Performance Data

	Three Months Ended December 31,			Years Ended December 31,		
	2015	2014	Change	**2015**	2014	Change
(CDN 000s, except per share data)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**59,838**	138,206	(57)	**285,148**	499,272	(43)
Net (loss) income	**(841)**	47,211	—	**(14,612)**	112,104	—
Per share – basic	**(0.01)**	0.57	—	**(0.17)**	1.36	—
Per share – diluted	**(0.01)**	0.57	—	**(0.17)**	1.34	—
EBITDA (1)	**20,736**	59,065	(65)	**69,630**	251,623	(72)
As a % of revenue	**34.7**	42.7	(19)	**24.4**	50.4	(52)
Funds flow from operations	**17,933**	59,947	(70)	**94,263**	224,204	(58)
Per share – basic	**0.21**	0.73	(71)	**1.13**	2.71	(58)
Per share – diluted	**0.21**	0.72	(71)	**1.13**	2.68	(58)
Cash from operating activities	**10,911**	42,460	(74)	**130,076**	213,583	(39)
Free cash flow (1)	**4,719**	(4,144)	—	**80,138**	92,691	(14)
Per share – basic	**0.05**	(0.05)	—	**0.95**	1.12	(15)
Per share – diluted	**0.05**	(0.05)	—	**0.95**	1.10	(14)
Capital expenditures	**6,527**	46,654	(86)	**50,811**	121,188	(58)
Working capital	**244,972**	206,571	19	**244,972**	206,571	19
Total assets	**529,625**	570,066	(7)	**529,625**	570,066	(7)
Total long-term debt	**—**	—	—	**—**	—	—
Cash dividends declared	**0.17**	0.17	—	**0.68**	0.64	6
Shares outstanding end of period (#)	**84,063**	83,363	1	**84,063**	83,363	1

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

Q4 2015 vs Q4 2014

The Company generated consolidated revenue of $59.8 million in the fourth quarter of 2015, down 57% from $138.2 million in the same period of 2014. A very weak oil and gas drilling environment, combined with a reduction in product adoption and pricing pressure as customers continue to control costs, contributed to the decrease in revenue. These negative factors were partially offset by the strengthening US dollar relative to the Canadian dollar.

Consolidated EBITDA was $20.7 million in the fourth quarter, a decrease of $38.3 million from the fourth quarter of 2014. Included in the fourth quarter 2015 results are additional restructuring costs of $1.0 million. Funds flow from operations decreased by 70%.

The Company recorded a net loss of $0.8 million ($0.01 per share) in the fourth quarter of 2015, a decrease of $48.0 million from the net income of $47.2 million ($0.57 per share) recorded in the same period of 2014.

President's Message

The past year has been challenging for operators and service companies alike. This has had significant negative impact for the energy industry around the world. Pason's financial performance deteriorated substantially in 2015 compared to the previous year, with revenues down 43% to $285.1 million and EBITDA down 72% to $69.6 million. We incurred a net loss of $14.6 million for the year driven, in part, by impairment charges totaling $26.6 million related to excess quantities of rental equipment. Free cash flow for the year was $80.1 million. On December 31, 2015, our cash position stood at $195.8 million and working capital at $245.0 million. There is no debt on the balance sheet. We are maintaining our quarterly dividend at $0.17 share.

Although market conditions were anything but favourable, Pason's performance was solid in the context of our industry. Pason celebrated a number of successes in 2015. We held on to our market share in all our major markets, experienced only moderate declines in revenue per EDR day, and demonstrated some growth in Argentina and the Middle East. In addition, we developed promising new product offerings.

Despite these successes, we had to make some tough choices last year in response to the market. We sought to strike an optimal balance between cost control and investments in future growth, and we expect to see material savings in 2016 from the operating and capital cost savings initiatives implemented last year. Our headcount is more than 25% lower than this time last year and all discretionary spending is down significantly. Also, capital expenditures in 2015 were down 58% from 2014 to $50.8 million.

Outlook

The short-term outlook for our industry remains extremely challenging, and drilling activity in all geographies may be reduced further and may stay very low for an extended period of time. Pressures on pricing and product usage continue as operators seek further cost reductions from service companies. As a result, we are looking to reduce operating expenses by a further $20 million on an annual run-rate basis.

At some point, a supply response from reduced drilling is expected to correct the supply-demand imbalance leading to a gradual improvement in oil prices. However, there could be a delay before drilling activity recovers. At this point, we believe that any meaningful recovery in activity levels for our business will not happen before 2017. However, the longer the recovery takes, the sharper it will be, and we believe that North American land drilling will be the quickest to respond.

It is in times like these, where in the face of adversity, remarkable companies and people continue to do remarkable things. This is Pason: we have great customers, we continue to be the market leader, we employ talented and dedicated people, and we have a strong balance sheet. We are also making inroads with new products and services that have been in the pipeline and are now reaching the market. And, in 2016, we will continue to invest in future growth, including investments in new product development, service capabilities, infrastructure and systems, and our international footprint. We plan to continue to allocate significant resources for R&D and IT and we intend to spend up to $35 million in capital expenditures in 2016. We are focusing our development efforts on products and services that create significant and visible value, either by saving costs or by increasing revenues, for our customers.

Long-Term Strategy

We are staying the course on our three-pronged, longer-term strategy as follows:

1. **Defending and growing our North American core business.** We will continue to invest in new product development and in sustaining core products, expand the Pason service advantage, improve our sales and marketing capabilities, and strengthen our core infrastructure and systems.
2. **Growing and improving the profitability of our international businesses.** We will defend and grow our businesses outside of North America, and we may provide more customized product offerings and pursue alternative business models in certain markets.

3. **Establishing new pillars of revenue and cash flow generation beyond land drilling.** We are allocating more resources going forward to identify and pursue profitable growth opportunities for Pason beyond our current rig-based core business.

We will continue to build on our strong market position and reputation and seek opportunities where we can take advantage of our significant strengths. We believe that Pason continues to be well-positioned to maximize returns in the industry's eventual upturn.

We thank all our customers, partners, shareholders, and employees for their continued support during these challenging times.

Marcel Kessler
President and Chief Executive Officer
February 25, 2016

Management’s Discussion and Analysis

The following discussion and analysis has been prepared by management as of February 25, 2016, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the consolidated financial statements and accompanying notes.

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

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

Additional IFRS Measures

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

Funds flow from operations

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

Cash from operating activities

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

Non-IFRS Financial Measures

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

Revenue per EDR day and Revenue per Industry 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.

Revenue per Industry day is defined as the daily revenue generated from all products that the Company is renting over all active drilling rigs in a particular operating segment. This metric provides in additional measure to that of Revenue per EDR day , which is market share penetration.

EBITDA

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

Free cash flow

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

Overall Performance

	Three Months Ended December 31,			Years Ended December 31,		
	2015	2014	Change	**2015**	2014	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder	**24,509**	61,444	(60)	**118,135**	218,963	(46)
Pit Volume Totalizer/ePVT	**8,193**	20,043	(59)	**40,279**	72,684	(45)
Communications	**6,303**	12,440	(49)	**28,667**	42,018	(32)
Software	**4,167**	9,062	(54)	**19,420**	33,076	(41)
AutoDriller	**3,880**	11,814	(67)	**20,337**	44,102	(54)
Gas Analyzer	**4,510**	10,387	(57)	**21,021**	37,870	(44)
Other	**8,276**	13,016	(36)	**37,289**	50,559	(26)
Total revenue	**59,838**	138,206	(57)	**285,148**	499,272	(43)

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

Canada

	Three Months Ended December 31,			Years Ended December 31,		
	2015	2014	Change	**2015**	2014	Change
			(%)			(%)
EDR rental days (#)	**15,200**	31,800	(52)	**66,800**	122,900	(46)
PVT/ePVT rental days (#)	**13,900**	31,300	(56)	**62,500**	120,300	(48)

United States

	Three Months Ended December 31,			Years Ended December 31,		
	2015	2014	Change	**2015**	2014	Change
			(%)			(%)
EDR rental days (#)	**37,300**	104,500	(64)	**196,500**	394,700	(50)
PVT/ePVT rental days (#)	**28,200**	81,300	(65)	**149,300**	304,200	(51)

Electronic Drilling Recorder

The Pason EDR remains the Company's primary product. The EDR provides a complete system of drilling data acquisition, data networking, and drilling management tools and reports at both the wellsite and customer offices. The EDR is the base product from which all other wellsite instrumentation products are linked. By linking these products, a number of otherwise redundant elements such as data processing, display, storage, and networking are eliminated. This ensures greater reliability and a more robust system of instrumentation for the customer. Revenue generated from the EDR decreased 60% for the fourth quarter of 2015 compared to the same period in 2014 and 46% for the full year. This decrease is attributable to the drilling industry downturn, lower product adoption of certain peripheral devices, and pricing pressure from customers, offset by a strengthening US dollar relative to the Canadian dollar. Industry drilling days in the US market decreased 61% in the fourth quarter of 2015 compared to the corresponding period in 2014 (48% on a year-to-date basis), while 2015 fourth quarter Canadian rig activity decreased 57% compared to the same period in 2014 (51% on a year-to-date basis). Canadian EDR days decreased 52% in the fourth quarter of 2015 from 2014 levels (46% on a year-to-date basis), while US EDR days decreased by 64% for the fourth quarter from 2014 levels (50% on a year-to-date basis).

For the twelve months ended December 31, 2015, the Pason EDR was installed on 97% of all active land rigs in Canada and 58% of the land rigs in the US, compared to 94% and 61% respectively in the same period of 2014.

The Company's International business unit is experiencing the same market conditions as the North American market, with the exception of Argentina, where revenue for the year ended December 31, 2015, increased 8% from 2014 amounts. The Company is also realizing an increase in its share of net income from its Saudi Arabia joint venture as a result of a continuing increases in rig count and market penetration.

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

The PVT is Pason's proprietary solution for the detection and early warning of “kicks” that are caused by hydrocarbons entering the wellbore under high pressure and expanding as they migrate to the surface. PVT revenue for 2015 was impacted by rig count activity, offset partially with continued customer adoption of the new ePVT. For the year ended December 31, 2015, the PVT was installed on 94% of rigs with a Pason EDR in Canada and 76% in the US.

Communications

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

Communications revenue decreased by 32% for 2015 compared to 2014 due to the industry slowdown, offset by a continued increase in customer adoption of new communication solutions rolled out in the Canadian and US markets.

Software

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

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

In 2015, 97% of the Company's Canadian customers and 87% of customers in the US were using all or a portion of the functionality of the DataHub, compared to 98% and 91%, respectively, in 2014.

AutoDriller

Pason's AutoDriller is used to maintain constant weight on the drill bit while a well is being drilled. For the year ended December 31, 2015, the AutoDriller was installed on 61% of Canadian and 33% of US land rigs operating with a Pason EDR system, compared to 75% and 46%, respectively, in 2014. The Company anticipates that adoption of the AutoDriller will continue to decline due in most part to the drop in the number of mechanical rigs being deployed.

Gas Analyzer

The Pason Gas Analyzer measures the total hydrocarbon gases (C1 through C4 and CO_2) exiting the wellbore, and then calculates the lag time to show the formation depth where the gases were produced. The Gas Analyzer provides information about the composition of the gas, and further calculates geologic ratios from the gas composition to assist in indicating the type of gas, natural gas liquid, or oil in the formation. For the year ended December 31, 2015, the Gas Analyzer was installed on 59% of Canadian and 28% of US land rigs operating with a Pason EDR system (63% and 24% respectively for 2014).

Other

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

Discussion of Operations

United States Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2015	2014	Change	**2015**	2014	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder	**15,479**	39,429	(61)	**75,841**	139,651	(46)
Pit Volume Totalizer/ePVT	**4,775**	11,862	(60)	**24,131**	42,487	(43)
Communications	**3,213**	6,242	(49)	**14,727**	21,032	(30)
Software	**2,766**	5,903	(53)	**13,087**	21,759	(40)
AutoDriller	**1,837**	6,749	(73)	**10,045**	24,849	(60)
Gas Analyzer	**2,297**	4,605	(50)	**10,639**	16,578	(36)
Other	**4,375**	8,285	(47)	**22,416**	32,012	(30)
Total revenue	**34,742**	83,075	(58)	**170,886**	298,368	(43)
Rental services and local administration	**16,222**	28,391	(43)	**77,822**	100,858	(23)
Depreciation and amortization	**7,456**	9,703	(23)	**33,330**	33,142	1
Segment operating profit	**11,064**	44,981	(75)	**59,734**	164,368	(64)

	Three Months Ended December 31,			
		2015		2014
	USD	**CAD**	USD	CAD
	$	**$**	$	$
Revenue per EDR day	**645**	**862**	672	761
Revenue per industry day	**370**	**494**	417	472

	Years Ended December 31,			
		2015		2014
	USD	**CAD**	USD	CAD
	$	**$**	$	$
Revenue per EDR day	**644**	**824**	651	719
Revenue per industry day	**374**	**478**	395	437

US segment revenue decreased by 58% in the fourth quarter of 2015 over the 2014 comparable period (66% decrease when measured in USD). For the year, US segment revenue decreased by 43% over the 2014 comparable period (52% decrease when measured in USD).

Industry activity in the US market during the fourth quarter of 2015 decreased by 61% from the prior year and 48% for the full year. EDR rental days decreased by 64% and 50%, respectively, for the three and twelve months ended December 31, 2015 over the same time periods in 2014. Revenue per EDR day in the fourth quarter of 2015 decreased to US$645, a decrease of US$27 over the same period in 2014. For the year, revenue per EDR day was US$644, a decrease of US$7 as compared to 2014.

The decrease in industry activity, combined with pricing pressure from customers and lower product adoption on certain products, accounted for the drop in revenue for both the quarter and twelve months ended December 31, 2015. This decrease was offset by the favourable movement in the USD/CAD exchange rate and continued customer usage of premium communication services. US market share was 57% during the fourth quarter of 2015, down from 61% in the same period of 2014.

Operating costs decreased by 43% in the fourth quarter relative to the same period in the prior year. When measured in USD, operating costs decreased 55% (35% on a year-to-date basis) as the business unit continues to identify and implement changes to its fixed cost structure to meet the challenging business environment while maintaining customer service.

Depreciation expense for fourth quarter of 2015 was down significantly from the corresponding period in 2014 due to the non-cash impairment charges the Company took in the fourth quarter of 2014 and the third quarter of 2015. For the twelve months ended December 31, 2015, depreciation expense was impacted by the impairment charges and exchange rate movement, combined with the 2014 roll-out of capital equipment associated with the commercialization of the ePVT, including the continued roll-out of the Rig Display, upgrades to the Company's fleet of workstations, and the introduction of the new Versatile Services Platform (VSP) server.

Segment profit, as a percentage of revenue, was 32% for the fourth quarter of 2015 compared to 54% for the corresponding period in 2014. Segment profit decreased to $59.7 million for the twelve months of 2015, a drop of 64% from the same period in 2014.

Canadian Operations

	Three Months Ended December 31,			**Years Ended December 31,**		
	2015	2014	Change	**2015**	2014	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder	**5,932**	15,918	(63)	**26,691**	57,475	(54)
Pit Volume Totalizer/ePVT	**2,603**	5,891	(56)	**11,572**	22,109	(48)
Communications	**2,565**	5,631	(54)	**11,846**	19,052	(38)
Software	**1,299**	2,824	(54)	**5,815**	10,349	(44)
AutoDriller	**1,184**	3,642	(67)	**5,853**	13,801	(58)
Gas Analyzer	**1,729**	4,394	(61)	**7,802**	16,296	(52)
Other	**1,095**	1,981	(45)	**4,251**	7,489	(43)
Total revenue	**16,407**	40,281	(59)	**73,830**	146,571	(50)
Rental services and local administration	**5,874**	12,211	(52)	**27,833**	43,047	(35)
Depreciation and amortization	**8,590**	8,873	(3)	**36,998**	28,033	32
Segment operating profit	**1,943**	19,197	(90)	**8,999**	75,491	(88)

	Three Months Ended December 31,	
	2015	2014
	CAD	CAD
	$	$
Revenue per EDR day	**1,056**	1,258
Revenue per Industry day	**1,039**	1,186

	Years Ended December 31,	
	2015	2014
	CAD	CAD
	$	$
Revenue per EDR day	**1,090**	1,183
Revenue per Industry day	**1,058**	1,111

Canadian segment revenue declined by 59% for the three months ended December 31, 2015, and 50% for the year as compared to the same periods in 2014. This drop is a result of a decline of 57% in the number of drilling days in the fourth quarter of 2015 compared to 2014 levels, pricing pressures from customers, and lower product adoption on some products.

On a year-to-date basis, revenue decreased by 50% while industry days declined 51%.

EDR rental days decreased 52% in the fourth quarter compared to 2014 and 46% for the full twelve months of 2015. Market share for the fourth quarter of 2015 was 98%, compared to 94% in the fourth quarter of 2014.

The factors above combined to result in a decrease in revenue per EDR day of $202 to $1,056 during the fourth quarter of 2015 compared to 2014. Revenue per EDR day for the year ended December 31,2015 was $1,090, down $93 from the same period in 2014.

Operating costs decreased by 52% in the fourth quarter of 2015 relative to the same period in 2014 (35% on a year-to-date basis), primarily due to a drop in activity combined with cost control initiatives implemented by the business unit.

Depreciation expense decreased slightly in the fourth quarter of 2015 from 2014 levels due to the non-cash impairment charges the company took in the fourth quarter of 2014 and the third quarter of 2015. For the year ended December 31, 2015, depreciation expense increased due to the Company's 2014 capital expenditure program explained in the United States Operations update, combined with the amortization of previously capitalized research and development costs, offset by the impairment charges recorded in previous periods.

The fourth quarter 2015 operating profit of $1.9 million is a decrease of $17.3 million over the prior year period. Segment operating profit for the twelve months ended December 31, 2015 is down 88% from last year's comparatives.

International Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2015	2014	Change	**2015**	2014	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder	**3,098**	6,097	(49)	**15,603**	21,837	(29)
Pit Volume Totalizer/ePVT	**815**	2,290	(64)	**4,576**	8,088	(43)
Communications	**525**	567	(7)	**2,094**	1,934	8
Software	**102**	335	(70)	**518**	968	(46)
AutoDriller	**859**	1,423	(40)	**4,439**	5,452	(19)
Gas Analyzer	**484**	1,388	(65)	**2,580**	4,996	(48)
Other	**2,806**	2,750	2	**10,622**	11,058	(4)
Total revenue	**8,689**	14,850	(41)	**40,432**	54,333	(26)
Rental services and local administration	**5,638**	7,634	(26)	**28,361**	27,999	1
Depreciation and amortization	**3,756**	2,568	46	**11,053**	8,026	38
Segment operating (loss) profit	**(705)**	4,648	—	**1,018**	18,308	(94)

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

Revenue in the International operations segment decreased 41% in the fourth quarter of 2015 compared to the same period in 2014. For the year ended December 31, 2015, revenue decreased by 26%, or $13.9 million.

Operating profit decreased by $5.4 million for the fourth quarter of 2015 over 2014 amounts. Year-to-date profit declined by 94%, or $17.3 million.

A number of factors influenced these results:

- Operating costs increased for the twelve months ended December 31, 2015 due to an increase in importation costs in Argentina relating to the deployment of new technology previously rolled out to the Company's North American markets combined with increased staffing costs in Argentina to support drilling activity. All other International business units saw a decline in their controllable costs.
- In the fourth quarter of 2015 the Company recognized a termination payment of $0.6 million from one of its customers. In the fourth quarter of 2015, the company received a $0.2 million payment relating to a contractual foreign exchange and inflationary related adjustment clause with one of its major customers. In 2014, this adjustment was $1.5 million, and was recorded in the third quarter of 2014. These amounts are recorded in Other revenue.
- Depreciation costs increased due to 2014 capital expenditures and a write-off of obsolete spare parts.

Corporate Expenses

	Three Months Ended December 31,			Years Ended December 31,		
	2015	2014	Change	**2015**	2014	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Other expenses						
Research and development	**6,302**	10,653	(41)	**31,733**	35,427	(10)
Corporate services	**5,000**	6,014	(17)	**20,040**	22,243	(10)
Stock-based compensation	**2,802**	(20,600)	—	**7,398**	19,471	(62)
Other						
Foreign exchange (gain) loss	**(1,549)**	(1,498)	3	**(3,104)**	729	—
Impairment loss	**—**	14,884	—	**26,555**	14,884	78
Gain on sale of investment	**—**	—	—	**(2,290)**	—	—
Restructuring costs	**1,024**	—	—	**3,596**	—	—
Other	**591**	852	(31)	**2,682**	2,462	9
Total corporate expenses	**14,170**	10,305	38	**86,610**	95,216	(9)

In 2014, the company reviewed the quantities of rental equipment deployed in each respective business unit versus the anticipated decline in usage rates of such equipment due to the reduction in drilling activity as a result of the drop in oil and gas prices. This review led the Company to record a non-cash impairment charge in the fourth quarter of 2014 of $14.9 million, of which $2.3 million relates to the Canadian operating segment and $12.6 million to the US operating segment. In the third quarter of 2015, management concluded that drilling activity is likely to be at depressed levels for a longer period of time than originally anticipated and this resulted in the company updating its assumptions on equipment usage. This review identified additional excess equipment based upon management's best estimate of future drilling activity. The net book value of this excess equipment, totaling $26.6 million, of which $7.7 million relates to the Canadian operating segment and $18.9 relates to the US operating segment, was recorded as a non-cash impairment loss in the third quarter of 2015.

In response to the current business environment, the Company reduced its staffing levels during the year and recorded a restructuring charge of $1.0 million in the fourth quarter and $3.6 million for the twelve months ended December 31,2015.

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

In May 2015, shareholders approved a modification to the Option Plan to eliminate the ability for the option holder to settle options for cash. As a result of this change, stock-based compensation expense relating to the Option Plan will be less volatile going forward as the fair value of the option is calculated at the time of grant and is not subsequently re-valued at the end of each reporting period.

Q4 2015 versus Q3 2015

Consolidated revenue was $59.8 million in the fourth quarter of 2015 compared to $68.5 million in the third quarter of 2015, a decrease of $8.7 million. Drilling activity in the Company's major markets declined further in the fourth quarter of 2015. The Canadian segment earned revenue of $16.4 million in the fourth quarter as compared to $18.8 million in the third quarter of 2015. Revenue in the US market decreased by $5.4 million to $34.7 million; a further decline in activity in the fourth quarter of 2015 was offset by a further weakening of the Canadian dollar compared to the US dollar. The International segment experienced a revenue decrease of $0.8 million from third quarter revenue of $9.5 million.

The Company recorded a net loss in the fourth quarter of 2015 of $0.8 million ($0.01 per share) compared to a loss of $18.6 million ($0.22 per share) in the third quarter of 2015. Included in the 2015 third quarter results was a non-cash impairment charge of $26.6 million.

Sequentially, EBITDA increased from a negative $2.7 million in the third quarter of 2015 to $20.7 million in the fourth quarter of 2015, due in most part to the third quarter non-cash impairment charge. Funds flow from operations decreased by $5.9 million to $17.9 million in the fourth quarter from the amount recorded in the third quarter of 2015, due to the decrease in operating profit as a result of a further decline in rig activity.

Summary of Quarterly Results

Three Months Ended	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	**Dec 31, 2015**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	123,174	103,851	134,041	138,206	99,402	57,440	68,468	**59,838**
Income (loss)	20,821	17,606	26,466	47,211	14,191	(9,404)	(18,558)	**(841)**
Per share – basic	0.25	0.21	0.32	0.57	0.17	(0.11)	(0.22)	**(0.01)**
Per share – diluted	0.25	0.21	0.31	0.57	0.17	(0.11)	(0.22)	**(0.01)**
EBITDA (1)	70,469	45,999	76,090	59,065	44,126	7,485	(2,717)	**20,736**
Funds flow from operations	56,311	44,255	63,691	59,947	43,262	9,277	23,791	**17,933**
Per share – basic	0.68	0.54	0.77	0.73	0.52	0.11	0.28	**0.21**
Per share – diluted	0.67	0.53	0.75	0.72	0.52	0.11	0.28	**0.21**
Cash from operating activities	64,385	55,980	50,758	42,460	71,533	31,300	16,332	**10,911**
Free cash flow (1)	47,962	37,763	11,110	(4,144)	48,219	21,298	5,902	**4,719**
Per share – basic	0.58	0.46	0.13	(0.05)	0.58	0.25	0.07	**0.05**
Per share – diluted	0.57	0.45	0.13	(0.05)	0.58	0.25	0.07	**0.05**

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

Reconcile income (loss) to EBITDA

Three Months Ended	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	**Dec 31, 2015**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Income (loss)	20,821	17,606	26,466	47,211	14,191	(9,404)	(18,558)	**(841)**
Add:								
Taxes	16,238	5,353	17,946	11,310	12,278	(9,272)	(4,226)	**(1,027)**
Depreciation and amortization	15,742	15,904	16,411	21,144	21,722	20,598	19,259	**19,802**
Stock-based compensation	17,668	7,136	15,267	(20,600)	(1,775)	5,563	808	**2,802**
Gain on sale investment	—	—	—	—	(2,290)	—	—	**—**
EBITDA (1)	70,469	45,999	76,090	59,065	44,126	7,485	(2,717)	**20,736**

Reconcile cash from operating activities to free cash flow

Three Months Ended	Mar 31, 2014	Jun 30, 2014	Sep 30, 2014	Dec 31, 2014	Mar 31, 2015	Jun 30, 2015	Sep 30, 2015	**Dec 31, 2015**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Cash from operating activities	64,385	55,980	50,758	42,460	71,533	31,300	16,332	**10,911**
Less:								
Additions to property, plant and equipment	(14,367)	(17,111)	(37,290)	(44,615)	(21,236)	(7,595)	(8,333)	**(6,219)**
Deferred development costs	(2,056)	(1,106)	(2,358)	(1,989)	(2,078)	(2,407)	(2,097)	**27**
Free cash flow (1)	47,962	37,763	11,110	(4,144)	48,219	21,298	5,902	**4,719**

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

Liquidity and Capital Resources

As at December 31,	**2015**	2014	Change
(000s)	**($)**	($)	(%)
Cash	**195,846**	144,858	35
Working capital	**244,972**	206,571	19
Funds flow from operations [(1)]	**94,263**	224,204	(58)
Capital expenditures [(1)]	**50,811**	121,188	(58)
As a % of funds flow [(2)]	**53.9%**	54.1%	-

(1) For the year ended.

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

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	($)	($)	($)	($)
Operating leases	7,956	13,057	8,333	29,346

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

At December 31, 2015, the Company had no capital lease obligations, and other than the operating leases detailed above, has no off-balance sheet arrangements.

The Company has available a $5.0 million demand revolving credit facility. At December 31, 2015, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at December 31, 2015, there were 84.1 million common shares and 4.9 million options issued and outstanding.

SEDAR

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

Critical Accounting Estimates

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

Depreciation and Amortization

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

Carrying Value of Assets

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

Stock-Based Payments

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

Income Taxes

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

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

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

Risk and Uncertainties

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

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

Operating Risks

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

Commodity Prices

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

Seasonality

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

Proprietary Rights

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

Litigation

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

Credit Risk

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

Availability of Qualified Personnel

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

Alternative Energies

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

International Operations

Assets outside of Canada and the US may be adversely affected by changes in governmental policy, social instability, or other political or economic developments beyond the Company's control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and considered warranted. Approximately 90% of the Company's revenues are generated in Canada and the US, which limits exposure to risks and uncertainties in foreign countries.

Foreign Exchange Exposure

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

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

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

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

An evaluation of the Company’s Disclosure Controls and Procedures was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2015, 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, 2015, our ICFR, as defined in NI 52-109, was effective. There were no changes in our ICFR during the year ended December 31, 2015 that have materially affected, or are reasonably likely to affect, our ICFR.

Corporate Information

Directors

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

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

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

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

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

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

Judi Hess(6)
CEO & Director
Copperleaf Technologies Inc.
Vancouver, British Columbia

Zoran Stakic(4)
Senior Vice President & Chief Technology Officer
Shaw Communications Inc.
Calgary, Alberta

(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

David Holodinsky
Vice President, Operations – USA

Russell Smith
Vice President, Operations – International & Offshore

Kevin Boston
Vice President, Sales & Business Development

Gopinath Ramanan
Vice President, Research & Development

Ron Dudar
Vice President, People & Culture

Todd Perry
Vice President, 3PS, Inc.

Kevin Lo
Vice President, New Ventures

Melinda Ando
General Counsel & Corporate Secretary

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 also invited to attend the Company's Annual Meeting on Wednesday, May 11, 2016, 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,

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
(CDN 000s, except per share data)	**($)**	($)	($)	($)	($)	($)	($)	($)	($)	($)
Operating Results										
Revenue	**285,148**	499,272	403,088	386,514	346,158	260,397	153,823	300,484	236,439	240,584
Expenses										
Rental services	**117,546**	153,151	134,874	125,269	113,568	94,299	72,428	106,600	83,058	72,933
Corporate services	**20,040**	22,243	17,373	15,723	12,975	17,770	11,611	13,250	12,708	6,699
Research and development	**31,733**	35,427	27,252	22,467	17,366	16,472	13,140	12,888	9,566	8,255
Stock-based compensation	**7,398**	19,471	32,511	23,792	1,309	11,233	5,684	7,525	5,248	4,597
Depreciation and amortization	**81,381**	69,201	62,171	68,213	58,565	49,108	55,842	55,719	42,797	39,923
EBITDA[1]	**69,630**	251,623	136,647	151,753	171,661	110,867	46,651	144,883	128,088	143,238
As a % of revenue	**24.4**	50.4	33.9	39.3	49.6	47.1	32.0	49.5	54.2	59.5
Funds flow from operations	**94,263**	224,204	134,930	158,948	145,358	93,973	41,354	124,726	103,766	107,451
Per share – basic	**1.13**	2.71	1.64	1.94	1.78	1.15	0.51	1.53	1.30	1.38
(Loss) income	**(14,612)**	112,104	23,655	39,884	86,223	36,474	(5,510)	61,321	55,052	64,531
Per share – basic	**(0.17)**	1.36	0.29	0.49	1.05	0.45	(0.07)	0.75	0.69	0.83
Capital expenditures	**50,811**	121,188	70,664	71,424	78,357	50,164	21,493	56,292	76,615	71,233
Financial Position										
Total assets	**529,625**	570,066	445,876	488,378	455,901	402,082	354,273	427,016	302,593	270,860
Working capital	**244,972**	206,571	127,933	163,371	126,605	105,815	108,113	152,337	77,806	58,495
Total equity	**489,448**	483,523	366,469	368,696	367,269	309,684	308,335	354,589	270,717	231,209
Return on total equity %[2]	**(3)**	26	6	11	25	12	(2)	20	22	33
Common Share Data										
Common shares outstanding (#)										
At December 31	**84,063**	83,363	82,158	82,049	81,904	81,714	81,487	81,456	80,346	78,738
Weighted average	**83,675**	82,647	82,098	81,968	81,851	81,525	81,476	81,426	79,586	77,899
Share trading										
High ($)	**23.10**	35.51	23.77	18.12	16.53	14.82	14.45	18.40	17.93	19.20
Low ($)	**16.51**	20.82	15.74	12.04	11.53	10.31	8.26	8.00	11.51	13.11
Close ($)	**19.39**	21.89	22.98	17.15	12.00	13.96	11.65	14.05	12.49	13.26
Volume (#)	**37,476**	37,538	24,105	25,053	24,658	23,793	28,605	36,505	34,560	22,804
Dividends ($)	**0.68**	0.64	0.53	0.46	0.38	0.33	0.26	0.22	0.16	0.13

(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.