



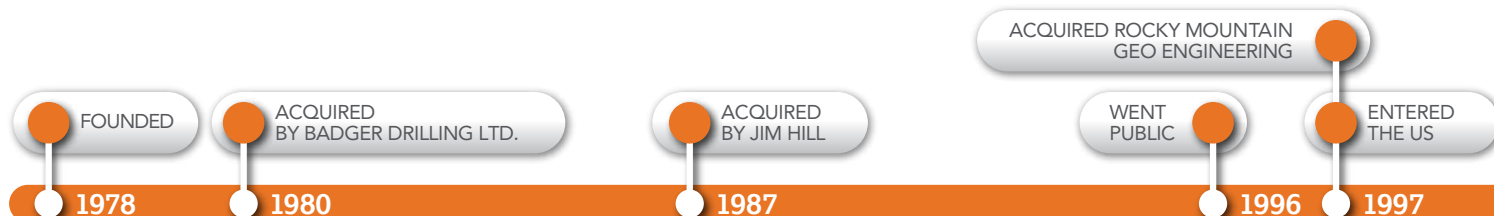
INNOVATING FOR OVER 40 YEARS

40th



PASON SYSTEMS INC. ANNUAL REPORT

PASON GLOBAL PRESENCE





MISSION STATEMENT

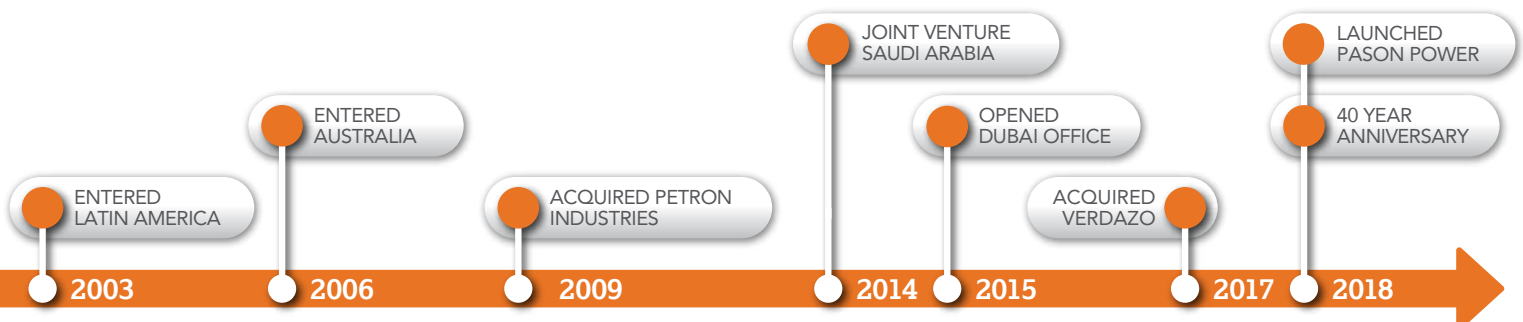
Pason provides technologies and services that improve the effectiveness, efficiency, and safety of drilling operations in challenging operating environments worldwide. Our simple-to-use, innovative, and rig-tough technologies enable effective collaboration between the field and the office and are supported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

QUICK FACTS

- Headquartered in Calgary, Alberta.
- 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.

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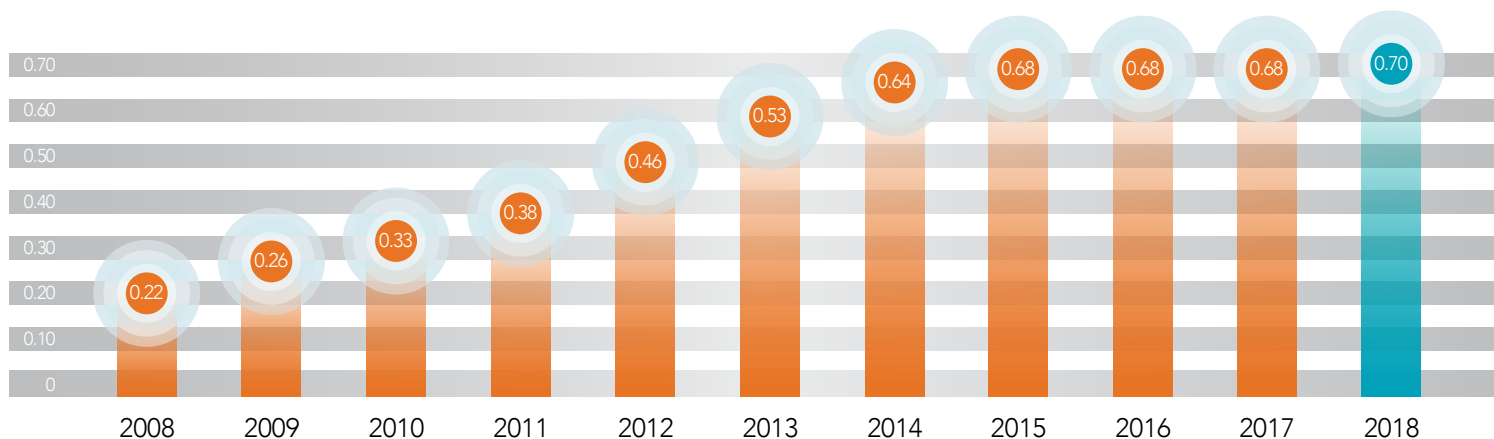


FINANCIALS AT A GLANCE 2018

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

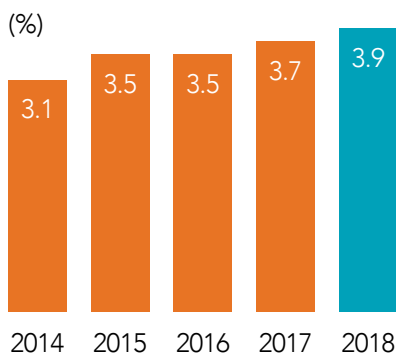
SHAREHOLDER RETURNS

DIVIDENDS PER SHARE (\$)



\$86
MILLION
IN FREE CASH FLOW

DIVIDEND YIELD*

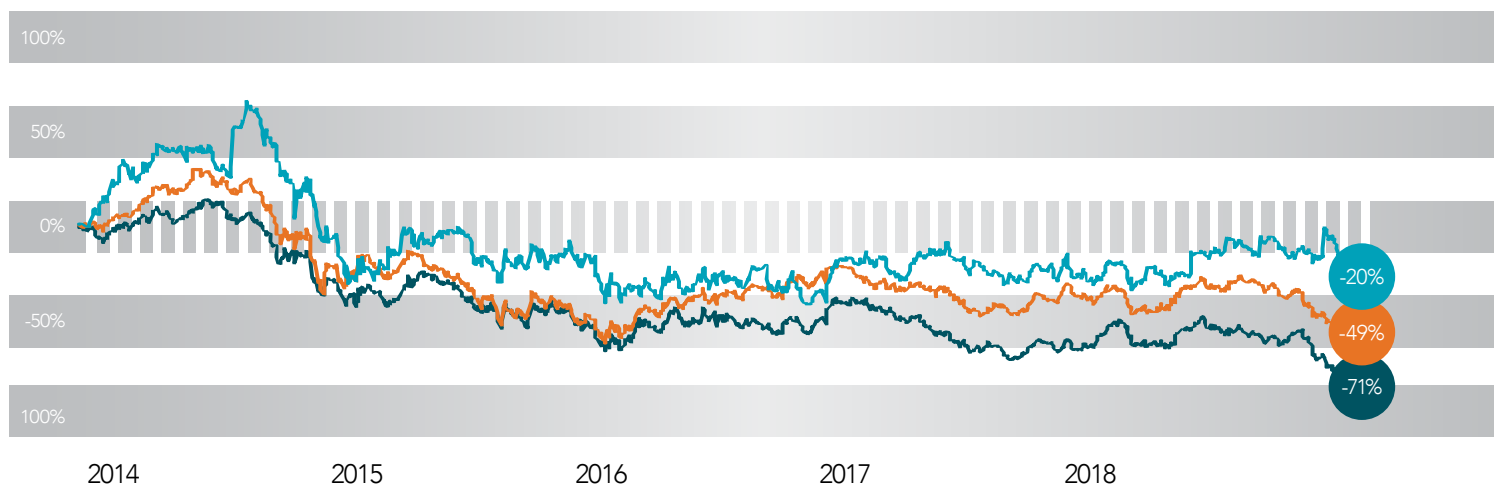


* At year end.

\$60
MILLION
DIVIDENDS PAID IN 2018

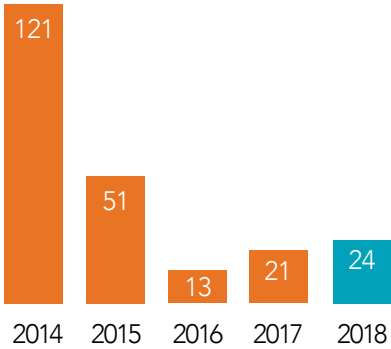
SHARE PRICE PERFORMANCE

PSI — Pason Systems Inc.
SPTTEN — TSX Capped Energy Index
OSX — PHLX Oil Service Index

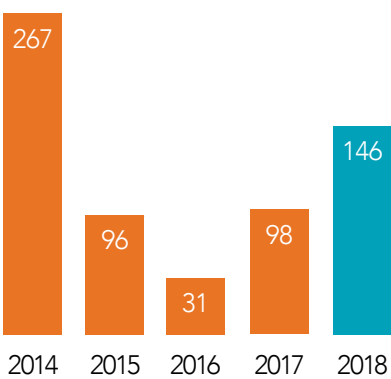


KEY FINANCIAL METRICS

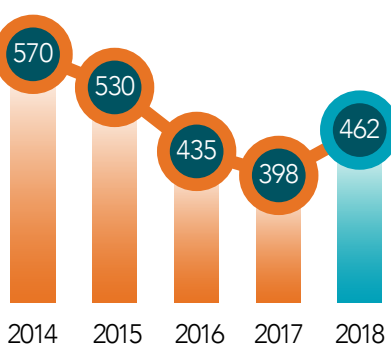
CAPEX (\$MILLIONS)



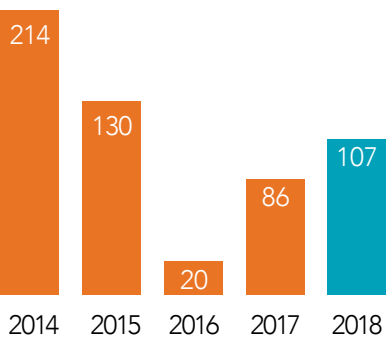
ADJUSTED EBITDA (\$MILLIONS)



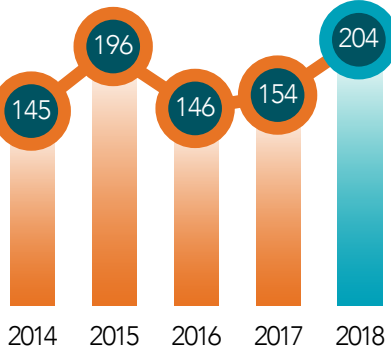
TOTAL ASSETS (\$MILLIONS)



CASH FROM OPERATING ACTIVITIES (\$MILLIONS)

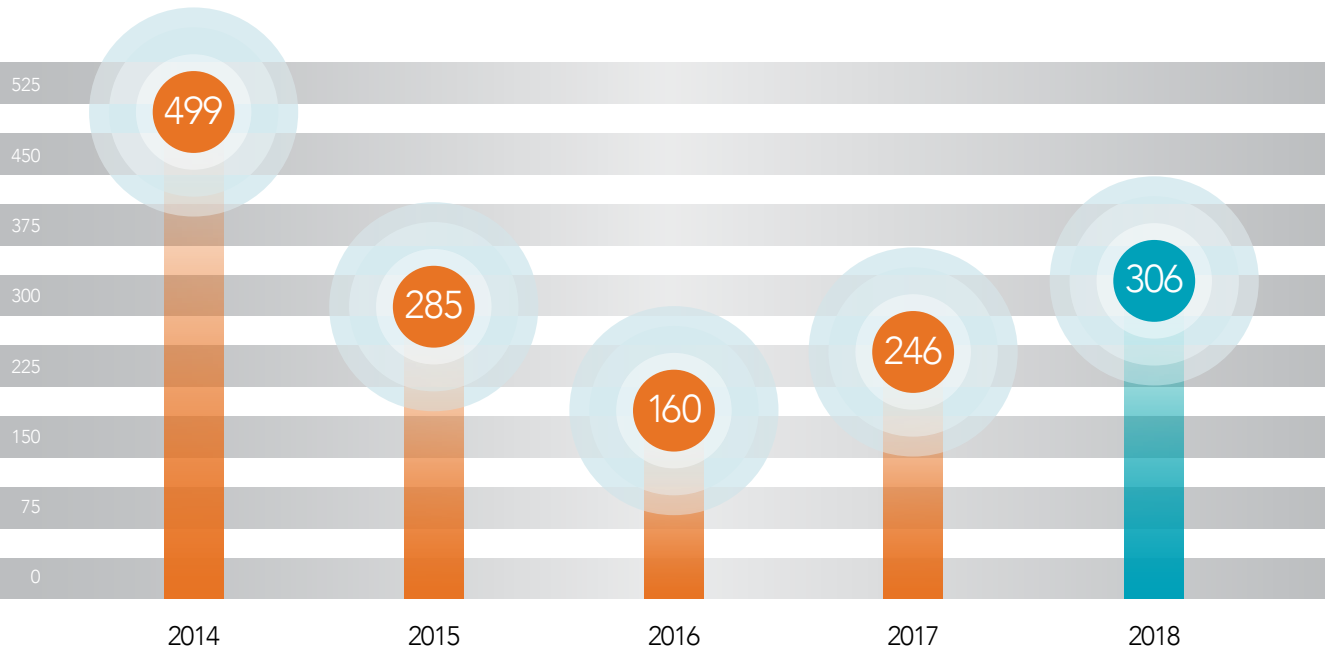


CASH BALANCE (\$MILLIONS)
No Debt



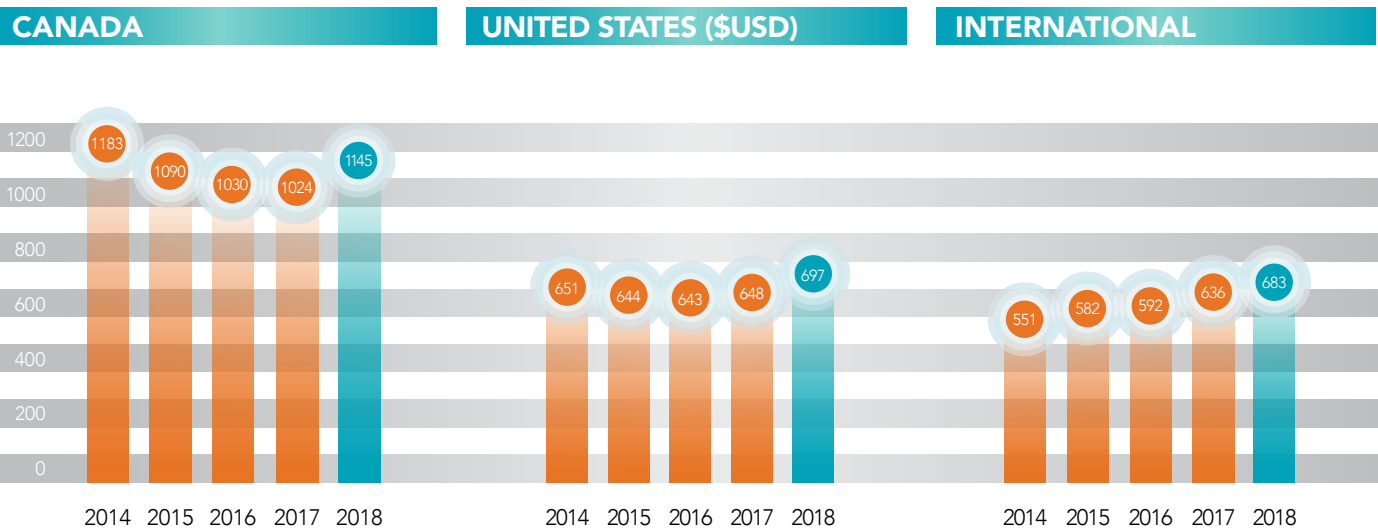
\$146
MILLION
ADJUSTED EBITDA

TOTAL REVENUE (\$MILLIONS)

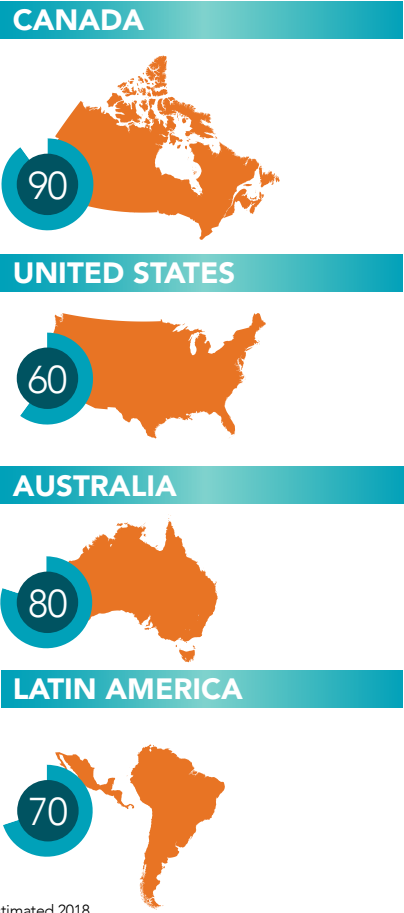


KEY OPERATIONAL METRICS

RENTAL REVENUE PER EDR DAY (\$)

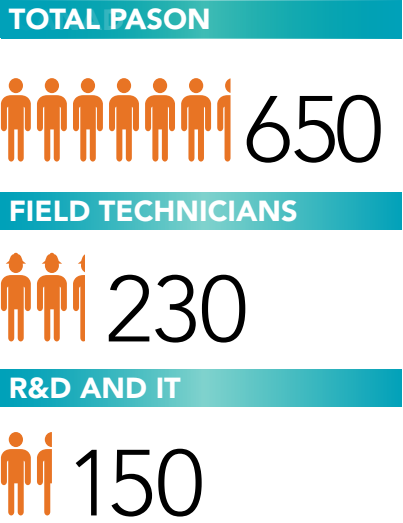


EDR MARKET SHARE* (%)

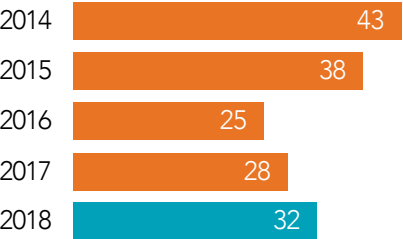


*Estimated 2018.

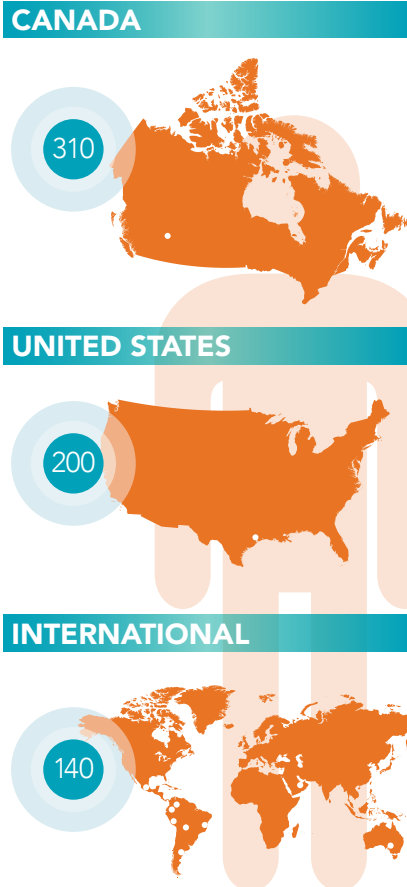
EMPLOYEE HEADCOUNT



ANNUAL R&D SPEND (\$MILLIONS)



EMPLOYEE HEADCOUNT BY REGION



INNOVATING FOR 40 YEARS

Throughout the last 40 years, Pason has remained in the forefront of technology, developing innovative products and continually evolving our product and service offerings to meet changing customer and industry needs. And, we will continue to innovate into the future.

RIG SITE DATA MANAGEMENT & FIELD SERVICE

JOHANA GRANDE
TEAM LEAD, TECHNICAL SUPPORT

"Over the years, we've made a lot of progress with the way we support our customers. We continue to move toward a more proactive approach to help resolve issues before our customers even notice a problem."



SEAMLESS COLLABORATION BETWEEN THE RIG & THE OFFICE

JULIE JOHNSTONE
SOFTWARE DEVELOPER

"Pason's willingness to try new technologies gives me the opportunity to use what is new and relevant in the industry and, at the same time, offer the best solution to our customers."

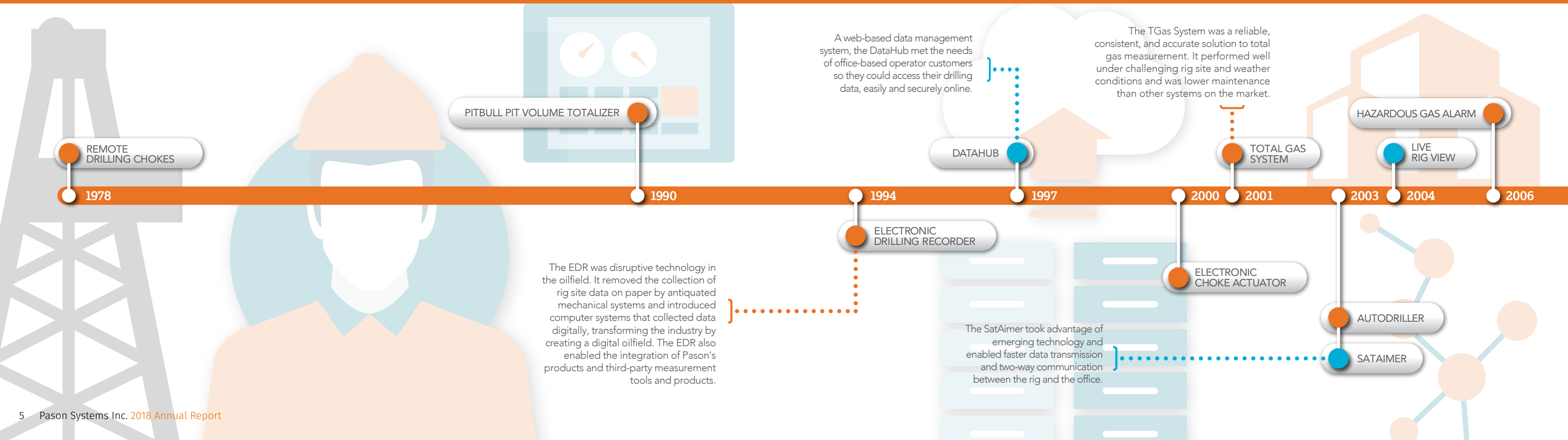


Pason revolutionized the drilling industry with a simple, integrated approach to data management at the rig site. Our ability to acquire, manage, report, and analyze data at the rig site enabled customers to manage their data like never before.

Pason's expertise building rig-tough and easy-to-use rig site products and offering best-in-class field service are as important today as they were 40 years ago.

As rig site data management improved and evolved, Pason began receiving requests from operator customers for data from rig site operations. In response, Pason developed solutions to enhance collaboration between the rig and the office.

Pason enabled customers to access remote rig site operations data from the office. As mobile device technology gained popularity, Pason developed applications to provide operator customers with data, anytime, anywhere.



MACHINE LEARNING, AUTOMATION, & ANALYTICS

JAMES NG PhD

RESEARCH ENGINEER

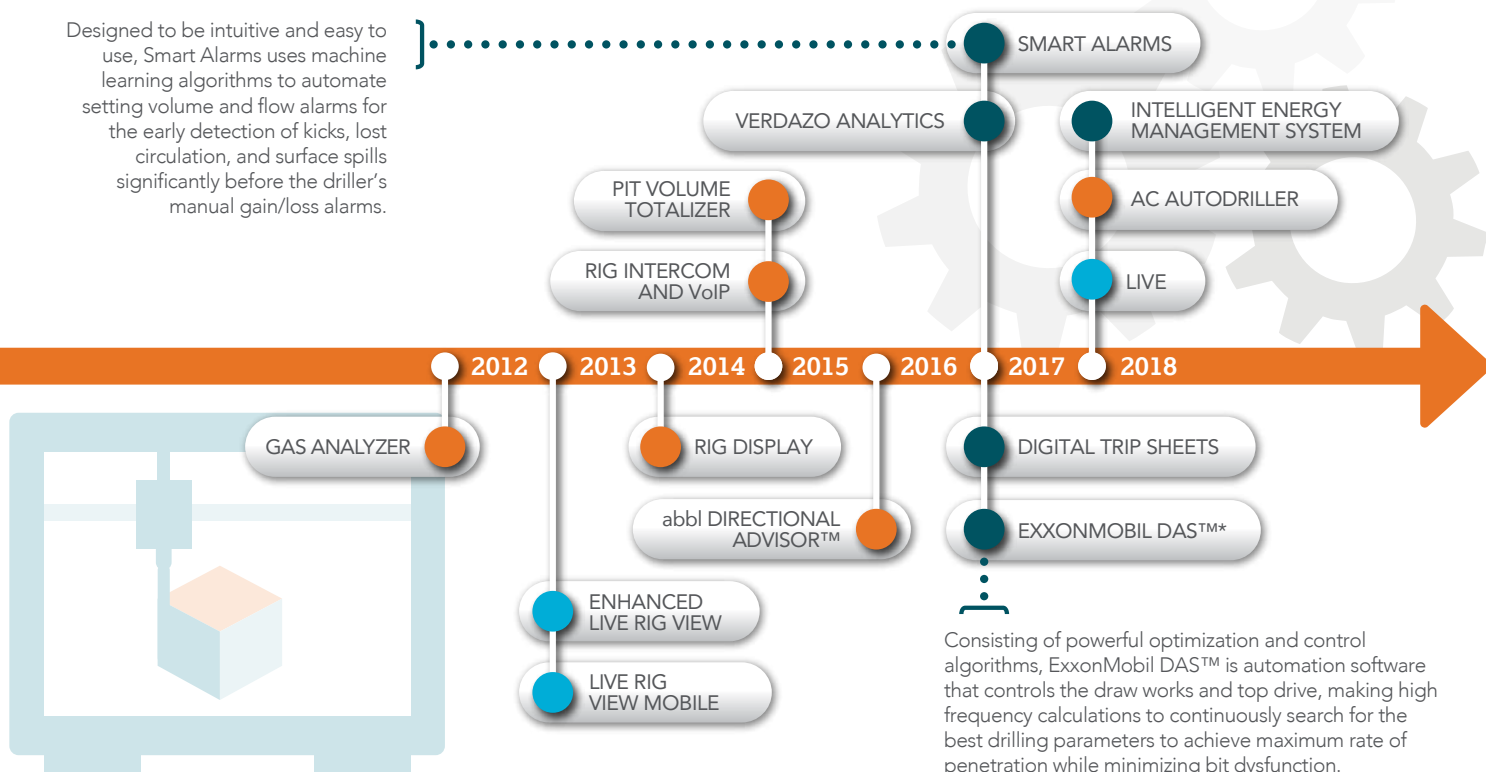
"Research enables us to take deep dives into the complex technical challenges faced by our customers. Innovation is a very difficult thing which requires developing practical solutions through systematic experimentation. We can do this because Pason excels in continuously working with our customers to create and enrich our products."



With strides made in machine-learning, drilling optimization and automation, and analytics, Pason leads the industry by providing customers with most innovative technology solutions available in the energy industry.

Pason is technology deployed simply.

Designed to be intuitive and easy to use, Smart Alarms uses machine learning algorithms to automate setting volume and flow alarms for the early detection of kicks, lost circulation, and surface spills significantly before the driller's manual gain/loss alarms.



*ExxonMobil DAS™ is technology licensed from ExxonMobil Upstream Research Company.

PRESIDENT'S MESSAGE

Pason celebrated a significant milestone in 2018: 40 years in business. Throughout the last four decades, Pason has evolved to meet the needs of our customers and our industry by providing the most innovative products and services available.

Founded in Calgary in 1978 by Wayne Parks and Ron Mason, the name "Pason" was created by combining their last names. The company initially focused on designing and selling drilling chokes to Canadian customers to control downhole pressure when drilling oil and gas wells.

In 1980, Pason was sold to Badger Drilling, a private Canadian drilling contractor. Badger also purchased another small services company that was building an early version of a pit volume totalizer system and added it to Pason.

In 1987, Jim Hill, who had been the Secretary Treasurer at Badger and general manager of its Pason business, purchased Pason from its parent company.

"Throughout the last four decades, Pason has evolved to meet the needs of our customers and our industry by providing the most innovative products and services available."

The late eighties and early nineties were tumultuous for the Canadian drilling industry. Pason's revenue hovered around \$1 million for some time. Then, inventor and Pasonite, Brian Taylor, designed an effective Pit Volume Totalizer to alert rig crews to kicks and lost circulation events.



Pason's business started to grow. Free cash flow was reinvested to develop the game-changing Electronic Drilling Recorder (EDR) and the first EDR rental was deployed to a drilling rig in 1994. The EDR was a disruptive technology in the industry and a commercial success. It replaced the manual, paper-based collection of data by antiquated mechanical systems with computers, thus creating the first element of the digital oilfield.

In 1996, Pason went public with an initial offering of \$0.70 per share. PSI shares have subsequently split twice, making the original stock price effectively \$0.17 per share.

The company entered the US market the following year and acquired Rocky Mountain Geo Engineering, a mud logging company based in Grand Junction, Colorado. A Houston office was opened in 2001 and Pason acquired Petron Industries, a Houston, Texas-based company that rented and sold drilling rig instrumentation

systems for land and offshore applications in 2009. The Petron acquisition enhanced Pason's technology and provided access to the offshore and certain international markets. Expansion into South America and Australia had happened a few years earlier, initially through agreements with local agents, and with the distribution rights subsequently acquired by Pason.

More recently, Pason entered into a joint venture in Saudi Arabia, opened a business development office in Dubai, and purchased Verdazo, a software company offering discovery analytics.

Throughout the last 40 years, Pason has remained at the forefront, developing innovative products and services to meet changing customer and industry needs in three distinct phases:

“Building on our historical strengths in end-to-end data management, Pason is well-positioned to be a key enabler of our customers’ optimization, automation, and analytics efforts.”

In the first phase, Pason revolutionized the drilling industry with a simple, robust, and integrated approach to data management in the field. We enabled customers to acquire, manage, report, and analyze data at the rig site like never before. Pason's expertise in deploying rig-tough and intuitive rig site products, and best-in-class field service, has been the foundation of the company ever since.

“Pason achieved strong results in 2018 and our teams continue to perform very well in all geographies.”

As drilling oil and gas wells became more complex, the number of people involved in the well construction process grew rapidly, both in the field and in the office. As a result, in the second phase, Pason's focus was on enabling the seamless collaboration between the rig site and the office by providing real-time access to critical drilling information. As mobile technology gained popularity, Pason developed applications to provide customers with data, anytime, anywhere.

In the current third phase, the objective is to generate value from the data in two distinct ways:

1. Our new Drilling Intelligence product suite supports our customers' drilling optimization and automation efforts. It contains products such as the ExxonMobil Drilling Advisory System™, abbl Directional Advisor™, and Pivot, a pipe oscillation system for improving slide drilling. Drilling Intelligence is currently our highest growth segment and there are 200 active drilling rig installations of new Drilling Intelligence software.
2. Demand for data feeds into customer systems (e.g., databases, analytics engines, real-time operations centers, and ERPs) has been growing rapidly. We have responded by offering a range of effective Data Delivery services. In addition, through Verdazo, we provide a very capable analytics tool catering to the needs of E&P operators.

Building on our historical strengths in end-to-end data management, Pason is well-positioned to be a key enabler of our customers' optimization, automation, and analytics efforts. Our 2018 financials show the results of our efforts as we continue to adapt our product and service offerings to meet the changing demands and objectives of our customers.

Pason achieved strong results in 2018 and our teams continue to perform very well in all geographies.

"Our success over the past 40 years has been rooted in the commitment, contributions, and trust of our employees, customers, partners, and shareholders."

For the full year 2018 compared to 2017, revenue increased 25% to \$306 million, adjusted EBITDA increased 49% to \$146 million, and net income grew 150% to \$63 million.

The main drivers of revenue growth in 2018 were increased industry activity in the United States, higher activity levels in all Pason's international markets, and a significant increase in the penetration of new Drilling Intelligence products. Adjusted EBITDA margins improved from 40% in 2017 to 48%. Depreciation and amortization expenses were down 24% from 2017.

At December 31, 2018, our working capital position stood at \$256 million, including cash and equivalents of \$204 million. Our balance sheet is debt-free and we increased the dividend to \$.70 per share for the year.

We have increased our investment in R&D in 2018 compared to the previous year with a focus on

machine-learning algorithms. IT expenses also increased as we are transitioning towards a more cloud-based IT infrastructure. Our capital expenditures will be relatively modest going forward with a significant share of development efforts focused on software and analytics and a larger portion of IT expenses being operating expenses, rather than capital expenses.

From a macro-perspective, based on what we can see today, we expect industry activity in North America to trend lower in 2019, with declines of about 5% in the United States and steeper declines in Canada. Drilling activity in most international markets should continue to pick up. In this environment, we have built flexibility into our plans for 2019, which gives us the means and confidence to address any activity scenario. Our market positions remain strong, and we expect to be able to deliver growth through higher product adoption going forward. Our capable and flexible IT and communications platform can host additional new Pason and third-party software at the rig site and in the cloud.

We are the service provider of choice for many leading operators and drilling contractors with Pason equipment installed on over 65% of all active land drilling rigs in the Western Hemisphere.

Our success over the past 40 years has been rooted in the commitment, contributions, and trust of our employees, customers, partners, and shareholders. I thank all of you for your continued support.



Marcel Kessler

• President and Chief Executive Officer
February 26, 2019



MANAGEMENT'S DISCUSSION & ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS & NOTES

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Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of February 26, 2019, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the Consolidated Financial Statements and accompanying notes.

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

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

Performance Data

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

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

Q4 2018 vs Q4 2017

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

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

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

Additional IFRS Measures

In its Consolidated Financial Statements, the Company uses certain additional IFRS measures. Management believes these measures provide useful supplemental information to readers.

Funds flow from operations

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

Cash from operating activities

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

Non-IFRS Financial Measures

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

Revenue per EDR day

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

EBITDA

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

Adjusted EBITDA

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

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

Free cash flow

Free cash flow is defined as cash from operating activities plus proceeds on disposal of property, plant, and equipment, less capital expenditures (including changes to non-cash working capital associated with capital expenditures), and deferred development costs. This metric provides a key measure on the Company's ability to generate cash from its principal business activities after funding the capital expenditure program, and provides an indication of the amount of cash available to finance, among other items, the Company's dividend and other investment opportunities.

Overall Performance

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

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

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

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

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

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

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

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

In the fourth quarter of 2018, the Pason EDR was installed on 91% of the land rigs in the Canadian market compared to 85% during the same period of 2017. For the purposes of market share, the Company uses the number of EDR days billed and oil and gas drilling days as reported by accepted industry sources.

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

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

Discussion of Operations

United States Operations

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

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

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

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

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

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

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

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

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

Canadian Operations

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

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

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

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

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

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

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

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

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

International Operations

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

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

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

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

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

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

Corporate Expenses

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

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

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

Q4 2018 vs Q3 2018

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

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

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

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

Summary of Quarterly Results

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

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

Reconcile Income to EBITDA

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

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

Reconcile EBITDA to Adjusted EBITDA

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

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

Reconcile cash from operating activities to free cash flow

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

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

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

Liquidity and Capital Resources

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

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

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

Contractual Obligations

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

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

At December 31, 2018, the Company had no capital lease obligations, and other than the operating leases detailed above, and the onerous lease obligation recorded, has no off-balance sheet arrangements.

The Company has available a \$5.0 million demand revolving credit facility. At December 31, 2018, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

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

Normal Course Issuer Bid (NCIB)

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

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

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

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

SEDAR

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

Critical Accounting Estimates

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

Depreciation and Amortization

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

Carrying Value of Assets

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

Stock-Based Payments

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

Income Taxes

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

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

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

Risk and Uncertainties

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

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

Operating Risks

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

Commodity Prices

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

Seasonality

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

Proprietary Rights

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

Litigation

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

Credit Risk

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

Availability of Qualified Personnel

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

Alternative Energies

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

International Operations

Assets outside of Canada and the US may be adversely affected by changes in governmental policy, social instability, or other political or economic developments beyond the Company's control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and considered warranted. Approximately 90% of the Company's revenues are generated in Canada and the US, which limits exposure to risks and uncertainties in foreign countries. The Company's Argentinian subsidiary is operating in a highly inflationary economy and its operating results are being impacted by a weakening Argentina peso relative to the Canadian dollar.

Foreign Exchange Exposure

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

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

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

Major Customers

Pason has a large customer base, consisting of both operators and contractors, and does not rely on any single customer for a significant portion of its revenue. No single customer accounted for more than 10% of the consolidated revenues of the Company. The loss of one or more customers, or a reduction in the amount of business Pason does with any of its customers, if not offset by obtaining new customers or increasing the amount of business it does with existing customers, could have a detrimental impact on Pason's revenue.

Key Personnel

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

Dividends

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

Taxation

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

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

Information Security

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

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

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

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

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

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

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

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) as issued by the International Accounting Standards Board. 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, 2018 and 2017.

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 26, 2019



Jon Faber
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Pason Systems Inc.

Opinion

We have audited the consolidated financial statements of Pason Systems Inc., (the "Company"), which comprise the consolidated balance sheets as at December 31, 2018 and 2017, and the consolidated statements of operations, other comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor's report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor's report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Shawn Lai.

/s/ Deloitte LLP

Chartered Professional Accountants

Calgary, Alberta

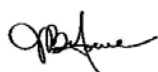
February 26, 2019

Consolidated Balance Sheets

As at	Note*	December 31, 2018	December 31, 2017
(CDN 000s)		(\$)	(\$)
Assets			
Current			
Cash and cash equivalents	12	203,838	154,129
Trade and other receivables	13,16	80,020	55,069
Income tax recoverable other	11	15,304	17,881
Prepaid expenses		3,934	4,028
Income taxes recoverable	11	6,203	3,946
Total current assets		309,299	235,053
Non-current			
Property, plant and equipment	6	120,417	127,685
Intangible assets and goodwill	7	32,000	34,318
Deferred tax assets	11	—	1,390
Total non-current assets		152,417	163,393
Total assets		461,716	398,446
Liabilities and equity			
Current			
Trade payables and accruals	8,15	34,541	20,391
Income taxes payable other	11	15,304	17,881
Stock-based compensation liability	8	3,301	3,089
Total current liabilities		53,146	41,361
Non-current			
Stock-based compensation liability	8	3,200	2,758
Deferred tax liabilities	11	17,060	4,515
Onerous lease obligation		2,233	2,326
Total non-current liabilities		22,493	9,599
Equity			
Share capital	8	164,723	150,887
Share-based benefits reserve		27,287	24,425
Foreign currency translation reserve		63,574	40,358
Retained earnings	8	130,493	131,816
Total equity		386,077	347,486
Total liabilities and equity		461,716	398,446
Commitments (Notes 17 and 18)			
Contingencies (Note 20)			

*The Notes are an integral part of these Consolidated Financial Statements.

Approved by the Board of Directors



James B. Howe
Director



Judi Hess
Director

Consolidated Statements of Operations

Years Ended December 31,	Note*	2018	2017
(CDN 000s, except per share data)		(\$)	(\$)
Revenue		306,393	245,643
Operating expenses			
Rental services		104,398	95,912
Local administration		13,106	11,147
Depreciation and amortization	6, 7	34,855	45,681
		152,359	152,740
Gross profit		154,034	92,903
Other expenses			
Research and development		26,997	25,219
Corporate services		15,905	15,141
Stock-based compensation expense	8	12,313	11,762
Other expense	10	6,717	1,561
		61,932	53,683
Income before income taxes		92,102	39,220
Income tax provision	11	29,158	14,030
Net income		62,944	25,190
Income per share	9		
Basic		0.74	0.30
Diluted		0.73	0.30

*The Notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Other Comprehensive Income

Years Ended December 31,	Note*	2018	2017
(CDN 000s)		(\$)	(\$)
Net income		62,944	25,190
Items that may be reclassified subsequently to net income:			
Tax (expense) recovery on net investment in foreign operations related to an inter-company financing	11	(3,110)	2,500
Foreign currency translation adjustment		26,326	(21,714)
Other comprehensive gain (loss)		23,216	(19,214)
Total comprehensive income		86,160	5,976

*The Notes are an integral part of these Consolidated Financial Statements.

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, 2017		139,730	23,026	59,572	164,323	386,651
Net income		—	—	—	25,190	25,190
Dividends	8	—	—	—	(57,697)	(57,697)
Other comprehensive loss		—	—	(19,214)	—	(19,214)
Exercise of stock options	8	9,407	(2,247)	—	—	7,160
Expense related to vesting of options		—	3,646	—	—	3,646
Prior years business acquisition	8	1,750	—	—	—	1,750
Balance at December 31, 2017		150,887	24,425	40,358	131,816	347,486
Net income		—	—	—	62,944	62,944
Dividends	8	—	—	—	(59,785)	(59,785)
Other comprehensive income		—	—	23,216	—	23,216
Exercise of stock options	8	12,854	(1,842)	—	—	11,012
Expense related to vesting of options		—	4,704	—	—	4,704
Prior years business acquisition	8	1,500	—	—	—	1,500
Shares cancelled under Normal Course Issuer Bid	8	(95)	—	—	(826)	(921)
Liability for automatic share purchase plan commitment pursuant to NCIB	8	(423)	—	—	(3,656)	(4,079)
Balance at December 31, 2018		164,723	27,287	63,574	130,493	386,077

*The Notes are an integral part of these Consolidated Financial Statements.

Consolidated Statements of Cash Flows

	Note*	2018	2017
(CDN 000s)		(\$)	(\$)
Cash from (used in) operating activities			
Net income		62,944	25,190
Adjustment for non-cash items:			
Depreciation and amortization		34,855	45,681
Stock-based compensation	8	12,313	11,762
Deferred income taxes	11	9,796	4,762
Unrealized foreign exchange loss (gain) and other		8,636	(274)
Funds flow from operations		128,544	87,121
Movements in non-cash working capital items:			
Increase in trade and other receivables		(24,523)	(8,149)
Decrease (increase) in prepaid expenses		253	(226)
Decrease in income taxes		14,054	15,518
Increase (decrease) in trade payables, accruals and stock-based compensation liability		4,368	(3,719)
Effects of exchange rate changes		530	(361)
Cash generated from operating activities		123,226	90,184
Income tax paid		(16,049)	(4,387)
Net cash from operating activities		107,177	85,797
Cash flows from (used in) financing activities			
Proceeds from issuance of common shares	8	11,012	7,160
Payment of dividends	8	(59,785)	(57,697)
Repurchase and cancellation of shares under Normal Course Issuer Bid	8	(921)	—
Net cash used in financing activities		(49,694)	(50,537)
Cash flows (used in) from investing activities			
Additions to property, plant and equipment	6	(19,411)	(18,368)
Development costs	7	(4,465)	(2,396)
Proceeds on disposal of investment and property, plant and equipment		1,543	85
Maturity of short-term investment		65,650	—
Purchase of short-term investment		(65,840)	—
Acquisition		—	(5,750)
Proceeds on sale of net operating assets		—	8,159
Changes in non-cash working capital		678	713
Net cash used in investing activities		(21,845)	(17,557)
Effect of exchange rate on cash and cash equivalents		14,071	(10,053)
Net increase in cash and cash equivalents		49,709	7,650
Cash and cash equivalents, beginning of period		154,129	146,479
Cash and cash equivalents, end of period	12	203,838	154,129

*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. 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 26, 2019.

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.

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. The functional currency of the US operations is the US dollar, while the local currency in each country is considered to be the functional currency of each respective International subsidiary.

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.

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. 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 being 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.

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.

Income taxes

The Company operates in multiple jurisdictions with complex legal and tax regulatory environments. In certain of these jurisdictions, the Company has taken income tax positions that management believes are supportable and are intended to withstand challenge by tax authorities. Some of these positions are inherently uncertain and include those relating to transfer pricing matters and the interpretation of income tax laws applied to complex transactions as the tax positions taken by the Company rely on the exercise of judgment and it is frequently possible for there to be a range of legitimate and reasonable views.

The Company has adopted certain transfer pricing (TP) policies and methodologies to value inter-company transactions that occur in the normal course of business. The value placed on such transactions must meet certain guidelines that have been established by the tax authorities in the jurisdictions in which the Company operates in. The Company believes that its TP methodologies are in accordance with such guidelines. As further described in Note 11, the Company entered into a Bilateral Advanced Pricing Arrangement (APA) with the Canada Revenue Agency (CRA) and the Internal Revenue Service (IRS) (collectively, the Parties) covering the taxation years ended December 31, 2013 through to December 31, 2021. The purpose of this APA was for the Company to obtain agreement among the Parties on the TP methodology applied to the material inter-company transactions between Pason Systems Corp. (Pason Canada) and Pason Systems USA and Petron (collectively Pason USA) (the covered transactions).

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.

Argentina has experienced increasing rates of inflation and a devaluation of the Argentinian peso relative to the Canadian dollar. In the second quarter of 2018, management concluded that its Argentinian subsidiary is operating in a hyperinflationary economy. Management has concluded that applying the standards under IAS 29, Financial Reporting in Hyperinflationary Economies would not have a material impact on the financial results.

Financial instruments

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as a “financial asset or financial liability at fair value through profit or loss”, “available-for-sale financial assets”, “held-to-maturity investments”, “loans and receivables”, or “other financial liabilities”. The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expires, or it transfers the right 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. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expired. Financial assets and liabilities are offset and the net amount presented in the balance sheet when the Company 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 Company has the following non-derivative financial assets:

(a) Financial assets as fair value through profit or loss:

Cash and cash equivalents are held for trading within the fair value through profit or loss category. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income.

(b) Loans and receivables:

Trade and other receivables are held within the loans and receivables category (Note 13). Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs less any impairment losses. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Company has the following non-derivative financial liabilities:

(a) Non-derivative financial liabilities

Trade payables, accruals, and provisions are held within the non-derivative financial liabilities category. 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.

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 less residual value which the Company has determined to be nominal.

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.

Materials and supplies 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 less residual value which the Company has determined to be nominal.

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

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

(b) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment.

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

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

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

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

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

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

Employee benefits

(a) Stock option plan

The fair value of stock options granted is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, estimated forfeitures, estimated volatility of the Company's shares and anticipated dividends

Compensation expense associated with the option plan is recognized as stock-based compensation expense over the vesting period of the stock options 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

The Company applies the five-step model to arrangements that meet the definition of a contract, including when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it provides to the customer.

- (a) identifies the contract(s) with a customer,
- (b) identifies the performance obligations in the contract,

- (c) determines the transaction price,
- (d) allocate the transaction price to the performance obligations in the contract, and
- (e) recognizes revenue when (or as) the entity satisfies a performance obligation.

Products and services are comprised of specialized data management systems provided on a rental basis. The Company satisfies its performance obligations and recognizes rental revenue during the reporting period based on completion of each rental day.

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, 2018

IFRS 9, Financial Instruments

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

IFRS 15, Revenue from Contracts with Customers

The Company has also adopted IFRS 15, Revenue from Contracts with Customers, on January 1, 2018 using the modified retrospective method. IFRS 15 establishes a single comprehensive model to address how and when to recognize revenue as well as requiring entities to provide users of financial statements with more informative, relevant disclosures in order to understand the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. It replaces existing revenue recognition guidance including IAS 18 Revenue and IAS 11 Construction Contracts. To determine revenue recognition for arrangements that an entity determines are within the scope of IFRS 15, the Company performs the following five steps: (i) identifies the contract(s) with a customer, (ii) identifies the performance obligations in the contract, (iii) determines the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v) recognizes revenue

when (or as) the entity satisfies a performance obligation. The Company applies the five-step model to arrangements that meet the definition of a contract under IFRS 15, including when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it provides to the customer. Products and services are comprised of specialized data management systems provided on a rental basis. The Company satisfies its performance obligations and recognizes rental revenue during the reporting period based on completion of each rental day. Revenue transactions do not contain significant financing components or variable considerations. Payment terms with customers are 30 days from invoice date; however, industry practice can extend these terms. The Company adopted IFRS 15 using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized on the date of initial application as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15 and there was no impact to the Company's financial position, results of operations, or cash flows as a result of the adoption for the current year.

Future Accounting Policy Changes

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

This new pronouncement introduces a single lessee accounting model by eliminating a lessee's 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. For the Consolidated Balance Sheet, the impact of the new standard will be a material increase to right-of-use lease assets and lease liabilities, primarily, as a result of existing leases currently not recognized on the balance sheet.

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 accumulating the information required and developing the framework to capture the impacts of the new standard. The Company has a detailed plan to implement the new standard and, through a cross-functional team, is assessing contractual arrangements that may qualify as leases under the new standard. The Company is also finalizing procedures to validate the completeness of its inventory of arrangements that meet the new definition of a lease, in parallel to documenting internal policy decisions and permitted elections. The Company is also currently evaluating the new disclosure requirements which will be disclosed in the first quarter 2019 financial statements.

4. Determination of Fair Values

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

Property, plant, and equipment

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

Intangible assets

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

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

Share-based payment transactions

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

5. Operating Segments

The Company operates in three geographic segments: Canada, the United States, and International (Latin America, Offshore, the Eastern Hemisphere, and the Middle East). The three geographic segments are considered 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.

Performance is measured based on gross profit as included in the internal management reports. Segment gross profit is used to measure performance, as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis. Intra-company balances and transactions are eliminated.

The following table represents a disaggregation of revenue from contracts with customers along with the reportable segment for each category:

Year Ended December 31, 2018	Canada	United States	International	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	29,095	110,229	17,838	157,162
Mud Management and Safety	19,722	59,421	6,809	85,952
Communications	10,944	15,730	1,503	28,177
Drilling Intelligence	8,623	12,693	1,470	22,786
Analytics and Other	3,613	5,813	2,890	12,316
Total Revenue	71,997	203,886	30,510	306,393
Rental services and local administration	26,374	72,021	19,109	117,504
Depreciation and amortization	15,027	16,249	3,579	34,855
Segment gross profit	30,596	115,616	7,822	154,034
Research and development				26,997
Corporate services				15,905
Stock-based compensation				12,313
Other expense				6,717
Income tax expense				29,158
Net Income				62,944
Capital expenditures	7,710	12,849	3,317	23,876
As at December 31, 2018				
Property plant and equipment	37,511	68,122	14,784	120,417
Goodwill	1,259	7,784	2,600	11,643
Intangible assets	20,316	41	—	20,357
Segment assets	117,510	297,173	47,033	461,716
Segment liabilities	53,034	16,367	6,238	75,639
Year Ended December 31, 2017				
Revenue				
Drilling Data	29,921	78,335	13,611	121,867
Mud Management and Safety	20,663	47,699	4,725	73,087
Communications	11,093	13,073	1,101	25,267
Drilling Intelligence	5,504	7,897	1,779	15,180
Analytics and Other	3,350	4,981	1,911	10,242
Total Revenue	70,531	151,985	23,127	245,643
Rental services and local administration	24,935	64,161	17,963	107,059
Depreciation and amortization	24,250	17,303	4,128	45,681
Segment gross profit	21,346	70,521	1,036	92,903
Research and development				25,219
Corporate services				15,141
Stock-based compensation				11,762
Other expense				1,561
Income tax expense				14,030
Net income				25,190
Capital expenditures	5,481	14,316	967	20,764
As at December 31, 2017				
Property plant and equipment	44,650	66,360	16,675	127,685
Goodwill	1,259	7,159	2,600	11,018
Intangible assets	23,129	171	—	23,300
Segment assets	94,331	261,635	42,480	398,446
Segment liabilities	37,739	7,854	5,367	50,960

6. Property, Plant, and Equipment

	Materials and supplies	Rental Equipment	Other	Total
	(\$)	(\$)	(\$)	(\$)
Property, plant and equipment				
Balance at January 1, 2017	10,141	472,779	48,752	531,672
Additions	9,433	1,471	7,464	18,368
Derecognition of assets	—	(44,922)	—	(44,922)
Disposals	(43)	(10,052)	(4,071)	(14,166)
Parts consumed	(11,782)	11,782	—	—
Effects of exchange rate changes	(218)	(21,166)	(1,378)	(22,762)
Balance at December 31, 2017	7,531	409,892	50,767	468,190
Additions	5,414	4,789	9,208	19,411
Derecognition of assets	—	(5,010)	(1,934)	(6,944)
Disposals	(41)	(15,603)	(2,985)	(18,629)
Parts consumed	(5,095)	5,095	—	—
Effects of exchange rate changes	(178)	23,345	(397)	22,770
Balance at December 31, 2018	7,631	422,508	54,659	484,798
Depreciation and impairment losses				
Balance at January 1, 2017	—	345,674	35,494	381,168
Provisions	—	26,114	8,160	34,274
Derecognition of assets	—	(44,901)	—	(44,901)
Disposals	—	(8,569)	(4,429)	(12,998)
Effects of exchange rate changes	—	(15,478)	(1,560)	(17,038)
Balance at December 31, 2017	—	302,840	37,665	340,505
Provisions	—	22,288	6,828	29,116
Derecognition of assets	—	(5,010)	(1,934)	(6,944)
Disposals	—	(14,325)	(2,511)	(16,836)
Effects of exchange rate changes	—	17,806	734	18,540
Balance at December 31, 2018	—	323,599	40,782	364,381
Carrying Amounts				
At December 31, 2017	7,531	107,052	13,102	127,685
At December 31, 2018	7,631	98,909	13,877	120,417

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

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 from the Company's books. In 2018, these amounts were \$6,944 (2017: \$44,922)

Included in depreciation and amortization expense are losses on the derecognition of assets and spare parts obsolescence reserves in the amount of \$1,243 (2017: \$1,147) for the year-ended December 31, 2018.

7. Intangible Assets

	Goodwill	Research & Development	Technology	Customer Relationships	Other	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Intangible assets						
Balance at January 1, 2017	12,431	39,044	2,842	15,193	5,218	74,728
Internally developed	—	3,996	—	—	130	4,126
Investment tax credits received	—	(1,600)	—	—	—	(1,600)
Derecognition of assets	—	(10,492)	—	(3,864)	—	(14,356)
Effects of exchange rate	(816)	(10)	—	(84)	65	(845)
Balance at December 31, 2017	11,615	30,938	2,842	11,245	5,413	62,053
Internally developed	—	4,506	—	—	16	4,522
Investment tax credits received	—	(1,751)	—	—	—	(1,751)
Derecognition of assets	—	(13,506)	—	0	(422)	(13,928)
Effects of exchange rate	678	—	—	169	26	873
Balance at December 31, 2018	12,293	20,187	2,842	11,414	5,033	51,769
Amortization						
Balance at January 1, 2017	697	17,890	—	10,467	1,976	31,030
Amortization	—	8,985	474	788	1,160	11,407
Derecognition of assets	—	(10,492)	—	(3,864)	—	(14,356)
Effects of exchange rate	(99)	(4)	—	(84)	(159)	(346)
Balance at December 31, 2017	598	16,379	474	7,307	2,977	27,735
Amortization	—	3,725	474	788	752	5,739
Derecognition of assets	—	(13,506)	—	—	(422)	(13,928)
Effects of exchange rate	52	—	—	169	2	223
Balance at December 31, 2018	650	6,598	948	8,264	3,309	19,769
Carrying amounts						
At December 31, 2017	11,017	14,559	2,368	3,938	2,436	34,318
At December 31, 2018	11,643	13,589	1,894	3,150	1,724	32,000

Derecognition of Intangible Assets

Included in the amounts recorded as derecognition of intangible assets in the above table are the costs and accumulated depreciation of fully depreciated research and development costs that have been removed from the Company's books. In 2018, these amounts were \$13,928 (2017: \$14,356).

Intangible Assets and Goodwill

The carrying value of goodwill is regularly tested for impairment. In assessing these assets for impairment at December 31, 2018 and 2017, the Company compared the aggregate recoverable amount of the assets included in the respective CGUs.

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
	(%)	(%)	(%)
Weighted average growth rate	7	10	11
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 goodwill.

8. Share Capital

Common Shares				
Years Ended December 31,	2018		2017	
	(\$)	(#)	(\$)	(#)
Balance, beginning of year	150,887	85,158	139,730	84,628
Exercise of stock options	12,854	595	9,407	431
Previous business acquisition	1,500	80	1,750	99
Shares repurchased and cancelled under Normal Course Issuer Bid (NCIB)	(95)	(50)	—	—
Liability for automatic share purchase plan commitment pursuant to NCIB	(423)	—	—	—
Balance, end of year	164,723	85,783	150,887	85,158

Common shares

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

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

Stock option plan

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

At December 31, 2018, 5,534 (2017: 5,514) stock options were outstanding for common shares at exercise prices ranging from \$15.94 to \$27.96 per share, expiring between 2019 and 2023 as follows:

	December 31, 2018		December 31, 2017	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
Outstanding, beginning of year	5,514	20.07	5,075	20.53
Granted	1,281	20.22	1,564	18.54
Equity settled	(595)	18.52	(432)	16.59
Expired or forfeited	(666)	22.18	(693)	22.00
Outstanding, end of year	5,534	20.00	5,514	20.07
Exercisable, end of year	2,788	21.10	2,648	22.41
Available for grant, end of year	471		471	

The following table summarizes information about stock options outstanding at December 31, 2018:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable (Vested)	Weighted Average Exercise Price
(\$)	(#)	(Years)	(\$)	(#)	(\$)
15.94 – 19.72	2,582	3.46	17.42	1,117	17.03
19.73 – 27.96	2,952	2.91	23.82	1,671	23.82
	5,534	3.16	20.00	2,788	21.10

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,	2018	2017
Fair value of stock options (\$)	3.72	3.83
Forfeiture rate (%)	11.39	11.65
Risk-free interest rate (%)	2.17	1.49
Expected option life (years)	3.41	3.15
Expected volatility (%)	31.42	37.06
Expected annual dividends per share (%)	3.61	3.68

Stock-based compensation expense arising from the Stock option plan of \$4,704 (2017: \$3,646) was recorded in the Consolidated Statements of Operations under stock-based compensation.

Restricted share units plan

At December 31, 2018, 319 (2017: 258) 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 \$2,481 (2017: \$2,127) 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,	2018	2017
	(#)	(#)
RSUs, beginning of year	258	262
Granted	191	126
Vested and paid	(116)	(109)
Forfeited	(14)	(21)
RSUs, end of year	319	258

Deferred share units plan

The DSUs are awarded annually to non-management members of the Board of Directors 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 129 DSUs credited as at December 31, 2018 (2017:107). Stock-based compensation expense arising from the DSU plan of \$404 (2017: \$263) 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,	2018	2017
	(#)	(#)
DSUs, beginning of year	107	120
Credited	22	21
Vested and paid	—	(34)
DSUs, end of year	129	107

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 4,571 PSUs outstanding at December 31, 2018 (2017: 4,240). Stock-based compensation expense arising from the PSU plan of \$3,645 (2017: \$2,896) 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,	2018	2017
	(#)	(#)
PSUs, beginning of year	4,240	3,862
Granted	2,368	2,220
Vested and paid	(2,037)	(1,842)
PSUs, end of year	4,571	4,240

Stock-based compensation expense and liability

Stock-based compensation can be summarized as follows:

Expense

Years Ended December 31,	2018	2017
	(\$)	(\$)
Stock options	4,704	3,646
RSUs	2,481	2,127
DSUs	404	263
PSUs	3,645	2,896
Deferred compensation expense	1,079	2,830
Stock-based compensation	12,313	11,762

In 2016, the Company purchased all of the existing and outstanding shares of Verdazo Analytics, Inc. (Verdazo). A portion of the total consideration was deferred and is payable over three years. In accordance with IFRS 3, a portion of this deferred consideration was not part of the purchase price but is accounted for as future compensation expense. This amount is included in deferred compensation expense

Liability

As at	December 31, 2018	December 31, 2017
	(\$)	(\$)
RSUs	1,109	935
PSUs	1,609	1,075
Deferred compensation expense	583	1,079
Current portion of stock-based compensation liability	3,301	3,089
RSUs	341	390
DSUs	2,355	1,951
PSUs	504	417
Non-current portion of stock-based compensation liability	3,200	2,758
Total stock-based compensation liability	6,501	5,847

Common share dividends

During 2018, the Company declared and paid dividends of \$59,785 (2017: \$57,697) or \$0.70 per common share (2017: \$0.68).

Normal Course Issuer Bid (NCIB)

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

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

The NCIB commenced on December 18, 2018 and expires on December 17, 2019. In the fourth quarter of 2018 the Company purchased 50 common shares for cancellation, for a total cash consideration of \$921, which was allocated between share capital and retained earnings.

Under an automatic purchase plan agreement with an independent broker (APP), the Company recorded the following for share repurchases that could take place during its internal blackout period.

The total accrual of \$4,079 is included in the Consolidated Balance Sheet under trade payables and accruals.

As at	December 31, 2018	December 31, 2017
	(\$)	(\$)
Amounts charged to		
Share capital	423	—
Retained earnings	3,656	—
Liability for automatic share purchase plan commitment	4,079	—

9. Income Per Share

Basic income per share

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

Years Ended December 31,	2018	2017
	(#)	(#)
Issued common shares outstanding, beginning of year	85,158	84,628
Effect of exercised options	199	193
Weighted average number of common shares outstanding for the year	85,357	84,821

For the year ended December 31, 2018, 595 (2017: 432) common shares were issued as a result of the exercise of vested options. Options were exercised at an average price of \$18.52 per option. All issued shares are fully paid.

Diluted income per share

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

Years Ended December 31,	2018	2017
	(#)	(#)
Weighted average number of common shares (basic)	85,357	84,821
Effect of share options	301	434
Weighted average number of common shares (diluted)	85,658	85,255

Options totaling 2,952 are excluded from the above calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices during the period.

10. Other Expense

Years Ended December 31,	2018	2017
	(\$)	(\$)
Foreign exchange loss	7,682	1,106
Other	(965)	455
Other expense	6,717	1,561

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

11. Income Tax

The major components of income tax expense are as follows:

Years Ended December 31,	2018	2017
	(\$)	(\$)
Current tax expense	19,362	9,268
Deferred tax expense	9,796	4,762
Total tax provision	29,158	14,030

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 both 2018 and 2017.

The Company's US subsidiaries (US Consolidated Group) were subject to federal and state statutory tax rates of approximately 39% for 2017. As a result of US Tax Reform Legislation (US Tax Reform), effective January 1, 2018, the US Consolidated Group is subject to a combined rate of approximately 25%. Deferred tax balances at December 31, 2017 of the USA Consolidated Group were measured at the new enacted rate. The impact of US Tax Reform on the Company's income tax provision for the year ending December 31, 2017 was not material.

The main differences are as follows:

Years Ended December 31,	2018	2017
	(\$)	(\$)
Income before income taxes	92,102	39,220
Expected income tax at statutory rate of 27%	24,868	10,589
Increase (decrease) resulting from:		
Tax rates in other jurisdictions and impact of not recognizing deferred tax assets on net operating losses	895	3,437
Non-taxable dividends	—	(4,795)
Non-deductible portion of stock-based compensation	2,814	1,184
Recognition of Advanced Pricing Arrangement (APA)	—	3,322
Prior years reassessments and adjustments	192	(206)
Non-taxable items not deductible for tax purposes and other items	389	499
Income tax expense	29,158	14,030

As a result of US Tax Reform, the interest paid by the US Consolidated Group on the Company's inter-company financing is no longer deductible for US tax purposes. This payment, which is deemed to be dividend income for Canadian tax purposes, is still tax exempt for purposes of calculating Canadian income tax.

Advanced Pricing Arrangement (APA)

In 2018, the Company entered into a Bilateral APA with the Canada Revenue Agency (CRA) and the Internal Revenue Service (IRS) (collectively, the Parties) covering the taxation years ended December 31, 2013 through to December 31, 2021. The purpose of this APA is for the Company to obtain agreement among the Parties on the Transfer Pricing (TP) methodology applied to the material inter-company transactions between Pason Systems Corp. (Pason Canada) and Pason Systems USA and Petron (collectively Pason USA) (the covered transactions).

The Company's previous tax filings were based upon the TP methodology presented to the Parties under the APA submission. The TP methodology in the final APA differed from what was presented under the submission and accordingly, the Company amended its previous tax filings. This change reduced the previously recorded royalty and management fee Pason Canada charged Pason USA for the five years commencing December 31, 2013 and ending December 31, 2017 by approximately \$26,667, resulting in a decrease in taxable income in Pason Canada and a decrease in the NOL balance available in Pason USA.

In 2017 management anticipated that a final agreement would be entered into in 2018, and as a result the impact of the APA on the Company's tax position was recorded in 2017. Accordingly, in 2017 the Company recorded an increase to current Canadian income tax recoverable amount of \$1,006, a \$6,074 deferred tax asset relating to an increase in the Company's Canadian NOLs, and a reduction

in the deferred tax asset relating to Pason USA's NOLs of \$10,402. The net impact of these amounts, totaling \$3,322, was recognized through the income tax provision for the year ending December 31, 2017.

Management's estimate of the effect of the APA on its tax position did not differ significantly from the actual impact and, accordingly, the Company's tax provision for the year ending December 31, 2018 was not materially impacted by the final negotiated APA.

In addition to the TP methodology, the Parties settled on the applicable withholding tax on the covered transactions. Pason USA will recover previously remitted withholding taxes of \$15,304 from one of the Parties while Pason Canada will be required to remit a corresponding amount to the other Party. There is no legal right of offset for these amounts and, as a result, this amount has been separately disclosed in the Consolidated Balance Sheet as at December 31, 2018 as both a current asset and current liability with no impact on the Company's tax provision for either the year ending December 31, 2018 or the year ending December 31, 2017.

Deferred tax assets and liabilities are comprised of the following:

As at December 31,	2018	2017
	(\$)	(\$)
Tax loss carry-forwards	—	15,809
Inter-company transactions	11,037	4,367
Share-based payments	1,597	2,701
Other	(8,799)	(7,109)
Property, plant and equipment	(13,060)	(10,702)
Intangible assets	(7,835)	(8,191)
	(17,060)	(3,125)
Deferred tax asset	—	1,390
Deferred tax liability	(17,060)	(4,515)
	(17,060)	(3,125)

Inter-company transactions represent amounts owing to Canada from the US Consolidated Group that are not deductible for US tax purposes until paid.

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

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, 2017	30,485	5,166	2,257	(6,914)	(20,409)	(10,697)	(112)
Recognized in income	(13,393)	(475)	442	(2,540)	8,515	2,689	(4,762)
Recognized in Other Comprehensive Income	—	—	—	2,500	—	—	2,500
Foreign exchange differences	(1,283)	(324)	2	(155)	1,192	(183)	(751)
December 31, 2017	15,809	4,367	2,701	(7,109)	(10,702)	(8,191)	(3,125)
Recognized in income	(15,813)	6,533	(1,103)	1,018	(969)	538	(9,796)
Recognized in Other Comprehensive Income (OCI)				(3,110)			(3,110)
Foreign exchange differences	4	137	(1)	402	(1,389)	(182)	(1,029)
December 31, 2018	—	11,037	1,597	(8,799)	(13,060)	(7,835)	(17,060)

Foreign exchange differences are recognized through foreign currency translation adjustment in the Statement of Other Comprehensive Income.

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.

Tax loss carry-forwards

At December 31, 2017, after giving effect to the APA adjustment referred to above, the Company had available Canadian net operating losses (NOLs) for federal purposes of \$31,968 and \$23,382 for Alberta purposes, and US NOLs of USD \$24,803, the benefits all of which were recognized in the Consolidated Financial Statements as at December 31, 2017. These losses were utilized in 2018 to reduce current income tax owing.

The Company has NOLs in its International business segment for which no deferred tax asset has been recognized. Deferred tax assets are only recognized to the extent that it is probable that future taxable profits will be available to use unused tax losses.

12. Cash and Cash Equivalents

As at December 31,	2018	2017
	(\$)	(\$)
Cash	57,819	74,902
Cash equivalents	146,019	79,227
Cash and cash equivalents	203,838	154,129

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 16. During the fourth quarter of 2018 the Company invested in a USD \$60,000 term deposit bearing an interest rate of 2.39%, with a maturity of less than 90 days. This amount is included in cash equivalents. The remaining cash equivalents are made up of cash invested in money market funds with interest rates of approximately 1.50%, and maturities from 1–30 days.

13. Trade and Other Receivables

As at December 31,	2018	2017
	(\$)	(\$)
Trade receivables, net of allowances for doubtful accounts	76,965	52,275
Other receivables	3,055	2,794
	80,020	55,069

All trade and other receivables are classified as current assets.

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

14. Credit Facility

The Company has a \$5,000 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. Throughout the reporting year, no amounts were drawn on this facility.

The Company is subject to the following financial covenants:

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

Both covenants have been met throughout the reporting period.

15. Trade Payables, Accruals and Provisions

As at December 31,	Note	2018	2017
		(\$)	(\$)
Trade payables		10,921	6,636
Non-trade payables and accrued expenses		19,541	13,755
Liability for automatic share purchase plan commitment pursuant to NCIB	8	4,079	—
		34,541	20,391

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

16. Financial Risk Management and Financial Instruments Overview

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

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

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

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

(a) Trade and other receivables

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

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

The Group establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component

established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective doubtful accounts allowance is determined based on historical data of payment statistics for similar financial assets.

(b) Exposure to credit risk

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

As at December 31,	2018	2017
	(\$)	(\$)
Trade and other receivables, net of allowance for doubtful accounts	80,020	55,069

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

As at December 31,	2018	2017
	(\$)	(\$)
Canada	13,229	12,092
United States	54,341	34,427
International	12,450	8,550
	80,020	55,069

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,	2018		2017	
	Gross	Allowance	Gross	Allowance
	(\$)	(\$)	(\$)	(\$)
Current	54,229	—	39,865	—
31–60 days	15,149	—	10,823	(60)
61–90 days	8,698	(10)	3,419	(50)
Greater than 90 days	4,156	(2,202)	4,856	(3,784)
	82,232	(2,212)	58,963	(3,894)

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,	2018	2017
	(\$)	(\$)
Opening balance	3,894	4,781
Expected credit loss	10	74
Accounts collected, previously allowed for	14	117
Write-off of uncollectible accounts	(1,868)	(830)
Effects of exchange rate changes	162	(248)
Ending balance	2,212	3,894

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, 2018							
	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	34,541	34,541	34,541	—	—	—	—
Stock-based compensation	6,501	6,501	—	3,301	3,200	—	—
	41,042	41,042	34,541	3,301	3,200	—	—

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,	2018	2017
	USD	USD
Cash	131,505	112,534
Trade and other receivables	41,853	29,035
Trade payables, accruals and other provisions	(9,771)	(6,037)
Balance sheet exposure	163,587	135,532
CDN\$ Equivalent	223,165	170,024

(a) Sensitivity analysis

A strengthening of the Canadian dollar against the US dollar by 1% at December 31, 2018 would have decreased net income and equity for the year by \$115 and \$4,759, 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, 2018 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, 2018
	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	203,838	—	—	203,838
Total financial assets at fair value	203,838	—	—	203,838

(d) Capital risk

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

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

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

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

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

(e) Industry and seasonality risk

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

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

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

(f) **Commodity risk**

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

17. Operating Commitments

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

As at December 31,	2018	2017
	(\$)	(\$)
Less than one year	5,579	14,324
Between one and three years	9,447	8,293
More than three years	3,235	4,195
	18,261	26,812

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

18. Capital Commitments

At December 31, 2018, the Group has entered into contracts to purchase property, plant, and equipment for \$8,152 (2017: \$5,644), the majority of which relates to the purchase of rental assets in the normal course of business.

19. Related Parties

Transactions with key management personnel and directors

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

Executive management personnel and director compensation is comprised of:

Years Ended December 31,	2018	2017
	(\$)	(\$)
Compensation, including bonuses	5,135	4,615
Share-based payments	5,972	4,727
	11,107	9,342

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 12% of the voting shares of the Company. No balances are owing from any employees or directors.

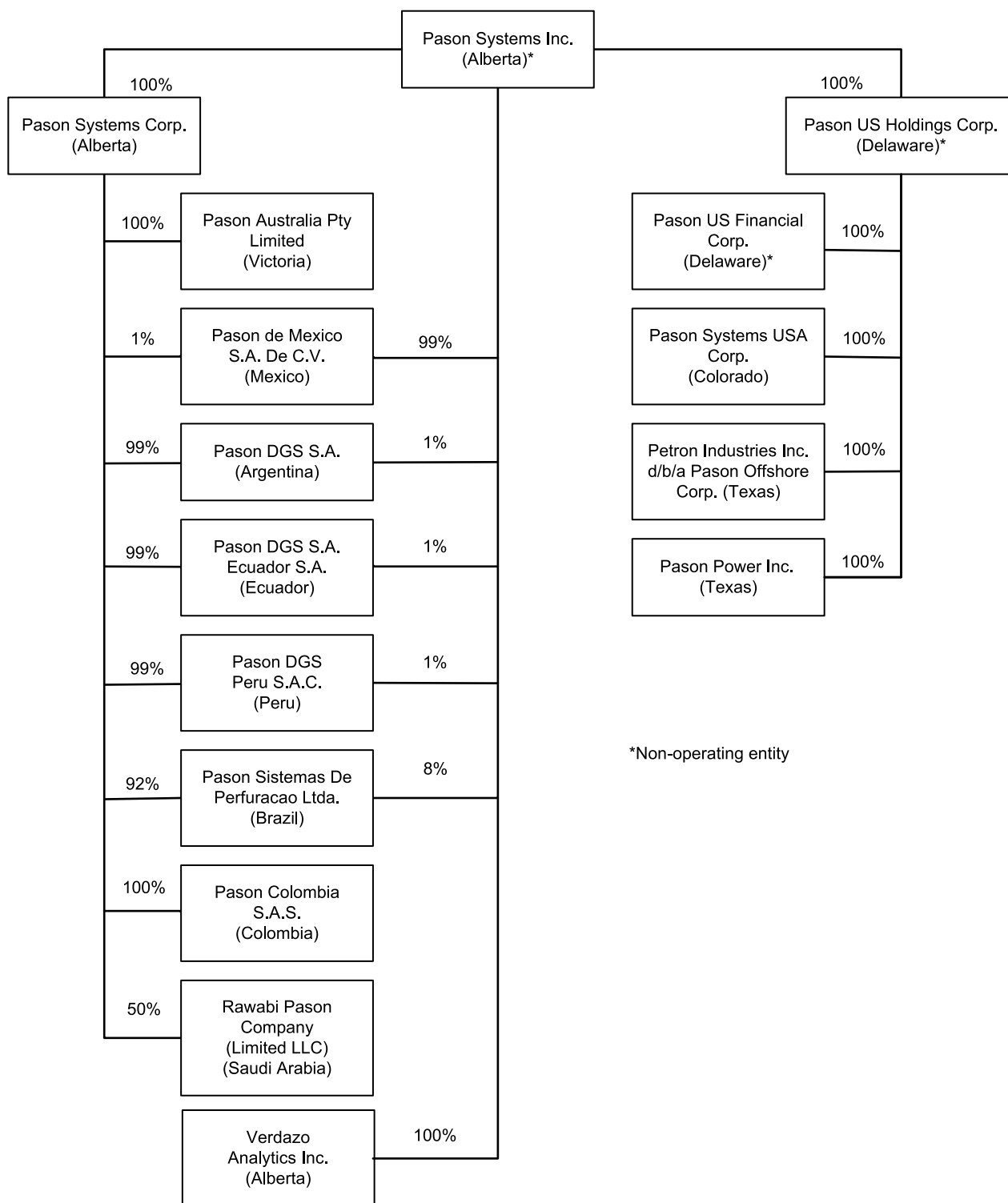
20. Contingencies

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

21. Events After the Reporting Period

On February 26, 2019, the Company announced a quarterly dividend of \$0.18 per share on the Company's common shares. The dividend will be paid on March 29, 2019 to shareholders of record at the close of business on March 15, 2019.

22. 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
Vice President, Operations – United States

Bryce McLean
Vice President, Operations – Canada

Russell Smith
Vice President, Operations – International & Offshore

Ryan Van Beurden
Vice President, Rig Site Research & Development

Lars Olesen
Vice President, Product Management

Kevin Boston
Vice President, Business Development

Kevin Lo
Vice President, New Ventures

Corporate Head Office

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

Historical Review

Selected Financial Data

Years Ended December 31,

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

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

(2) Return on total equity is calculated as earnings over the simple average of the beginning and ending total equity.



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