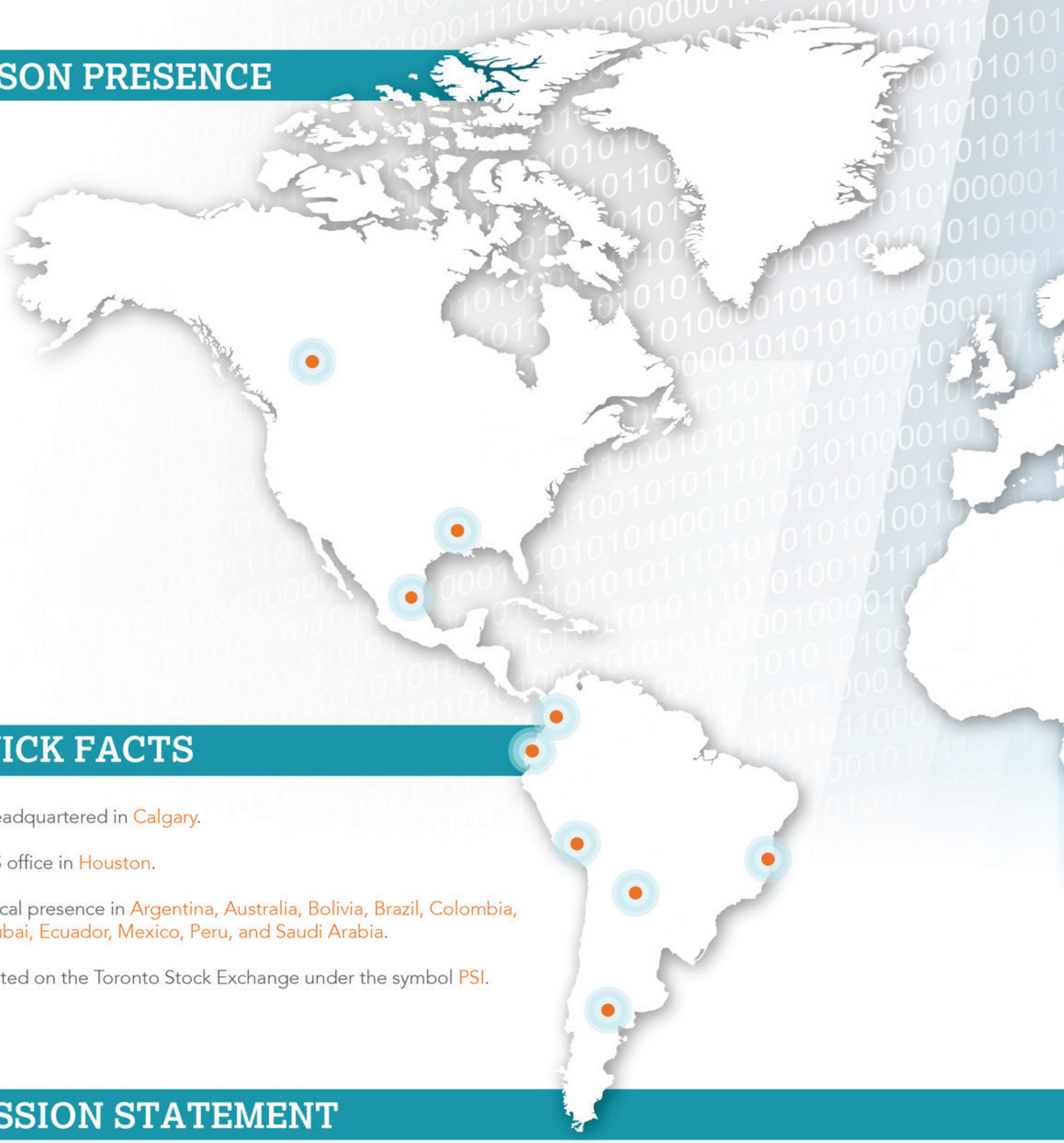
Pason Systems Inc.

2016 ANNUAL REPORT

PASON PRESENCE



QUICK FACTS

- Headquartered in Calgary.
- US office in Houston.
- Local presence in Argentina, Australia, Bolivia, Brazil, Colombia, Dubai, Ecuador, Mexico, Peru, and Saudi Arabia.
- Listed on the Toronto Stock Exchange under the symbol PSI.

MISSION STATEMENT

Pason provides technologies and services that improve the effectiveness, efficiency, and safety of drilling operations in challenging operating environments worldwide. Our simple-to-use, innovative, and rig-tough technologies enable effective collaboration between the field and the office and are supported by our unrivalled service organization.

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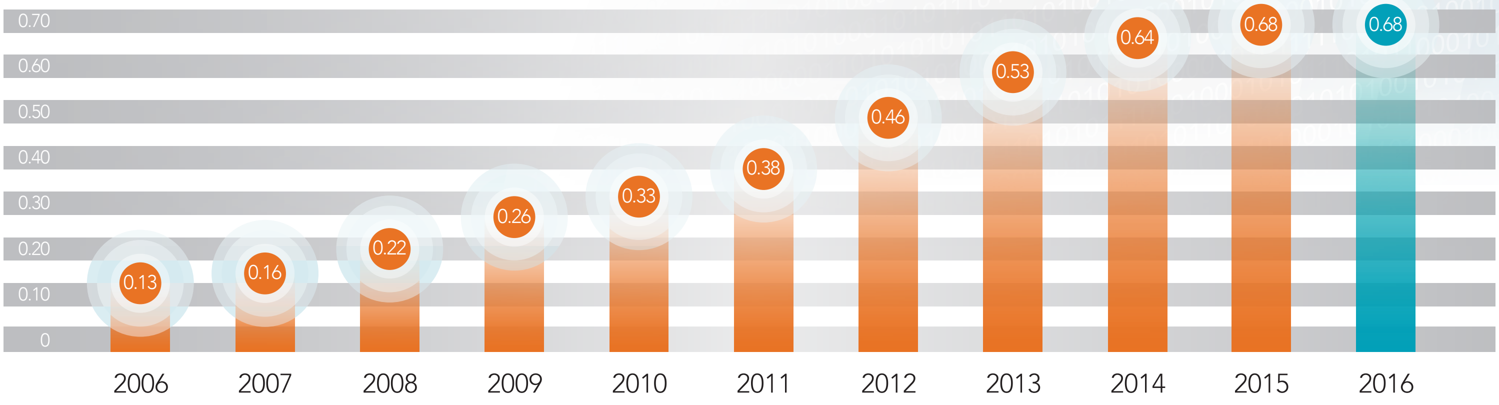
This annual report was written, photographed, designed, and produced by Pason employees.

FINANCIALS AT A GLANCE 2016

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

SHAREHOLDER RETURNS

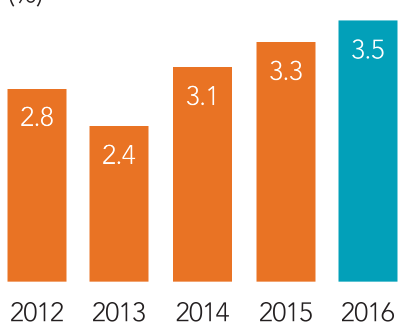
DIVIDENDS PER SHARE ($)



$57 MILLION

DIVIDENDS PAID IN 2016

DIVIDEND YIELD*
(%)

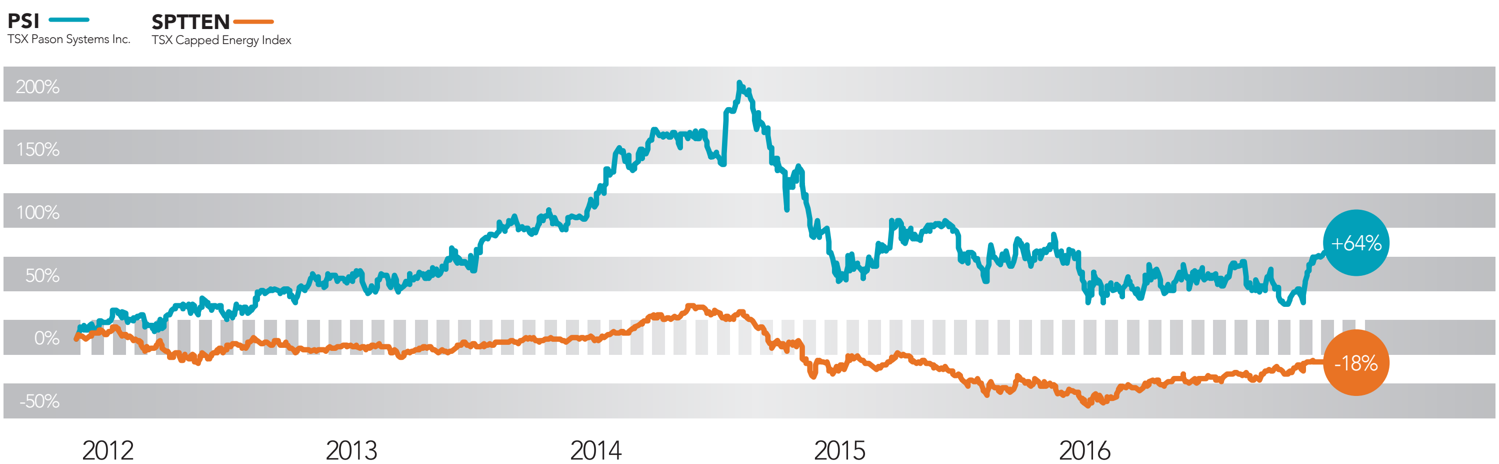


* At year end.

64%

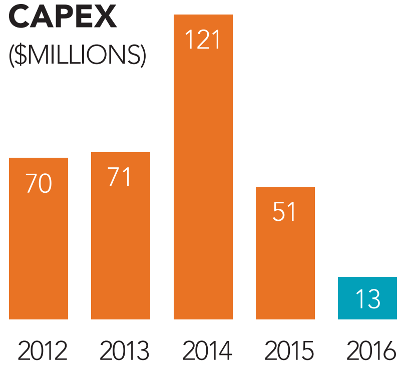
INCREASE IN SHARE PRICE OVER THE LAST FIVE YEARS

SHARE PRICE PERFORMANCE

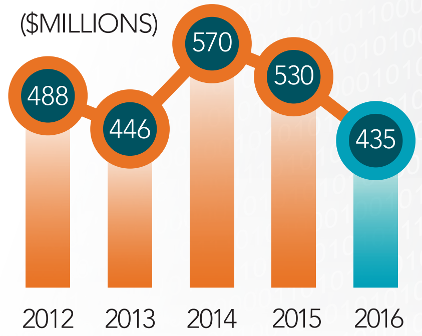


KEY FINANCIAL METRICS

CAPEX
($MILLIONS)

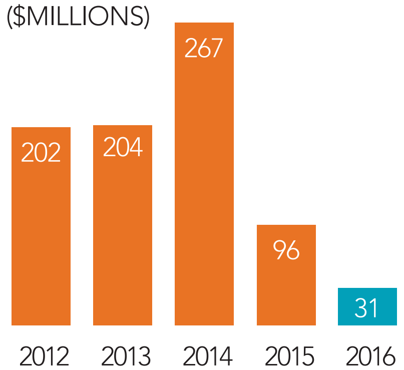


TOTAL ASSETS
($MILLIONS)

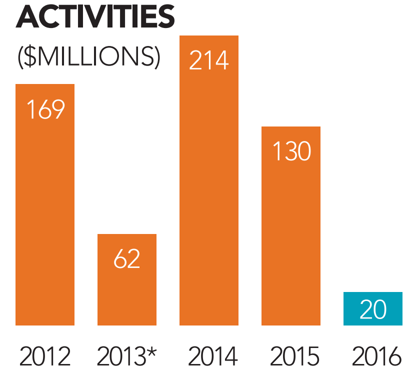


75%
REDUCTION IN CAPITAL EXPENDITURES

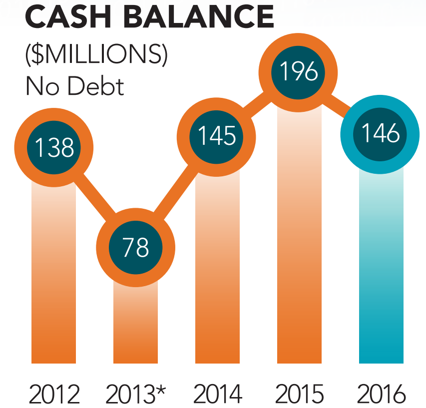
ADJUSTED EBITDA
($MILLIONS)



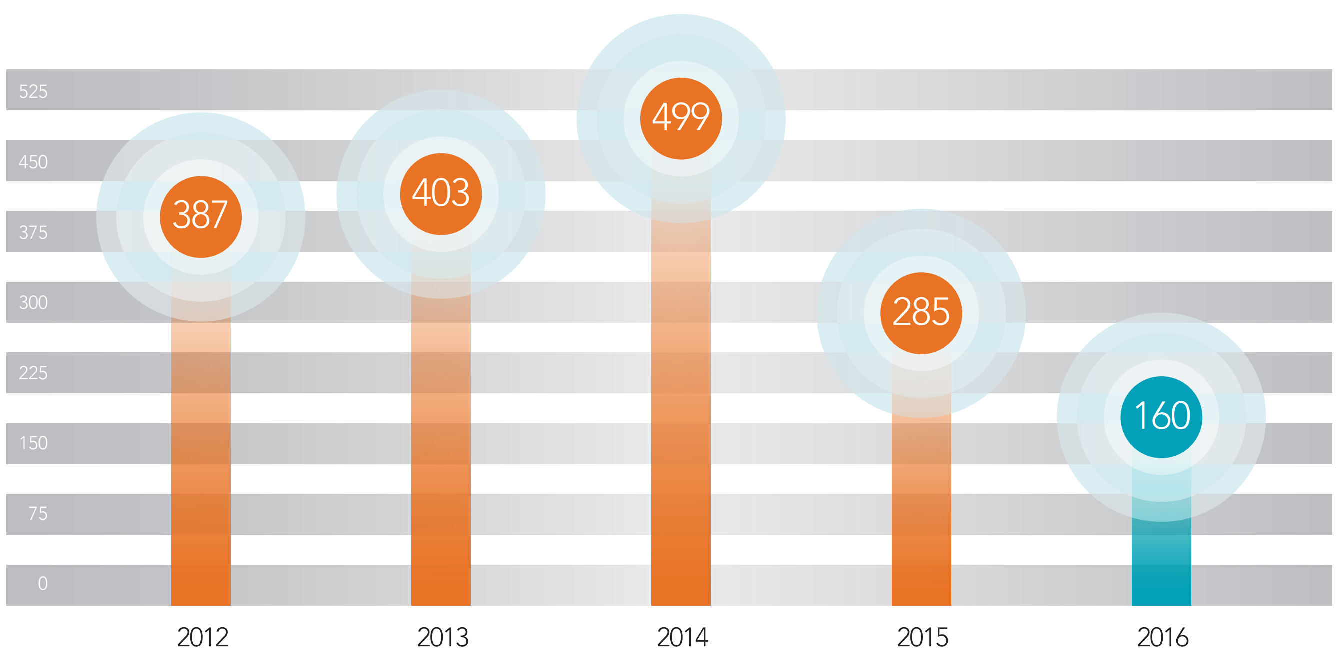
CASH FROM OPERATING ACTIVITIES
($MILLIONS)



CASH BALANCE
($MILLIONS)
No Debt



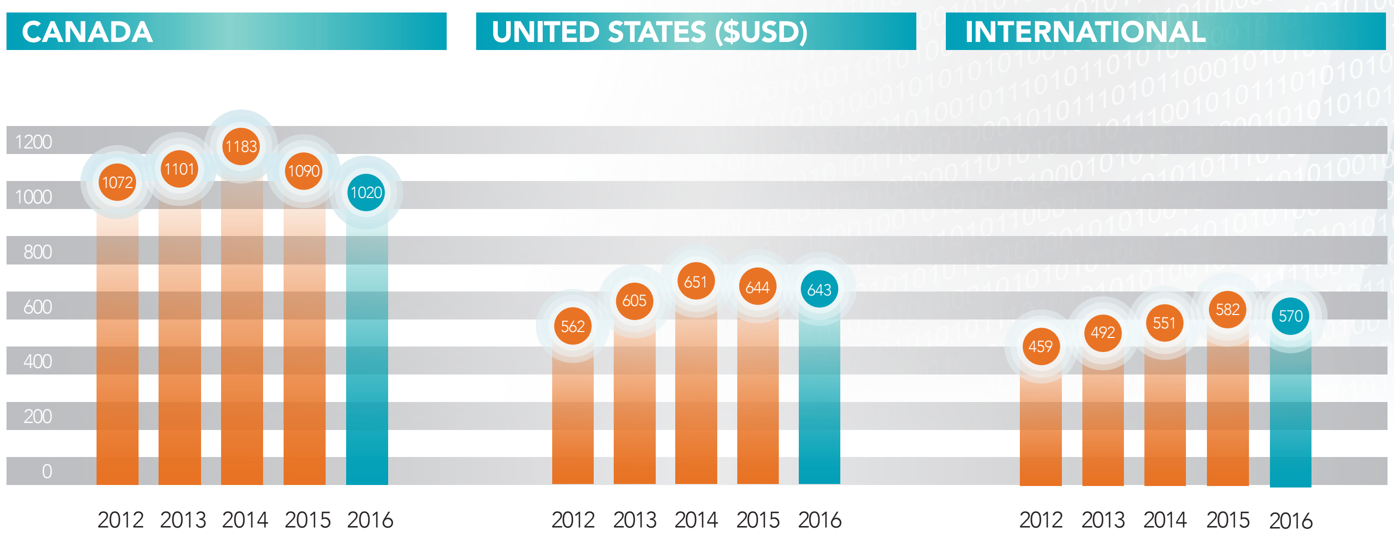
TOTAL REVENUE ($MILLIONS)



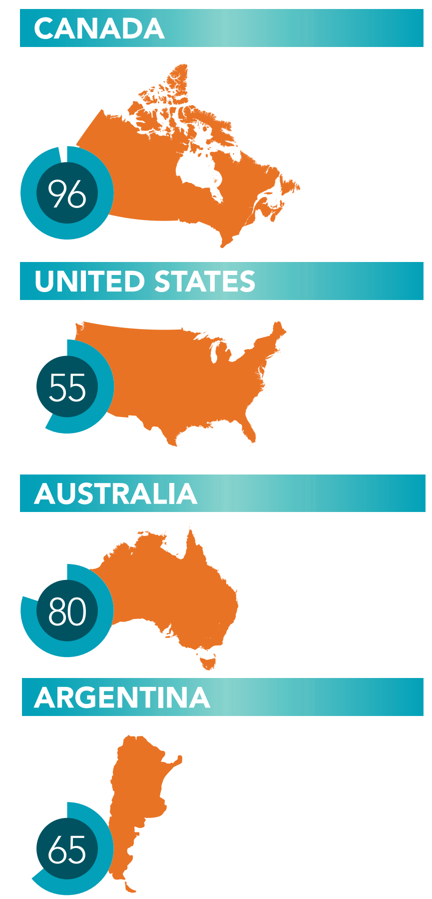
*Impacted by litigation settlement.

KEY OPERATIONAL METRICS

RENTAL REVENUE PER EDR DAY ($)



EDR MARKET SHARE*
(%)



*Estimated 2016.

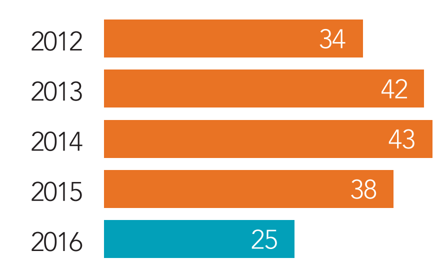
EMPLOYEE HEADCOUNT

TOTAL PASON
550

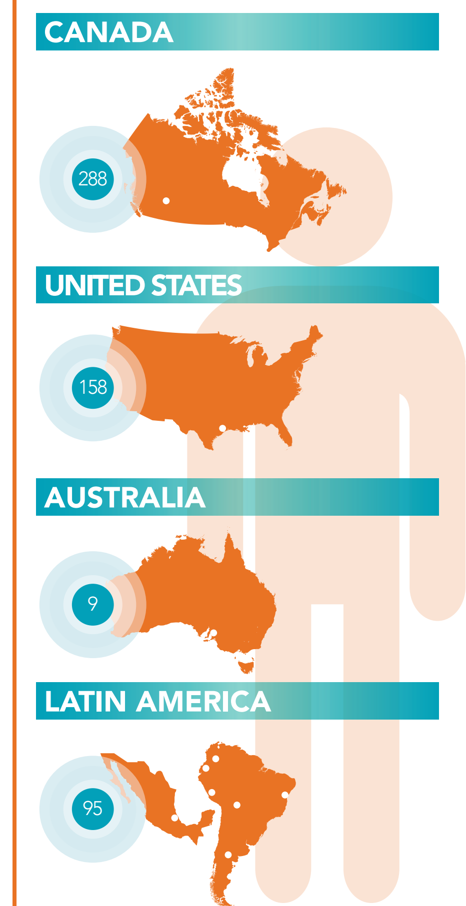
FIELD TECHNICIANS
194

R&D AND IT
142

ANNUAL R&D SPEND
($MILLIONS)



EMPLOYEE HEADCOUNT BY REGION



PASON PRODUCT ROADMAP

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

We've built our company on robust products and best-in-class service. And we continue to innovate.

Our product roadmap enables us to exceed our customers' expectations and integrate the latest technology trends into our product offerings. Our product roadmap consists of the following four main themes:

1 DATA VIEWING, STORAGE, & DELIVERY

Meeting our customers' data viewing, delivery, and storage needs with simple, reliable, and secure solutions.

CORE EDR

A system of computers, instrumentation, and monitoring equipment networked around a drilling rig that provides data to personnel, both on the wellsite and at the office.

DATAHUB

A highly secure web application that collects, stores, and displays drilling data, reports, and real-time information for remote access.

DATA DELIVERY & REPORTING

A diverse offering ranging from data analytics and visual analysis tools to various standard and customized reports for operators and drilling contractors.

2 COMMUNICATIONS

Providing reliable, secure communications at competitive prices.

WIDE AREA NETWORK PERFORMANCE

The evolution of our cellular and satellite technology for improved reliability and performance.

BANDWIDTH MANAGEMENT

Prioritizes operator and rig manager traffic, minimizes misuse, and ensures data security.

VOIP/ INTERCOM/WIRELESS

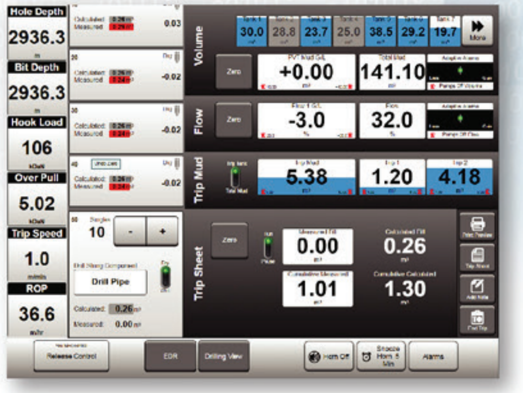
A system that enables effective onsite and offsite voice communication for rig personnel virtually anywhere on the wellsite.

3 WELL CONTROL

Improving safety and reducing non-productive time of drilling operations.

ENHANCED PIT VOLUME TOTALIZER (ePVT)

A critical software component of a comprehensive well control system enabled by the Pason Rig Display, a ruggedized 19-inch touchscreen computer for use outdoors and in hazardous locations.



ADAPTIVE ALARMS

An upgrade of the ePVT that provides early detection of fluid gains and losses without generating false alarms.

DIGITAL TRIP SHEETS

An upgrade of the ePVT that tracks tripping. Digital trip sheets can be viewed remotely from the Pason DataHub, and include graphs and historical trip data.

4 DRILLING AUTOMATION

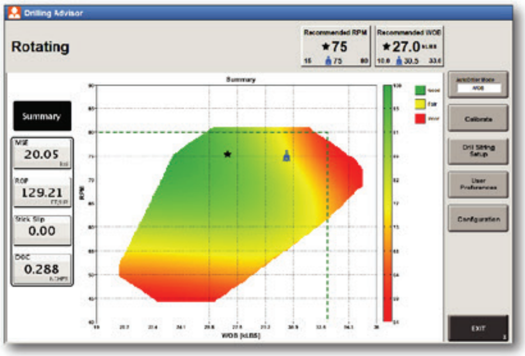
Enhancing drilling performance with solutions designed for the driller.

AC AUTODRILLER

An automatic drilling system for AC rigs with programmable logic controllers (PLCs). Controls the PLC drawworks to maximize rate of penetration while monitoring multiple drilling set points.

DRILLING ADVISORY SYSTEM™ (DAS)

Software algorithms developed by ExxonMobil Upstream Research and deployed by Pason that optimize rotary revolutions per minute and weight on bit resulting in optimal bit wear and rate of penetration of the wellbore.



abbl DIRECTIONAL ADVISOR

Software developed by Schlumberger and integrated and deployed by Pason, this application recommends steering instructions to guide the drill bit along the well plan.

PRESIDENT'S MESSAGE

In 2016, the oilfield services industry remained extremely challenging and witnessed the lowest activity levels in recent memory. Oil prices reached a low of US$26 a barrel in February, driven by oversupply. Natural gas prices remained below US$3 per million BTU for most of the year. As a result, oil and gas drilling activity continued its steep decline. The number of active drilling rigs in North America dropped from over 2,000 in 2014 to just over 400 in the second quarter of 2016. Pressures on pricing and product adoption continued as operators sought further significant cost reductions.

"We were able to exceed our financial objective of staying free cash flow neutral before the dividend for 2016."

Pason's financial performance in 2016 reflects these declines. Revenue for the year was $160 million, a 44% decline from the previous year. Adjusted EBITDA was $31 million, compared to $96 million in the previous year. The Company incurred a loss for the year of $41 million. The bottom line was affected by a restructuring charge of $11 million and a non-cash impairment charge of $17 million related to the write-off of goodwill related to the disposition of the operating assets of 3PS.

We implemented further restructuring measures that brought total annual run rate cost savings of $100 million and reduced capital expenditures by 75% compared to the previous year. We were thus able to exceed our financial objective of staying free cash flow neutral before the dividend for 2016. At December 31, 2016, our working capital stood at $198 million, including a cash balance of $146 million. There is no debt on our balance sheet and we maintained our quarterly dividend at $0.17 per share.

Throughout this downturn, Pason has been able to defend its position as the service provider of choice for the majority of leading operators and drilling contractors with relatively modest price concessions. Pason is well-positioned to maximize returns in the industry's recovery. Pason equipment is installed on over 65% of all active land drilling rigs in the Western Hemisphere and we have a growing presence in the Middle East.

The rebalancing of the oil markets seems to be underway. The supply-demand imbalance may be resolved in 2017 and solid growth may return to the industry in 2018. As always, North American land drilling is the quickest to respond. Since the beginning of the New Year, growth in drilling activity has exceeded our expectations, particularly in the United States' Permian Basin. The outlook for 2017 is clearly more positive than what we experienced in 2016. However, there continues to be a lot of uncertainty around oil company capital spending plans, and therefore for drilling activity, going forward.

"We are investing significant resources in future growth…on products that directly improve the effectiveness, efficiency, and safety of drilling operations…"

Our two main objectives for 2017 are to: 1) fully participate in the industry's upturn while containing growth of the costs base; and 2) continue making progress to be a key enabler of drilling automation and data analytics strategies. We are investing significant resources in future growth and are focusing our product development on products that directly improve the effectiveness, efficiency, and safety of drilling operations, as well as the quality of the wellbore. We are doing this through the commercialization of products in our core, on-bottom, and off-bottom product roadmaps. Examples of this include our Enhanced Pit Volume Totalizer Adaptive Alarms and Digital Trip Sheets, AC AutoDriller, abbl Directional Advisor, and the deployment of the advanced Drilling Advisory System from ExxonMobil.

In addition, the acquisition of Verdazo Analytics provides us with a strong analytics platform for oil and gas production and operations that complements Pason's market leading drilling information ecosystem. Pason aims to provide customers with a holistic platform to analyze drilling, completions, production, and operational data.

Marcel Kessler
President and
Chief Executive Officer

Moreover, Verdazo will be able to leverage Pason's established brand and footprint to grow into the US and international markets.

The addition of an updated Live Rig View web service to our cloud-based offering significantly enhances the user experience for the many back-office users of Pason data. Additional functionality will be added throughout 2017.

The sizeable capital investments we made through 2014 and into 2015 have enabled us to deploy a very capable and flexible rigsite IT and communications platform with the ability to host new Pason and third-party software. Our capital expenditures will be relatively small going forward with a larger portion of our current development efforts focused on software and analytics. For 2017, we intend to spend up to $25 million in capital expenditures.

We are optimistic about Pason's market position and prospects, and are excited about the potential of our new products and services. We thank all our employees, customers, partners, and shareholders for their continued support.

Signed on behalf of the Board of Directors,

Marcel Kessler, President and Chief Executive Officer

"Pason is well-positioned to maximize returns in the industry's recovery."

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 22, 2017, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the consolidated financial statements and accompanying notes.

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

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

Performance Data

	Three Months Ended December 31,			Years Ended December 31,		
	2016	2015	Change	**2016**	2015	Change
(CDN 000s, except per share data)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**48,827**	59,838	(18)	**160,446**	285,148	(44)
Net (loss) income	**(11,325)**	(841)	—	**(40,621)**	(14,612)	—
Per share – basic	**(0.13)**	(0.01)	—	**(0.48)**	(0.17)	—
Per share – diluted	**(0.13)**	(0.01)	—	**(0.48)**	(0.17)	—
EBITDA (1)	**(2,291)**	20,736	—	**3,472**	69,630	(95)
As a % of revenue	**(4.7)**	34.7	—	**2.2**	24.4	—
Adjusted EBITDA (1)	**15,225**	20,128	(24)	**31,005**	96,460	(68)
As a % of revenue	**31.2**	33.6	—	**19.3**	33.8	—
Funds flow from operations	**15,324**	17,933	(15)	**26,815**	94,263	(72)
Per share – basic	**0.18**	0.22	(19)	**0.32**	1.13	(72)
Per share – diluted	**0.18**	0.21	(15)	**0.32**	1.13	(72)
Cash from operating activities	**665**	10,911	(94)	**19,642**	130,076	(85)
Free cash flow (1)	**401**	4,719	(92)	**7,184**	80,138	(91)
Capital expenditures	**(30)**	6,527	—	**12,856**	50,811	(75)
Working capital	**198,419**	244,972	(19)	**198,419**	244,972	(19)
Total assets	**435,251**	529,625	(18)	**435,251**	529,625	(18)
Total long-term debt	**—**	—	—	**—**	—	—
Cash dividends declared	**0.17**	0.17	—	**0.68**	0.68	—
Shares outstanding end of period (#)	**84,628**	84,063	1	**84,628**	84,063	1

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

Q4 2016 vs Q4 2015

The Company generated consolidated revenue of $48.8 million in the fourth quarter of 2016, down 18% from $59.8 million in the same period of 2015. US drilling activity in the fourth quarter of 2016 was down 23% from 2015 levels while Canadian activity was relatively flat. The decline in US activity was partially offset by an increase in market share in the US business unit.

Consolidated EBITDA was a negative $2.3 million in the fourth quarter of 2016, a decrease of $23.0 million from the fourth quarter of 2015. Included in the fourth quarter 2016 results is a non-cash impairment charge of $17.5 million, the majority of which relates to the write-off of intangible assets as a result of the Company's divestiture of the operating assets of 3PS, Inc., a previous wholly-owned subsidiary. Adjusted EBITDA, which adjusts for foreign exchange and certain non-recurring charges, including impairment charges, decreased $4.9 million. Funds flow from operations decreased by 15%.

The Company recorded a net loss of $11.3 million ($0.13 per share) in the fourth quarter of 2016, a decrease of $10.5 million from the net loss of $0.8 million ($0.01 per share) recorded in the same period of 2015. The fourth quarter 2016 results include the impairment charge referred to above while 2015 fourth quarter results include a restructuring charge of $1.0 million. The full benefit of the cost reduction programs previously implemented, combined with a decline in depreciation expense from 2015 levels, as a result of a significant reduction in the capital expenditure program and previously recorded impairment charges relating to excess quantities of equipment, also impacted the comparison of fourth quarter 2016 results to 2015 amounts.

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.

Revenue per EDR Day

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

EBITDA

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

Adjusted EBITDA

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

Free cash flow

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

Overall Performance

	Three Months Ended December 31,			Years Ended December 31,		
	2016	2015	Change	**2016**	2015	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder [(1)]	**19,982**	24,078	(17)	**66,799**	122,092	(45)
Pit Volume Totalizer/ePVT	**8,001**	9,600	(17)	**22,833**	40,279	(43)
Communications [(1)]	**4,840**	5,327	(9)	**15,228**	24,710	(38)
Software	**3,517**	4,167	(16)	**11,104**	19,420	(43)
AutoDriller	**2,815**	3,880	(27)	**9,357**	20,337	(54)
Gas Analyzer	**3,803**	4,510	(16)	**12,084**	21,021	(43)
Other	**5,869**	8,276	(29)	**23,041**	37,289	(38)
Total revenue	**48,827**	59,838	(18)	**160,446**	285,148	(44)

(1) A portion of the Company's Communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue. 2015 comparative figures have been reclassified to conform with 2016 presentation. (Q4 2015 - $1,063 and YTD 2015- $4,044).

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

Canada

	Three Months Ended December 31,			Years Ended December 31,		
	2016	2015	Change	**2016**	2015	Change
			(%)			(%)
EDR rental days (#)	**14,600**	15,200	(4)	**44,500**	66,800	(33)
PVT/ePVT rental days (#)	**13,300**	13,900	(4)	**40,900**	62,500	(35)

United States

	Three Months Ended December 31,			Years Ended December 31,		
	2016	2015	Change	**2016**	2015	Change
			(%)			(%)
EDR rental days (#)	**30,100**	37,300	(19)	**97,500**	196,500	(50)
PVT/ePVT rental days (#)	**24,000**	28,200	(15)	**75,500**	149,300	(49)

Electronic Drilling Recorder (EDR)

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 decreased 17% in the fourth quarter of 2016 compared to the same period in 2015 and 45% for the full year.

The fourth quarter decrease is attributable to a drop of 23% in drilling activity in the US market from 2015 levels, increased competitive pressures in Canada, and continued lower product adoption of certain peripheral devices. This decrease was partially offset by an increase in US market share. Canadian drilling activity was little changed from the fourth quarter of 2015.

For the twelve months ending December 31, 2016, EDR revenue was impacted by a drop in drilling activity in both US and Canada of 49% and 34% respectively. These negative factors were offset by a strengthening US dollar relative to the Canadian dollar.

Canadian EDR days, which include some non-oil and gas-related drilling activity, decreased 4% in the fourth quarter of 2016 from 2015 levels (33% on a year-to-date basis), while US EDR days decreased by 19% in the fourth quarter of 2016 from 2015 levels (50% on a year-to-date basis).

The Canadian business unit continued to see both pricing pressure and increased competition from a number of competitors. For the three months ended December 31, 2016, the Pason EDR was installed on 88% of the active land rigs in Canada (95% for the fourth quarter of 2015). Market share was 96% for both of the twelve month periods ending December 31, 2016, and 2015.

For the three months ended December 31, 2016, the Pason EDR was installed on 59% of the land rigs in the US compared to 56% during the same period in 2015. For the full twelve months of 2016, the EDR was installed on 55% of the land rigs in the US, compared to 57% in the same period of 2015.

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

The Company's International business unit is experiencing the same market conditions as the North American market except for the Middle East, where the Company is realizing an increase in its share of net income from its Saudi Arabia joint venture as a result of a continuing increases in rig count and market penetration.

Pit Volume Totalizer (PVT) and Enhanced Pit Volume Totalizer (ePVT)

The ePVT 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 2016 was impacted by rig count activity, offset partially with continued customer adoption of the new ePVT. During the three months ended December 31, 2016, the ePVT was installed on 91% of rigs with a Pason EDR in Canada and 80% in the US, compared to 91% and 76% respectively, in the same period in 2015. For the year ended December 31, 2016, the ePVT was installed on 92% of rigs with a Pason EDR in Canada and 78% in the US.

Communications

Pason's Communications revenue comes from a number of communication service offerings, including providing customers with 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 decreased by 9% in the fourth quarter of 2016 compared to the corresponding period in 2015. Revenue was impacted by the decline in drilling activity, offset by a continued increase in customer adoption of new communication solutions rolled out in the Canadian and US markets.

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.

During both the fourth quarter and the twelve months ending December 31, 2016, 97% of the Company's Canadian customers were using all or a portion of the functionality of the DataHub. In the US business unit, the 2016 fourth quarter adoption rate was 91%, and 88% for the entire 2016 year.

AutoDriller

Pason's AutoDriller is used to maintain constant weight on the drill bit while a well is being drilled. During 2016 the AutoDriller adoption rates continued to decline and the company anticipates this to continue due in most part to the drop in the number of mechanical rigs being deployed.

Gas Analyzer

The Pason Gas Analyzer measures the total hydrocarbon gases (C1 through C4 and CO_2) 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 fourth quarter ended December 31, 2016, the Gas Analyzer was installed on 61% of Canadian and 31% of US land rigs operating with a Pason EDR system (58% and 31% respectively for 2015).

Other

Other is comprised mostly of the rental of service rig recorders in Latin America, the Electronic Choke Actuator, Hazardous Gas Alarm products, Mobilization revenue, sales of sensors and other systems sold by 3PS.

Discussion of Operations

United States Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2016	2015	Change	**2016**	2015	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder [1]	**12,057**	14,888	(19)	**40,168**	79,023	(49)
Pit Volume Totalizer/ePVT	**5,235**	6,182	(15)	**13,487**	24,131	(44)
Communications [1]	**2,345**	2,397	(2)	**6,893**	11,545	(40)
Software	**2,367**	2,766	(14)	**7,291**	13,087	(44)
AutoDriller	**1,194**	1,837	(35)	**3,731**	10,045	(63)
Gas Analyzer	**1,871**	2,297	(19)	**5,974**	10,639	(44)
Other	**3,563**	4,375	(19)	**13,423**	22,416	(40)
Total revenue	**28,632**	34,742	(18)	**90,967**	170,886	(47)
Rental services and local administration	**14,324**	16,222	(12)	**52,971**	77,822	(32)
Depreciation and amortization	**5,651**	7,456	(24)	**23,130**	33,330	(31)
Segment operating profit	**8,657**	11,064	(22)	**14,866**	59,734	(75)

(1) A portion of the Company's Communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue. 2015 comparative figures have been reclassified to conform with 2016 presentation. (Q4 2015 - $591 and YTD 2015 - $2,957).

	Three Months Ended December 31,		Years Ended December 31,	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenue per EDR day - USD	**667**	645	**643**	644
Revenue per EDR day - CAD	**890**	862	**852**	824

US segment revenue decreased by 18% in the fourth quarter of 2016 over the 2015 comparable period (17% decrease when measured in USD). For the year, US segment revenue decreased by 47% over the 2015 comparable period (50% decrease when measured in USD).

Industry activity in the US market during the fourth quarter of 2016 decreased by 23% from the prior year and 49% for the full year. EDR rental days decreased by 19% and 50%, respectively, for the three and twelve months ended December 31, 2016 over the same time periods in 2015.

Revenue per EDR day in the fourth quarter of 2016 increased to US$667, an increase of US$22 over the same period in 2015. The increase is due to an uptick on adoption of certain key products. For the year, revenue per EDR day was US$643, relatively flat compared to 2015.

The decrease in industry activity accounted for the majority of the drop in revenue for both the quarter and twelve months ended December 31, 2016. The fourth quarter benefited from an increase in market share relative to the same period in 2015, while the twelve month results benefited from a favourable movement in the USD/CAD exchange rate.

Operating costs decreased by 12% in the fourth quarter relative to the same period in the prior year. When measured in USD, operating costs decreased 37% on a year-to-date basis as the business unit continues to identify and implement changes to its cost structure. The Company is realizing most of the benefits from the consolidation of its US business unit into one location.

Depreciation expense for the fourth quarter and the full year of 2016 is down significantly from the corresponding periods in 2015 due to the non-cash impairment charges the Company took in prior years, combined with a lower capital expenditure program.

Segment profit decreased by $2.4 million in the fourth quarter of 2016 compared to the corresponding period in 2015. Segment profit of $14.9 million for the twelve months of 2016 is a drop of 75% from the same period in 2015.

Canadian Operations

	Three Months Ended December 31,			**Years Ended December 31,**		
	2016	2015	Change	**2016**	2015	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder (1)	**5,481**	6,081	(10)	**17,198**	27,420	(37)
Pit Volume Totalizer/ePVT	**2,254**	2,603	(13)	**7,347**	11,572	(37)
Communications (1)	**2,265**	2,416	(6)	**7,129**	11,117	(36)
Software	**1,060**	1,299	(18)	**3,534**	5,815	(39)
AutoDriller	**1,095**	1,184	(8)	**3,296**	5,853	(44)
Gas Analyzer	**1,604**	1,729	(7)	**4,865**	7,802	(38)
Other	**861**	1,095	(21)	**2,831**	4,251	(33)
Total revenue	**14,620**	16,407	(11)	**46,200**	73,830	(37)
Rental services and local administration (2)	**4,570**	6,399	(29)	**17,706**	30,128	(41)
Depreciation and amortization	**3,920**	8,590	(54)	**24,036**	36,998	(35)
Segment operating profit	**6,130**	1,418	332	**4,458**	6,704	(34)

(1) A portion of the Company's Communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue. The 2015 comparative figures have been reclassified to conform with the 2016 presentation. (Q4 2015 - $149 and YTD 2015 - $729).

(2) Certain expenses previously recorded in Other Expenses are now included as a business unit cost, to better reflect the nature of such costs. The 2015 comparative figures have been reclassified to conform with the 2016 presentation (Q4 2015 - $525 and YTD - $2,295).

	Three Months Ended December 31,		**Years Ended December 31,**	
	2016	2015	**2016**	2015
	$	$	**$**	$
Revenue per EDR day - CAD	**982**	1,056	**1,020**	1,090

Canadian segment revenue declined by 11% for the three months ended December 31, 2016, and 37% for the year as compared to the same periods in 2015. The drop is a result of a selective pricing discounts on certain products, increased competition, and lower product adoption on some products. The full year decline was also impacted by a decline in the number drilling days.

On a year-to-date basis, revenue decreased by 37% while industry days declined 34%.

EDR rental days decreased 4% in the fourth quarter compared to 2015 levels and 33% for the full twelve months of 2016.

The factors above combined to result in a decrease in revenue per EDR day of $74 to $982 during the fourth quarter of 2016 compared to 2015. Revenue per EDR day for the year ended December 31,2016, was $1,020, down $70 from the same period in 2015.

Operating costs decreased by 29% in the fourth quarter of 2016 relative to the same period in 2015 (41% on a year-to-date basis), primarily due to a drop in activity combined with cost control initiatives implemented by the business unit.

Depreciation expense decreased 54% in the fourth quarter of 2016 from 2015 due to the non-cash impairment charges the Company recorded in prior years relating to excess pieces of equipment, combined with the recognition of investment tax credits received during the quarter, which reduces amortization expense.

The fourth quarter 2016 operating profit of $6.1 million is an increase of $4.7 million over the prior year period. Segment operating profit for the twelve months ended December 31, 2016, was down 34% from last year's comparatives.

International Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2016	2015	Change	**2016**	2015	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder [(1)]	**2,444**	3,109	(21)	**9,433**	15,649	(40)
Pit Volume Totalizer/ePVT	**512**	815	(37)	**1,999**	4,576	(56)
Communications [(1)]	**230**	514	(55)	**1,206**	2,048	(41)
Software	**90**	102	(12)	**279**	518	(46)
AutoDriller	**526**	859	(39)	**2,330**	4,439	(48)
Gas Analyzer	**328**	484	(32)	**1,245**	2,580	(52)
Other	**1,445**	2,806	(49)	**6,787**	10,622	(36)
Total revenue	**5,575**	8,689	(36)	**23,279**	40,432	(42)
Rental services and local administration [(2)]	**5,077**	5,787	(12)	**19,158**	28,965	(34)
Depreciation and amortization	**944**	3,756	(75)	**8,218**	11,053	(26)
Segment operating (loss) profit	**(446)**	(854)	(48)	**(4,097)**	414	—

(1) A portion of the Company's Communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue.The 2015 comparative figures have been reclassified to conform with the 2016 presentation. (Q4 2015- $11 and YTD 2015 - $46.)

(2) Certain expenses previously recorded in Other Expenses are now included as a business unit cost, to better reflect the nature of such expenses. The 2015 comparative figures have been reclassified to conform with the 2016 presentation (Q4 2015 - $149 and YTD 2015 - $604).

The industry conditions impacting the Company's US and Canadian segments also exist in the majority of the Company's International markets.

Revenue in the International operations segment decreased 36% in the fourth quarter of 2016 compared to the same period in 2015. For the year ended December 31, 2016, revenue decreased by 42%, or $17.2 million.

The operating loss in the fourth quarter of 2016 of $0.4 million was lower than the loss recorded in the same period in 2015 as a result of a significant decline in depreciation expense. The business unit wrote off obsolete spare parts in the fourth quarter of 2015 and this combined with a significant reduction in capital expenditures led to the lower depreciation expense. Year-to-date profit declined by $4.5 million.

A number of factors influenced these results:

- Impacting the comparison of full year revenue year over year was the devaluation of the Argentinian peso, which occurred in the fourth quarter of 2015.
- In the fourth quarter of 2015 the Company recognized a termination payment of $0.6 million from one of its customers.

Corporate Expenses

	Three Months Ended December 31,			Years Ended December 31,		
	2016	2015	Change	**2016**	2015	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Other expenses						
Research and development	**5,233**	6,302	(17)	**22,848**	31,733	(28)
Corporate services	**4,398**	5,000	(12)	**16,758**	20,040	(16)
Stock-based compensation	**1,538**	2,802	(45)	**6,195**	7,398	(16)
Other						
Foreign exchange loss (gain)	**284**	(1,549)	—	**(1,943)**	(3,104)	(37)
Impairment loss	**17,474**	—	—	**17,474**	26,555	(34)
Gain on sale of investment	**—**	—	—	**—**	(2,290)	—
Restructuring costs	**—**	1,024	—	**10,861**	3,596	202
Other[1]	**(242)**	(83)	192	**1,141**	(217)	—
Total corporate expenses	**28,685**	13,496	113	**73,334**	83,711	(12)

(1) Certain expenses previously recorded in Other Expenses are now included as a business unit cost, to better reflect the nature of such expenses. The 2015 comparative figures have been reclassified to conform with the 2016 presentation (Q4 2015 - $664 and YTD 2015 - $2,899).

During 2016, the Company initiated a review of its investment in 3PS, Inc. (3PS) due to the significant decline in capital spending in the markets 3PS serves, including the oil and gas drilling industry. In the fourth quarter of 2016 a final agreement was entered into for the sale of the net operating assets of 3PS, effective January 2017. As a result of this divestiture, the Company recorded a non-cash impairment loss of $17.5 million in the fourth quarter of 2016, the majority of which is attributable to the write-down of goodwill that arose as a result of the initial acquisition of 3PS.

In the first quarter of 2016, the Company initiated additional cost reduction initiatives to address the prolonged downturn in oil and gas drilling activity. These actions included further staff reductions and office space consolidation. As a result, the Company recorded a restructuring charge of $10.9 million, which is comprised of $6.0 million for employee termination and other staff-related costs, an onerous lease obligation charge of $3.7 million, which is calculated at the present value of the expected net cost of continuing with the lease after adjusting for anticipated sublease rentals, and the write-off of leasehold improvements and other related costs totaling $1.2 million.

In the third quarter of 2015, management concluded that drilling activity was likely to be at depressed levels for a longer period of time than originally anticipated and this resulted in the company updating its assumptions on equipment usage. This review identified additional excess equipment based upon management's best estimate of future drilling activity. The net book value of this excess equipment, totaling $26.6 million, of which $7.7 million related to the Canadian operating segment and $18.9 related to the US operating segment, was recorded as a non-cash impairment loss in the third quarter of 2015.

In the first quarter of 2015, the Company disposed of its investment in a small privately held company and realized a gain of $2.3 million.

Q4 2016 versus Q3 2016

Consolidated revenue was $48.8 million in the fourth quarter of 2016 compared to $38.6 million in the third quarter of 2016, an increase of $10.2 million. Drilling activity in the Company's major markets increased in the fourth quarter of 2016, with US market activity up 22% while Canada saw an increase of 54%. The Canadian segment earned revenue of $14.6 million in the fourth quarter compared to $10.8 million in the third quarter of 2016. Revenue in the US market increased from $22.3 million in the third quarter to $28.6 in quarter four. The International segment revenue was flat quarter over quarter.

The Company recorded a net loss in the fourth quarter of 2016 of $11.3 million ($0.13 per share) compared to a loss of $7.1 million ($0.08 per share) in the third quarter of 2016. Included in the 2016 fourth quarter results is a non-cash impairment charge of $17.5 million.

Sequentially, adjusted EBITDA increased from $8.5 million in the third quarter of 2016 to $15.2 million in the fourth quarter of 2016, due to the increase in operating profits in all of the Company's operating segments. Funds flow from operations increased by $6.2 million.

Summary of Quarterly Results

Three Months Ended	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sept 30, 2016	**Dec 31, 2016**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	99,402	57,440	68,468	59,838	45,813	27,173	38,633	**48,827**
Income (loss)	14,191	(9,404)	(18,558)	(841)	(10,860)	(11,319)	(7,117)	**(11,325)**
Per share – basic	0.17	(0.11)	(0.22)	(0.01)	(0.13)	(0.13)	(0.08)	**(0.13)**
Per share – diluted	0.17	(0.11)	(0.22)	(0.01)	(0.13)	(0.13)	(0.08)	**(0.13)**
EBITDA (1)	44,126	7,485	(2,717)	20,736	(353)	(2,231)	8,347	**(2,291)**
Adjusted EBITDA (1)	41,679	9,911	24,742	20,128	8,763	(1,470)	8,487	**15,225**
Funds flow from (used in) operations	43,262	9,277	23,791	17,933	3,335	(974)	9,130	**15,324**
Per share – basic	0.52	0.11	0.28	0.21	0.04	(0.01)	0.11	**0.18**
Per share – diluted	0.52	0.11	0.28	0.21	0.04	(0.01)	0.11	**0.18**
Cash from operating activities	71,533	31,300	16,332	10,911	11,331	2,993	4,653	**665**
Free cash flow (1)	48,219	21,298	5,902	4,719	4,860	(1,489)	3,412	**401**
Per share – basic	0.58	0.25	0.07	0.05	0.06	(0.02)	0.04	**0.00**
Per share – diluted	0.58	0.25	0.07	0.05	0.06	(0.02)	0.04	**0.00**

(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, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sept 30, 2016	**Dec 31, 2016**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Income (loss)	14,191	(9,404)	(18,558)	(841)	(10,860)	(11,319)	(7,117)	**(11,325)**
Add:								
Taxes	12,278	(9,272)	(4,226)	(1,027)	(6,817)	(6,728)	(922)	**(3,019)**
Depreciation and amortization	21,722	20,598	19,259	19,802	16,362	13,578	14,929	**10,515**
Stock-based compensation	(1,775)	5,563	808	2,802	962	2,238	1,457	**1,538**
Gain on sale investment	(2,290)	—	—	—	—	—	—	—
EBITDA (1)	44,126	7,485	(2,717)	20,736	(353)	(2,231)	8,347	**(2,291)**

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sept 30, 2016	**Dec 31, 2016**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	44,126	7,485	(2,717)	20,736	(353)	(2,231)	8,347	**(2,291)**
Add:								
Impairment charges	—	—	26,555	—	—	—	—	**17,474**
Restructuring costs	—	2,572	—	1,024	10,861	—	—	**—**
Foreign exchange	(2,447)	(12)	904	(1,549)	(2,719)	396	96	**284**
Other	—	(134)	—	(83)	974	365	44	**(242)**
Adjusted EBITDA (1)	41,679	9,911	24,742	20,128	8,763	(1,470)	8,487	**15,225**

Reconcile cash from operating activities to free cash flow

Three Months Ended	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	Dec 31, 2015	Mar 31, 2016	Jun 30, 2016	Sep 30, 2016	**Dec 31, 2016**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	71,533	31,300	16,332	10,911	11,331	2,993	4,653	**665**
Less:								
Additions to property, plant and equipment	(21,236)	(7,595)	(8,333)	(6,219)	(4,774)	(3,465)	(582)	**(1,273)**
Deferred development costs	(2,078)	(2,407)	(2,097)	27	(1,697)	(1,017)	(659)	**1,009**
Free cash flow (1)	48,219	21,298	5,902	4,719	4,860	(1,489)	3,412	**401**

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

Liquidity and Capital Resources

As at December 31,	2016	2015	Change
(000s)	($)	($)	(%)
Cash	146,479	195,846	(25)
Working capital	198,419	244,972	(19)
Funds flow from operations (1)	26,815	94,263	(72)
Capital expenditures (1)	12,856	50,811	(75)
As a % of funds flow (2)	47.9%	53.9%	(6)

(1) For the year ended.

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

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	($)	($)	($)	($)
Operating leases	15,472	15,414	4,823	35,709

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

At December 31, 2016, 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, 2016, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at December 31, 2016, there were 84.6 million common shares and 5.1 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.

Acquisition and Divestiture

Acquisition

Effective December 31, 2016, the Company purchased all of the existing and outstanding shares of Verdazo Analytics, Inc. (Verdazo), a company located in Calgary, Alberta, for total consideration of $12.3 million. The consideration is comprised of cash of $6.5 million and common shares of the Company of $5.8 million.

On December 31, 2016, the Company issued 67 common shares valued at $18.74 per share ($1.3 million). In January 2017, the Company paid $4.8 million of the cash portion owing. The remaining consideration is deferred over the next three years. The number of common shares issued on any particular date will be calculated based upon the prior twenty day volume weighted average price of the Company's common shares.

In accordance with IFRS 3, a portion of the deferred consideration payable is not considered part of the purchase price but is accounted for as future compensation expense. This amount, which will be accrued over the next three years, totals $4.2 million and is comprised of cash of $1.1 million and $3.1 million of common shares of the Company.

As a result, the acquisition cost for accounting purposes is $8.1 million of which $6.8 million is included in trade payables and accruals in the Consolidated Balance Sheets.

Verdazo offers discovery analytics which enables energy producers to make informed decisions on how to enhance production, improve operations, and increase overall profitability. Verdazo‘s clients include oil and gas producers, financial services companies, and energy services providers. Verdazo’s product contains powerful visual analysis tools, pre-built templates, and custom reports that work with multiple public and proprietary data sources. Discovery analytics is a sequence of explorations, each predicated on the discovery and insights of the last. The tool enables the user to take analyses wherever the data leads, powered by dynamic workflows that offer vast analytical possibilities. The addition of Verdazo’s strong analytics platform for oil and gas production and operations will complement the Company’s market leading drilling information ecosystem. By combining the two entities, the Company aims to provide customers with a holistic platform to analyze drilling, production, and operational data. In addition, Verdazo will be able to leverage the company’s established brand and footprint to grow into the US market.

Divestiture

During 2016, the Company initiated a review of its investment in 3PS, Inc. (3PS) due to the significant decline in capital spending in the markets 3PS serves, including the oil and gas drilling industry. In the fourth quarter of 2016 a final agreement was entered into for the sale of the net operating assets of 3PS, effective January, 2017. As a result of this divestiture, the Company recorded a non-cash impairment loss of $17.5 million in the fourth quarter of 2016, the majority of which is attributable to the write-down of goodwill that arose as a result of the initial acquisition of 3PS.

The net operating assets sold have been separately identified on the Consolidated Balance Sheets. Cash proceeds of $7.4 million were received in January, 2017. The remaining $0.8 million is held in escrow and will be released twelve months after closing in accordance with the terms of the escrow agreement.

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. Judgements and assessments are made to determine whether an event has occurred that indicates a possible impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year.

Stock-Based Payments

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

Income Taxes

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

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

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

Risk and Uncertainties

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

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

Operating Risks

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

Commodity Prices

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

Seasonality

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

Proprietary Rights

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

Litigation

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

Credit Risk

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

Availability of Qualified Personnel

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

Alternative Energies

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

International Operations

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

Foreign Exchange Exposure

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

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

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

Major Customers

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

Key Personnel

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

Dividends

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

Taxation

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

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

Information Security

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

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, 2016, our DC&P, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was effective.

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

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

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

An evaluation of the Company's ICFR was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2016, our ICFR, as defined in NI 52-109, was effective. There were no changes in our ICFR during the year ended December 31, 2016 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, 2016 and 2015.

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 the consolidated financial statements of Pason Systems Inc. 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 22, 2017

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, 2016 and 2015, and the consolidated statements of operations, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, 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 in our audits 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, 2016 and 2015, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

DELOITTE LLP

Chartered Professional Accountants

February 22, 2017
Calgary, Alberta

Consolidated Balance Sheets

As at	Note*	**December 31, 2016**	December 31, 2015
(CDN 000s)		**($)**	($)
Assets			
Current			
Cash and cash equivalents	13	**146,479**	195,846
Trade and other receivables	14,17	**50,721**	48,613
Prepaid expenses		**3,826**	3,719
Income taxes recoverable		**15,066**	17,468
Assets held for sale	8	**8,413**	—
Total current assets		**224,505**	**265,646**
Non-current			
Property, plant and equipment	6	**150,504**	201,436
Intangible assets and goodwill	7	**43,698**	57,643
Deferred tax assets	12	**16,544**	4,900
Total non-current assets		**210,746**	263,979
Total assets		**435,251**	529,625
Liabilities and equity			
Current			
Trade payables and accruals	16	**24,347**	18,454
Stock-based compensation liability	9	**1,516**	2,220
Liabilities held for sale	8	**223**	—
Total current liabilities		**26,086**	20,674
Non-current			
Stock-based compensation liability	9	**2,941**	3,059
Deferred tax liabilities	12	**16,656**	16,444
Onerous lease provision		**2,917**	—
Total non-current liabilities		**22,514**	19,503
Equity			
Share capital	9	**139,730**	128,067
Share-based benefits reserve		**23,026**	23,367
Foreign currency translation reserve		**69,443**	85,603
Retained earnings		**154,452**	252,411
Total equity		**386,651**	489,448
Total liabilities and equity		**435,251**	529,625
Commitments (Notes 18 and 19)			
Contingencies (Note 21)			

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

Approved by the Board of Directors

James B. Howe
Director

Judi Hess
Director

Consolidated Statements of Operations

Years Ended December 31,	Note*	**2016**	2015
(CDN 000s, except per share data)		**($)**	($)
Revenue		**160,446**	285,148
Operating expenses			
Rental services		**80,115**	120,445
Local administration		**9,720**	16,470
Depreciation and amortization	6,7	**55,384**	81,381
		145,219	218,296
Operating profit		**15,227**	66,852
Other expenses			
Research and development		**22,848**	31,733
Corporate services		**16,758**	20,040
Stock-based compensation	9	**6,195**	7,398
Other expenses	11	**27,533**	24,540
		73,334	83,711
Net loss before income taxes		**(58,107)**	(16,859)
Income taxes	12	**(17,486)**	(2,247)
Net loss		**(40,621)**	(14,612)
Net loss per share	10		
Basic		**(0.48)**	(0.17)
Diluted		**(0.48)**	(0.17)

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

Consolidated Statements of Other Comprehensive Income

Years Ended December 31,	**2016**	2015
(CDN 000s)	**($)**	($)
Net loss	**(40,621)**	(14,612)
Items that may be reclassified subsequently to net income:		
Foreign currency translation adjustment	**(16,160)**	52,796
Total comprehensive (loss) income	**(56,781)**	38,184

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, 2015		113,827	12,927	32,807	323,962	483,523
Net loss		—	—	—	(14,612)	(14,612)
Dividends	9	—	—	—	(56,939)	(56,939)
Other comprehensive income		—	—	52,796	—	52,796
Exercise of stock options	9	14,240	(3,171)	—	—	11,069
Expense related to vesting of options	9	—	1,938	—	—	1,938
Reclassification of equity settled options	9	—	11,673	—	—	11,673
Balance at December 31, 2015		128,067	23,367	85,603	252,411	489,448
Net loss		—	—	—	(40,621)	(40,621)
Dividends	9	—	—	—	(57,338)	(57,338)
Other comprehensive income		—	—	(16,160)	—	(16,160)
Exercise of stock options	9	10,413	(3,337)	—	—	7,076
Expense related to vesting of options	9	—	2,996	—	—	2,996
Shares issued pursuant to business acquisition	7	1,250	—	—	—	1,250
Balance at December 31, 2016		**139,730**	**23,026**	**69,443**	**154,452**	**386,651**

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

Consolidated Statements of Cash Flows

Years Ended December 31,	Note*	2016	2015
(CDN 000s)		**($)**	($)
Cash from (used in) operating activities			
Net loss		**(40,621)**	(14,612)
Adjustment for non-cash items:			
Depreciation and amortization		**55,384**	81,381
Impairment loss	7	**17,474**	26,555
Gain on sale of investment	11	**—**	(2,290)
Stock-based compensation	9	**6,195**	7,398
Non-cash restructuring costs		**4,833**	—
Deferred income taxes	12	**(13,944)**	(4,757)
Unrealized foreign exchange (gain) loss and other		**(2,506)**	588
Funds flow from operations		**26,815**	94,263
Movements in non-cash working capital items:			
(Increase) decrease in trade and other receivables		**(6,791)**	81,884
(Increase) decrease in prepaid expenses		**(193)**	2,384
Increase (decrease) in income taxes		**9,570**	(1,148)
Decrease in trade payables, accruals and stock-based compensation liability		**(3,940)**	(29,929)
Effects of exchange rate changes		**1,606**	2,052
Cash generated from operating activities		**27,067**	149,506
Income tax paid		**(7,425)**	(19,430)
Net cash from operating activities		**19,642**	130,076
Cash flows from (used in) financing activities			
Proceeds from issuance of common shares	9	**7,076**	9,576
Payment of dividends	9	**(57,338)**	(56,939)
Net cash used in financing activities		**(50,262)**	(47,363)
Cash flows (used in) from investing activities			
Additions to property, plant and equipment	6	**(10,492)**	(44,256)
Development costs	7	**(2,364)**	(6,555)
Cash acquired pursuant to business acquisition	7	**1,243**	—
Proceeds on disposal of investment and property, plant and equipment		**398**	3,962
Changes in non-cash working capital		**(1,253)**	(6,605)
Net cash used in investing activities		**(12,468)**	(53,454)
Effect of exchange rate on cash and cash equivalents		**(6,279)**	21,729
Net (decrease) increase in cash and cash equivalents		**(49,367)**	50,988
Cash and cash equivalents, beginning of year		**195,846**	144,858
Cash and cash equivalents, end of year	13	**146,479**	195,846

*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 were authorized for issue by the Board of Directors on February 22, 2017.

Basis of measurement

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.

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 used. 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 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 14).

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 relationships and technology	6 years
Non-compete agreements	5 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

Previously, the Company's stock option plan allowed 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 was recognized as compensation expense, over the 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 was calculated using the Black-Scholes option pricing model and the fair value was re-measured at each reporting period based upon the Company's share price.

In May 2015, the Company's shareholders approved a modification to the stock option plan, removing the ability for the option holder to settle options for cash. The fair value of options outstanding on this date was established and will be recognized over the remaining life of the options. Any future options granted will be valued at the grant date using the Black-Scholes option pricing model.

Compensation expense associated with the option plan is recognized as stock-based compensation expense over the vesting period of the respective plans with a corresponding increase in contributed surplus.

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, 2016

The Company did not adopt any new accounting standards in the year ended December 31, 2016.

Future accounting policy changes

IFRS 15, Revenue from Contracts with Customers, is required to be applied for years beginning on or after January 1, 2018 and supersedes existing standards and interpretations including IAS 18, Revenue. Management believes that given its current rental model and the contracts it enters into with its customers that this new standard will not have a material impact on the company's 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 the financial statements.

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

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

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

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

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

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

4. 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.

Assets held for sale

Assets and liabilities classified as held for sale are reported separately on the Consolidated Balance Sheets when their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. Judgment is used in determining what events and circumstances exist to support the determination of highly probable. Immediately prior to held for sale classification, assets and liabilities are re-measured at lower of net book value and fair value less costs to sell. Impairment losses on initial classification and subsequent gains or losses on re-measurement are recognized in net income (loss). Once classified as held for sale, amortization is no longer recorded on the assets. Assets and liabilities classified as held for sale, are presented separately from other assets.

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. Intra-group balances and transactions are eliminated.

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

Year Ended December 31, 2016	**Canada**	**United States**	**International**	**Total**
	($)	**($)**	**($)**	**($)**
Revenue	**46,200**	**90,967**	**23,279**	**160,446**
Rental services and local administration	**17,706**	**52,971**	**19,158**	**89,835**
Depreciation and amortization	**24,036**	**23,130**	**8,218**	**55,384**
Segment operating profit	**4,458**	**14,866**	**(4,097)**	**15,227**
Research and development				**22,848**
Corporate services				**16,758**
Stock-based compensation				**6,195**
Other expenses				**27,533**
Income taxes				**(17,486)**
Net loss				**(40,621)**
Capital expenditures	**1,465**	**11,667**	**(276)**	**12,856**
Goodwill	**1,284**	**7,850**	**2,600**	**11,734**
Intangible assets	**31,817**	**147**	**—**	**31,964**
Segment assets	**130,792**	**248,762**	**55,697**	**435,251**
Segment liabilities	**33,425**	**9,570**	**5,605**	**48,600**
Year Ended December 31, 2015				
Revenue	73,830	170,886	40,432	285,148
Rental services and local administration	30,128	77,822	28,965	136,915
Depreciation and amortization	36,998	33,330	11,053	81,381
Segment operating profit	6,704	59,734	414	66,852
Research and development				31,733
Corporate services				20,040
Stock-based compensation				7,398
Other expenses				24,540
Income taxes				(2,247)
Net income				(14,612)
Capital expenditures	22,308	20,337	8,166	50,811
Goodwill	—	25,611	2,600	28,211
Intangible assets	28,215	22	1,195	29,432
Segment assets	178,354	286,602	64,669	529,625
Segment liabilities	17,965	5,022	17,190	40,177

6. Property, Plant, and Equipment

	Spare Parts	Rental Equipment	Other	Total
	($)	($)	($)	($)
Property, plant and equipment				
Balance at January 1, 2015	10,310	514,383	69,762	594,455
Additions	20,169	18,757	5,330	44,256
Derecognition of assets	(1,300)	(63,286)	(14,734)	(79,320)
Parts consumed	(14,544)	10,685	—	(3,859)
Effects of exchange rate changes	1,179	53,105	670	54,954
Balance at December 31, 2015	15,814	533,644	61,028	610,486
Additions	8,368	1,005	1,119	10,492
Acquisitions	—	—	47	47
Derecognition of assets	—	(52,919)	(5,829)	(58,748)
Parts consumed	(10,090)	10,090	—	—
Assets held for sale	(3,377)	(219)	(6,239)	(9,835)
Effects of exchange rate changes	(574)	(18,822)	(1,374)	(20,770)
Balance at December 31, 2016	**10,141**	**472,779**	**48,752**	**531,672**
Depreciation and impairment losses				
Balance at January 1, 2015	—	322,409	37,702	360,111
Provisions	—	55,050	10,212	65,262
Derecognition of assets	—	(58,659)	(14,623)	(73,282)
Impairment loss	—	25,674	—	25,674
Effects of exchange rate changes	—	29,244	2,041	31,285
Balance at December 31, 2015	—	373,718	35,332	409,050
Provisions	—	34,231	7,126	41,357
Derecognition of assets	—	(51,627)	(4,850)	(56,477)
Impairment loss on leasehold improvements	—	—	1,150	1,150
Assets held for sale	—	(53)	(2,440)	(2,493)
Effects of exchange rate changes	—	(10,595)	(824)	(11,419)
Balance at December 31, 2016	**—**	**345,674**	**35,494**	**381,168**
Carrying Amounts				
At December 31, 2015	15,814	159,926	25,696	201,436
At December 31, 2016	**10,141**	**127,105**	**13,258**	**150,504**

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

Impairment of Rental Assets

In the third quarter of 2015, management concluded that drilling activity was likely to be at depressed levels for a longer period of time than originally anticipated in 2014 and this resulted in the company updating its assumptions on equipment usage. This review assumed an additional decline in rig activity of approximately forty-five percent from the year-end 2014 assumptions. Product adoption was updated to current rates. This review resulted in the Company identifying additional excess equipment. The net book value of this additional excess equipment, totaling $26,555, of which $7,683 related to the Canadian operating segment and $18,872 related to the US operating segment, was recorded as a non-cash impairment loss in the third quarter of 2015 and was included in other expenses in the Consolidated Statement of Operations.

Derecognition of Assets

Included in the amounts recorded as derecognition of assets in the above table are the costs and accumulated depreciation of fully depreciated assets that have been removed the Company's books. In 2016 these amounts were $23,889 (2015: $21,319)

Included in depreciation and amortization expense are losses on the derecognition of assets and spare parts obsolescence reserves in the amount of $2,279 (2015: $6,038) for the year-ended December 31, 2016.

7. Intangible Assets

	Goodwill	Research & Development	Technology	Customer Relationships	Other	Total
	($)	($)	($)	($)	($)	($)
Intangible assets						
Balance at January 1, 2015	24,624	61,619	10,673	18,034	7,682	122,632
Internally developed	—	8,099	—	—	1,843	9,942
Investment tax credits received	—	(1,544)	—	—	—	(1,544)
Additions	—	—	—	—	991	991
Dispositions	—	—	—	—	(1,564)	(1,564)
Derecognition of assets	—	(32,514)	(11,765)	(7,673)	(4,663)	(56,615)
Effects of exchange rate	4,254	211	1,092	849	(35)	6,371
Balance at December 31, 2015	28,878	35,871	—	11,210	4,254	80,213
Internally developed	—	4,506	—	—	271	4,777
Investment tax credits received	—	(1,994)	—	—	—	(1,994)
Additions as part of business acquisition	1,284	642	2,842	4,726	728	10,222
Impairment loss	(17,189)	—	—	—	—	(17,189)
Effects of exchange rate	(542)	19	—	(743)	(35)	(1,301)
Balance at December 31, 2016	**12,431**	**39,044**	**2,842**	**15,193**	**5,218**	**74,728**
Amortization						
Balance at January 1, 2015	553	31,692	9,361	13,749	5,209	60,564
Amortization	—	11,849	1,510	2,339	1,196	16,894
Impairment loss	—	—	524	357	—	881
Derecognition of assets	—	(32,514)	(11,765)	(7,673)	(4,663)	(56,615)
Effects of exchange rate	114	268	370	840	(746)	846
Balance at December 31, 2015	667	11,295	—	9,612	996	22,570
Amortization	—	6,590	—	1,620	914	9,124
Effects of exchange rate changes	30	5	—	(765)	66	(664)
Balance at December 31, 2016	**697**	**17,890**	**—**	**10,467**	**1,976**	**31,030**
Carrying amounts						
At December 31, 2015	28,211	24,576	—	1,598	3,258	57,643
At December 31, 2016	**11,734**	**21,154**	**2,842**	**4,726**	**3,242**	**43,698**

Other intangible assets include mostly software costs and equity interest in a joint venture.

Acquisition of Verdazo Analytics Inc.

Effective December 31st, 2016, the Company purchased all of the existing and outstanding shares of Verdazo Analytics, Inc. (Verdazo), a company located in Calgary, Alberta, for total consideration of $12,275. The consideration is comprised of cash of $6,525 and Common Shares of the Company of $5,750. The number of common shares issued on any particular date will be calculated based upon the prior twenty day volume weighted average price of the Company's common shares.

On December 31, 2016, the Company issued 67 Common Shares valued at $18.74 per share ($1,250). In January 2017, the Company paid $4,750 of the cash portion owing. The remaining consideration is deferred over the next three years.

In accordance with IFRS 3, a portion of the deferred consideration payable is not considered part of the purchase price but is accounted for as future compensation expense. This amount, which will be accrued over the next three years, totals $4,201 and is comprised of cash of $1,050 and $3,151 of Common Shares of the Company.

As a result, the acquisition cost for accounting purposes is $8,074, of which $6,824 is owing at December 31, 2016 and this amount is included in trade payables and accruals in the Consolidated Balance Sheets.

The acquisition of Verdazo represents a complimentary service line to the Company's drilling information ecosystem and is part of the long term strategy of providing customers with a holistic platform to analyze drilling, production, and operational data.

The acquisition was recognized as a business combination in accordance with IFRS 3 Business Combinations. The preliminary allocation of the components of total consideration to the net assets acquired is as follows:

Net assets acquired	
Goodwill	1,284
Customer relationships	4,726
Trademarks/Trade names	642
Technology	2,842
Non-compete Agreements	728
Corporate assets	47
Net working capital	308
Deferred income taxes	(2,503)
Total net assets acquired	**8,074**
Consideration	
Cash	5,025
Deferred consideration	1,799
Common shares issued	1,250
Total Consideration paid	**8,074**

Identifiable intangible assets were valued using commonly accepted valuation methodologies. Goodwill is the residual amount.

The acquisition is included in the Canadian business segment. Its results of operations will be included in the consolidated financial statements starting January 1, 2017. The fair value of the non-cash working capital acquired approximates its book value. The acquisition includes a non-compete agreement with the former owners of Verdazo, the value of which is included in the purchase price allocation as an intangible asset. The intangible assets acquired have no tax basis resulting in a deferred tax liability of $2,503 million being recorded in respect of the related temporary difference.

Acquisition costs incurred were expensed during the period.

Had the acquisition occurred on January 1, 2016, the acquisition would have contributed $3,198 of revenue and net income of $470.

Disposal

During the first quarter of 2015, the Company disposed of its investment in a small, privately held company and realized a gain of $2,290.

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, 2016 and 2015, 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:

	Canada	United States	International
	(%)	(%)	(%)
Budgeted EBITDA margin	80	60	31
Weighted average growth rate	13	18	5
Terminal growth rate	2.0	2.0	2.0
Pre-tax discount rate	13	13	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. Assets Held for Sale

During 2016, the Company initiated a review of its investment in 3PS, Inc. (3PS) due to the significant decline in capital spending in the markets 3PS serves, including the oil and gas drilling industry. In the fourth quarter of 2016 a final agreement was entered into for the sale of the net operating assets of 3PS, effective January 1, 2017.

The cash proceeds totaled $8,190. As a result of this divestiture, the Company recorded a non-cash impairment loss of $17,474 in the fourth quarter of 2016, the majority of which is attributable to the write-down of goodwill that arose as a result of the initial acquisition of 3PS. 3PS was included in the United States CGU.

The net operating assets sold have been separately identified on the Consolidated Balance Sheets. Cash proceeds of $7,356 were received in January, 2017. The remaining $834 is held in escrow and will be released twelve months after closing in accordance with the terms of the escrow agreement.

Included in Foreign Currency Translation Reserve on the Consolidated Balance Sheets at December 31,2016 is $7,558 relating to the net operating assets of 3PS.

	December 31,2016
Trade and other receivables	1,071
Property plant and equipment	7,342
Total Assets held for Sale	**8,413**
Trade and other payables	223
Total liabilities held for sale	**223**

9. Share Capital

		Common Shares			
Years Ended December 31,	**note**		**2016**		2015
		($)	**(#)**	($)	(#)
Balance, beginning of year		**128,067**	**84,063**	113,827	83,363
Exercise of stock options		**10,413**	**498**	14,240	700
Shares issued pursuant to business acquisition	**7**	**1,250**	**67**	—	—
Balance, end of year		**139,730**	**84,628**	128,067	84,063

Common shares

At December 31, 2016, 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, 2016, 5,075 (2015: 4,862) stock options were outstanding for common shares at exercise prices ranging from $13.35 to $27.96 per share, expiring between 2017 and 2021 as follows:

	December 31, 2016		December 31, 2015	
	Share Options	**Weighted Average Exercise Price**	Share Options	Weighted Average Exercise Price
	(#)	**($)**	(#)	($)
Outstanding, beginning of year	**4,862**	**21.77**	4,492	21.06
Granted	**1,554**	**15.96**	1,400	20.61
Equity settled	**(497)**	**14.22**	(700)	13.63
Expired or forfeited	**(844)**	**23.03**	(330)	24.53
Outstanding, end of year	**5,075**	**20.53**	4,862	21.77
Exercisable, end of year	**2,483**	**20.32**	2,221	20.32
Available for grant, end of year	**849**		1,022	

The following table summarizes information about stock options outstanding at December 31, 2016:

		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**
($)	**(#)**	**(Years)**	**($)**	**(#)**	**($)**
13.35 – 16.31	**1,546**	**4.89**	**15.92**	**8**	**13.35**
16.32 – 22.60	**1,579**	**3.03**	**19.43**	**854**	**18.47**
22.61 – 27.96	**1,950**	**3.45**	**25.03**	**1,621**	**24.70**
	5,075	**3.49**	**20.53**	**2,483**	**20.32**

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

Weighted average assumptions for options granted in the year are as follows:

Years Ended December 31,	**2016**	2015
Fair value of stock options ($)	**2.88**	3.45
Forfeiture rate (%)	**11.62**	11.33
Risk-free interest rate (%)	**0.76**	0.68
Expected option life (years)	**3.13**	3.11
Expected volatility (%)	**35.5**	31.2
Expected annual dividends per share (%)	**4.27**	3.29

Restricted share units plan

At December 31, 2016, 262 (2015: 289) 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 $1,371 (2015: $2,921) 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,	2016	2015
	(#)	(#)
RSUs, beginning of year	**289**	461
Granted	**165**	125
Vested and paid	**(138)**	(250)
Forfeited	**(54)**	(47)
RSUs, end of year	**262**	289

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 120 DSUs credited as at December 31, 2016 (2015: 110). Stock-based compensation expense arising from the DSU plan of $527 (2015: $540) 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,	2016	2015
	(#)	(#)
DSUs, beginning of year	**110**	72
Credited	**28**	38
Vested and paid	**(18)**	—
DSUs, end of year	**120**	110

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 3,521 PSUs outstanding at December 31, 2016 (2015: 4,050). Stock-based compensation expense arising from the PSU plan of $1,301 (2015: $2,052) 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,	2016	2015
	(#)	(#)
PSUs, beginning of year	**4,050**	2,870
Granted	**2,170**	2,416
Vested and paid	**(1,504)**	(957)
Forfeited	**(1,195)**	(279)
PSUs, end of year	**3,521**	4,050

Stock-based compensation expense and liability

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

Expense

Years Ended December 31,	**2016**	2015
	($)	($)
Stock options	**2,996**	1,885
RSUs	**1,371**	2,921
DSUs	**527**	540
PSUs	**1,301**	2,052
Stock-based compensation expense	**6,195**	7,398

Liability

As at	**December 31, 2016**	December 31, 2015
	($)	($)
RSUs	**867**	1,641
PSUs	**649**	579
Current portion of stock-based compensation liability	**1,516**	2,220
RSUs	**306**	333
DSUs	**2,348**	2,124
PSUs	**287**	602
Long-term portion of stock-based compensation liability	**2,941**	3,059
Total stock-based compensation liability	**4,457**	5,279

Incentive plan liabilities

In May 2015, shareholders approved a modification of the Option Plan to eliminate the ability for the option holder to settle options for cash. As a result of this change;

- The grant date fair value, which is still calculated using the Black-Scholes option pricing model, is no longer revalued at the end of each reporting period, and
- The stock-based compensation liability of $11,673 ($10,877 recorded as a current liability and $796 recorded as a non-current liability) relating to the stock options was reclassified to Share-based Benefits Reserve. This reclassification was recorded in the second quarter of 2015.

Common share dividends

During 2016, the Company declared dividends of $57,338 (2015: $56,939) or $0.68 per common share (2015: $0.68).

Normal course issuer bid (NCIB)

During the first quarter of 2015, the Company implemented a NCIB program. Under the NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 6,022 common shares, which represents 10% of the public float.

The actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 52 common shares.

The NCIB commenced on March 6, 2015 and expired on March 5, 2016. The Company did not purchase any shares for cancellation.

10. 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,	2016	2015
('000s)	(#)	(#)
Issued common shares outstanding, beginning of year	**83,675**	83,363
Effect of exercised options	**690**	312
Weighted average number of common shares for the year	**84,365**	83,675

For the year ended December 31, 2016, 497 (2015: 700) common shares were issued as a result of the exercise of vested options. Options were exercised at an average price of $14.22 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,	2016	2015
('000s)	(#)	(#)
Weighted average number of common shares (basic)	**84,365**	83,675
Effect of share options	**—**	—
Weighted average number of common shares (diluted)	**84,365**	83,675

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.

11. Other Expenses

Years Ended December 31,	Note	2016	2015
		($)	($)
Foreign exchange gain		**(1,943)**	(3,104)
Impairment loss	6,8	**17,474**	26,555
Gain on sale of investment		**—**	(2,290)
Restructuring costs		**10,861**	3,596
Other (1)		**1,141**	(217)
Other expenses		**27,533**	24,540

(1) Certain expenses previously recorded in Other Expenses are now included as Rental Services to better reflect the nature of such expenses. The 2015 comparative figure have been reclassified by $2,899 to conform with the 2016 presentation.

In the first quarter of 2016, the Company initiated additional cost reduction initiatives to address the prolonged downturn in oil and gas drilling activity. These actions included further staff reductions and office space consolidation. As a result, the Company recorded a restructuring charge of $10,861, which is comprised of $6,028 for employee termination and other staff related costs, an onerous lease obligation charge of $3,682, which is calculated at the present value of the expected net cost of continuing with the lease after adjusting for anticipated sublease rentals, and the write-off of leasehold improvements and other related costs totaling $1,151.

During 2015 the Company reduced its staffing levels and recorded a restructuring charge of $3,596, the majority of which related to severance payments.

In 2015 the Company disposed of its investment in a small privately held company and realized a gain of $2.3 million.

12. Income Tax

The major components of income tax expense are as follows:

Years Ended December 31,	2016	2015
	($)	($)
Current tax expense	(3,542)	2,510
Deferred tax expense	(13,944)	(4,757)
Total tax recovery	(17,486)	(2,247)

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 27% for 2016 and 26.5% for 2015. 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,	2016	2015
	($)	($)
Income before income taxes	(58,107)	(16,859)
Expected income tax at statutory rate	(15,689)	(4,468)
Increase (decrease) resulting from:		
Tax rates in other jurisdictions	(4,906)	1,828
Non-taxable dividends	(4,849)	(4,711)
Non-deductible portion of stock-based compensation	639	(86)
Unrealized foreign exchange gain on inter-company financing	(1,170)	6,695
Prior years reassessments and adjustments	2,236	(871)
Impairment of goodwill with no tax basis	6,471	—
Non-taxable items not deductible for tax purposes and other items	(218)	(634)
Income tax recovery	(17,486)	(2,247)

Deferred tax assets and liabilities are comprised of the following:

As at December 31,	2016	2015
	($)	($)
Tax loss carry-forwards	30,485	21,742
Inter-company transactions	5,166	3,095
Share-based payments	2,257	1,973
Other	(5,195)	(7,370)
Property, plant and equipment	(27,523)	(28,338)
Intangible assets	(5,302)	(2,646)
	(112)	(11,544)
Deferred tax asset	16,544	4,900
Deferred tax liability	(16,656)	(16,444)
	(112)	(11,544)

Other is comprised mostly of an unrealized foreign exchange gain on inter-company financing.

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	Other	Property, plant and equipment	Intangible assets	Total
	($)	($)	($)	($)	($)	($)	($)
January 1, 2015	16,153	5,304	1,520	(1,982)	(33,853)	(3,584)	(16,442)
Recognized in income	2,284	(2,986)	453	(5,966)	9,934	1,038	4,757
Exchange differences	3,305	777	—	578	(4,419)	(100)	141
December 31, 2015	21,742	3,095	1,973	(7,370)	(28,338)	(2,646)	(11,544)
Recognized in income	9,321	2,059	287	2,247	183	(153)	13,944
Business acquisition	—	—	—	—	—	(2,503)	(2,503)
Exchange differences	(578)	12	(3)	(72)	632	—	(9)
December 31, 2016	**30,485**	**5,166**	**2,257**	**(5,195)**	**(27,523)**	**(5,302)**	**(112)**

The Company has available US net operating losses of USD $55,985, the benefit of which has been recognized in the Consolidated Financial Statements. These losses can be used to reduce future income taxes otherwise payable and expire between 2028 and 2035.

The Company has in its International business segment $6,870 of timing differences relating to inter-company transactions that have been accrued for but are not deductible for tax purposes until paid, which no deferred tax asset has been recognized. Deferred tax assets are only recognized to the extent that it is probable that the inter-company payments can be made and be deducted for tax purposes.

13. Cash and Cash Equivalents

As at December 31,	2016	2015
	($)	($)
Cash	55,317	92,649
Cash equivalents	91,162	103,197
Cash and cash equivalents	146,479	195,846

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 17. 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.

14. Trade and Other Receivables

As at December 31,	2016	2015
	($)	($)
Trade receivables, net of allowances for doubtful accounts	48,483	45,307
Other receivables	2,238	3,306
	50,721	48,613

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 17.

15. Credit Facility

The Company has a $5,000 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.

16. Trade Payables and Accruals

As at December 31,	Note	2016	2015
		($)	($)
Trade payables		**4,301**	8,403
Non-trade payables and accrued expenses		**13,222**	10,051
Amount owing on business acquisition	7	**6,824**	—
		24,347	18,454

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 17.

The amounts owing on the business acquisition will be settled in cash ($5,475) and the issuance of common shares of the Company ($1,349). The number of common shares issued on any particular date will be calculated based upon the prior twenty day volume weighted average price of the Company's common shares.

17. 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,	**2016**	2015
	($)	($)
Trade and other receivables, net of allowance for doubtful accounts	**50,721**	48,613

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

As at December 31,	**2016**	2015
	($)	($)
Canada	**10,150**	13,518
United States	**31,681**	20,804
International	**8,890**	14,291
	50,721	48,613

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,		**2016**		2015
	Gross	**Allowance**	Gross	Allowance
	($)	**($)**	($)	($)
Current	**39,745**	**—**	39,098	—
31–60 days	**8,221**	**(3)**	6,926	(3)
61–90 days	**2,509**	**(59)**	2,411	(14)
Greater than 90 days	**5,027**	**(4,719)**	5,670	(5,475)
	55,502	**(4,781)**	54,105	(5,492)

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,	2016	2015
	($)	($)
Opening balance	5,492	4,739
Additions to provision	564	1,033
Accounts collected, previously allowed for	26	(47)
Write-off of uncollectible accounts	(1,181)	(543)
Effects of exchange rate changes	(120)	310
Ending balance	4,781	5,492

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, 2016						
	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	17,523	17,523	17,523	—	—	—	—
Amounts owing on business acquisition	6,824	6,824	5,025	1,799			
Stock-based compensation	5,279	5,279	2,220	—	3,059	—	—
	29,626	29,626	24,768	1,799	3,059	—	—

For trade payables and accruals and amounts owing on business acquisition, 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 is as follows:

As at December 31,	2016	2015
	USD	USD
Cash	**91,839**	104,834
Trade and other receivables	**23,920**	17,973
Trade payables, accruals and other provisions	**(5,511)**	(5,314)
Balance sheet exposure	**110,248**	117,493
CDN$ Equivalent	**148,030**	162,610

(a) Sensitivity analysis

A strengthening of the Canadian dollar against the US dollar by 1% at December 31, 2016 would have decreased net income and equity for the year by $379 and $4,516, 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, 2016 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, 2016**
	($)	($)	($)	**($)**
Cash and cash equivalents	**146,479**	—	—	**146,479**
Total financial assets at fair value	**146,479**	—	—	**146,479**

(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.

18. Operating Commitments

Non-cancellable operating lease rentals and committed purchases of services are payable as follows:

As at December 31,	**2016**	2015
	($)	($)
Less than one year	**15,472**	17,722
Between one and three years	**15,414**	28,297
More than three years	**4,823**	8,667
	35,709	54,686

Contractual obligations relate to minimum future payments required primarily for telecommunication charges and operating leases for certain facilities and vehicles. The amounts above do not include the payments owing on the lease of the Company's previous Golden, Colorado office which was closed and sub-leased out in 2016. The Company has recorded an onerous lease obligation on the Consolidated Balance Sheets for this lease which is calculated at the present value of the expected net cost of continuing with the lease after adjusting for anticipated sublease rentals.

19. Capital Commitments

At December 31, 2016, the Group has entered into contracts to purchase property, plant, and equipment for $6,628 (2015: $14,744), the majority of which relates to the purchase of rental assets in the normal course of business.

20. 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 9).

Executive management personnel and director compensation is comprised of:

Years Ended December 31,	2016	2015
	($)	($)
Compensation, including bonuses	**2,982**	3,725
Share-based payments	**2,952**	3,795
	5,934	7,520

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 13% of the voting shares of the Company. No balances are owing from any employees or directors.

21. Contingencies

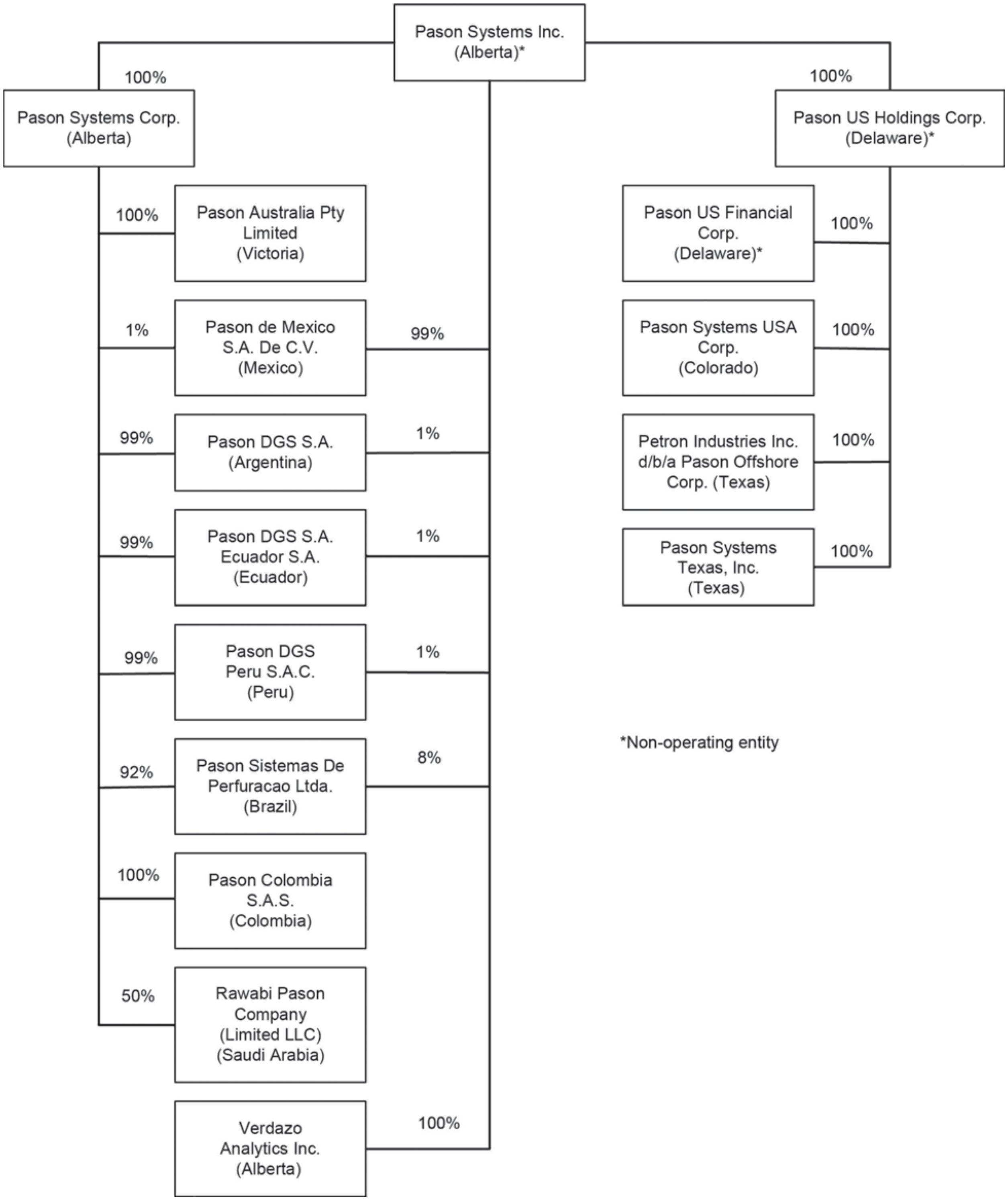
A US subsidiary of the Company is currently involved in a Fair Labour Standards Act collective action ("FLSA") lawsuit. The parties are readying themselves for depositions and mandatory mediation. The Texas court has indicated that if litigation is to proceed, the court proceedings would occur in August of this year. Other claims and litigation that the Company is involved in arise in the normal course of business. The outcome of the FLSA matter and the normal course legal matters are uncertain and there can be no assurances that such matters will be resolved in Pason's favour, however, 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.

22. Events After the Reporting Period

On January 4, 2017, the cash proceeds relating to the 3PS assets held for sale, totaling $7,356, were received.

On February 22, 2017, 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, 2017 to shareholders of record at the close of business on March 16, 2017.

23. Organizational Structure



Corporate Information

Directors

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

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

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

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

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

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

Officers & Key Personnel

Marcel Kessler
President
& Chief Executive Officer

Jon Faber
Chief Financial Officer

David Elliott
Vice President, Finance

Timur Kuru
President and General Manager – United States

Bryce McLean
General Manager, Operations – Canada

Russell Smith
Vice President, Operations – International & Offshore

Ryan Van Beurden
Vice President, Rigsite Research & Development

Lars Olesen
Vice President, Product Management

Kevin Boston
Vice President, Sales & Business Development

Kevin Lo
Vice President, New Ventures

Melinda Ando
General Counsel & Corporate Secretary

Corporate Head Office

Pason Systems Inc.
6130 Third Street SE
Calgary, Alberta
T2H 1K4
T: 403-301-3400
F: 403-301-3499
InvestorRelations@pason.com
www.pason.com

Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI.TO

Eligible Dividend Designation

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

Annual Meeting

Shareholders are also invited to attend the Company's Annual Meeting on Wednesday, May 3, 2017, at 3:30pm at the offices of Pason Systems Inc., 6120 Third Street SE, Calgary, Alberta.

Historical Review

Selected Financial Data

Years Ended December 31,

	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
(CDN 000s, except per share data)	**($)**	($)	($)	($)	($)	($)	($)	($)	($)	($)
Operating Results										
Revenue	**160,446**	285,148	499,272	403,088	386,514	346,158	260,397	153,823	300,484	236,439
Expenses										
Rental services	**80,115**	120,445	153,151	134,874	125,269	113,568	94,299	72,428	106,600	83,058
Corporate services	**16,758**	20,040	22,243	17,373	15,723	12,975	17,770	11,611	13,250	12,708
Research and development	**22,848**	31,733	35,427	27,252	22,467	17,366	16,472	13,140	12,888	9,566
Stock-based compensation	**6,195**	7,398	19,471	32,511	23,792	1,309	11,233	5,684	7,525	5,248
Depreciation and amortization	**55,384**	81,381	69,201	62,171	68,213	58,565	49,108	55,842	55,719	42,797
EBITDA(1)	**3,472**	71,920	251,623	136,647	151,753	171,661	110,867	46,651	144,883	128,088
As a % of revenue	**2.2**	25.2	50.4	33.9	39.3	49.6	47.1	32.0	49.5	54.2
Funds flow from operations	**26,815**	94,263	224,204	134,930	158,948	145,358	93,973	41,354	124,726	103,766
Per share – basic	**0.32**	1.13	2.71	1.64	1.94	1.78	1.15	0.51	1.53	1.30
(Loss) income	**(40,621)**	(14,612)	112,104	23,655	39,884	86,223	36,474	(5,510)	61,321	55,052
Per share – basic	**(0.48)**	(0.17)	1.36	0.29	0.49	1.05	0.45	(0.07)	0.75	0.69
Capital expenditures	**12,856**	50,811	121,188	70,664	71,424	78,357	50,164	21,493	56,292	76,615
Financial Position										
Total assets	**435,251**	529,625	570,066	445,876	488,378	455,901	402,082	354,273	427,016	302,593
Working capital	**198,419**	244,972	206,571	127,933	163,371	126,605	105,815	108,113	152,337	77,806
Total equity	**386,651**	489,448	483,523	366,469	368,696	367,269	309,684	308,335	354,589	270,717
Return on total equity %(2)	**(9)**	(3)	26	6	11	25	12	(2)	20	22
Common Share Data										
Common shares outstanding (#)										
At December 31	**84,628**	84,063	83,363	82,158	82,049	81,904	81,714	81,487	81,456	80,346
Weighted average	**84,365**	83,675	82,647	82,098	81,968	81,851	81,525	81,476	81,426	79,586
Share trading										
High ($)	**20.29**	23.10	35.51	23.77	18.12	16.53	14.82	14.45	18.40	17.93
Low ($)	**14.46**	16.51	20.82	15.74	12.04	11.53	10.31	8.26	8.00	11.51
Close ($)	**19.64**	19.39	21.89	22.98	17.15	12.00	13.96	11.65	14.05	12.49
Volume (#)	**42,898**	37,476	37,538	24,105	25,053	24,658	23,793	28,605	36,505	34,560
Dividends ($)	**0.68**	0.68	0.64	0.53	0.46	0.38	0.33	0.26	0.22	0.16

(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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