Performance Data

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017 (Restated)	Change	2018	2017 (Restated)	Change
(CDN 000s, except per share data)	($)	($)	(%)	($)	($)	(%)
Revenue	**68,271**	55,792	22	**142,084**	114,841	24
Net Income (1)	**5,479**	5,968	(8)	**17,838**	12,772	40
Per share – basic (1)	**0.06**	0.07	(9)	**0.21**	0.15	39
Per share – diluted (1)	**0.06**	0.07	(9)	**0.21**	0.15	38
EBITDA (2)	**23,614**	21,050	12	**55,834**	44,519	25
As a % of revenue	**34.6**	37.7	(310) bps	**39.3**	38.8	50 bps
Adjusted EBITDA (2)	**29,458**	19,361	52	**64,211**	44,269	45
As a % of revenue	**43.1**	34.7	840 bps	**45.2**	38.5	670 bps
Funds flow from operations	**27,836**	18,795	48	**61,794**	39,869	55
Per share – basic	**0.33**	0.22	47	**0.73**	0.47	54
Per share – diluted	**0.32**	0.22	45	**0.72**	0.47	54
Cash from operating activities	**27,617**	24,201	14	**51,961**	54,032	(4)
Free cash flow (2)	**23,133**	19,628	18	**42,039**	48,139	(13)
Capital expenditures	**4,771**	5,099	(6)	**10,568**	6,233	70
Working capital	**224,749**	197,191	14	**224,749**	197,191	14
Total assets	**424,423**	412,991	3	**424,423**	412,991	3
Total long-term debt	**—**	—	—	**—**	—	—
Cash dividends declared	**0.17**	0.17	—	**0.34**	0.34	—
Shares outstanding end of period (#000's)	**85,378**	84,814	1	**85,378**	84,814	1

(1) As disclosed in Note 2 to the consolidated financial statements, in 2017 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.

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

Q2 2018 vs Q2 2017

The Company generated consolidated revenue of $68.3 million in the second quarter of 2018, an increase of 22% from the same period in 2017. Stable oil prices have resulted in an increase in the number of active drilling rigs in the US. In Canada, a more challenging industry outlook has led to declines in activity compared to the prior year. The International business unit saw increases in activity in each of the Company's major markets.

Consolidated adjusted EBITDA increased to $29.5 million in the second quarter, an increase of 52% from the second quarter of 2017. For the first six months, consolidated adjusted EBITDA was $64.2 million, an increase of 45% over the 2017 comparative period. Significant increases in gross profit in the US business unit led to the improvement in this key measure.

The Company recorded net income of $5.5 million ($0.06 per share) in the second quarter of 2018, compared to net income of $6.0 million ($0.07 per share) recorded in the same period in 2017. Net income was negatively impacted in the second quarter of 2018 from (a) the Company recording a significant unrealized foreign exchange loss on inter-company advances made to the Company's Argentinian subsidiary as a result of a significant devaluation of the Argentina peso relative to the Canadian dollar and (b) the effective income tax rate for the second quarter of 2018 being higher than the statutory rate due the unrealized foreign exchange loss recorded on the inter-company advances described above.

President’s Message

Pason achieved strong results in the second quarter of 2018 and our teams continue to perform well in all geographies. We generated revenue of $68.3 million in the period, an increase of 22% compared to the same quarter last year. The main drivers of revenue growth were increased drilling activity and market share gains in the United States, and higher activity levels in all Pason’s international markets. These improvements were partially offset by a decline in Canadian drilling activity and by a stronger Canadian dollar relative to the US dollar.

Adjusted EBITDA was $29.5 million for the quarter, an increase of 52%. Adjusted EBITDA as a percentage of revenue was 43% compared to 35% one year ago. The drivers of this improvement were the significant increase in revenue with high incremental margins. Pason recorded net income for the quarter of $5.5 million ($0.06 per share) compared to $6.0 million ($0.07 per share) in the prior year quarter. Net income was negatively affected by an unrealized foreign exchange loss caused by the significant devaluation of the Argentine peso relative to the Canadian dollar.

Capital expenditures for the quarter were $4.8 million and free cash flow was $23.1 million. At June 30, 2018, our working capital position stood at $224.7 million, including cash and short-term investments of $177.2 million. There is no debt on our balance sheet. We are increasing our quarterly dividend to $0.18 per share.

In the first quarter of 2018, we began reporting our revenue along five product categories to better reflect the changing nature of Pason’s business as follows:

- Drilling Data contains all products and services associated with acquiring, displaying, storing, and delivering drilling data. Revenue in this segment increased 25% in the second quarter compared to the previous year period and accounted for 52% of our total revenue. This increase was driven by a 17% increase in total US land drilling activity and US market share gains from 56% to 61%. Drilling industry days in Canada decreased by 9%, while segment revenue was essentially flat.
- Mud Management & Safety includes products such as the Pit Volume Totalizer (PVT), Gas Analyzer, Hazardous Gas Alarm, and the Electronic Choke Actuator. In the second quarter, Mud Management & Safety generated 28% of total revenue.
- Communications includes satellite and terrestrial Internet bandwidth, Wireless Rigsite, VOIP and Intercom services and accounted for 9% of total revenue. Revenue in this segment is showing lower growth because of the transition from satellite to terrestrial bandwidth with lower pricing and better user experience for customers.
- Drilling Intelligence bundles Pason’s offers targeted at enabling our customers’ drilling optimization and automation efforts. It contains products such as autodrillers, abbl Directional Advisor®, the ExxonMobil Drilling Advisory System® and Pivot, a pipe oscillation system for improving slide drilling. Drilling Intelligence is our highest growth segment (at 36%) and it generated 6% of total revenue in the second quarter. Our level of confidence in the successful commercialization of new

drilling intelligence products continues to grow. There currently are over 130 drilling rig installations of new Drilling Intelligence software in North America.

- Analytics & Other includes our Verdazo Discovery Analytics product suite, various reports, and other revenue streams. This segment is not as directly correlated to drilling activity and accounted for 4% of revenue.

We have increased our investment in R&D and IT by 7% in the first half of 2018 compared to the previous year period with a focus on machine learning algorithms. 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 up to $25.0 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.

The Permian Basin in Texas and New Mexico is the most active basin in the United States. It has been the focal point for the industry's recovery since the downturn and the key driver of revenue growth for Pason. There is the potential for a slowdown in drilling activity in the Permian the second half of 2018 due to takeaway capacity issues. However, we have not yet seen any signs of a slowdown and we would expect activity levels to plateau, rather than decline significantly.

In Canada, the ongoing crude oil and natural gas takeaway capacity issues continue to create an environment of extreme caution for E&P companies. The industry is watching for signals from Shell on plans for the $40-billion LNG Canada project on the West Coast. Shell has recently called the project “very promising” but it is still under study. A positive final investment decision could be a catalyst for an increase in Canadian gas drilling activity.

The outlook for our international business is positive. Market fundamentals continue to evolve favorably as the global balance of crude oil supply and demand tightens. Despite OPEC’s recent decision to increase production, global supply continues to weaken from geopolitical pressure to remove Iranian oil from the market and no resolution to falling production in Venezuela. Spare production capacity, which is limited to a few OPEC countries, is at a low level. It is becoming apparent that the new projects expected to come online during the next few years will not be sufficient to meet the increasing demand. These developments underline the growing need for international E&P spending to increase significantly.

Pason’s market positions remain very strong. We are the service provider of choice for many leading operators and drilling contractors with Pason equipment installed on over 65% of all active land drilling rigs in the Western Hemisphere and a growing position in the Middle East. We continue to be very well positioned to participate in the industry’s recovery and growth.

Marcel Kessler
President and Chief Executive Officer
August 8, 2018

Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of August 8, 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 interim condensed consolidated financial statements, the Company uses certain additional IFRS measures. Management believes these measures provide useful supplemental information to readers.

Funds flow from operations

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

Cash from operating activities

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

Non-IFRS Financial Measures

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

Revenue per EDR Day

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

EBITDA

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

Adjusted EBITDA

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

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

Free cash flow

Free cash flow is defined as cash from operating activities plus proceeds on disposal of property, plant, and equipment, less capital expenditures (including changes to non-cash working capital associated with capital expenditures), and deferred development costs. This metric provides a key measure on the Company's ability to generate cash from it's 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 June 30,			Six Months Ended June 30,		
	2018	2017	Change	**2018**	2017	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**35,420**	28,317	25	**72,715**	57,085	27
Mud Management and Safety	**19,304**	16,423	18	**40,564**	33,937	20
Communications	**6,111**	5,380	14	**13,909**	11,873	17
Drilling Intelligence	**4,374**	3,221	36	**8,955**	7,214	24
Analytics and Other	**3,062**	2,451	25	**5,941**	4,732	26
Total revenue	**68,271**	55,792	22	**142,084**	114,841	24

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

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

Pason Electronic Drilling Recorder (EDR) Rental Days

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	**2018**	2017	Change
	#	#	(%)	#	#	(%)
Canada	**8,300**	9,200	(10)	**29,400**	33,000	(11)
United States	**56,300**	43,700	29	**107,200**	79,000	36

Total revenue increased 22% and 24% for the three and six months ending June 2018, over the same period in 2017. This increase is attributable to an increase in drilling activity in the Company's US and major International markets, partially offset by lower Canadian activity. The second quarter and year-to-date 2018 results, as compared to corresponding period in 2017, were negatively impacted by a stronger Canadian dollar relative to the US dollar.

Industry activity in the US market increased 17% in the second quarter of 2018 compared to the corresponding period in 2017, while second quarter Canadian rig activity decreased 9%. US EDR days increased by 29% in the second quarter of 2018 compared to the corresponding period in 2017, while second quarter Canadian EDR days, which includes some non-oil and gas-related activity, decreased 10% from 2017 levels. Both the US and the Canadian business units saw increases in revenue per EDR day when measured in local currencies.

In the second quarter of 2018, the Pason EDR was installed on 61% of the land rigs in the US market compared to 56% during the same time period of 2017.

In the second quarter of 2018, the Pason EDR was installed on 86% of the land rigs in the Canadian market compared to 87% during the same period of 2017. For the purposes of market share, the Company uses the number of EDR days billed and oil and gas drilling days as reported by accepted industry sources.

Revenue generated from the Company's other wellsite instrumentation products was largely driven by the increase in drilling activity in the US market combined with increases in the adoption of certain EDR peripherals and an increase in revenue from the Company's Drilling Intelligence products, including the continued roll-out of the Drilling Advisory System™ technology licensed from ExxonMobil™.

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

Discussion of Operations

United States Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	**2018**	2017	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**26,973**	20,466	32	**50,671**	35,742	42
Mud Management and Safety	**14,643**	12,090	21	**27,879**	21,589	29
Communications	**4,200**	3,388	24	**7,898**	5,985	32
Drilling Intelligence	**2,909**	1,973	47	**5,053**	3,457	46
Analytics and Other	**1,553**	1,278	22	**2,885**	2,388	21
Total revenue	**50,278**	39,195	28	**94,386**	69,161	36
Rental services and local administration	**17,455**	16,302	7	**34,340**	30,512	13
Depreciation and amortization	**4,100**	4,170	(2)	**7,928**	9,171	(14)
Segment gross profit	**28,723**	18,723	53	**52,118**	29,478	77

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Revenue per EDR day - USD	**685**	661	**682**	649
Revenue per EDR day - CAD	**884**	889	**872**	866

US land-based drilling continued its sequential increase quarter over quarter resulting from the improvement of global commodity price fundamentals and WTI trading consistently above US$65 per barrel. These fundamentals continue to support strong rig activity.

US segment revenue increased by 28% in the second quarter of 2018 over the 2017 comparable period (33% when measured in USD). For the first six months of 2018, revenue increased 36% compared to the prior period (42% when measured in USD). The value of the Canadian dollar relative to the US dollar had a negative impact on revenue when measured in Canadian dollars in 2018 compared to 2017.

Industry activity in the US market increased by 17% in the second quarter of 2018 over the 2017 comparable period. For the first six months of 2018, industry activity increased by 24% compared to the prior period. US market share was 61% for the second quarter of 2018 compared to 56% during the same period of 2017. For the first six months of 2018, US market share was 61% compared to 55% during the same period of 2017. The increase in market share is driven by market share growth in key US regions combined with changes in the mix of active customers.

EDR rental days increased by 29% in the second quarter of 2018 over the 2017 comparable period, while revenue per EDR day in the second quarter of 2018 increased to US$685, an increase of US$24 over the same period in 2017. The increase in EDR rental days and revenue per EDR day was driven by higher adoption of certain peripheral products and selective price increases on certain products.

Revenue per EDR day for the first six months of 2018 was US$682, up US$33 from the same period of 2017.

Operating costs increased by 7% in the second quarter of 2018 over the 2017 comparative period (13% when measured in USD). For the first six months of 2018, operating costs increased 13% over the 2017 comparative period (19% when measured in USD). The increase in operating costs is attributable higher field staff levels and higher direct costs to support additional activity.

Depreciation expense decreased by 2% in the second quarter of 2018 over the 2017 comparative period due to the reduction in the capital program since 2014.

Segment gross profit increased by $10.0 million in the second quarter of 2018 over the 2017 comparative period.

Canadian Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	**2018**	2017	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**4,180**	4,157	1	**14,100**	14,602	(3)
Mud Management and Safety	**2,962**	3,117	(5)	**9,623**	10,109	(5)
Communications	**1,506**	1,670	(10)	**5,275**	5,353	(1)
Drilling Intelligence	**1,117**	746	50	**3,235**	2,778	16
Analytics and Other	**900**	789	14	**1,856**	1,624	14
Total revenue	**10,665**	10,479	2	**34,089**	34,466	(1)
Rental services and local administration	**6,136**	5,559	10	**13,464**	11,353	19
Depreciation and amortization	**4,223**	5,645	(25)	**8,608**	11,579	(26)
Segment gross profit (loss)	**306**	(725)	—	**12,017**	11,534	4

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	**2018**	2017
	$	$	**$**	$
Revenue per EDR day - CAD	**1,184**	1,044	**1,102**	994

The second quarter Canadian rig activity showed year-over-year decrease in activity. Drilling industry days decreased by 9% for both the second quarter of 2018 and for the first six months of 2018 compared to the same period in 2017. Rig activity reflected the challenging industry outlook and, for the second quarter of 2018, wet conditions persisted across several areas of the WCSB.

Canadian segment revenue increased by 2% in the second quarter of 2018 over the 2017 comparative period. For the first six months of 2018, revenue decreased by 1% compared to the prior period.

EDR rental days decreased 10% in the second quarter of 2018 compared to 2017. On a year-to-date basis EDR rental days decreased 11% over 2017 levels.

Revenue per EDR day increased by $140 to $1,184 during the second quarter of 2018 compared to 2017. For the first six months of 2018, revenue per EDR day increased by $108 to $1,102. The increase is driven by higher adoption of certain EDR peripherals and the successful introduction of ExxonMobil DAS™ .

Operating costs increased by 10% in the second quarter of 2018 relative to the same period in 2017 (19% on a year-to-date basis), with repair costs and other direct field costs responsible for the increase.

Depreciation and amortization expense decreased by 25% for the three months ended June 30, 2018. The decrease is a result of lower capital programs since 2014 and a drop in amortization expense of previously deferred research and development costs as fewer project costs are being capitalized for accounting purposes.

Segment gross profit for the second quarter of 2018 was $0.3 million compared to a loss of $0.7 million for the same quarter in 2017.

International Operations

	Three Months Ended June 30,			**Six Months Ended June 30,**		
	2018	2017	Change	**2018**	2017	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**4,267**	3,694	16	**7,944**	6,741	18
Mud Management and Safety	**1,699**	1,216	40	**3,062**	2,239	37
Communications	**405**	322	26	**736**	535	38
Drilling Intelligence	**348**	502	(31)	**667**	979	(32)
Analytics and Other	**609**	384	59	**1,200**	720	67
	7,328	6,118	20	**13,609**	11,214	21
Rental services and local administration	**4,765**	4,773	—	**9,448**	8,965	5
Depreciation and amortization	**897**	1,008	(11)	**1,859**	2,046	(9)
Segment gross profit	**1,666**	337	394	**2,302**	203	1,034

The international rig count was up in all of the Company's major international markets with the largest increases in Australia and Argentina. The increase in activity in Argentina was offset by a weaker Argentinian Peso compared to the prior year. Revenue in the International operations segment increased in the second quarter of 2018 by 20% compared to the same period in 2017. For the first six month of 2018, revenue increased by 21% compared to the prior period.

Operating costs were consistent in the second quarter compared to the same period in 2017. For the first six months of 2018, operating costs increased by 5% compared to the prior period.

Depreciation expense decreased by 11% for the three months ended June 30, 2018.

Segment gross profit was $1.7 million for the second quarter of 2018, an improvement from the $0.3 million profit recorded in the corresponding period in 2017. For the first six months of 2018, segment gross profit was $2.3 million compared to $0.2 million in 2017.

Corporate Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2018	2017	Change	**2018**	2017	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Other expenses						
Research and development	**6,617**	6,261	6	**12,976**	12,138	7
Corporate services	**3,840**	3,536	9	**7,645**	7,604	1
Stock-based compensation	**3,855**	3,177	21	**6,389**	5,724	12
Other						
Foreign exchange loss (gain)	**5,787**	(689)	—	**8,191**	(466)	—
Other	**57**	(1,000)	—	**186**	216	(14)
Total corporate expenses	**20,156**	11,285	79	**35,387**	25,216	40

The Company recorded a significant unrealized foreign exchange loss in the second quarter of 2018 on inter-company advances made to the Company's Argentinian subsidiary as a result of a significant devaluation of the Argentina peso relative to the Canadian dollar.

Q2 2018 vs Q1 2018

Consolidated revenue was $68.3 million in the second quarter of 2018 compared to $73.8 million in the first quarter of 2018, a decrease of $5.5 million or 8%. The second quarter of the year is typically the weakest for the Company due to the seasonality of Canadian drilling activity. US and international activity levels continued to increase and this partially offset the anticipated drop in Canadian activity.

Revenue in the US segment was $50.3 million in the second quarter of 2018 compared to $44.1 million in the first quarter of 2018, an increase of $6.2 million or 14% as industry activity, market share and revenue per EDR day all increased. The Canadian segment earned revenue of $10.7 million in the second quarter of 2018 compared to $23.4 million in the first quarter of 2018, a decrease of $12.7 million or 54% as the decrease in industry activity was partially offset by an increase in revenue per EDR day. The International segment earned revenue of $7.3 million in the second quarter of 2018 compared to $6.3 million in the first quarter of 2018, an increase of $1.0 million or 16%.

Adjusted EBITDA, which adjusts for foreign exchange and certain non-recurring charges, was $29.5 million in the second quarter of 2018 compared to $34.8 million in the first quarter of 2018. Funds flow from operations was $27.8 million in the in the second quarter of 2018 compared to $34.0 million in the first quarter of 2018.

The Company recorded a net profit in the second quarter of 2018 of $5.5 million ($0.06 per share) compared to a profit of $12.4 million ($0.14 per share) in the first quarter of 2018. The Company recorded a significant unrealized foreign exchange loss in the second quarter of 2018 on inter-company advances made to the Company's Argentinian subsidiary as a result of a significant devaluation of the Argentina peso relative to the Canadian dollar and this combined with a higher effective tax rate for the second quarter of 2018 due to the unrealized foreign exchange loss recorded on these inter-company advances negatively impacted net income.

Summary of Quarterly Results

Three Months Ended	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	**Jun 30, 2018**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	38,633	48,827	59,049	55,792	64,576	66,226	73,813	**68,271**
(Loss) income restated (1)	(6,550)	(10,446)	6,804	5,968	7,404	5,014	12,359	**5,479**
Per share – basic restated (1)	(0.07)	(0.12)	0.08	0.07	0.08	0.06	0.15	**0.06**
Per share – diluted restated (1)	(0.07)	(0.12)	0.08	0.07	0.08	0.06	0.14	**0.06**
EBITDA (2)	8,347	(2,291)	23,469	21,050	25,493	26,651	32,220	**23,614**
Adjusted EBITDA (2)	8,487	15,225	24,908	19,361	26,158	27,797	34,753	**29,458**
Funds flow from operations	9,130	15,324	21,074	18,795	19,896	27,356	33,958	**27,836**
Per share – basic	0.11	0.18	0.25	0.22	0.23	0.32	0.40	**0.33**
Per share – diluted	0.11	0.18	0.25	0.22	0.23	0.32	0.40	**0.32**
Cash from operating activities	4,653	665	29,831	24,201	15,128	16,637	24,344	**27,617**
Free cash flow (2)	4,404	(153)	28,511	19,628	11,002	6,690	18,906	**23,133**

(1) As disclosed in Note 2 to the consolidated financial statements, in 2017 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. Refer to table below on the impact of the restatement on prior period figures.

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

Restatement of Prior Period Error (refer to Note 2 to the consolidated financial statements)

Three Months Ended	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	**Jun 30, 2018**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Previously reported (Loss) income	(7,117)	(11,325)	7,153	6,895	8,813	5,014	12,359	**5,479**
Per share – basic	(0.08)	(0.13)	0.08	0.08	0.10	0.06	0.15	**0.06**
Per share – diluted	(0.08)	(0.13)	0.08	0.08	0.10	0.06	0.14	**0.06**
(Decrease) increase in tax provision	(567)	(879)	349	927	1,409	—	—	—
Restated (Loss) income	(6,550)	(10,446)	6,804	5,968	7,404	5,014	12,359	**5,479**
Per share – basic	(0.07)	(0.12)	0.08	0.07	0.08	0.06	0.15	**0.06**
Per share – diluted	(0.07)	(0.12)	0.08	0.07	0.08	0.06	0.14	**0.06**

Reconcile (Loss) income to EBITDA

Three Months Ended	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	**Jun 30, 2018**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
(Loss) income restated (1)	(6,550)	(10,446)	6,804	5,968	7,404	5,014	12,359	**5,479**
Add:								
Taxes restated (1)	(1,489)	(3,898)	2,145	1,082	3,760	7,043	8,152	**5,060**
Depreciation and amortization	14,929	10,515	11,973	10,823	11,184	11,701	9,175	**9,220**
Stock-based compensation	1,457	1,538	2,547	3,177	3,145	2,893	2,534	**3,855**
EBITDA (2)	8,347	(2,291)	23,469	21,050	25,493	26,651	32,220	**23,614**

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	**Jun 30, 2018**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	8,347	(2,291)	23,469	21,050	25,493	26,651	32,220	**23,614**
Add:								
Impairment charges	—	17,474	—	—	—	—	—	**—**
Foreign exchange	96	284	223	(689)	113	1,459	2,404	**5,787**
Other	44	(242)	1,216	(1,000)	552	(313)	129	**57**
Adjusted EBITDA (2)	8,487	15,225	24,908	19,361	26,158	27,797	34,753	**29,458**

Reconcile cash from operating activities to free cash flow

Three Months Ended	Sept 30, 2016	Dec 31, 2016	Mar 31, 2017	Jun 30, 2017	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	**Jun 30, 2018**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	4,653	665	29,831	24,201	15,128	16,637	24,344	**27,617**
Less:								
Additions to property, plant and equipment	410	(1,827)	(1,027)	(3,913)	(3,881)	(8,749)	(4,452)	**(3,227)**
Deferred development costs	(659)	1,009	(293)	(660)	(245)	(1,198)	(986)	**(1,257)**
Free cash flow (2)	4,404	(153)	28,511	19,628	11,002	6,690	18,906	**23,133**

Pason’s quarterly financial results vary quarter to quarter due in part to the seasonality of the oil and gas service industry in Canada, which is somewhat offset by the less seasonal nature of US and International operations. The first quarter is generally the strongest quarter for the Company due to strong activity in Canada, where location access is best during the winter. The second quarter is typically the slowest due to spring break-up in Canada, when many areas are not accessible due to ground conditions, and, therefore, do not permit the movement of heavy equipment. Activity generally increases in the third quarter, depending on the year, as ground conditions have often improved and location access becomes available; however, a rainy summer can have a significant adverse effect on drilling activity. By the fourth quarter, 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 June 30,	**2018**	2017	Change
(000s)	**($)**	($)	(%)
Cash and cash equivalents	**111,342**	166,520	(33)
Short-term investments	**65,840**	—	—
Working capital	**224,749**	197,191	14
Funds flow from operations (1)	**27,836**	18,795	48
Capital expenditures (1)	**4,771**	5,099	(6)
As a % of funds flow (1) (2)	**17.1%**	27.1%	(999) bps

(1) Figures are for the Three months ended June 30.

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

During the second quarter of 2018, the Company invested in a USD $50 million term deposit bearing an interest rate of 2.30% maturing in November, 2018.

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	($)	($)	($)	($)
Operating leases and other contracts	9,479	9,397	4,195	23,071

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

At June 30, 2018, the Company had no capital lease obligations, and other than the operating leases detailed above, and the onerous lease obligation recorded, has no off-balance sheet arrangements.

The Company has available a $5.0 million demand revolving credit facility. At June 30, 2018, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at June 30, 2018, there were 85.4 million common shares and 5.2 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 Human Resources department within each significant business unit to support that function.

Alternative Energies

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

International Operations

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

Foreign Exchange Exposure

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

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

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

Major Customers

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

Key Personnel

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

Dividends

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

Taxation

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

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

Information Security

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

Corporate Information

Directors

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

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

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

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

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

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

Officers & Key Personnel

Marcel Kessler
President
& Chief Executive Officer

Jon Faber
Chief Financial Officer

David Elliott
Vice President, Finance

Timur Kuru
Vice President, Operations – United States

Bryce McLean
Vice President, Operations – Canada

Russell Smith
Vice President, Operations – International & Offshore

Ryan Van Beurden
Vice President, Rig-site Research & Development

Lars Olesen
Vice President, Product Management

Kevin Boston
Vice President, Business Development

Kevin Lo
Vice President, New Ventures

Melinda Ando
General Counsel & Corporate Secretary

Corporate Head Office

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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.