



## Pason Reports Fourth Quarter 2018 Results

FOR IMMEDIATE RELEASE

**CALGARY, Alberta (February 26, 2019)** – Pason Systems Inc. (TSX:PSI) announced today its 2018 fourth quarter results.

### Performance Data

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

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

### Q4 2018 vs Q4 2017

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

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



## *Press Release*

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

## President's Message

Pason achieved strong results in the fourth quarter of 2018 and our teams continue to perform very well in all geographies. We generated revenue of \$82.0 million in the period, an increase of 24% compared to the same quarter last year. The main drivers of revenue growth were increased industry activity in the United States, higher activity levels in all Pason's international markets, and a significant increase in the penetration of new Drilling Intelligence products.

Adjusted EBITDA was \$39.3 million for the quarter, an increase of 41%. Adjusted EBITDA as a percentage of revenue was 48% compared to 42% one year ago. The driver of this improvement was the significant increase in revenue with high incremental margins. Pason recorded net income for the quarter of \$20.7 million (\$0.24 per share) compared to \$5.0 million (\$0.06 per share) in the prior year quarter.

Capital expenditures for the quarter were \$8.5 million and free cash flow was \$16.6 million. At December 31, 2018, our working capital position stood at \$256 million, including cash and short-term investments of \$204 million. We are maintaining our quarterly dividend at \$0.18 share.

For the full year 2018 compared to 2017 revenue increased 25% to \$306.4 million, adjusted EBITDA increased 49% to \$146.0 million, and net income grew 150% to \$62.9 million.

At the beginning 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 29% in the fourth quarter compared to the prior year period and accounted for 52% of our total revenue. The increase was driven by a 16% increase in total US land drilling activity and partially offset by a 15% decline in Canadian drilling activity. Internationally, drilling activity increased in all major markets with the largest increases in Argentina and Australia.
- **Mud Management & Safety** includes products such as the Pit Volume Totalizer, Smart Alarms, Gas Analyzer, Hazardous Gas Alarm, and the Electronic Choke Actuator. In the fourth quarter, Mud Management & Safety revenue increased 16% and generated 28% of total revenue.
- **Communications** includes satellite and terrestrial Internet bandwidth, Wireless Rigsite, VoIP and Intercom services and accounted for 8% of total revenue. Revenue in this segment is showing no growth because of the transition from satellite to terrestrial bandwidth with lower pricing, but better user experience, for our customers.
- **Drilling Intelligence** bundles Pason's product offerings 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 as revenue increased 74% in the fourth quarter compared to the prior year and accounted for 8% of our total revenue. There currently are 200 active drilling rig installations of new Drilling Intelligence software.
- **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, grew 9% and accounted for 4% of total revenue in the fourth quarter.

We have increased our investment in R&D in 2018 compared to the previous year with a focus on machine learning algorithms. IT expenses also increased as we are transitioning towards a more cloud-based IT infrastructure.

Our capital expenditures will be relatively modest going forward with a larger portion of development efforts focused on software and analytics. Our highly capable and flexible IT and communications platform can host additional new Pason and third-party software at the rigsite and in the cloud. We spent \$24 million in capital expenditures in 2018 and intend to spend up to \$30 million in 2019.

From a macro perspective, the significant fall in oil prices in the fourth quarter was driven by US shale production surprising to the upside and geopolitics negatively impacting the global demand/supply-balance sentiments. This has introduced more uncertainty for the E&P spending outlook for 2019, with operators generally taking a more conservative approach at the start of the year. This will once again push out in time a broad-based recovery in E&P spending. For North American land E&P operators, this means that investments will likely be closer to the level that can be covered by free cash flow, making the outlook for drilling activity more uncertain. Conversely, in the international markets, after four years of underinvestment, the NOCs and independents are starting to see the need to invest in their resource base simply to maintain production at current levels.

Based on what we can see today, we expect industry activity in North America to trend lower in 2019, with declines of about 5% in the United States and steeper declines in Canada. Drilling activity in most international markets should continue to pick up. In this environment, we have built flexibility into our plans for 2019, which gives us the means and confidence to address any activity scenario.

Our market positions remain strong, and we expect to be able to deliver growth through higher product adoption going forward. 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.



Marcel Kessler  
President and Chief Executive Officer  
February 26, 2019

# Management's Discussion and Analysis

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

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

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

## Additional IFRS Measures

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

### Funds flow from operations

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

### Cash from operating activities

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

## Non-IFRS Financial Measures

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

### Revenue per EDR day

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

### EBITDA

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

## **Adjusted EBITDA**

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

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

## **Free cash flow**

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

## Overall Performance

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

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

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

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

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

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

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

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

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

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

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

# Discussion of Operations

## United States Operations

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

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

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

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

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

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

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

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

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



# Canadian Operations

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

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

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

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

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

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

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

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

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

## International Operations

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

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

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

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

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

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

## Corporate Expenses

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

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

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

### **Q4 2018 vs Q3 2018**

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

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

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

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

## Consolidated Balance Sheets

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

## Consolidated Statements of Operations

	Three Months Ended December 31,		Years Ended December 31,	
	2018	2017	2018	2017
(CDN 000s)	(\$)	(\$)	(\$)	(\$)
<b>Revenue</b>	<b>81,965</b>	66,226	<b>306,393</b>	245,643
<b>Operating expenses</b>				
Rental services	27,502	25,085	104,398	95,912
Local administration	3,953	3,224	13,106	11,147
Depreciation and amortization	7,556	11,701	34,855	45,681
	<b>39,011</b>	40,010	<b>152,359</b>	152,740
<b>Gross profit</b>	<b>42,954</b>	26,216	<b>154,034</b>	92,903
<b>Other expenses</b>				
Research and development	7,310	6,136	26,997	25,219
Corporate services	3,897	3,984	15,905	15,141
Stock-based compensation expense	3,335	2,893	12,313	11,762
Other expense	500	1,146	6,717	1,561
	<b>15,042</b>	14,159	<b>61,932</b>	53,683
<b>Income before income taxes</b>	<b>27,912</b>	12,057	<b>92,102</b>	39,220
Income tax provision	7,192	7,043	29,158	14,030
<b>Net income</b>	<b>20,720</b>	5,014	<b>62,944</b>	25,190
<b>Income per share</b>				
Basic	0.24	0.06	0.74	0.30
Diluted	0.24	0.06	0.73	0.30

## Consolidated Statements of Other Comprehensive Income

	Three Months Ended December 31,		Years Ended December 31,	
	2018	2017	2018	2017
Years Ended December 31,	2018	2017	2018	2017
(CDN 000s)	(\$)	(\$)	(\$)	(\$)
<b>Net income</b>	<b>20,720</b>	5,014	<b>62,944</b>	25,190
Items that may be reclassified subsequently to net income:				
Tax (recovery) expense on net investment in foreign operations related to an inter-company financing	(1,976)	186	(3,110)	2,500
Foreign currency translation adjustment	17,485	1,266	26,326	(21,714)
<b>Other comprehensive gain (loss)</b>	<b>15,509</b>	1,452	<b>23,216</b>	(19,214)
<b>Total comprehensive income</b>	<b>36,229</b>	6,466	<b>86,160</b>	5,976

# Consolidated Statements of Cash Flows

	Three Months Ended December 31,		Years Ended December 31,	
	2018	2017	2018	2017
(CDN 000s)	(\$)	(\$)	(\$)	(\$)
<b>Cash from (used in) operating activities</b>				
Net income	20,720	5,014	62,944	25,190
Adjustment for non-cash items:				
Depreciation and amortization	7,556	11,701	34,855	45,681
Stock-based compensation	3,335	2,893	12,313	11,762
Deferred income taxes	(2,196)	5,447	9,796	4,762
Unrealized foreign exchange loss (gain) and other	1,296	2,301	8,636	(274)
<b>Funds flow from operations</b>	<b>30,711</b>	<b>27,356</b>	<b>128,544</b>	<b>87,121</b>
Movements in non-cash working capital items:				
Increase in trade and other receivables	(5,835)	(3,011)	(24,523)	(8,149)
Decrease (increase) in prepaid expenses	352	934	253	(226)
Decrease in income taxes	2,460	2,141	14,054	15,518
Increase (decrease) in trade payables, accruals and stock-based compensation liability	2,357	(9,462)	4,368	(3,719)
Effects of exchange rate changes	295	(1,323)	530	(361)
<b>Cash generated from operating activities</b>	<b>30,340</b>	<b>16,635</b>	<b>123,226</b>	<b>90,184</b>
Income tax paid	(6,933)	2	(16,049)	(4,387)
<b>Net cash from operating activities</b>	<b>23,407</b>	<b>16,637</b>	<b>107,177</b>	<b>85,797</b>
<b>Cash flows from (used in) financing activities</b>				
Proceeds from issuance of common shares	6,347	2,386	11,012	7,160
Payment of dividends	(15,436)	(14,459)	(59,785)	(57,697)
Repurchase and cancellation of shares under Normal Course Issuer Bid	(921)	—	(921)	—
<b>Net cash used in financing activities</b>	<b>(10,010)</b>	<b>(12,073)</b>	<b>(49,694)</b>	<b>(50,537)</b>
<b>Cash flows (used in) from investing activities</b>				
Additions to property, plant and equipment	(7,267)	(7,962)	(19,411)	(18,368)
Development costs	(1,183)	(1,198)	(4,465)	(2,396)
Proceeds on disposal of investment and property, plant and equipment	1,355	24	1,543	85
Purchase of short-term investment	—	—	(65,840)	—
Maturity of short-term investment	65,650	—	65,650	—
Acquisition	—	(1,000)	—	(5,750)
Proceeds on sale of net operating assets	—	1,036	—	8,159
Changes in non-cash working capital	291	(811)	678	713
<b>Net cash provided (used in) investing activities</b>	<b>58,846</b>	<b>(9,911)</b>	<b>(21,845)</b>	<b>(17,557)</b>
Effect of exchange rate on cash and cash equivalents	11,833	39	14,071	(10,053)
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>84,076</b>	<b>(5,308)</b>	<b>49,709</b>	<b>7,650</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>119,762</b>	<b>159,437</b>	<b>154,129</b>	<b>146,479</b>
<b>Cash and cash equivalents, end of period</b>	<b>203,838</b>	<b>154,129</b>	<b>203,838</b>	<b>154,129</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 following table represents a disaggregation of revenue from contracts with customers along with the reportable segment for each category:

<b>Three Months Ended December 31, 2018</b>	<b>Canada</b>	<b>United States</b>	<b>International</b>	<b>Total</b>
(CDN 000s)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	7,191	29,918	5,248	42,357
Mud Management and Safety	4,766	16,268	2,055	23,089
Communications	2,641	3,733	390	6,764
Drilling Intelligence	2,519	3,866	335	6,720
Analytics and Other	776	1,546	713	3,035
<b>Total Revenue</b>	<b>17,893</b>	<b>55,331</b>	<b>8,741</b>	<b>81,965</b>
Rental services and local administration	6,864	19,364	5,227	31,455
Depreciation and amortization	2,519	4,121	916	7,556
Segment gross profit	8,510	31,846	2,598	42,954
Research and development				7,310
Corporate services				3,897
Stock-based compensation				3,335
Other expense				500
Income tax expense				7,192
Net income				20,720
Capital expenditures	3,374	3,752	1,324	8,450
<b>As at December 31, 2018</b>				
Property plant and equipment	37,511	68,122	14,784	120,417
Goodwill	1,259	7,784	2,600	11,643
Intangible assets	20,316	41	—	20,357
Segment assets	117,510	297,173	47,033	461,716
Segment liabilities	53,034	16,367	6,238	75,639

Three Months Ended December 31, 2017	Canada	United States	International	Total
(CDN 000s)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	7,556	21,705	3,632	32,893
Mud Management and Safety	5,188	13,347	1,327	19,862
Communications	2,871	3,630	326	6,827
Drilling Intelligence	1,312	2,174	381	3,867
Analytics and Other	818	1,290	669	2,777
Total 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 expense				1,146
Income tax expense				7,043
Net Income				5,014
Capital expenditures	5,726	2,888	546	9,160
As at December 31, 2017				
Property plant and equipment	44,650	66,360	16,675	127,685
Goodwill	1,259	7,159	2,600	11,018
Intangible assets	23,129	171	—	23,300
Segment assets	94,331	261,635	42,480	398,446
Segment liabilities	37,739	7,854	5,367	50,960



<b>Year Ended December 31, 2018</b>	<b>Canada</b>	<b>United States</b>	<b>International</b>	<b>Total</b>
(CDN 000s)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	29,095	110,229	17,838	157,162
Mud Management and Safety	19,722	59,421	6,809	85,952
Communications	10,944	15,730	1,503	28,177
Drilling Intelligence	8,623	12,693	1,470	22,786
Analytics and Other	3,613	5,813	2,890	12,316
<b>Total Revenue</b>	<b>71,997</b>	<b>203,886</b>	<b>30,510</b>	<b>306,393</b>
Rental services and local administration	26,374	72,021	19,109	117,504
Depreciation and amortization	15,027	16,249	3,579	34,855
<b>Segment gross profit</b>	<b>30,596</b>	<b>115,616</b>	<b>7,822</b>	<b>154,034</b>
Research and development				26,997
Corporate services				15,905
Stock-based compensation				12,313
Other expense				6,717
Income tax expense				29,158
<b>Net Income</b>				<b>62,944</b>
Capital expenditures	7,710	12,849	3,317	23,876
<b>As at December 31, 2018</b>				
Property plant and equipment	37,511	68,122	14,784	120,417
Goodwill	1,259	7,784	2,600	11,643
Intangible assets	20,316	41	—	20,357
<b>Segment assets</b>	<b>117,510</b>	<b>297,173</b>	<b>47,033</b>	<b>461,716</b>
<b>Segment liabilities</b>	<b>53,034</b>	<b>16,367</b>	<b>6,238</b>	<b>75,639</b>
<b>Year Ended December 31, 2017</b>				
(CDN 000s)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	29,921	78,335	13,611	121,867
Mud Management and Safety	20,663	47,699	4,725	73,087
Communications	11,093	13,073	1,101	25,267
Drilling Intelligence	5,504	7,897	1,779	15,180
Analytics and Other	3,350	4,981	1,911	10,242
<b>Total Revenue</b>	<b>70,531</b>	<b>151,985</b>	<b>23,127</b>	<b>245,643</b>
Rental services and local administration	24,935	64,161	17,963	107,059
Depreciation and amortization	24,250	17,303	4,128	45,681
<b>Segment gross profit</b>	<b>21,346</b>	<b>70,521</b>	<b>1,036</b>	<b>92,903</b>
Research and development				25,219
Corporate services				15,141
Stock-based compensation				11,762
Other expense				1,561
Income tax expense				14,030
<b>Net income</b>				<b>25,190</b>
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
<b>Segment assets</b>	<b>94,331</b>	<b>261,635</b>	<b>42,480</b>	<b>398,446</b>
<b>Segment liabilities</b>	<b>37,739</b>	<b>7,854</b>	<b>5,367</b>	<b>50,960</b>

## Other Expense

	Three Months Ended December 31,		Year Ended December 31,	
	2018	2017	2018	2017
(CDN 000s)	(\$)	(\$)	(\$)	(\$)
Foreign exchange loss	<b>1,007</b>	1,459	<b>7,682</b>	1,106
Other	<b>(507)</b>	(313)	<b>(965)</b>	455
Other expense	<b>500</b>	1,146	<b>6,717</b>	1,561

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

## Events After the Reporting Period

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

## 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 27, 2019. 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 1343209.

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, 2018, 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 on Thursday, May 2, 2019, at 3:30 pm at the offices of Pason Systems Inc., 6120 Third Street SE, Calgary, Alberta.

## **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.TO.

For more information about Pason Systems Inc., visit the company's website at [www.pason.com](http://www.pason.com) or contact:

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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.