

# Pason Reports Fourth Quarter and Year End 2017 Results

CALGARY, Feb. 27, 2018 /CNW/ - Pason Systems Inc. (PSI.TO) announced today its 2017 fourth quarter and year end results.

## Performance Data

|                                      | Three Months Ended December 31, |                    |        | Years Ended December 31, |                    |        |
|--------------------------------------|---------------------------------|--------------------|--------|--------------------------|--------------------|--------|
|                                      | 2017                            | 2016<br>(Restated) | Change | 2017                     | 2016<br>(Restated) | Change |
| (CAD 000s, except per share data)    | (\$)                            | (\$)               | (%)    | (\$)                     | (\$)               | (%)    |
| Revenue                              | 66,226                          | 48,827             | 36     | 245,643                  | 160,446            | 53     |
| Net Income (loss) <sup>(1)</sup>     | 5,014                           | (10,446)           | —      | 25,190                   | (41,792)           | —      |
| Per share – basic <sup>(1)</sup>     | 0.06                            | (0.12)             | —      | 0.30                     | (0.49)             | —      |
| Per share – diluted <sup>(1)</sup>   | 0.06                            | (0.12)             | —      | 0.30                     | (0.49)             | —      |
| EBITDA <sup>(2)</sup>                | 26,651                          | (2,291)            | —      | 96,663                   | 3,472              | —      |
| As a % of revenue                    | 40.2                            | (4.7)              | —      | 39.4                     | 2.2                | —      |
| Adjusted EBITDA <sup>(2)</sup>       | 27,797                          | 15,225             | 83     | 98,224                   | 31,005             | 217    |
| As a % of revenue                    | 42.0                            | 31.2               | —      | 40.0                     | 19.3               | —      |
| Funds flow from operations           | 27,356                          | 15,324             | 79     | 87,121                   | 26,815             | 225    |
| Per share – basic                    | 0.32                            | 0.18               | 77     | 1.03                     | 0.32               | 222    |
| Per share – diluted                  | 0.32                            | 0.18               | 77     | 1.02                     | 0.32               | 222    |
| Cash from operating activities       | 16,637                          | 665                | —      | 85,797                   | 19,642             | 337    |
| Free cash flow <sup>(2)</sup>        | 6,690                           | (153)              | —      | 65,831                   | 5,931              | 1,010  |
| Capital expenditures                 | 9,160                           | (30)               | —      | 20,764                   | 12,856             | 62     |
| Working capital                      | 193,692                         | 198,419            | (2)    | 193,692                  | 198,419            | (2)    |
| Total assets                         | 398,446                         | 435,251            | (8)    | 398,446                  | 435,251            | (8)    |
| Total long-term debt                 | —                               | —                  | —      | —                        | —                  | —      |
| Cash dividends declared              | 0.17                            | 0.17               | —      | 0.68                     | 0.68               | —      |
| Shares outstanding end of period (#) | 85,158                          | 84,628             | 1      | 85,158                   | 84,628             | 1      |

- (1) As disclosed in Note 2 to the consolidated financial statements, the Company identified an immaterial non-cash re-classification error with respect to a component of its deferred income tax expense associated with accounting for the deferred tax on its net investment in foreign operations related to an inter-company financing. The reclassification is between the deferred tax provision in the statement of operations and foreign currency translation reserve in equity. This adjustment has been corrected on a retrospective basis with all prior period comparative figures being restated. Management is reviewing tax planning strategies to address this taxable gain and is confident that the Company can mitigate taxes owing when the inter-company financing expires. The Company believes that the impact is not material to its results of operations, financial position or cash flows.

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

## Q4 2017 vs Q4 2016

The Company generated consolidated revenue of \$66.2 million in the fourth quarter of 2017, up 36% from \$48.8 million in the same period of 2016. An increase in the price of oil continues to support optimism within the petroleum industry and this combined with other macro-economic factors has led to increased drilling activity in most of the Company's major markets. US drilling activity in the fourth quarter of 2017 was up 59% from 2016 levels while Canadian activity was up 12%. An increase in US market share combined with increased activity in key International markets also contributed to the increase in revenue. Fourth quarter revenue was negatively impacted by a stronger Canadian dollar relative to the US dollar.

Consolidated Adjusted EBITDA was \$27.8 million in the fourth quarter of 2017, an 83% increase from the same period of 2016 driven by stronger gross profit in each of the Company's three segments. Consolidated EBITDA increased by \$28.9 million from the fourth quarter of 2016. 2016 EBITDA included a non-cash impairment charge of \$17.5 million, the majority of which related to the write-off of intangible assets as a result of the Company's divestiture of the operating assets of 3PS, Inc., a previous wholly-owned subsidiary. Funds flow from operations increased by 79%.

The Company recorded net income of \$5.0 million (\$0.06 per share) in the fourth quarter of 2017, an increase of \$15.4 million from the net loss of \$10.4 million (\$0.12 per share) recorded in the same period of 2016. The Company is benefiting from the cost reduction programs previously implemented, and this combined with a decline in depreciation expense from 2016 levels, are having a positive effect on operating results.

Included in the 2017 fourth quarter results is an increase in the Company's tax provision of \$3.3 million as a result of recording the impact of the change in the Company's transfer pricing methodology, which is further described in Note 12 to the Consolidated Financial Statements. Management believes this change in methodology provides a long term benefit to the Company. The fourth quarter 2016 results include the impairment charge referred to above.

## President's Message

Pason achieved robust fourth quarter results. We generated revenue of \$66.2 million in the period, an increase of 36% from the prior year quarter and 3% from the third quarter. The main drivers of revenue growth were increased drilling activity in the North American land market and market share gains in the United States. As in the second quarter, revenue growth was again negatively impacted by a stronger Canadian dollar relative to the US dollar. Revenue from the International business unit was up 14% year over year, driven by activity improvements in Australia and the Andean region.

Adjusted EBITDA was \$27.8 million for the quarter, an increase of 83% from the prior year quarter and 6% from the third quarter. Adjusted EBITDA as a percentage of revenue increased to 42%. The drivers of this improvement were the significant increase in revenue with high incremental margins and cost reduction programs that were executed during the downturn.

Pason recorded net income of \$5.0 million (\$0.06 per share) compared to a net loss of \$10.4 million (\$0.12 per share) in the prior year quarter. Free cash flow for the quarter was \$6.7 million.

Full-year 2017 results include revenue of \$245.6 million, up 53% from 2016, adjusted EBITDA of \$98.2 million, up from \$31.0 million in 2016, and net income of \$25.2 million, compared to a net loss of \$41.8 million in 2016. The incremental EBITDA margin on revenue growth in 2017, compared to 2016, was 79%. At December 31, 2017, our working capital position stood at \$193.7 million, including cash of \$154.1 million. There is no debt on our balance sheet. We are maintaining our quarterly dividend at \$0.17 share.

Over the past three years of unprecedented market downturn, we have restructured all relevant parts of the company resulting in a leaner and more agile Pason. At the same time, we have continued to invest significant resources in R&D and IT. Our development efforts are focused on strengthening our position as a key enabler of big data analytics strategies and of drilling optimization and automation efforts pursued by our customers. In addition, we continuously enhance the functionality and performance of existing products.

Many of our products directly improve the efficiency, effectiveness and safety of drilling operations and wellbore quality. Examples of this include our PVT Smart Alarms, AutoDrillers, abbl Directional Advisor® and the deployment of the advanced Exxon Drilling Advisory System®. We are building on our acquisition of Verdazo Analytics to provide customers with a holistic platform to analyze drilling, completions, production, financial and operational data. The deployment of an enhanced Pason Live web service to our cloud-based offering benefits office-based users of Pason data.

In response to the evolving needs of our customers, we increased our investment in R&D and IT by 10% in 2017 compared to 2016, with further growth planned in 2018. Our capital expenditures will be relatively modest going forward with a larger portion of development efforts focused on software and analytics. We intend to spend about \$25 million in capital expenditures in 2018. Our highly capable and flexible IT and communications platform can host additional new Pason and third-party software at the rig site and in the cloud.

Led by a strong global economy, growth in demand for oil is projected to continue in 2018. On the supply side, the extension of the OPEC and Russia-led production cuts is translating into significant inventory draws. In the United States, 2018 shale oil production is set for another year of strong growth, as the positive oil market sentiment is likely to increase both investment appetite and availability of financing. US E&P spend is predicted to grow 15 to 20% in 2018, while the international market is expected to grow for the first time in four years, with a projected 5% increase in E&P spend.

As we enter 2018, there is enthusiasm throughout our organization. Our level of confidence in the successful commercialization of new products and services steadily grows as the number of successful technical and commercial trials increases. Pason's market positions are very strong. We are the service provider of choice for many leading operators and drilling contractors with Pason equipment installed on almost 1,000 drilling rigs, or over 65% of all active land drilling rigs in the Western Hemisphere. We are uniquely positioned to participate in the industry's growth.

(signed)

Marcel Kessler

President and Chief Executive Officer

February 27, 2018

## **Management's Discussion and Analysis**

The following discussion and analysis has been prepared by management as of February 27, 2018, 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

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, |               |           | Years Ended December 31, |                |           |
|------------------------------|---------------------------------|---------------|-----------|--------------------------|----------------|-----------|
|                              | 2017                            | 2016          | Change    | 2017                     | 2016           | Change    |
| (000s)                       | (\$)                            | (\$)          | (%)       | (\$)                     | (\$)           | (%)       |
| <b>Revenue</b>               |                                 |               |           |                          |                |           |
| Electronic Drilling Recorder | 27,876                          | 19,982        | 40        | 110,226                  | 66,799         | 65        |
| Pit Volume Totalizer/ePVT    | 11,862                          | 8,001         | 48        | 37,555                   | 22,833         | 64        |
| Communications               | 6,820                           | 4,840         | 41        | 25,234                   | 15,228         | 66        |
| Software                     | 5,660                           | 3,517         | 61        | 20,906                   | 11,104         | 88        |
| AutoDriller                  | 3,556                           | 2,815         | 26        | 14,244                   | 9,357          | 52        |
| Gas Analyzer                 | 5,149                           | 3,803         | 35        | 18,376                   | 12,084         | 52        |
| Other                        | 5,303                           | 5,869         | (10)      | 19,102                   | 23,041         | (17)      |
| <b>Total revenue</b>         | <b>66,226</b>                   | <b>48,827</b> | <b>36</b> | <b>245,643</b>           | <b>160,446</b> | <b>53</b> |

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, |        |        |
|                          | 2017                            | 2016   | Change | 2017                     | 2016   | Change |
|                          |                                 |        | (%)    |                          |        | (%)    |
| EDR rental days (#)      | 15,900                          | 14,600 | 9      | 65,800                   | 44,500 | 48     |
| PVT/ePVT rental days (#) | 14,600                          | 13,300 | 10     | 60,600                   | 40,900 | 48     |
| United States            |                                 |        |        |                          |        |        |
|                          | Three Months Ended December 31, |        |        | Years Ended December 31, |        |        |
|                          | 2017                            | 2016   | Change | 2017                     | 2016   | Change |
|                          |                                 |        | (%)    |                          |        | (%)    |
| EDR rental days (#)      | 50,800                          | 30,100 | 69     | 179,300                  | 97,500 | 84     |
| PVT/ePVT rental days (#) | 38,700                          | 24,000 | 61     | 139,600                  | 75,500 | 85     |

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.

Total revenue increased 36% and 53% for the three and twelve months ending December 31, 2017, over the same period in 2016. This increase is attributable to an increase in drilling activity in the Company's Canadian, and US markets. The 2017 revenue results were negatively impacted from a stronger Canadian dollar relative to the US dollar.

Industry activity in the US market increased 59% in the fourth quarter of 2017 compared to the corresponding period in 2016 (76% on a year-to-date basis), while fourth quarter Canadian rig activity increased 12% (59% on a year-to-date basis). Canadian EDR days, which includes some non-oil and gas-related activity, increased 9% in the fourth quarter of 2017 from 2016 levels (48% on a year-to-date basis), while US EDR days increased by 69% from the fourth quarter of 2016 (84% on a year-to-date basis).

For the fourth quarter of 2017 the Pason EDR was installed on 61% of the land rigs in the US compared to 58% in the corresponding period in 2016. On full-year basis, the EDR was installed on 57% of the land rigs in the US compared to 55% during the same time period in 2016.

For the three months ended December 31, 2017, the Pason EDR was installed on 85% of the land rigs in the Canadian market; for the same time period in 2016 the EDR was installed on 88%. For the twelve months ending December 31, 2017 the EDR was installed on 88% of all Canadian rigs, compared to 95% in 2016. 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.

The percentage increase in revenue generated from the Company's other wellsite instrumentation products was similar to the increase in drilling activity. The notable exceptions were:

- increased product adoption of EDR peripherals, including workstations and Rig Display
- continued customer growth in the Company's software solutions which enhance drilling performance and increase efficiency at the wellsite

Included in the Software category is revenue from the Company's data analytics subsidiary, Verdazo.

The decrease in Other revenue is a result of the sale of the net operating assets of 3PS, Inc. (3PS) effective January 1, 2017.

For the fourth quarter of 2017, the Company saw an increase in activity in Australia and all of its key South American markets.

## Discussion of Operations

### United States Operations

|                                                 | Three Months Ended December 31, |               |             | Years Ended December 31, |               |             |
|-------------------------------------------------|---------------------------------|---------------|-------------|--------------------------|---------------|-------------|
|                                                 | 2017                            | 2016          | Change      | 2017                     | 2016          | Change      |
| (000s)                                          | (\$)                            | (\$)          | (%)         | (\$)                     | (\$)          | (%)         |
| <b>Revenue</b>                                  |                                 |               |             |                          |               |             |
| Electronic Drilling Recorder                    | 18,813                          | 12,057        | 56          | 74,795                   | 40,168        | 86          |
| Pit Volume Totalizer/ePVT                       | 8,799                           | 5,235         | 68          | 25,331                   | 13,487        | 88          |
| Communications                                  | 3,627                           | 2,345         | 55          | 13,053                   | 6,893         | 89          |
| Software                                        | 3,556                           | 2,367         | 50          | 12,623                   | 7,291         | 73          |
| AutoDriller                                     | 1,940                           | 1,194         | 62          | 7,221                    | 3,731         | 94          |
| Gas Analyzer                                    | 2,813                           | 1,871         | 50          | 9,381                    | 5,974         | 57          |
| Other                                           | 2,598                           | 3,563         | (27)        | 9,581                    | 13,423        | (29)        |
| <b>Total revenue</b>                            | <b>42,146</b>                   | <b>28,632</b> | <b>47</b>   | <b>151,985</b>           | <b>90,967</b> | <b>67</b>   |
| <b>Rental services and local administration</b> | <b>16,519</b>                   | <b>14,324</b> | <b>15</b>   | <b>64,161</b>            | <b>52,971</b> | <b>21</b>   |
| <b>Depreciation and amortization</b>            | <b>3,981</b>                    | <b>5,651</b>  | <b>(30)</b> | <b>17,303</b>            | <b>23,130</b> | <b>(25)</b> |
| <b>Segment gross profit</b>                     | <b>21,646</b>                   | <b>8,657</b>  | <b>150</b>  | <b>70,521</b>            | <b>14,866</b> | <b>374</b>  |

|                           | Three Months Ended December 31, |      | Years Ended December 31, |      |
|---------------------------|---------------------------------|------|--------------------------|------|
|                           | 2017                            | 2016 | 2017                     | 2016 |
|                           | \$                              | \$   | \$                       | \$   |
| Revenue per EDR day - USD | 645                             | 667  | 648                      | 643  |
| Revenue per EDR day - CAD | 820                             | 890  | 841                      | 852  |

US land-based drilling activity in 2017 was significantly higher than 2016 activity. US segment revenue increased by 47% in the fourth quarter of

2017 over the 2016 comparable period (54% increase when measured in USD). For the year, US segment revenue increased by 67% over the 2016 comparable period (71% increase when measured in USD). Included in the prior year results was revenue (included in other revenue) from 3PS, the net operating assets of which were sold January 1, 2017. Removing 3PS revenue from the comparative figures, revenue increased by 56% in the fourth quarter compared to 2016 (63% increase when measured in USD.) For the year ended December 31, 2017, and removing 3PS revenue increased by 81% (86% increase when measured in USD).

The increase in industry activity accounted for the majority of the gain in revenue for both the three and twelve months periods ended December 31, 2017. Industry activity in the US market during the fourth quarter of 2017 increased by 59% from the prior year and 76% for the full year. EDR rental days increased by 69% and 84%, respectively, for the three and twelve months ended December 31, 2017 over the same time periods in 2016, resulting in an increase in market share for both periods; 350bps for the fourth quarter of 2017 and a 260bps for the full year.

Revenue per EDR day in the fourth quarter of 2017 decreased to US\$645, a decrease of US\$22 over the same period in 2016. For the year, revenue per EDR day was US\$648, relatively flat compared to 2016. The increase in market share in the US business unit impacted the customer mix between operators and contractors which led to a decrease in this key metric. Also impacting this metric was selective discounts provided on some of the Company's products.

The fourth quarter and twelve months ended December 31, 2017 results were negatively impacted from a stronger Canadian dollar relative to the US dollar.

Operating costs increased by 15% in the fourth quarter relative to the same period in the prior year. When measured in USD, and removing 3PS costs, operating costs increased 53%. The increase in operating cost is attributable to the increase in activity; the hiring of additional staff and higher repairs costs associated with updating capital assets that were previously idle due to the downturn in activity in prior years.

Depreciation expense for the fourth quarter and the full year of 2017 is down significantly from the corresponding periods in 2016 primarily due to the lower capital expenditure program.

Segment gross profit increased by \$12.9 million in the fourth quarter of 2017 compared to the corresponding period in 2016. Segment profit of \$70.5 million for the twelve months of 2017 is an increase of 374% from the same period in 2016.

## Canadian Operations

|                                                 | Three Months Ended December 31, |               |             | Years Ended December 31, |               |            |
|-------------------------------------------------|---------------------------------|---------------|-------------|--------------------------|---------------|------------|
|                                                 | 2017                            | 2016          | Change      | 2017                     | 2016          | Change     |
| (000s)                                          | (\$)                            | (\$)          | (%)         | (\$)                     | (\$)          | (%)        |
| <b>Revenue</b>                                  |                                 |               |             |                          |               |            |
| Electronic Drilling Recorder                    | 6,511                           | 5,481         | 19          | 25,405                   | 17,198        | 48         |
| Pit Volume Totalizer/ePVT                       | 2,438                           | 2,254         | 8           | 9,903                    | 7,347         | 35         |
| Communications                                  | 2,867                           | 2,265         | 27          | 11,080                   | 7,129         | 55         |
| Software                                        | 1,958                           | 1,060         | 85          | 7,837                    | 3,534         | 122        |
| AutoDriller                                     | 1,261                           | 1,095         | 15          | 5,297                    | 3,296         | 61         |
| Gas Analyzer                                    | 1,949                           | 1,604         | 22          | 7,709                    | 4,865         | 58         |
| Other                                           | 761                             | 861           | (12)        | 3,300                    | 2,831         | 17         |
| <b>Total revenue</b>                            | <b>17,745</b>                   | <b>14,620</b> | <b>21</b>   | <b>70,531</b>            | <b>46,200</b> | <b>53</b>  |
| <b>Rental services and local administration</b> | <b>7,109</b>                    | <b>4,570</b>  | <b>56</b>   | <b>24,935</b>            | <b>17,706</b> | <b>41</b>  |
| <b>Depreciation and amortization</b>            | <b>6,618</b>                    | <b>3,920</b>  | <b>69</b>   | <b>24,250</b>            | <b>24,036</b> | <b>1</b>   |
| <b>Segment gross profit</b>                     | <b>4,018</b>                    | <b>6,130</b>  | <b>(34)</b> | <b>21,346</b>            | <b>4,458</b>  | <b>379</b> |

|                           | Three Months Ended December 31, |      | Years Ended December 31, |       |
|---------------------------|---------------------------------|------|--------------------------|-------|
|                           | 2017                            | 2016 | 2017                     | 2016  |
|                           | \$                              | \$   | \$                       | \$    |
| Revenue per EDR day - CAD | 1,072                           | 993  | 1,024                    | 1,030 |

Growth in the Canadian rig count slowed during the fourth quarter after showing significant increase during the first three quarters of 2017.

Canadian segment revenue increased by 21% for the three months ended December 31, 2017, and 53% for the year as compared to the same periods in 2016. The increase is a result of higher activity levels, off set by the run-rate effects of previously established pricing arrangements with customers and a reduction in calculated market share. Included in the software category for 2017 is revenue earned by Verdazo.

On a year-to-date basis, revenue increased by 53% while industry days increased by 59%.

EDR rental days increased 9% in the fourth quarter compared to 2016 levels and 48% for the full twelve months of 2017.

Revenue per EDR day increased \$79 to \$1,072 during the fourth quarter of 2017 compared to 2016. The increase is a result of product penetration gains on certain key products during the fourth quarter of 2017. Revenue per EDR day for the year ended December 31, 2017, was \$1,024, relatively flat from the same period in 2016.

Operating costs increased by 56% in the fourth quarter of 2017 relative to the same period in 2016 (41% on a year-to-date basis), with repair and direct field costs increasing due to higher activity, combined with the inclusion of Verdazo operating costs in the 2017 results.

Depreciation expense increased 69% in the fourth quarter of 2017 from 2016. The increase in depreciation expense is primarily the amortization of intangibles that were recognized on the acquisition of Verdazo.

The fourth quarter 2017 gross profit of \$4.0 million is a decrease of \$2.0 million over the prior year period. Segment gross profit for the twelve months ended December 31, 2017, was up 379% from last year's comparatives.

## International Operations

|                                                 | Three Months Ended December 31, |              |            | Years Ended December 31, |                |             |
|-------------------------------------------------|---------------------------------|--------------|------------|--------------------------|----------------|-------------|
|                                                 | 2017                            | 2016         | Change     | 2017                     | 2016           | Change      |
| (000s)                                          | (\$)                            | (\$)         | (%)        | (\$)                     | (\$)           | (%)         |
| <b>Revenue</b>                                  |                                 |              |            |                          |                |             |
| Electronic Drilling Recorder                    | 2,552                           | 2,444        | 4          | 10,026                   | 9,433          | 6           |
| Pit Volume Totalizer/ePVT                       | 625                             | 512          | 22         | 2,321                    | 1,999          | 16          |
| Communications                                  | 326                             | 230          | 42         | 1,101                    | 1,206          | (9)         |
| Software                                        | 146                             | 90           | 62         | 446                      | 279            | 60          |
| AutoDriller                                     | 355                             | 526          | (33)       | 1,726                    | 2,330          | (26)        |
| Gas Analyzer                                    | 387                             | 328          | 18         | 1,286                    | 1,245          | 3           |
| Other                                           | 1,944                           | 1,445        | 35         | 6,221                    | 6,787          | (8)         |
| <b>Total revenue</b>                            | <b>6,335</b>                    | <b>5,575</b> | <b>14</b>  | <b>23,127</b>            | <b>23,279</b>  | <b>(1)</b>  |
| <b>Rental services and local administration</b> | <b>4,681</b>                    | <b>5,077</b> | <b>(8)</b> | <b>17,963</b>            | <b>19,158</b>  | <b>(6)</b>  |
| <b>Depreciation and amortization</b>            | <b>1,102</b>                    | <b>944</b>   | <b>17</b>  | <b>4,128</b>             | <b>8,218</b>   | <b>(50)</b> |
| <b>Segment gross profit (loss)</b>              | <b>552</b>                      | <b>(446)</b> | <b>—</b>   | <b>1,036</b>             | <b>(4,097)</b> | <b>—</b>    |

The international rig count was in up in all of the Company's major markets in the fourth quarter of 2017 compared to the same period in 2016.

Revenue in the International operations segment increased 14% in the fourth quarter of 2017 compared to the same period in 2016. For the year ended December 31, 2017, revenue decreased by 1%, or \$0.2 million.

The gross profit in the fourth quarter of 2017 of \$0.6 million is \$1.0 million higher than the loss recorded in the same period in 2016. Year-to-date profit increased by \$5.1 million with the Company's Australia market and the Andean region of South America contributing to the majority of the increase.

## Corporate Expenses

|                                 | Three Months Ended December 31, |               |             | Years Ended December 31, |               |             |
|---------------------------------|---------------------------------|---------------|-------------|--------------------------|---------------|-------------|
|                                 | 2017                            | 2016          | Change      | 2017                     | 2016          | Change      |
| (000s)                          | (\$)                            | (\$)          | (%)         | (\$)                     | (\$)          | (%)         |
| <b>Other expenses</b>           |                                 |               |             |                          |               |             |
| Research and development        | 6,136                           | 5,233         | 17          | 25,219                   | 22,848        | 10          |
| Corporate services              | 3,984                           | 4,398         | (9)         | 15,141                   | 16,758        | (10)        |
| Stock-based compensation        | 2,893                           | 1,538         | 88          | 11,762                   | 6,195         | 90          |
| <b>Other</b>                    |                                 |               |             |                          |               |             |
| Foreign exchange loss (gain)    | 1,459                           | 284           | 414         | 1,106                    | (1,943)       | —           |
| Impairment loss                 | —                               | 17,474        | —           | —                        | 17,474        | —           |
| Restructuring costs             | —                               | —             | —           | —                        | 10,861        | —           |
| Other                           | (313)                           | (242)         | 29          | 455                      | 1,141         | (60)        |
| <b>Total corporate expenses</b> | <b>14,159</b>                   | <b>28,685</b> | <b>(51)</b> | <b>53,683</b>            | <b>73,334</b> | <b>(27)</b> |

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

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

## Q4 2017 versus Q3 2017

Consolidated revenue was \$66.2 million in the fourth quarter of 2017 compared to \$64.6 million in the third quarter of 2017, an increase of \$1.6

million. Drilling activity in the Company's major markets was relatively flat over the third quarter. Canadian activity was down 2% when compared to the third quarter while US activity was down 3%. The Canadian segment earned revenue of \$17.7 million in the fourth quarter compared to \$18.3 million in the third quarter of 2017. Revenue in the US market increased from \$40.7 million in the third quarter to \$42.1 in the fourth quarter of 2017. The International segment revenue increased from \$5.6 million in the third quarter of 2017 to \$6.3 million in the fourth quarter of 2017.

Adjusted EBITDA of \$27.8 million in the fourth quarter compared to \$26.2 million in the third quarter of 2017, with the increase largely attributable to an increase in the gross profit realized in the US operating segment. The Company recorded a net profit in the fourth quarter of 2017 of \$5.0 million (\$0.06 per share) compared to \$7.4 million (\$0.08 per share) in the third quarter of 2017. Included in the 2017 fourth quarter results is an increase in the Company's tax provision of \$3.3 million as a result of recording the impact of the change in the Company's transfer pricing methodology, which is further described in Note 12 to the Consolidated Financial Statements. Funds flow from operations increased by \$7.5 million.

#### Fourth Quarter & Year End Conference Call

Pason will be conducting a conference call for interested analysts, brokers, investors and media representatives to review its fourth quarter and year-end results at 9:00 am (Calgary time) on Wednesday, February 28, 2018. The conference call dial-in number is 1-888-231-8191 or 1-647-427-7450. You can access the seven-day replay by dialing 1-855-859-2056 or 1-416-849-0833, using password 2169947.

Pason Systems Inc. is a leading global provider of specialized data management systems for drilling rigs. Our solutions, which include data acquisition, wellsite reporting, remote communications, web-based information management, and analytics, enable collaboration between the rig and the office. Pason's common shares trade on the Toronto Stock Exchange under the symbol PSI.

Additional information, including the Company's Annual Report and Annual Information Form for the year ended December 31, 2017, is available on SEDAR at [www.sedar.com](http://www.sedar.com) or on the Company's website at [www.pason.com](http://www.pason.com).

Shareholders are also invited to attend the Company's Annual General and Special Meeting on Thursday, May 3, 2018, at 3:30 pm at the offices of Pason Systems Inc., 6120 Third Street SE, Calgary, Alberta.

#### Consolidated Balance Sheets

| As at                                | December 31, 2017 | December 31, 2016  |
|--------------------------------------|-------------------|--------------------|
| (CDN 000s)                           | (\$)              | (Restated)<br>(\$) |
| <b>Assets</b>                        |                   |                    |
| Current                              |                   |                    |
| Cash and cash equivalents            | 154,129           | 146,479            |
| Trade and other receivables          | 55,069            | 50,721             |
| Income tax recoverable other         | 17,881            | —                  |
| Prepaid expenses                     | 4,028             | 3,826              |
| Income taxes recoverable             | 3,946             | 15,066             |
| Assets held for sale                 | —                 | 8,413              |
| <b>Total current assets</b>          | <b>235,053</b>    | <b>224,505</b>     |
| Non-current                          |                   |                    |
| Property, plant and equipment        | 127,685           | 150,504            |
| Intangible assets and goodwill       | 34,318            | 43,698             |
| Deferred tax assets                  | 1,390             | 16,544             |
| <b>Total non-current assets</b>      | <b>163,393</b>    | <b>210,746</b>     |
| <b>Total assets</b>                  | <b>398,446</b>    | <b>435,251</b>     |
| <b>Liabilities and equity</b>        |                   |                    |
| Current                              |                   |                    |
| Trade payables and accruals          | 20,391            | 24,347             |
| Income tax payable other             | 17,881            | —                  |
| Stock-based compensation liability   | 3,089             | 1,516              |
| Liabilities held for sale            | —                 | 223                |
| <b>Total current liabilities</b>     | <b>41,361</b>     | <b>26,086</b>      |
| Non-current                          |                   |                    |
| Stock-based compensation liability   | 2,758             | 2,941              |
| Deferred tax liabilities             | 4,515             | 16,656             |
| Onerous lease provision              | 2,326             | 2,917              |
| <b>Total non-current liabilities</b> | <b>9,599</b>      | <b>22,514</b>      |
| <b>Equity</b>                        |                   |                    |
| Share capital                        | 150,887           | 139,730            |
| Share-based benefits reserve         | 24,425            | 23,026             |
| Foreign currency translation reserve | 40,358            | 59,572             |
| Retained earnings                    | 131,816           | 164,323            |
| <b>Total equity</b>                  | <b>347,486</b>    | <b>386,651</b>     |
| <b>Total liabilities and equity</b>  | <b>398,446</b>    | <b>435,251</b>     |

## Consolidated Statements of Operations

|                                              | Three Months Ended<br>December 31, |                    | Years Ended<br>December 31, |                    |
|----------------------------------------------|------------------------------------|--------------------|-----------------------------|--------------------|
|                                              | 2017                               | 2016<br>(Restated) | 2017                        | 2016<br>(Restated) |
| (CDN 000s, except per share data)            | (\$)                               | (\$)               | (\$)                        | (\$)               |
| <b>Revenue</b>                               | <b>66,226</b>                      | 48,827             | <b>245,643</b>              | 160,446            |
| <b>Operating expenses</b>                    |                                    |                    |                             |                    |
| Rental services                              | 25,085                             | 21,271             | 95,912                      | 80,115             |
| Local administration                         | 3,224                              | 2,700              | 11,147                      | 9,720              |
| Depreciation and amortization                | 11,701                             | 10,515             | 45,681                      | 55,384             |
|                                              | <b>40,010</b>                      | 34,486             | <b>152,740</b>              | 145,219            |
| <b>Gross profit</b>                          | <b>26,216</b>                      | 14,341             | <b>92,903</b>               | 15,227             |
| <b>Other expenses</b>                        |                                    |                    |                             |                    |
| Research and development                     | 6,136                              | 5,233              | 25,219                      | 22,848             |
| Corporate services                           | 3,984                              | 4,398              | 15,141                      | 16,758             |
| Stock-based compensation                     | 2,893                              | 1,538              | 11,762                      | 6,195              |
| Other expenses                               | 1,146                              | 17,516             | 1,561                       | 27,533             |
|                                              | <b>14,159</b>                      | 28,685             | <b>53,683</b>               | 73,334             |
| <b>Net income (loss) before income taxes</b> | <b>12,057</b>                      | (14,344)           | <b>39,220</b>               | (58,107)           |
| Income taxes                                 | 7,043                              | (3,898)            | 14,030                      | (16,315)           |
| <b>Net income (loss)</b>                     | <b>5,014</b>                       | (10,446)           | <b>25,190</b>               | (41,792)           |
| <b>Net income (loss) per share</b>           |                                    |                    |                             |                    |
| Basic                                        | 0.06                               | (0.12)             | 0.30                        | (0.49)             |
| Diluted                                      | 0.06                               | (0.12)             | 0.30                        | (0.49)             |

## Consolidated Statements of Other Comprehensive Income

|                                                                                                      | Three Months Ended<br>December 31, |                    | Years Ended<br>December 31, |                    |
|------------------------------------------------------------------------------------------------------|------------------------------------|--------------------|-----------------------------|--------------------|
|                                                                                                      | 2017                               | 2016<br>(Restated) | 2017                        | 2016<br>(Restated) |
| (CDN 000s)                                                                                           | (\$)                               | (\$)               | (\$)                        | (\$)               |
| <b>Net income (loss)</b>                                                                             | <b>5,014</b>                       | (10,446)           | <b>25,190</b>               | (41,792)           |
| Items that may be reclassified subsequently to net income:                                           |                                    |                    |                             |                    |
| Tax recovery (expense) on net investment in foreign operations related to an inter-company financing | 186                                | 879                | (2,500)                     | (1,171)            |
| Foreign currency translation adjustment                                                              | 1,266                              | 3,666              | (16,714)                    | (13,818)           |
| <b>Other comprehensive income (loss)</b>                                                             | <b>1,452</b>                       | 4,545              | <b>(19,214)</b>             | (14,989)           |
| <b>Total comprehensive income (loss)</b>                                                             | <b>6,466</b>                       | (5,901)            | <b>5,976</b>                | (56,781)           |

## Consolidated Statements of Changes in Equity

|                                                       | Share Capital | Share-Based<br>Benefits<br>Reserve | Foreign<br>Currency<br>Translation<br>Reserve | Retained<br>Earnings | Total Equity |
|-------------------------------------------------------|---------------|------------------------------------|-----------------------------------------------|----------------------|--------------|
| (CDN 000s)                                            | (\$)          | (\$)                               | (\$)                                          | (\$)                 | (\$)         |
| <b>Balance at January 1, 2016-Previously reported</b> | 128,067       | 23,367                             | 85,603                                        | 252,411              | 489,448      |
| Correction of error                                   | —             | —                                  | (11,042)                                      | 11,042               | —            |
| <b>Balance at January 1, 2016- Currently reported</b> | 128,067       | 23,367                             | 74,561                                        | 263,453              | 489,448      |
| Net loss                                              | —             | —                                  | —                                             | (31,346)             | (31,346)     |
| Dividends                                             | —             | —                                  | —                                             | (42,963)             | (42,963)     |
| Other comprehensive income- as restated               | —             | —                                  | (19,534)                                      | —                    | (19,534)     |
| Exercise of stock options                             | 6,407         | (1,954)                            | —                                             | —                    | 4,453        |
| Expense related to vesting of options                 | —             | 2,226                              | —                                             | —                    | 2,226        |
| <b>Balance at September 30, 2016</b>                  | 134,474       | 23,639                             | 55,027                                        | 189,144              | 402,284      |
| Net loss                                              | —             | —                                  | —                                             | (10,446)             | (10,446)     |
| Dividends                                             | —             | —                                  | —                                             | (14,375)             | (14,375)     |
| Other comprehensive income- as restated               | —             | —                                  | 4,545                                         | —                    | 4,545        |

|                                       |                |               |               |                |                |
|---------------------------------------|----------------|---------------|---------------|----------------|----------------|
| Exercise of stock options             | 4,006          | (1,383)       | —             | —              | 2,623          |
| Expense related to vesting of options | —              | 770           | —             | —              | 770            |
| Verdazo Acquisition                   | 1,250          | —             | —             | —              | 1,250          |
| <b>Balance at December 31, 2016</b>   | <b>139,730</b> | <b>23,026</b> | <b>59,572</b> | <b>164,323</b> | <b>386,651</b> |
| Net income                            | —              | —             | —             | 20,176         | 20,176         |
| Dividends                             | —              | —             | —             | (43,238)       | (43,238)       |
| Other comprehensive income            | —              | —             | (20,666)      | —              | (20,666)       |
| Exercise of stock options             | 6,290          | (1,516)       | —             | —              | 4,774          |
| Expense related to vesting of options | —              | 2,617         | —             | —              | 2,617          |
| <b>Balance at September 30, 2017</b>  | <b>146,020</b> | <b>24,127</b> | <b>38,906</b> | <b>141,261</b> | <b>350,314</b> |
| Net income                            | —              | —             | —             | 5,014          | 5,014          |
| Dividends                             | —              | —             | —             | (14,459)       | (14,459)       |
| Other comprehensive income            | —              | —             | 1,452         | —              | 1,452          |
| Exercise of stock options             | 3,117          | (731)         | —             | —              | 2,386          |
| Expense related to vesting of options | —              | 1,029         | —             | —              | 1,029          |
| Verdazo Acquisition                   | 1,750          | —             | —             | —              | 1,750          |
| <b>Balance at December 31, 2017</b>   | <b>150,887</b> | <b>24,425</b> | <b>40,358</b> | <b>131,816</b> | <b>347,486</b> |

## Consolidated Statements of Cash Flows

|                                                                             | Three Months Ended<br>December 31, |                    | Years Ended<br>December 31, |                    |
|-----------------------------------------------------------------------------|------------------------------------|--------------------|-----------------------------|--------------------|
|                                                                             | 2017                               | 2016<br>(Restated) | 2017                        | 2016<br>(Restated) |
| (CDN 000s)                                                                  | (\$)                               | (\$)               | (\$)                        | (\$)               |
| <b>Cash from (used in) operating activities</b>                             |                                    |                    |                             |                    |
| Net Income (loss)                                                           | 5,014                              | (10,446)           | 25,190                      | (41,792)           |
| Adjustment for non-cash items:                                              |                                    |                    |                             |                    |
| Depreciation and amortization                                               | 11,701                             | 10,515             | 45,681                      | 55,384             |
| Impairment loss                                                             | —                                  | 17,474             | —                           | 17,474             |
| Stock-based compensation                                                    | 2,893                              | 1,538              | 11,762                      | 6,195              |
| Non-cash restructuring costs                                                | —                                  | —                  | —                           | 4,833              |
| Deferred income taxes                                                       | 5,447                              | (3,882)            | 4,762                       | (12,773)           |
| Unrealized foreign exchange loss (gain) and other                           | 2,301                              | 125                | (274)                       | (2,506)            |
| <b>Funds flow from operations</b>                                           | <b>27,356</b>                      | <b>15,324</b>      | <b>87,121</b>               | <b>26,815</b>      |
| Movements in non-cash working capital items:                                |                                    |                    |                             |                    |
| Increase in trade and other receivables                                     | (3,011)                            | (12,411)           | (8,149)                     | (6,791)            |
| Decrease (increase) in prepaid expenses                                     | 934                                | 516                | (226)                       | (193)              |
| Increase (decrease) in income taxes                                         | 2,141                              | (774)              | 15,518                      | 9,570              |
| Decrease in trade payables, accruals and stock-based compensation liability | (9,462)                            | (1,826)            | (3,719)                     | (3,940)            |
| Effects of exchange rate changes                                            | (1,323)                            | 448                | (361)                       | 1,606              |
| <b>Cash generated from operating activities</b>                             | <b>16,635</b>                      | <b>1,277</b>       | <b>90,184</b>               | <b>27,067</b>      |
| Income tax paid                                                             | 2                                  | (612)              | (4,387)                     | (7,425)            |
| <b>Net cash from operating activities</b>                                   | <b>16,637</b>                      | <b>665</b>         | <b>85,797</b>               | <b>19,642</b>      |
| <b>Cash flows from (used in) financing activities</b>                       |                                    |                    |                             |                    |
| Proceeds from issuance of common shares                                     | 2,386                              | 2,623              | 7,160                       | 7,076              |
| Payment of dividends                                                        | (14,459)                           | (14,375)           | (57,697)                    | (57,338)           |
| <b>Net cash used in financing activities</b>                                | <b>(12,073)</b>                    | <b>(11,752)</b>    | <b>(50,537)</b>             | <b>(50,262)</b>    |
| <b>Cash flows (used in) from investing activities</b>                       |                                    |                    |                             |                    |
| Additions to property, plant and equipment                                  | (7,962)                            | (979)              | (18,368)                    | (10,492)           |
| Development costs                                                           | (1,198)                            | 1,009              | (2,396)                     | (2,364)            |
| Proceeds on disposal of investment and property, plant and equipment        | 24                                 | (294)              | 85                          | 398                |
| (Cash spent) acquired pursuant to business acquisition                      | (1,000)                            | 1,243              | (5,750)                     | 1,243              |
| Proceeds on sale of net operating assets                                    | 1,036                              | —                  | 8,159                       | —                  |
| Changes in non-cash working capital                                         | (811)                              | (554)              | 713                         | (1,253)            |
| <b>Net cash used in investing activities</b>                                | <b>(9,911)</b>                     | <b>425</b>         | <b>(17,557)</b>             | <b>(12,468)</b>    |
| Effect of exchange rate on cash and cash equivalents                        | 39                                 | 2,543              | (10,053)                    | (6,279)            |
| <b>Net (decrease) increase in cash and cash equivalents</b>                 | <b>(5,308)</b>                     | <b>(8,119)</b>     | <b>7,650</b>                | <b>(49,367)</b>    |
| <b>Cash and cash equivalents, beginning of period</b>                       | <b>159,437</b>                     | <b>154,598</b>     | <b>146,479</b>              | <b>195,846</b>     |
| <b>Cash and cash equivalents, end of period</b>                             | <b>154,129</b>                     | <b>146,479</b>     | <b>154,129</b>              | <b>146,479</b>     |

## 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 amounts related to each segment are as follows:

| Three Months Ended December 31, 2017     | Canada | United States | International | Total   |
|------------------------------------------|--------|---------------|---------------|---------|
| (CDN 000s)                               | (\$)   | (\$)          | (\$)          | (\$)    |
| Revenue                                  | 17,745 | 42,146        | 6,335         | 66,226  |
| Rental services and local administration | 7,109  | 16,519        | 4,681         | 28,309  |
| Depreciation and amortization            | 6,618  | 3,981         | 1,102         | 11,701  |
| Segment gross profit                     | 4,018  | 21,646        | 552           | 26,216  |
| Research and development                 |        |               |               | 6,136   |
| Corporate services                       |        |               |               | 3,984   |
| Stock-based compensation                 |        |               |               | 2,893   |
| Other expenses                           |        |               |               | 1,146   |
| Income taxes                             |        |               |               | 7,043   |
| Net Income                               |        |               |               | 5,014   |
| Capital expenditures                     | 5,726  | 2,888         | 546           | 9,160   |
| <b>As at December 31, 2017</b>           |        |               |               |         |
| 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  |

#### Three Months Ended December 31, 2016 (Restated)

|                                          |         |         |        |          |
|------------------------------------------|---------|---------|--------|----------|
| (CDN 000s)                               |         |         |        |          |
| Revenue                                  | 14,620  | 28,632  | 5,575  | 48,827   |
| Rental services and local administration | 4,570   | 14,324  | 5,077  | 23,971   |
| Depreciation and amortization            | 3,920   | 5,651   | 944    | 10,515   |
| Segment gross profit (loss)              | 6,130   | 8,657   | (446)  | 14,341   |
| Research and development                 |         |         |        | 5,233    |
| Corporate services                       |         |         |        | 4,398    |
| Stock-based compensation                 |         |         |        | 1,538    |
| Other income                             |         |         |        | 17,516   |
| Income taxes                             |         |         |        | (3,898)  |
| Net loss                                 |         |         |        | (10,446) |
| Capital expenditures                     | (1,465) | 1,861   | (426)  | (30)     |
| <b>As at December 31, 2016</b>           |         |         |        |          |
| Property plant and equipment             | 54,019  | 74,806  | 21,679 | 150,504  |
| Goodwill                                 | 1,284   | 7,850   | 2,600  | 11,734   |
| Intangible assets                        | 31,817  | 147     | —      | 31,964   |
| Segment assets                           | 130,792 | 248,762 | 55,697 | 435,251  |
| Segment liabilities                      | 33,425  | 9,570   | 5,605  | 48,600   |

| Year Ended December 31, 2017             | Canada | United States | International | Total   |
|------------------------------------------|--------|---------------|---------------|---------|
| (CDN 000s)                               | (\$)   | (\$)          | (\$)          | (\$)    |
| 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 expenses                           |        |               |               | 1,561   |
| Income taxes                             |        |               |               | 14,030  |
| Net Income                               |        |               |               | 25,190  |
| Capital expenditures                     | 5,481  | 14,316        | 967           | 20,764  |
| <b>As at December 31, 2017</b>           |        |               |               |         |
| 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  |

#### Year Ended December 31, 2016 (Restated)

|                                          |        |        |         |          |
|------------------------------------------|--------|--------|---------|----------|
| (CDN 000s)                               |        |        |         |          |
| Revenue                                  | 46,200 | 90,967 | 23,279  | 160,446  |
| Rental services and local administration | 17,706 | 52,971 | 19,158  | 89,835   |
| Depreciation and amortization            | 24,036 | 23,130 | 8,218   | 55,384   |
| Segment gross profit (loss)              | 4,458  | 14,866 | (4,097) | 15,227   |
| Research and development                 |        |        |         | 22,848   |
| Corporate services                       |        |        |         | 16,758   |
| Stock-based compensation                 |        |        |         | 6,195    |
| Other expenses                           |        |        |         | 27,533   |
| Income taxes                             |        |        |         | (16,315) |
| Net loss                                 |        |        |         | (41,792) |
| Capital expenditures                     | 1,465  | 11,667 | (276)   | 12,856   |

**As at December 31, 2016**

|                              |         |         |        |         |
|------------------------------|---------|---------|--------|---------|
| Property plant and equipment | 54,019  | 74,806  | 21,679 | 150,504 |
| Goodwill                     | 1,284   | 7,850   | 2,600  | 11,734  |
| Intangible assets            | 31,817  | 147     | —      | 31,964  |
| Segment assets               | 130,792 | 248,762 | 55,697 | 435,251 |
| Segment liabilities          | 33,425  | 9,570   | 5,605  | 48,600  |

**Correction of Error**

During the fourth quarter of 2017, the Company adjusted for a re-classification of an immaterial non-cash error in the recognition of a component of its deferred income tax expense. The error was a result of the Company recognizing in the statement of operations the deferred income tax effect of the future taxable foreign exchange gain adjustment associated with its net investment in foreign operations related to an inter-company financing, when the amount should have been adjusted through the foreign currency translation reserve within equity. Accordingly, this adjustment has been corrected on a retrospective basis with all prior period comparative figures being restated.

The cumulative impact of this error as of January 1, 2016 was to increase retained earnings and reduce Foreign Currency Translation Reserve by \$11,042.

For the 12 months ended December 31, 2016, the income tax provision increased by \$1,171 (Q4-2016 impact was to reduce the income tax provision by \$879).

Management is reviewing tax planning strategies to address this taxable gain and is confident that the Company can mitigate taxes owing when the inter-company financing expires. The Company believes that the impact is not material to its results of operations, financial position or cash flows.

**Other Expenses**

|                              | Three Months Ended December 31, |        | Years Ended December 31, |         |
|------------------------------|---------------------------------|--------|--------------------------|---------|
|                              | 2017                            | 2016   | 2017                     | 2016    |
| (CDN 000s)                   | (\$)                            | (\$)   | (\$)                     | (\$)    |
| Foreign exchange loss (gain) | 1,459                           | 284    | 1,106                    | (1,943) |
| Impairment loss              | —                               | 17,474 | —                        | 17,474  |
| Restructuring costs          | —                               | —      | —                        | 10,861  |
| Other                        | (313)                           | (242)  | 455                      | 1,141   |
| Other expenses               | 1,146                           | 17,516 | 1,561                    | 27,533  |

During 2016, the Company initiated a review of its investment in 3PS, Inc. (3PS). In the fourth quarter of 2016 a final agreement was entered into for the sale of the net operating assets of 3PS, effective January, 2017. As a result of this divestiture, the Company recorded a non-cash impairment loss of \$17,474 in the fourth quarter of 2016, the majority of which is attributable to the write-down of goodwill that arose as a result of the initial acquisition of 3PS.

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

**Events After the Reporting Period**

On February 27, 2018, the Company announced a quarterly dividend of \$0.17 per share on the Company's common shares. The dividend will be paid on March 30, 2018 to shareholders of record at the close of business on March 16, 2018.

**Pason Systems Inc.**

Pason Systems Inc. is a leading global provider of specialized data management systems for drilling rigs. Our solutions, which include data acquisition, wellsite reporting, remote communications, and web-based information management, enable collaboration between the rig and the office. Pason's common shares trade on the Toronto Stock Exchange under the symbol PSI.

Certain information regarding the Company contained herein may constitute forward-looking information under applicable securities law. The words "anticipate", "expect", "believe", "may", "should", "will", "estimate", "project", "outlook", "forecast" or other similar words are used to identify such forward-looking information and statements. Forward-looking statements in this document may include statements, express or implied regarding the anticipated business prospects and financial performance of Pason; expectations or projections about future strategies and goals for growth and expansion; expected and future cash flows and revenues; and expected impact of future commitments. These forward-looking statements are based upon various underlying factors and assumptions, including the state of the economy and the oil and gas exploration and production business, in particular; the Company's business prospects and opportunities; and estimates of the financial and operational performance of Pason.

Forward-looking information and 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 information and statements. Risk factors that could cause actual results or events to differ materially from current expectations include, among others, the ability of Pason to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of Pason's assets and businesses, the price of energy commodities, competitive factors in the energy industry, changes in laws and regulations affecting Pason's businesses, technological developments, and general economic conditions.

Readers are cautioned not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are placed will occur. Such forward looking statements, although considered reasonable by management as of the date hereof, may prove to be incorrect and actual results may differ materially from those anticipated. Forward-looking statements contained in this press release are expressly qualified by this cautionary statement.

Additional information on risks and uncertainties and other factors that could affect Pason's operations or financial results are included in Pason's reports on file with the Canadian securities regulatory authorities and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)) or through Pason's website ([www.pason.com](http://www.pason.com)). Furthermore, any forward looking statements contained in this news release are made as of the date of this news release, and Pason does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by securities law.

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**For further information:** about Pason Systems Inc., visit the company's website at [www.pason.com](http://www.pason.com) or contact: Marcel Kessler, President and CEO, 403-301-3400, [marcel.kessler@pason.com](mailto:marcel.kessler@pason.com); Jon Faber, Chief Financial Officer, 403-301-3400, [jon.faber@pason.com](mailto:jon.faber@pason.com)

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