285	30,280	2,928	7,791	1,977	65,261
At December 31, 2014	**24,071**	**29,927**	**1,312**	**4,285**	**2,473**	**62,068**

Other intangible assets include mostly software costs, non-controlling equity interest in a software development company, customer contracts, and non-compete agreements.

Intangible Assets and Goodwill

The carrying value of intangible assets with lives and goodwill are regularly tested for impairment. In assessing these assets for impairment at December 31, 2014 and 2013, the Company compared the aggregate recoverable amount of the assets included in the respective CGUs in the US and International segment to their respective carrying amounts.

The recoverable amount has been determined based on the value in use of the CGUs using cash flow budgets approved by management. There is a degree of uncertainty with respect to the estimates of the recoverable amounts of the CGU's assets due in part to the necessity of making key assumptions about the future economic environment that the company will operate in. The value in use calculations use discounted cash flow projections, which require key assumptions, including future cash flows, projected growth, and pre-tax discount rates. The Company considers a range of reasonable

possibilities to use for these key assumptions and decides upon the amounts to use that represent management's best estimates.

For periods beyond the budget period, cash flows were extrapolated using growth rates that do not exceed the long-term average for these segments.

Key assumptions are as follows:

	United States	**International**
	(%)	(%)
Budgeted EBITDA margin	32	35
Weighted average growth rate	2	2
Perpetuity growth rate	2.5	2.5
Pre-tax discount rate	15	15

For both operating segments, reasonable possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value. If future events cause a significant change in the operating environment of these business units, resulting in key operating metrics differing from management's estimates, the Company could potentially experience future material impairment charges against the intangible assets with indefinite lives and goodwill.

8. Share Capital

	Common Shares			
Years Ended December 31,		**2014**		2013
	($)	**(#)**	($)	(#)
Balance, beginning of year	**80,725**	**82,158**	79,393	82,049
Exercise of stock options	**33,102**	**1,205**	1,332	109
Balance, end of year	**113,827**	**83,363**	80,725	82,158

Common shares

At December 31, 2014, the Company was authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

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

Stock option plan

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

At December 31, 2014, 4,492 (2013: 4,597) stock options were outstanding for common shares at exercise prices ranging from $12.49 to $27.96 per share, expiring between 2015 and 2019 as follows:

	December 31, 2014		December 31, 2013	
	Share Options	**Weighted Average Exercise Price**	Share Options	Weighted Average Exercise Price
	(#)	**($)**	(#)	($)
Outstanding, beginning of year	**4,597**	**16.85**	4,854	13.80
Granted	**1,546**	**26.73**	1,351	22.95
Equity settled	**(1,205)**	**13.91**	(109)	12.28
Cash settled	**(205)**	**13.79**	(1,408)	12.69
Expired or forfeited	**(241)**	**18.97**	(91)	14.52
Outstanding, end of year	**4,492**	**21.06**	4,597	16.85
Exercisable, end of year	**1,781**	**16.22**	1,854	13.70
Available for grant, end of year	**3,844**		3,619	

The Company cash settled the following number of options from employees and directors:

Years ended December 31,	**2014**	2013
Options (#)	**205**	1,408
Consideration ($)	**2,589**	10,153

The following table summarizes information about stock options outstanding at December 31, 2014:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	**Options Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Exercisable (Vested)**	**Weighted Average Exercise Price**
($)	**(#)**	**(Years)**	**($)**	**(#)**	**($)**
12.49 – 19.81	**1,730**	**2.23**	**14.67**	**1,360**	**14.14**
19.82 – 24.82	**1,220**	**3.92**	**22.95**	**421**	**22.95**
24.83 – 27.96	**1,542**	**4.89**	**26.73**	**—**	**—**
	4,492	**3.60**	**21.06**	**1,781**	**16.22**

The total number of options outstanding at any given time must not exceed 10% of the total common shares outstanding.

All stock options are accounted for using the Black-Scholes option pricing model.

Weighted average assumptions, which are revalued at the end of each reporting date, for options granted in the year are as follows:

Years Ended December 31,	**2014**	2013
Fair value of stock options ($)	**1.96**	3.72
Forfeiture rate (%)	**11.20**	11.56
Risk-free interest rate (%)	**1.13**	1.42
Expected option life (years)	**3.42**	3.42
Expected volatility (%)	**26.44**	25.93
Expected annual dividends per share (%)	**3.01**	2.44

Restricted share units plan

At December 31, 2014, 461 (2013: 777) RSUs were outstanding. All RSUs vest over three years and will result in a cash payment to holders based upon the corresponding future market value of the Company's common shares. Stock-based compensation expense arising from the RSU plan of $8,876 (2013: $10,879) was recorded in the Consolidated Statements of Operations under stock-based compensation. The corresponding liability is recorded in the Consolidated Balance Sheets.

The outstanding RSUs can be summarized as follows:

Years Ended December 31,	2014	2013
	(#)	(#)
RSUs, beginning of year	777	878
Granted	139	324
Vested and paid	(393)	(391)
Forfeited	(62)	(34)
RSUs, end of year	461	777

Deferred share units plan

The DSUs are awarded annually and represent rights to share values based on the number of DSUs issued. DSUs are credited evenly following the year in which they are awarded. DSUs vest and are paid upon the retirement of the Director. There were 72 DSUs credited as at December 31, 2014 (2013: 62). Stock-based compensation expense arising from the DSU plan of $765 (2013: $976) was recorded in the Consolidated Statements of Operations under stock-based compensation. The corresponding liability is recorded in the Consolidated Balance Sheets.

The outstanding DSUs can be summarized as follows:

Years Ended December 31,	2014	2013
	(#)	(#)
DSUs, beginning of year	62	27
Credited	29	35
Vested and paid	(19)	—
DSUs, end of year	72	62

Performance share units plan

Under the terms of the PSU Plan, the number of PSU's awarded to an employee shall be equal to one PSU for each $1.00 of Grant Value awarded on such date. All PSU's vest over three years and will result in a cash payment to holders based upon the total shareholder return on the Company's common shares relative to two prescribed benchmark indices. There were 2,870 PSUs granted at December 31, 2014 (2013 : Nil). Stock-based compensation expense arising from the PSU plan of $141(2013: Nil) was recorded in the Consolidated Statements of Operations under stock-based compensation. The corresponding liability is recorded in the Consolidated Balance Sheets.

The outstanding PSUs can be summarized as follows:

Years Ended December 31,	2014	2013
	(#)	(#)
PSUs, beginning of year	—	—
Granted	2,870	—
PSUs, end of year	2,870	—

Stock-based compensation expense and liability

The long-term incentive plans can be summarized as follows:

Expense

Years Ended December 31,	**2014**	2013
	($)	($)
Stock options	**9,689**	20,656
RSUs	**8,876**	10,879
DSUs	**765**	976
PSUs	**141**	—
Stock-based compensation	**19,471**	32,511

Liability

As at	**December 31, 2014**	December 31, 2013
	($)	($)
Stock options	**12,765**	21,447
RSUs	**3,296**	4,495
PSUs	**64**	—
Current portion of stock-based compensation liability	**16,125**	25,942
Stock options	**454**	1,042
RSUs	**903**	1,433
DSUs	**1,584**	1,430
PSUs	**77**	—
Long-term portion of stock-based compensation liability	**3,018**	3,905
Total stock-based compensation liability	**19,143**	29,847

Common share dividends

During 2014, the Company declared dividends of $53,001 (2013: $43,520) or $0.64 per common share (2013: $0.53). At December 31, 2013, the 2013 fourth quarter dividend of $11,502 was payable and the Company transferred these funds to the transfer agent to be held in trust until the dividend payment was made in January 2014.

9. Income Per Share

Basic income per share

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

Years Ended December 31,	**2014**	2013
('000s)	**(#)**	(#)
Issued common shares outstanding, beginning of year	**82,098**	82,049
Effect of exercised options	**549**	49
Weighted average number of common shares for the year	**82,647**	82,098

For the year ended December 31, 2014, 1,205 (2013: 109) common shares were issued as a result of the exercise of vested options. Options were exercised at an average price of $13.91 per option. All issued shares are fully paid.

Diluted income per share

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

Years Ended December 31,	2014	2013
('000s)	(#)	(#)
Weighted average number of common shares (basic)	**82,647**	82,098
Effect of share options	**1,102**	649
Weighted average number of common shares (diluted)	**83,749**	82,747

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

10. Other Expenses

Years Ended December 31,	Note	2014	2013
		($)	($)
Litigation provision		**—**	61,614
Foreign exchange loss		**729**	2,175
Earn-out provision		**—**	3,071
Impairment loss	6	**14,884**	—
Other		**2,462**	1,441
Other expenses		**18,075**	68,301

Since 2003, the Company had been defending its position in three patent infringement lawsuits relating to its automatic driller product. The three separate lawsuits all alleged that the Company's automatic driller infringed a certain patent which expired on April 19, 2013. Pason had been defending its position on the grounds that the asserted claims in the patent were invalid and that in any event the Pason automatic driller does not infringe any of the claims of the patent.

In August 2013, the Company and the plaintiff in the litigation negotiated a final resolution and settlement totaling USD $112,000. As a result of this settlement and license agreement, the Company recorded an additional provision in its consolidated financial statements in 2013. The payment required to resolve all claims against the Company regarding this matter was made in the fourth quarter of 2013.

Part of the purchase of Petron was an earn-out clause that was conditional on the successful commercialization of a revenue stream generated from a product designed by Petron. Management concluded that an amount was owing and the Company and previous shareholders of Petron agreed to $3,071, the amount of which was recorded in 2013.

11. Income Tax

The major components of income tax expense are as follows:

Years Ended December 31,	2014	2013
	($)	($)
Current tax expense	**40,889**	5,411
Deferred tax expense	**9,958**	12,899
Total tax expense	**50,847**	18,310

The provision for income taxes, including deferred taxes, reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 25% for both 2014 and 2013. The Company's US subsidiaries are subject to federal and state statutory tax rates of approximately 40% for both years. The main differences are as follows:

Years Ended December 31,	2014	2013
	($)	($)
Income before income taxes	**162,951**	41,965
Expected income tax at statutory rate	**40,738**	10,491
Increase (decrease) resulting from:		
Tax rates in other jurisdictions	**6,764**	981
Non-taxable dividends	**(3,771)**	(3,527)
Non-deductible portion of stock-based compensation	**1,469**	5,106
Expenses not deductible for tax purposes and other items	**5,647**	5,259
Income tax expense	**50,847**	18,310

Deferred tax assets and liabilities are comprised of the following:

As at December 31,	2014	2013
	($)	($)
Tax loss carry-forwards	**16,153**	15,413
Inter-company transactions	**5,304**	8,182
Share-based payments	**1,520**	1,691
Other	**(1,982)**	2,600
Property, plant and equipment	**(33,853)**	(29,526)
Intangible assets	**(3,584)**	(4,781)
	(16,442)	(6,421)
Deferred tax asset	—	1,152
Deferred tax liability	**(16,442)**	(7,573)
	(16,442)	(6,421)

All deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. In addition, deferred tax assets and liabilities have been offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

The movement in deferred tax assets and liabilities is as follows:

As at	Tax loss carry forwards	Inter-company transactions	Share-based payments	Provisions	Other	Property, plant and equipment	Intangible assets	Total
	($)	($)	($)	($)	($)	($)	($)	($)
January 1, 2013	24,479	1,153	2,535	8,100	2,047	(26,287)	(5,863)	6,164
Recognized in income	(10,676)	6,729	(844)	(8,100)	490	(1,767)	1,269	(12,899)
Exchange differences	1,610	300	—	—	63	(1,472)	(187)	314
December 31, 2013	15,413	8,182	1,691	—	2,600	(29,526)	(4,781)	(6,421)
Recognized in income	73	(2,746)	(171)	—	(6,812)	(1,631)	1,329	(9,958)
Exchange differences	667	(132)	—	—	2,230	(2,696)	(132)	(63)
December 31, 2014	**16,153**	**5,304**	**1,520**	**—**	**(1,982)**	**(33,853)**	**(3,584)**	**(16,442)**

The Company has available US net operating losses of USD $34,916, which includes timing differences relating to inter-company transactions that have been accrued for but are not deductible for tax purposes until paid. These losses, the benefit of which has been recognized in the Consolidated Financial Statements, can be used to reduce future income taxes otherwise payable and expire between 2028 and 2033.

12. Cash and Cash Equivalents

As at December 31,	2014	2013
	($)	($)
Cash	**60,267**	54,030
Cash equivalents	**84,591**	23,988
Cash and cash equivalents	**144,858**	78,018

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 16. Cash equivalents are made up mostly of cash invested in money market funds with interest rates of approximately 0.5%, and maturities from 1-30 days.

13. Trade and Other Receivables

As at December 31,	2014	2013
	($)	($)
Trade receivables, net of allowances for doubtful accounts	**112,148**	82,187
Other receivables	**10,346**	5,282
	122,494	87,469

All trade and other receivables are classified as current assets.

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables, is disclosed in Note 16.

14. Credit Facility

The Company has a $5.0 demand revolving credit facility. Interest is payable monthly and is based on either the lender's prime rate, US base rate loans, Bankers' Acceptance rates, or the London Inter-Bank Offered Rate (LIBOR), plus applicable margins.

The credit facility is used by the Company for working capital purposes, and accordingly, amounts drawn against it are recorded as bank indebtedness offset by any excess cash balances.

The Company can repay, without penalty, advances under the facility. The facility is secured by a general security agreement on all of the assets of the Company, Pason Systems Corp. and Pason Systems USA Corp.

The Company is subject to the following financial covenants:

- To maintain, on a consolidated basis, to be measured as at the end of each fiscal quarter, a ratio of debt to income before interest, taxes, depreciation and amortization, and impairment losses (EBITDA), calculated on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 1.50:1.
- To maintain an EBITDA for Pason Systems Corp. plus Pason Systems USA of not less than 80% of consolidated EBITDA.

Both covenants have been met throughout the reporting period.

15. Trade Payables, Accruals and Provisions

As at December 31,	Note	**2014**	2013
		($)	($)
Trade payables		**25,980**	13,595
Non-trade payables and accrued expenses		**21,434**	16,890
		47,414	30,485

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 16.

16. Financial Risk Management and Financial Instruments Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market and foreign exchange risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's management of capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and

analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

(a) Trade and other receivables

Credit risk refers to the possibility that a customer will fail to meet its contractual obligations. Credit risk arises from the Company's accounts receivable balances, which are predominantly with customers who explore for and develop oil and natural gas reserves in Canada and the United States. The Company has a process in place which assesses the creditworthiness of its customers as well as monitoring the age and balances outstanding on an ongoing basis. In addition, the Company's services are a minor component when looking at the overall cost of drilling a well, reducing credit risk accordingly. Payment terms with customers are 30 days from invoice date; however, industry practice can extend these terms.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective doubtful accounts allowance is determined based on historical data of payment statistics for similar financial assets.

(b) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

As at December 31,	**2014**	2013
	($)	($)
Trade and other receivables, net of allowance for doubtful accounts	**122,494**	87,469

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

As at December 31,	**2014**	2013
	($)	($)
Canada	**30,246**	26,043
United States	**71,962**	47,084
International	**20,286**	14,342
	122,494	87,469

The Company does not have any customers that comprised greater than 10% of total revenue.

(c) Allowance for doubtful accounts

The aging of trade and other receivables at the reporting date was:

As at December 31,	**2014**		2013	
	Gross	**Allowance**	Gross	Allowance
	($)	**($)**	($)	($)
Current	**95,184**	**—**	56,981	(8)
31–60 days	**20,096**	**(2)**	19,136	(32)
61–90 days	**5,853**	**(3)**	7,960	(34)
Greater than 90 days	**6,100**	**(4,734)**	5,502	(2,036)
	127,233	**(4,739)**	89,579	(2,110)

The movement in the allowance for doubtful accounts in respect of trade and other receivables during the year was as follows:

As at December 31,	**2014**	2013
	($)	($)
Opening balance	**2,110**	1,344
Additions to provision	**3,242**	1,640
Accounts collected, previously allowed for	**(60)**	(283)
Write-off of uncollectible accounts	**(608)**	(614)
Effects of exchange rate changes	**55**	23
Ending balance	**4,739**	2,110

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due. This is achieved through maintaining a strong working capital position, including significant cash balances.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

Cash flow forecasting is performed in the operating entities of the Company and aggregated in head office, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Company's debt financing plans and compliance with internal balance sheet ratio targets.

Surplus cash held by the operating entities over and above balances required for working capital management are invested in interest bearing short-term deposits which are selected with appropriate maturities or sufficient liquidity to provide sufficient room as determined by the above-mentioned forecasts.

	December 31, 2014						
	Carrying amount	Contractual cash flows	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
	($)	($)	($)	($)	($)	($)	($)
Non-derivative liabilities:							
Trade payables and accruals	47,414	47,414	47,414	—	—	—	—
Stock-based compensation	19,143	19,143	16,125	—	3,018	—	—
	66,557	66,557	63,539	—	3,018	—	—

For trade payables and accruals, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

For stock-based compensation liabilities, the timing and amounts could differ significantly as a result of changes in the Company's share price.

Market and foreign exchange risk

The Group has not entered into any hedging arrangements.

The Group's exposure to foreign currency risk relates to the US dollar and Argentine peso is as follows:

As at December 31,	**2014**	2013
	USD	USD
Cash	**97,039**	32,738
Trade and other receivables	**66,895**	46,158
Trade payables, accruals and other provisions	**(13,638)**	(12,504)
Balance sheet exposure	**150,296**	66,392
CDN$ Equivalent	**174,358**	70,615

As at December 31,	**2014**	2013
	PESO	PESO
Cash	**21,203**	9,375
Trade and other receivables	**64,263**	35,793
Trade payables, accruals and other provisions	**(6,426)**	(3,852)
Balance sheet exposure	**79,040**	41,316
CDN$ Equivalent	**11,112**	7,071

(a) Sensitivity analysis

A strengthening of the Canadian dollar against the US dollar by 1% at December 31, 2014 would have decreased net income and equity for the year by $97 and $4,405, respectively. This analysis is based on foreign currency exchange rate variance that the Group considered to be reasonably possible at the end of the reporting year. The analysis assumes that all other variables remain constant. A weakening of the Canadian dollar at December 31, 2014 would have had the equal but opposite effect.

(b) Interest rate risk

The Company is exposed to changes in interest rates with respect to its credit facility. Management believes this risk to be minor given the small amounts drawn on the facility.

(c) Fair values versus carrying amounts

The carrying values of financial assets and liabilities approximate their fair value due to the short-term nature of these items.

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

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

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

	Financial Assets at Fair Value			
	Level 1	Level 2	Level 3	**December 31, 2014**
	($)	($)	($)	**($)**
Cash and cash equivalents	**144,858**	—	—	**144,858**
Total financial assets at fair value	**144,858**	—	—	**144,858**

(d) Capital risk

The Company's strategy is to carry a flexible capital base to maintain investor, market, and creditor confidence and to sustain future business development opportunities. The Company manages its capital structure based on ongoing changes in economic conditions and related risk characteristics of its underlying assets.

The Company considers its capital structure to include equity and working capital. To maintain or adjust the capital structure, the Company may, from time to time, issue or repurchase shares, adjust its dividend rate, or adjust its capital spending to manage its cash.

The Company's share capital is not subject to external restrictions; however, the Company’s committed revolving credit facility includes financial covenants, with which the Company was compliant.

There were no changes in the Company’s approach to capital management during the year.

As the Group has no debt, a debt to capital ratio is not presented.

(e) Industry and seasonality risk

The major area of uncertainty for the Company is that the demand for its services is directly related to the strength of its customers’ capital expenditure programs. The level of capital programs is strongly affected by the level and stability of commodity prices, which can be extremely difficult to predict and beyond the control of the Company and its customers. During periods of uncertainty, oil and gas companies tend to bias their capital decisions on conservative outlooks for commodity prices.

In addition to the cyclical nature of its business, the Company is also subject to risks and uncertainties associated with weather and seasonality. The Company continues to react to unfavourable weather conditions and spring breakup, which limit well access in Canada, through

diversification into geographic regions such as the United States and internationally, where these factors are less likely to influence activity.

(f) Commodity risk

Prices for crude oil and natural gas fluctuate in response to a number of factors beyond the Company'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 profits of energy companies by reducing the amount of drilling activity.

17. Operating Leases

Non-cancellable operating lease rentals are payable as follows:

As at December 31,	**2014**	2013
	($)	($)
Less than one year	**5,372**	3,203
Between one and three years	**11,775**	4,868
More than three years	**10,063**	11,580
	27,210	19,651

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

The Company is committed to an outsourcing agreement with a supplier to assist its software development team. Either party can terminate the agreement with six months' notice. The annual costs are anticipated to be approximately $3,300, and this amount is not included in the table above because of the termination clause.

18. Capital Commitments

At December 31, 2014, the Group has entered into contracts to purchase property, plant and equipment for $41,697 (2013: $21,953), the majority of which relates to the purchase of rental assets in the normal course of business.

19. Related Parties

Transactions with key management personnel and directors

In addition to salaries and director fees, as applicable, the Group also provides compensation to executive officers and directors under the Group's long-term incentive plans (Note 8).

Executive management personnel and director compensation is comprised of:

Years Ended December 31,	**2014**	2013
	($)	($)
Compensation, including bonuses	**6,307**	4,941
Share-based payments	**7,828**	9,985
	14,135	14,926

The majority of these costs are included either in corporate services or stock-based compensation expense in the Consolidated Statements of Operations.

Key management and directors of the Company control approximately 15% of the voting shares of the Company. No balances are owing from any employees or directors.

20. Contingencies

Other 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 financial position, results of operations, or liquidity.

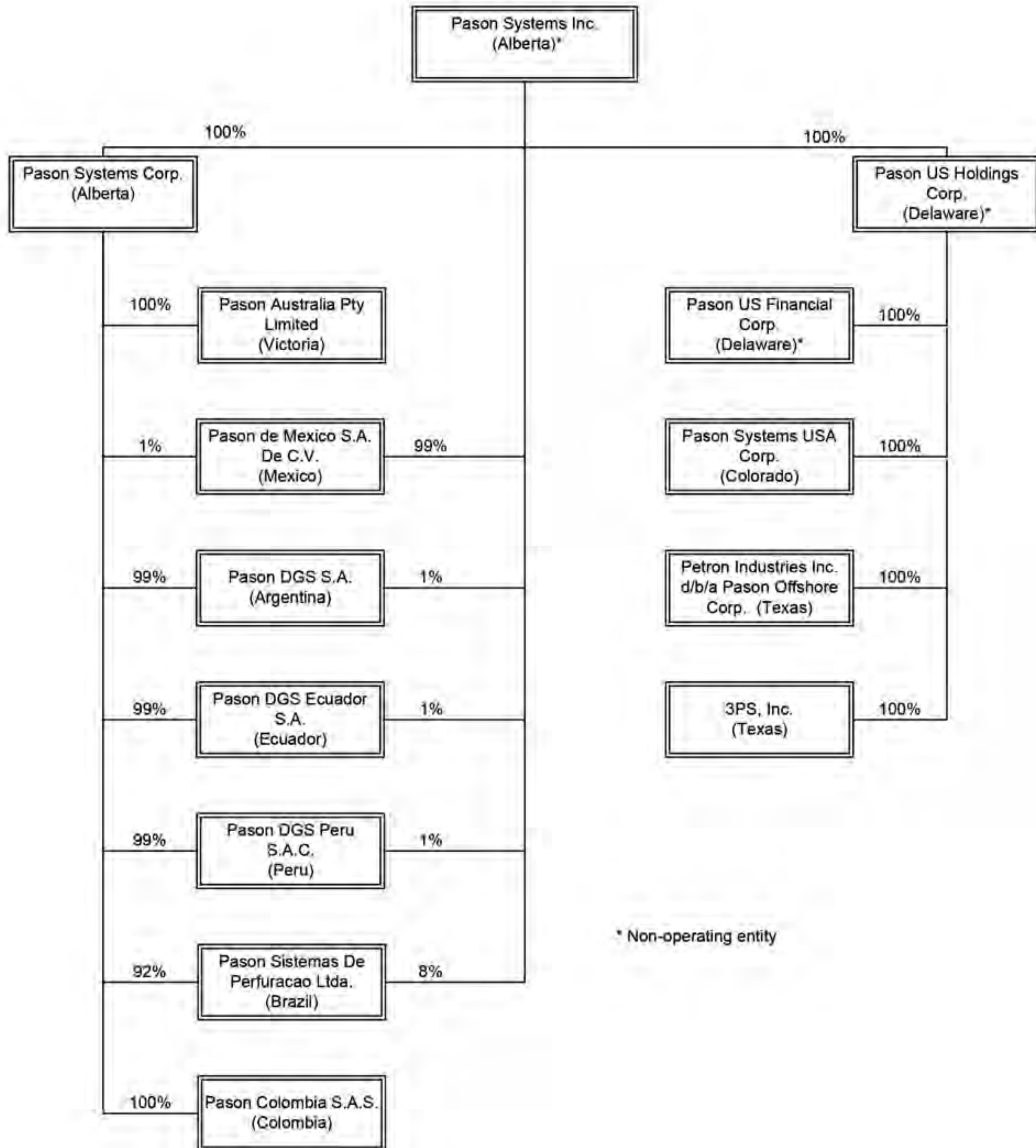
21. Events After the Reporting Period

In February 2015, the Company became aware of a number of patent infringement lawsuits that were recently filed by a small, privately-held instrumentation company based in Texas, USA. The Company is named as the defendant in one of these actions. These complaints all allege patent infringement.

The company has appointed litigation counsel and is considering its options to defend the claim. At this time no financial statement impact, if any, can be determined.

On February 26, 2015, the Company announced a quarterly dividend of $0.17 per share on the Company's common shares. The dividend will be paid on March 30, 2015 to shareholders of record at the close of business on March 16, 2015.

22. Organizational Structure



Corporate Information

Directors

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

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

Murray L. Cobbe(2)(6)
Chairman
Trican Well Service Ltd.
Calgary, Alberta

G. Allen Brooks(4)(5)
President
G. Allen Brooks, LLC
Houston, Texas

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

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

Judi Hess(6)
CEO
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

Chad Yetka
Chief Operating Officer

David Elliott
Vice President, Finance

David Holodinsky
Vice President, Operations – Canada

Russell Smith
Vice President, Operations –
International & Offshore

Kevin Boston
Vice President, Business Development
& Marketing

Gopinath Ramanan
Vice President, Research &
Development

Ron Dudar
Vice President, People & Culture

Todd Perry
Vice President, 3PS, Inc.

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Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company
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 and Special Meeting

Shareholders are also invited to attend the Company's Annual and Special Meeting on Wednesday, May 6, 2015, 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,

	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
(CDN 000s, except per share data)	**($)**	($)	($)	($)	($)	($)	($)	($)	($)	($)
Operating Results										
Revenue	**499,272**	403,088	386,514	346,158	260,397	153,823	300,484	236,439	240,584	175,747
Expenses										
Rental services	**153,151**	134,874	125,269	113,568	94,299	72,428	106,600	83,058	72,933	52,193
Corporate services	**22,243**	17,373	15,723	12,975	17,770	11,611	13,250	12,708	6,699	4,076
Research and development	**35,427**	27,252	22,467	17,366	16,472	13,140	12,888	9,566	8,255	6,379
Stock-based compensation	**19,471**	32,511	23,792	1,309	11,233	5,684	7,525	5,248	4,597	2,595
Depreciation and amortization	**69,201**	62,171	68,213	58,565	49,108	55,842	55,719	42,797	39,923	27,198
EBITDA[1]	**251,623**	136,647	151,753	171,661	110,867	46,651	144,883	128,088	143,238	106,677
As a % of revenue	**50.4**	33.9	39.3	49.6	47.1	32.0	49.5	54.2	59.5	60.7
Per share-basic	**3.04**	1.66	1.85	2.10	1.44	0.57	1.78	1.61	1.84	1.40
Funds flow from operations	**224,204**	134,930	158,948	145,358	93,973	41,354	124,726	103,766	107,451	79,369
Per share – basic	**2.71**	1.64	1.94	1.78	1.15	0.51	1.53	1.30	1.38	1.04
Income (loss)	**112,104**	23,655	39,884	86,223	36,474	(5,510)	61,321	55,052	64,531	50,280
Per share – basic	**1.36**	0.29	0.49	1.05	0.45	(0.07)	0.75	0.69	0.83	0.66
Capital expenditures	**121,188**	70,664	71,424	78,357	50,164	21,493	56,292	76,615	71,233	76,064
Financial Position										
Total assets	**570,066**	445,876	488,378	455,901	402,082	354,273	427,016	302,593	270,860	216,306
Working capital	**206,571**	127,933	163,371	126,605	105,815	108,113	152,337	77,806	58,495	23,684
Total equity	**483,523**	366,469	368,696	367,269	309,684	308,335	354,589	270,717	231,209	163,159
Return on total equity %[2]	**26**	6	11	25	12	(2)	20	22	33	36
Common Share Data										
Common shares outstanding (#)										
At December 31	**83,363**	82,049	82,049	81,904	81,714	81,487	81,456	80,346	78,738	77,045
Weighted average	**82,647**	82,098	81,968	81,851	81,525	81,476	81,426	79,586	77,899	76,240
Share trading										
High ($)	**35.51**	23.77	18.12	16.53	14.82	14.45	18.40	17.93	19.20	15.13
Low ($)	**20.82**	15.74	12.04	11.53	10.31	8.26	8.00	11.51	13.11	8.86
Close ($)	**21.89**	22.98	17.15	12.00	13.96	11.65	14.05	12.49	13.26	14.45
Volume (#)	**37,538**	24,105	25,053	24,658	23,793	28,605	36,505	34,560	22,804	22,884
Dividends ($)	**0.64**	0.53	0.46	0.38	0.33	0.26	0.22	0.16	0.13	0.09

(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.

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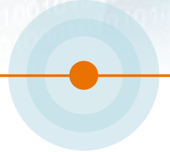

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