

# Consolidated Financial Statements and Notes

## Management's Report to Shareholders

To the Shareholders of Pason Systems Inc.,

The consolidated financial statements are the responsibility of management and are prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Financial statements will, by necessity, include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis so that the consolidated financial statements are presented fairly in all material respects. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the consolidated financial statements.

Management has prepared the Management's Discussion and Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2017 and 2016.

The Audit Committee of the Board of Directors, which is comprised of three independent directors, has reviewed the consolidated financial statements, including the notes thereto, with management and the external auditors. The Audit Committee meets regularly with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the consolidated financial statements, and to recommend approval of the financial statements to the Board. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

Deloitte LLP, the independent auditors appointed by the shareholders at the last annual general meeting, have audited the consolidated financial statements of Pason Systems Inc. in accordance with Canadian Generally Accepted Auditing Standards. The independent auditors have full and unrestricted access to the Audit Committee to discuss the audit and their related findings as to the integrity of the financial reporting process. The independent auditor's report outlines the scope of their examination and sets forth their opinion.



Marcel Kessler  
President & Chief Executive Officer  
Calgary, Alberta  
February 27, 2018



Jon Faber  
Chief Financial Officer

# Independent Auditor's Report

To the Shareholders of Pason Systems Inc.

We have audited the accompanying consolidated financial statements of Pason Systems Inc., which comprise the consolidated balance sheets as at December 31, 2017 and 2016, and the consolidated statements of operations, consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, a summary of significant accounting policies and other explanatory information.

## Management's Responsibility for the consolidated financial statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

## Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pason Systems Inc. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Deloitte LLP*

Chartered Professional Accountants

February 27, 2018  
Calgary, Alberta

# Consolidated Balance Sheets

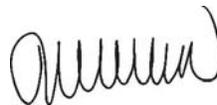
As at	Note*	December 31, 2017	December 31, 2016 (Restated-Note 2)
(CDN 000s)		(\$)	(\$)
<b>Assets</b>			
Current			
Cash and cash equivalents	13	154,129	146,479
Trade and other receivables	14,17	55,069	50,721
Income tax recoverable other	12	17,881	—
Prepaid expenses		4,028	3,826
Income taxes recoverable		3,946	15,066
Assets held for sale	8	—	8,413
<b>Total current assets</b>		<b>235,053</b>	<b>224,505</b>
Non-current			
Property, plant and equipment	6	127,685	150,504
Intangible assets and goodwill	7	34,318	43,698
Deferred tax assets	12	1,390	16,544
<b>Total non-current assets</b>		<b>163,393</b>	<b>210,746</b>
<b>Total assets</b>		<b>398,446</b>	<b>435,251</b>
<b>Liabilities and equity</b>			
Current			
Trade payables and accruals	16	20,391	24,347
Income tax payable other	12	17,881	—
Stock-based compensation liability	9	3,089	1,516
Liabilities held for sale	8	—	223
<b>Total current liabilities</b>		<b>41,361</b>	<b>26,086</b>
Non-current			
Stock-based compensation liability	9	2,758	2,941
Deferred tax liabilities	12	4,515	16,656
Onerous lease provision		2,326	2,917
<b>Total non-current liabilities</b>		<b>9,599</b>	<b>22,514</b>
<b>Equity</b>			
Share capital	9	150,887	139,730
Share-based benefits reserve		24,425	23,026
Foreign currency translation reserve	2	40,358	59,572
Retained earnings	2	131,816	164,323
<b>Total equity</b>		<b>347,486</b>	<b>386,651</b>
<b>Total liabilities and equity</b>		<b>398,446</b>	<b>435,251</b>
<b>Commitments (Notes 18 and 19)</b>			
<b>Contingencies (Note 21)</b>			

\*The Notes are an integral part of these consolidated financial statements.

## Approved by the Board of Directors



James B. Howe  
Director



Judi Hess  
Director

## Consolidated Statements of Operations

Years Ended December 31,	Note*	2017	2016 (Restated-Note 2)
(CDN 000s, except per share data)		(\$)	(\$)
<b>Revenue</b>		<b>245,643</b>	160,446
<b>Operating expenses</b>			
Rental services		95,912	80,115
Local administration		11,147	9,720
Depreciation and amortization	6,7	45,681	55,384
		<b>152,740</b>	145,219
<b>Gross profit</b>		<b>92,903</b>	15,227
<b>Other expenses</b>			
Research and development		25,219	22,848
Corporate services		15,141	16,758
Stock-based compensation	9	11,762	6,195
Other expenses	11	1,561	27,533
		<b>53,683</b>	73,334
<b>Net income (loss) before income taxes</b>		<b>39,220</b>	(58,107)
Income taxes	2,12	14,030	(16,315)
<b>Net income (loss)</b>		<b>25,190</b>	(41,792)
<b>Net income (loss) per share</b>	2,10		
Basic		0.30	(0.49)
Diluted		0.30	(0.49)

\*The Notes are an integral part of these consolidated financial statements.

## Consolidated Statements of Other Comprehensive Income

Years Ended December 31,		2017	2016 (Restated-Note 2)
(CDN 000s)		(\$)	(\$)
<b>Net Income (loss)</b>		<b>25,190</b>	(41,792)
Items that may be reclassified subsequently to net income:			
Tax expense on net investment in foreign operations related to an inter-company financing	2,12	(2,500)	(1,171)
Foreign currency translation adjustment		(16,714)	(13,818)
<b>Other comprehensive loss</b>		<b>(19,214)</b>	(14,989)
<b>Total comprehensive income (loss)</b>		<b>5,976</b>	(56,781)

## Consolidated Statements of Changes in Equity

	Note*	Share Capital	Share-Based Benefits Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
(CDN 000s)		(\$)	(\$)	(\$)	(\$)	(\$)
<b>Balance at January 1, 2016- Previously reported</b>		128,067	23,367	85,603	252,411	489,448
Correction of error	2			(11,042)	11,042	—
<b>Balance at January 1, 2016- Currently reported</b>		128,067	23,367	74,561	263,453	489,448
Net loss - as restated	2	—	—	—	(41,792)	(41,792)
Dividends	9	—	—	—	(57,338)	(57,338)
Other comprehensive income- as restated	2	—	—	(14,989)	—	(14,989)
Exercise of stock options	9	10,413	(3,337)	—	—	7,076
Expense related to vesting of options	9	—	2,996	—	—	2,996
Verdazo acquisition	9	1,250	—	—	—	1,250
<b>Balance at December 31, 2016</b>		139,730	23,026	59,572	164,323	386,651
Net income		—	—	—	25,190	25,190
Dividends	9	—	—	—	(57,697)	(57,697)
Other comprehensive income		—	—	(19,214)	—	(19,214)
Exercise of stock options	9	9,407	(2,247)	—	—	7,160
Expense related to vesting of options	9	—	3,646	—	—	3,646
Verdazo Acquisition	7	1,750	—	—	—	1,750
<b>Balance at December 31, 2017</b>		<b>150,887</b>	<b>24,425</b>	<b>40,358</b>	<b>131,816</b>	<b>347,486</b>

\*The Notes are an integral part of these consolidated financial statements.

# Consolidated Statements of Cash Flows

Years Ended December 31,	Note*	2017	2016 (Restated-Note 2)
(CDN 000s)		(\$)	(\$)
<b>Cash from (used in) operating activities</b>			
Net income (loss)	2	25,190	(41,792)
Adjustment for non-cash items:			
Depreciation and amortization		45,681	55,384
Impairment loss	8	—	17,474
Stock-based compensation	9	11,762	6,195
Non-cash restructuring costs		—	4,833
Deferred income taxes	2,12	4,762	(12,773)
Unrealized foreign exchange (gain) loss and other		(274)	(2,506)
<b>Funds flow from operations</b>		<b>87,121</b>	<b>26,815</b>
Movements in non-cash working capital items:			
Increase in trade and other receivables		(8,149)	(6,791)
Increase in prepaid expenses		(226)	(193)
Decrease in income taxes		15,518	9,570
Decrease in trade payables, accruals and stock-based compensation liability		(3,719)	(3,940)
Effects of exchange rate changes		(361)	1,606
<b>Cash generated from operating activities</b>		<b>90,184</b>	<b>27,067</b>
Income tax paid		(4,387)	(7,425)
<b>Net cash from operating activities</b>		<b>85,797</b>	<b>19,642</b>
<b>Cash flows from (used in) financing activities</b>			
Proceeds from issuance of common shares	9	7,160	7,076
Payment of dividends	9	(57,697)	(57,338)
<b>Net cash used in financing activities</b>		<b>(50,537)</b>	<b>(50,262)</b>
<b>Cash flows (used in) from investing activities</b>			
Additions to property, plant and equipment	6	(18,368)	(10,492)
Development costs	7	(2,396)	(2,364)
Proceeds on disposal of investment and property, plant and equipment		85	398
(Cash spent) acquired pursuant to business acquisition	7	(5,750)	1,243
Proceeds on sale of net operating assets	8	8,159	—
Changes in non-cash working capital		713	(1,253)
<b>Net cash used in investing activities</b>		<b>(17,557)</b>	<b>(12,468)</b>
Effect of exchange rate on cash and cash equivalents		(10,053)	(6,279)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>7,650</b>	<b>(49,367)</b>
<b>Cash and cash equivalents, beginning of year</b>		<b>146,479</b>	<b>195,846</b>
<b>Cash and cash equivalents, end of year</b>		<b>154,129</b>	<b>146,479</b>

\*The Notes are an integral part of these consolidated financial statements.

# Notes to Consolidated Financial Statements

(\$CDN 000s, except per share data)

## 1. Description of Business

Pason Systems Inc. (the "Company") is a leading global provider of instrumentation and data management systems for drilling rigs.

The Company headquarters are located at 6130 Third Street SE, Calgary, Alberta, Canada. The Company is a publicly traded company listed on the Toronto Stock Exchange under the symbol PSI.TO. The consolidated financial statements of the Company are comprised of the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The accompanying consolidated financial statements include the accounts of Pason Systems Inc. and its wholly owned subsidiaries.

## 2. Basis of Preparation

### Statement of compliance

The consolidated financial statements have been prepared in compliance with International Financial Reporting Standards (IFRS).

The consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2018.

### Correction of Error

During the fourth quarter of 2017, the Company adjusted for an immaterial non-cash error in the recognition of a component of its deferred income tax expense. The error was a result of the Company recognizing in the statement of operations the deferred income tax effect of the future taxable foreign exchange gain adjustment associated with its net investment in foreign operations related to an inter-company financing, when the amount should have been adjusted through the foreign currency translation reserve within equity.

Accordingly, this adjustment has been corrected on a retrospective basis with all prior period comparative figures being restated.

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

	As previously reported	Correction	As restated
(CDN 000s, except per share data)	(\$)	(\$)	(\$)
<b>Equity as at January 1, 2016</b>			
Foreign currency translation reserve	85,603	(11,042)	74,561
Retained earnings	252,411	11,042	263,453
<b>Consolidated Statement of Operations for the Year Ending December 31, 2016</b>			
Income taxes	(17,486)	1,171	(16,315)
Net loss	(40,621)	(1,171)	(41,792)
Net loss per share			
Basic	(0.48)	(0.01)	(0.49)
Diluted	(0.48)	(0.01)	(0.49)
<b>Consolidated Statements of Other Comprehensive Income</b>			
Other comprehensive income	(16,160)	1,171	(14,989)
<b>Equity as at December 31, 2016</b>			
Foreign currency translation reserve	69,443	(9,871)	59,572
Retained earnings	154,452	9,871	164,323

### **Basis of measurement**

The consolidated financial statements have been prepared on the historical cost basis except for certain assets, including financial instruments, that are measured at revalued amounts or fair values, as explained in the accounting policies below. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

### **Functional and presentation currency**

These consolidated financial statements are presented in Canadian dollars, which is the Company's functional currency. Financial statements of the Company's US and International subsidiaries have a functional currency different from Canadian dollars and are translated to Canadian dollars using the exchange rate in effect at the period end date for all assets and liabilities, and at average monthly year to date rates of exchange during the period for revenues and expenses. All changes resulting from these translation adjustments are recognized in other comprehensive income. All financial information presented in Canadian dollars has been rounded to the nearest thousand except for per share amounts.

### **Critical Accounting Judgments and Key Sources of Estimation Uncertainty**

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based upon historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

### **Critical Accounting Judgments**

#### *Stock-based payments*

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

#### *Determination of functional currency*

The determination of the functional currency is a matter of determining the primary economic environment in which an entity operates. Pason uses judgment in the ultimate determination of each subsidiary's functional currency based on factors in International Accounting Standards (IAS) 21 – The Effects of Changes in Foreign Exchange Rates. The functional currency of the Canadian and US operations were determined to be the Canadian and US dollars, respectively.

#### **Key sources of estimation uncertainty**

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

#### *Depreciation of property, plant, and equipment, and amortization of intangible assets*

When calculating depreciation of property, plant and equipment, and amortization of intangible assets, the Company estimates the useful lives and residual values of the related assets. The estimates made by management regarding the useful lives and residual values affect the carrying amounts of the property and equipment and intangible assets on the balance sheet and the related depreciation and amortization expenses recognized in the statement of operations. Assessing the reasonableness of the estimated useful lives of property and equipment and intangible assets requires judgment and is based on available information. The Company periodically, and at least annually, evaluates its depreciation and amortization methods and rates for consistency against those methods and rates used by its peers, or may revise initial estimates for changes in circumstances, such as technological advancements. A change in the estimated remaining useful life or the residual value will affect the depreciation or amortization expense prospectively.

#### *Cash generating units (CGU)*

For purposes of determining if any impairment exists, the Group has determined that the assets of each of its geographic segments are an appropriate basis for its CGUs. The Company uses judgment in the determination of the CGUs.

#### *Recoverable amounts of property and equipment, intangible assets, and goodwill*

At each reporting period, management assesses whether there are indicators of impairment of the Company's property and equipment, intangible assets, and goodwill. If an indication of impairment exists, the property and equipment, intangible assets, and goodwill are tested for impairment. Goodwill is tested for impairment at least annually. In order to determine if impairment exists and to measure the potential impairment charge, the carrying amounts of the Company's CGUs are compared to their recoverable amounts, which is the greater of fair value less costs to sell and value in use (VIU). An impairment charge is recognized to the extent the carrying amount exceeds the recoverable amount. VIU is calculated as the present value of the expected future cash flows specific to each CGU. In calculating VIU, significant judgment is required in making assumptions with respect to discount rates, the market outlook, and future net cash flows associated with the CGU. Any changes in these assumptions will have an impact on the measurement of the recoverable amount and could result in adjustments to impairment charges already recorded.

#### *Intangible assets and goodwill acquired in business combinations*

Accounting for business combinations involves the allocation of the cost of an acquisition to the underlying net assets acquired based on estimated fair values. As part of this allocation process, the

Company identifies and attributes values and estimated lives to identifiable intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and the weighted average cost of capital used by a market participant. These estimates and assumptions determine the amount allocated to identifiable separable intangible assets and goodwill, as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges.

#### *Provisions and contingencies*

The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated.

The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter. This determines whether a provision or disclosure in the financial statements is needed.

#### *Viability of new product development projects*

New product development projects are capitalized, and include the cost of materials and direct labour costs that are directly attributable to preparing the asset for its intended use. Subsequent changes in facts or circumstances could result in the balance of the related deferred costs being expensed in profit or loss. Results could differ if new product development projects become unprofitable due to changes in technology or if actual rental rates differ materially from forecasted pricing.

#### *Income taxes*

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

The Company has adopted certain transfer pricing (TP) policies and methodologies to value inter-company transactions that occur in the normal course of business. The value placed on such transactions must meet certain guidelines that have been established by the tax authorities in the jurisdictions in which the Company operates in. The Company believes that its TP methodologies are in accordance with such guidelines. As further described in Note 12, the Company applied for a Bilateral Advanced Pricing Arrangement (APA) from the Canada Revenue Agency (CRA) and the Internal Revenue Service (IRS) (collectively, the Parties) covering the taxation years ended December 31, 2013 through to December 31, 2017. The purpose of this APA was for the Company to obtain agreement among the Parties on the TP methodology applied to the material inter-company transactions between Pason Systems Corp. (Pason Canada) and Pason Systems USA and Petron (collectively Pason USA) (the covered transactions).

The calculation of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences, tax losses, and other tax credits will reverse. Tax

interpretations, regulations, and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change.

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

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

### **3. Significant Accounting Policies**

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements.

The accounting policies have been applied consistently by the Group entities.

#### **Basis of consolidation**

(a) Business combinations

For acquisitions, the Group measures goodwill as the fair value of the consideration transferred less the net recognized amount, at fair value, of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Contingent consideration is measured at fair value at the acquisition date. Subsequent adjustments to the consideration are recognized against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or liability are recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(b) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group. Intra-group balances and transactions are eliminated in preparing the consolidated financial statements.

#### **Foreign currency**

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at average exchange rates.

Gains and losses arising from the translation of the financial statements of foreign operations are included in the Consolidated Statements of Other Comprehensive Income, and such differences have been accumulated in Foreign Currency Translation Reserve. Advances made to subsidiaries for which the settlement is not planned or anticipated in the foreseeable future are considered part of the net investment. Accordingly, unrealized gains and losses from these advances are recorded in the Consolidated Statements of Other Comprehensive Income.

Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in profit or loss for the period.

### **Financial instruments**

#### **(a) Non-derivative financial assets**

The Group initially recognizes trade and other receivables on the date that they originate. All other financial assets (including assets designated at fair value through profit or loss) are recognized initially when the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

Financial assets and liabilities are offset, and the net amount is presented on the balance sheet when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss and loans and receivables.

#### **(b) Non-derivative financial liabilities**

All financial liabilities (including liabilities designated at fair value through profit or loss) are recognized initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired.

The Group has the following non-derivative financial liabilities: bank overdrafts and trade payables, accruals, and provisions. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

### **Financial assets at fair value through profit or loss**

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the Group manages such investments and makes purchase and sale decisions based on their fair value. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes

therein are recognized in profit or loss. The Group's only financial asset classified as fair value through profit or loss is cash.

### **Loans and receivables**

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs less any impairment losses.

Loans and receivables comprise trade and other receivables (Note 14).

### **Cash and cash equivalents**

Cash is comprised of cash on deposit, cash held in trust, bank indebtedness, and investments with maturities of 90 days or less at the date of investment. Bank overdrafts that are repayable on demand are included as a component of cash for the purpose of the statement of cash flows.

### **Share capital**

Common shares are classified as equity.

### **Property, plant, and equipment**

#### **(a) Recognition and measurement**

Items of property, plant, and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Property, plant, and equipment include parts and raw materials awaiting assembly. These assets are recorded at cost and no depreciation is taken.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and any other costs directly attributable to bringing the assets to a working condition for their intended use and the costs of dismantling and removing the items.

When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items of property, plant, and equipment.

Proprietary software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of an item of property, plant, and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within depreciation and amortization.

#### **(b) Subsequent costs**

The cost of replacing a part of an item of property, plant, and equipment is recognized in the carrying amount of the item only when it is probable that the future economic benefits will flow to the Group, the economic life is greater than one year, and its cost can be measured reliably. All other replacement costs, as well as the repair and maintenance of property, plant, and equipment, are recognized in profit or loss as incurred.

#### **(c) Depreciation**

Depreciation is calculated over the depreciable amount, which is the cost of an asset, with no residual value.

Depreciation is recognized in profit or loss either on a straight-line or declining balance basis over the estimated useful lives of each part of an item of property, plant and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative year are as follows:

	Straight-Line	Declining Balance Rate
Rental equipment	—	20%
Other	3 years	—

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

Materials and supplies awaiting assembly are recorded at cost in property, plant, and equipment and no depreciation is taken.

### **Intangible assets**

(a) Goodwill

Goodwill represents the excess of purchase price for business acquisitions over the fair value of the acquired net assets. Goodwill is allocated as of the date of the business acquisition.

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

Goodwill is measured at cost less accumulated impairment losses.

(b) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use the asset. The expenditure capitalized includes the cost of materials and direct labour costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Capitalized development expenditures are amortized in the year in which the new products begin generating revenue. However, if at any time a product is deemed no longer commercially viable, the balance of the related deferred costs is expensed in profit or loss.

Investment tax credits are recorded only when received, as the timing and amounts are dependent upon the acceptance of the claim by the respective tax authorities, and are netted against the related development costs.

(c) Other intangible assets

Other intangible assets that are acquired by the Group have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized when they are available for use on a straight-line basis over their estimated economic lives.

(d) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(e) Amortization

Amortization is calculated over the cost of the asset with no residual value.

The estimated useful lives for intangible assets are as follows:

Customer relationships and technology	6 years
Non-compete agreements	5 years
Trademarks and software	3 years
Patents and research and development costs	3 years

Amortization methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

## Impairment

(a) Financial assets (including trade and other receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. The Group considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

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

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

(b) Non-financial assets

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

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

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

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

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

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

## **Employee benefits**

(a) Stock option plan

Previously, the Company's stock option plan allowed qualified employees and directors to elect to receive either a cash settlement or common shares in exchange for stock options exercised, subject to approval by the Board of Directors. The grant date fair value of stock option awards granted was recognized as compensation expense, over the vesting period of three years, with a corresponding increase in a liability, as the benefit could be settled in cash. The grant date fair value was calculated using the Black-Scholes option pricing model and the fair value was remeasured at each reporting period based upon the Company's share price.

In May 2015, the Company's shareholders approved a modification to the stock option plan, removing the ability for the option holder to settle options for cash. The fair value of options outstanding on this date was established and will be recognized over the remaining life of the options. Any future options granted will be valued at the grant date using the Black-Scholes option pricing model.

Compensation expense associated with the option plan is recognized as stock-based compensation expense over the vesting period of the respective plans with a corresponding increase in contributed surplus.

Any consideration received on the exercise of stock options for common shares is credited to share capital.

(b) Restricted share unit (RSU) plan and Phantom Stock Full Value (PSFV) plan

The Company has a RSU and a PSFV plan for qualified employees whereby holders receive a cash settlement based upon the number of outstanding units multiplied by the prevailing market price of the Company's common shares on the vesting date. A liability is accrued and adjusted each quarter based upon the current market price of the Company's common shares.

Compensation expense for the plans is accrued on a graded basis over the respective three-year vesting period.

Any changes in the fair value of the liability are recognized in profit or loss.

(c) Deferred share unit (DSU) plan

The Company has a DSU plan for non-management directors. The DSUs are granted annually and represent rights to share values based on the number of DSUs issued. When a DSU holder ceases to be a member of the Board, the holder is entitled to receive a cash settlement based upon the number of outstanding DSUs multiplied by the prevailing market price of the Company's common shares on the redemption date. A DSU liability is accrued and adjusted each quarter on vested DSUs based upon the current market price of the Company's common shares.

Compensation expense for the DSU plan is accrued evenly over the respective one-year vesting period.

Any changes in the fair value of the liability are recognized in profit or loss.

(d) Performance share unit (PSU) plan

The Company has a PSU plan for Executive Officers of the Company. Under the terms of the Plan, the number of PSU's awarded to an employee shall be equal to one PSU for each \$1.00 of Grant Value awarded on such date. The Grant Value awarded to an employee shall be determined by the Board of Directors. PSU's are awarded annually and entitle the employee to receive, upon vesting, a cash payment dependent upon the total shareholder return on the Company's common shares relative to two prescribed benchmark indices. If the return is below a specified level compared to the indices, the units awarded will be forfeited with no payment made. The maximum payout is 200% of the initial grant value. PSU grants vest in three equal portions on the first, second and third anniversary of the grant date. The fair value of the PSU's are accrued on a graded basis over the respective three-year vesting period.

## **Provisions**

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation.

## **Revenue**

Revenue is recognized during the reporting period based on completion of each rental day for products and services, provided collectability is reasonably assured. Equipment sales are recognized in revenue upon shipment from the Company's warehouse to the customer.

## **Lease payments**

Payments made under operating leases are recognized in profit or loss on a straight-line basis over the term of the lease.

## **Finance income, finance costs, and foreign exchange**

Finance income comprises interest income on excess funds invested. Interest income is recognized as it accrues in profit or loss.

Finance costs include interest expense on bank borrowing and changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets.

Foreign currency gains and losses are reported on a net basis.

## **Income tax**

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available to use unused tax losses and unused tax credits. Deferred tax assets are reviewed at each reporting date and the

valuation allowance is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

### **Dividends**

Dividends on common shares are recognized in the Group's consolidated financial statements in the period in which the Board of Directors approves the dividend.

### **Income per share**

The Group presents basic and diluted income per share data for its common shares. Basic income per share is calculated by dividing the net income or loss available to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted income per share is determined by adjusting the net income or loss available to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise stock options granted.

### **Segment reporting**

An operating segment is a component of the Group that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Group's other components. All operating segments' results are reviewed regularly by the Group's senior management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, costs that benefit more than one operating unit which cannot be reasonably allocated, and amounts relating to current and deferred taxes as these amounts can be impacted by tax strategies implemented at the corporate level that benefit the Group as a whole.

Segment capital expenditures are the total cost incurred during the period to acquire property, plant, and equipment and intangible assets other than goodwill.

### **Standards and interpretations adopted in the year ended December 31, 2017**

The Company did not adopt any new accounting standards in the year ended December 31, 2017.

### **Future Accounting Policy Changes**

IFRS 15, Revenue from Contracts with Customers, is required to be applied for years beginning on or after January 1, 2018 and supersedes existing standards and interpretations including IAS 18, Revenue. Management believes that given its current rental model and the contracts it enters into with its customers that this new standard will not have a material impact on the company's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by the Company on January 1, 2018 and management has concluded that the new standard will not have a material impact on the Company's financial statements.

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

This new pronouncement introduces a single lessee accounting model by eliminating a lessee's classification of leases as either operating leases or finance leases.

The most significant change will be the lessee's recognition of the initial present value of unavoidable future lease payments as a leased asset and liability on the Consolidated Balance Sheets. Leases with durations of twelve months or less and leases for low-value assets are both exempted.

The measurement of the total lease expense over the term of a lease will be unaffected by the new standard. The presentation on the Consolidated Statement of Operations will result in most lease expenses being presented as amortization of leased assets and financing costs arising from lease liabilities rather than as being a part of either local administration expense or corporate service expenses.

The lessee's actual cash flows will be unaffected, however relative to the current standard, the lessee's statement of cash flows will reflect increased operating activity cash flows offset by a corresponding decrease in financing activity cash flows due to the payment of the "principal" component of leases.

Management is currently assessing the impacts and transition provisions of the new standard, but expects that the company's Consolidated Balance Sheets will be materially affected. At this time it is not possible to make reasonable estimates of the effects of the new standard.

#### **4. Determination of Fair Values**

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

##### **Property, plant, and equipment**

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

##### **Intangible assets**

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

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

### **Share-based payment transactions**

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

### **Assets Held for Sale**

Assets and liabilities classified as held for sale are reported separately on the Consolidated Balance Sheets when their carrying amount will be recovered principally through a sale transaction rather than through continuing use, and a sale is considered highly probable. Judgment is used in determining what events and circumstances exist to support the determination of highly probable. Immediately prior to held for sale classification, assets and liabilities are remeasured at lower of net book value and fair value less costs to sell. Impairment losses on initial classification and subsequent gains or losses on remeasurement are recognized in net income (loss). Once classified as held for sale, amortization is no longer recorded on the assets. Assets and liabilities classified as held for sale, are presented separately from other assets.

## **5. Operating Segments**

The Group has three reportable segments, as described below, which are the Group's strategic business units. The strategic business units offer the same services, but are managed separately. For each of the strategic business units, the Group's senior management reviews internal management reports on a monthly basis.

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

The Group operates in three geographic segments: Canada, the United States, and International (Latin America, Offshore, the Eastern Hemisphere, and the Middle East). The amounts related to each segment are as follows:

<b>Year Ended December 31, 2017</b>	<b>Canada</b>	<b>United States</b>	<b>International</b>	<b>Total</b>
	(\$)	(\$)	(\$)	(\$)
Revenue	70,531	151,985	23,127	245,643
Rental services and local administration	24,935	64,161	17,963	107,059
Depreciation and amortization	24,250	17,303	4,128	45,681
<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 expenses				1,561
Income taxes				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>
<b>Year Ended December 31, 2016 (Restated- Note 2)</b>				
Revenue	46,200	90,967	23,279	160,446
Rental services and local administration	17,706	52,971	19,158	89,835
Depreciation and amortization	24,036	23,130	8,218	55,384
<b>Segment gross profit (loss)</b>	<b>4,458</b>	<b>14,866</b>	<b>(4,097)</b>	<b>15,227</b>
Research and development				22,848
Corporate services				16,758
Stock-based compensation				6,195
Other expenses				27,533
Income taxes				(16,315)
<b>Net Loss</b>				<b>(41,792)</b>
Capital expenditures	1,465	11,667	(276)	12,856
<b>As at December 31, 2016</b>				
Property plant and equipment	54,019	74,806	21,679	150,504
Goodwill	1,284	7,850	2,600	11,734
Intangible assets	31,817	147	—	31,964
<b>Segment assets</b>	<b>130,792</b>	<b>248,762</b>	<b>55,697</b>	<b>435,251</b>
<b>Segment liabilities</b>	<b>33,425</b>	<b>9,570</b>	<b>5,605</b>	<b>48,600</b>

## 6. Property, Plant, and Equipment

	Materials and supplies	Rental Equipment	Other	Total
	(\$)	(\$)	(\$)	(\$)
<b>Property, plant and equipment</b>				
Balance at January 1, 2016	15,814	533,644	61,028	610,486
Additions	8,368	1,005	1,119	10,492
Acquisitions	—	—	47	47
Derecognition of assets	—	(52,919)	(5,829)	(58,748)
Parts consumed	(10,090)	10,090	—	—
Assets held for sale	(3,377)	(219)	(6,239)	(9,835)
Effects of exchange rate changes	(574)	(18,822)	(1,374)	(20,770)
Balance at December 31, 2016	10,141	472,779	48,752	531,672
Additions	9,433	1,471	7,464	18,368
Derecognition of assets	—	(44,922)	—	(44,922)
Disposals	(43)	(10,052)	(4,071)	(14,166)
Parts consumed	(11,782)	11,782	—	—
Effects of exchange rate changes	(218)	(21,160)	(1,378)	(22,756)
<b>Balance at December 31, 2017</b>	<b>7,531</b>	<b>409,898</b>	<b>50,767</b>	<b>468,196</b>
<b>Depreciation and impairment losses</b>				
Balance at January 1, 2016	—	373,718	35,332	409,050
Provisions	—	34,231	7,126	41,357
Derecognition of assets	—	(51,627)	(4,850)	(56,477)
Impairment loss on leasehold improvements	—	—	1,150	1,150
Assets held for sale	—	(53)	(2,440)	(2,493)
Effects of exchange rate changes	—	(10,595)	(824)	(11,419)
Balance at December 31, 2016	—	345,674	35,494	381,168
Provisions	—	26,114	8,160	34,274
Disposals	—	(8,569)	(4,429)	(12,998)
Derecognition of assets	—	(44,901)	—	(44,901)
Effects of exchange rate changes	—	(15,478)	(1,560)	(17,038)
<b>Balance at December 31, 2017</b>	<b>—</b>	<b>302,840</b>	<b>37,665</b>	<b>340,505</b>
<b>Carrying Amounts</b>				
At December 31, 2016	10,141	127,105	13,258	150,504
<b>At December 31, 2017</b>	<b>7,531</b>	<b>107,058</b>	<b>13,102</b>	<b>127,691</b>

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

### Derecognition of Assets

Included in the amounts recorded as derecognition of assets in the above table are the costs and accumulated depreciation of fully depreciated assets that have been removed from the Company's books. In 2017, these amounts were \$40,617 (2016: \$23,839)

Included in depreciation and amortization expense are losses on the derecognition of assets and spare parts obsolescence reserves in the amount of \$1,147 (2016: \$2,279) for the year-ended December 31, 2017.

## 7. Intangible Assets

	Goodwill	Research & Development	Technology	Customer Relationships	Other	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Intangible assets</b>						
Balance at January 1, 2016	28,878	35,871	—	11,210	4,254	80,213
Internally developed	—	4,506	—	—	271	4,777
Investment tax credits received	—	(1,994)	—	—	—	(1,994)
Additions	1,284	642	2,842	4,726	728	10,222
Dispositions	(17,189)	—	—	—	—	(17,189)
Effects of exchange rate	(542)	19	—	(743)	(35)	(1,301)
Balance at December 31, 2016	12,431	39,044	2,842	15,193	5,218	74,728
Internally developed	—	3,996	—	—	130	4,126
Investment tax credits received	—	(1,600)	—	—	—	(1,600)
Derecognition of assets	—	(10,492)	—	(3,864)	—	(14,356)
Effects of exchange rate	(816)	(10)	—	(84)	65	(845)
<b>Balance at December 31, 2017</b>	<b>11,615</b>	<b>30,938</b>	<b>2,842</b>	<b>11,245</b>	<b>5,413</b>	<b>62,053</b>
<b>Amortization</b>						
Balance at January 1, 2016	667	11,295	—	9,612	996	22,570
Amortization	—	6,590	—	1,620	914	9,124
Effects of exchange rate	30	5	—	(765)	66	(664)
Balance at December 31, 2016	697	17,890	—	10,467	1,976	31,030
Amortization	—	8,985	474	788	1,160	11,407
Derecognition of assets	—	(10,492)	—	(3,864)	—	(14,356)
Effects of exchange rate changes	(99)	(4)	—	(84)	(159)	(346)
<b>Balance at December 31, 2017</b>	<b>598</b>	<b>16,379</b>	<b>474</b>	<b>7,307</b>	<b>2,977</b>	<b>27,735</b>
<b>Carrying amounts</b>						
At December 31, 2016	11,734	21,154	2,842	4,726	3,242	43,698
<b>At December 31, 2017</b>	<b>11,017</b>	<b>14,559</b>	<b>2,368</b>	<b>3,938</b>	<b>2,436</b>	<b>34,318</b>

Other intangible assets include mostly software costs.

Disposition in 2016 relates to the disposal of the net operating assets of 3PS, Inc. (3PS) which resulted in the write-down of goodwill (Note 8).

### Derecognition of Intangible Assets

Included in the amounts recorded as derecognition of intangible assets in the above table are the costs and accumulated depreciation of fully depreciated research and development costs and customer relationship lists that have been removed from the Company's books. In 2017, these amounts were \$14,356 (2016: nil).

### Acquisition of Verdazo Analytics Inc.

Effective December 31, 2016, the Company purchased all of the existing and outstanding shares of Verdazo Analytics, Inc. (Verdazo) for total consideration of \$12,275. The consideration was comprised of cash of \$6,525 and Common Shares of the Company of \$5,750. The number of common shares issued on any particular date will be calculated based upon the prior twenty day volume weighted average price of the Company's common shares.

On December 31, 2016, the Company issued 67 Common Shares valued at \$18.74 per share (\$1,250). In January 2017, the Company paid \$5,025 of the cash portion owing. The remaining consideration is deferred and payable over three years.

In accordance with IFRS 3, a portion of the deferred consideration payable is not considered part of the purchase price but was accounted for as future compensation expense. This amount, which is being accrued over three years, totaled \$4,200 and was comprised of cash of \$1,050 and \$3,150 of Common Shares of the Company. The accrual is included in stock-based compensation expense in the Consolidated Statement of Operations with a corresponding liability in the Consolidated Balance Sheets. This deferred compensation expense is accrued on a graded basis over the respective three-year period.

As a result the acquisition cost for accounting purposes was \$8,075, of which \$1,050 is owing at December 31, 2017 and this amount is included in trade payables and accruals in the Consolidated Balance Sheets.

On December 31, 2017, the Company paid \$750 of the cash portion owing and 99 Common Shares valued at \$17.72 per share (\$1,750) were issued in January of 2018. For financial reporting purposes these shares were assumed to be issued on December 31, 2017 to align with the dates in the share purchase agreement. .

The table below summarizes the transactions related to the amounts owing on the purchase

	Future Compensation			Purchase Price		
	Cash	Stock	Total	Cash	Stock	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Amount Owing, Acquisition Date	1,050	3,150	4,200	5,475	2,600	8,075
December 2016 and January 2017 cash payment/issuance of shares	—	—	—	5,025	1,250	6,275
December 2017 cash payment/issuance of shares	500	1,225	1,725	225	525	750
Amount Owing, December 31, 2017	550	1,925	2,475	225	825	1,050

The acquisition was recognized as a business combination in accordance with IFRS 3 Business Combinations. The allocation of the components of total consideration to the net assets acquired was as follows:

<b>Net assets acquired</b>		
Goodwill		1,284
Customer relationships		4,726
Trademarks/Trade names		642
Technology		2,842
Non-compete Agreements		728
Corporate assets		47
Net working capital		309
Deferred income taxes		(2,503)
<b>Total net assets acquired</b>		<b>8,075</b>
<b>Consideration</b>		
Cash		5,025
Deferred consideration		1,800
Common shares issued		1,250
<b>Total Consideration paid</b>		<b>8,075</b>

Identifiable intangible assets were valued using commonly accepted valuation methodologies. Goodwill is the residual amount.

The acquisition is included in the Canadian business segment. The fair value of the non-cash working capital acquired approximated its book value. The acquisition included a non-compete agreement with the former owners of Verdazo, the value of which is included in the purchase price allocation as an intangible asset. The intangible assets acquired had no tax basis resulting in a deferred tax liability of \$2,503 million being recorded in respect of the related temporary difference.

Acquisition costs incurred were expensed.

Had the acquisition occurred on January 1, 2016, the acquisition would have contributed \$3,198 of revenue and net income of \$470 for the year ended December 31, 2016.

### **Intangible Assets and Goodwill**

The carrying value of goodwill is regularly tested for impairment. In assessing these assets for impairment at December 31, 2017 and 2016, the Company compared the aggregate recoverable amount of the assets included in the respective CGUs in the US and International segment to their respective carrying amounts.

The recoverable amount has been determined based on the value in use of the CGUs using cash flow budgets approved by management. There is a degree of uncertainty with respect to the estimates of the recoverable amounts of the CGU's assets due in part to the necessity of making key assumptions about the future economic environment that the company will operate in. The value in use calculations use discounted cash flow projections, which require key assumptions, including future cash flows, projected growth, and pre-tax discount rates. The Company considers a range of reasonable possibilities to use for these key assumptions and decides upon the amounts to use that represent management's best estimates.

For periods beyond the budget period, cash flows were extrapolated using growth rates that do not exceed the long-term average for these segments.

Key assumptions are as follows:

	<b>Canada</b>	<b>United States</b>	<b>International</b>
	(%)	(%)	(%)
Budgeted EBITDA margin	84	53	31
Weighted average growth rate	7	9	5
Terminal growth rate	2.0	2.0	2.0
Pre-tax discount rate	13	13	20

For both operating segments, reasonable possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value. If future events cause a significant change in the operating environment of these business units, resulting in key operating metrics differing from management's estimates, the Company could potentially experience future material impairment charges against goodwill.

## **8. Assets Held for Sale**

During 2016, the Company initiated a review of its investment in 3PS and in the fourth quarter of 2016 a final agreement was entered into for the sale of the net operating assets of 3PS, effective January 1, 2017.

The cash proceeds totaled \$8,159. As a result of this divestiture, the Company recorded a non-cash impairment loss of \$17,474 in the fourth quarter of 2016, the majority of which is attributable to the write-down of goodwill that arose as a result of the initial acquisition of 3PS. 3PS was included in the United States CGU.

The net operating assets sold were separately identified on the Consolidated Balance Sheets as at December 31, 2016. Cash proceeds of \$7,376 were received in January, 2017. The remaining \$783 was held in escrow and subsequently released in December of 2017.

	<b>December 31, 2016</b>
Trade and other receivables	1,071
Property plant and equipment	7,342
<b>Total Assets held for Sale</b>	<b>8,413</b>
Trade and other payables	223
<b>Total liabilities held for sale</b>	<b>223</b>

## 9. Share Capital

Years Ended December 31,	note	Common Shares			
		2017		2016	
		(\$)	(#)	(\$)	(#)
Balance, beginning of year		<b>139,730</b>	<b>84,628</b>	128,067	84,063
Exercise of stock options		<b>9,407</b>	<b>431</b>	10,413	498
Verdazo Acquisition	7	<b>1,750</b>	<b>99</b>	1,250	67
<b>Balance, end of year</b>		<b>150,887</b>	<b>85,158</b>	139,730	84,628

### Common shares

At December 31, 2017, the Company was authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

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

The 99 shares issued pursuant to the acquisition of Verdazo were issued out of treasury in January 2018. For financial reporting purposes these shares were assumed to be issued on December 31, 2017 to align with the dates in the share purchase agreement. .

### Stock option plan

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

At December 31, 2017, 5,514 (2016: 5,075) stock options were outstanding for common shares at exercise prices ranging from \$15.94 to \$27.96 per share, expiring between 2018 and 2022 as follows:

	December 31, 2017		December 31, 2016	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
<b>Outstanding, beginning of year</b>	<b>5,075</b>	<b>20.53</b>	4,862	21.77
Granted	1,564	18.54	1,554	15.96
Equity settled	(432)	16.59	(497)	14.22
Expired or forfeited	(693)	22.00	(844)	23.03
<b>Outstanding, end of year</b>	<b>5,514</b>	<b>20.07</b>	5,075	20.53
<b>Exercisable, end of year</b>	<b>2,648</b>	<b>22.41</b>	2,483	20.32
<b>Available for grant, end of year</b>	<b>471</b>		849	

The following table summarizes information about stock options outstanding at December 31, 2017:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable (Vested)	Weighted Average Exercise Price
(\$)	(#)	(Years)	(\$)	(#)	(\$)
15.94 – 18.21	1,465	3.91	15.96	475	15.96
16.32 – 22.60	1,598	4.82	18.56	27	19.77
22.61 – 27.96	2,451	2.01	23.46	2,146	23.86
	5,514	3.32	20.07	2,648	22.41

All stock options are accounted for using the Black-Scholes option pricing model.

Weighted average assumptions for options granted in the year are as follows:

Years Ended December 31,	2017	2016
Fair value of stock options (\$)	3.83	2.88
Forfeiture rate (%)	11.65	11.62
Risk-free interest rate (%)	1.49	0.76
Expected option life (years)	3.15	3.13
Expected volatility (%)	37.06	35.5
Expected annual dividends per share (%)	3.68	4.27

### Restricted share units plan

At December 31, 2017, 258 (2016: 262) RSUs were outstanding. All RSUs vest over three years and will result in a cash payment to holders based upon the corresponding future market value of the Company's common shares. Stock-based compensation expense arising from the RSU plan of \$2,127 (2016: \$1,371) was recorded in the Consolidated Statements of Operations under stock-based compensation. The corresponding liability is recorded in the Consolidated Balance Sheets.

The outstanding RSUs can be summarized as follows:

<b>Years Ended December 31,</b>	<b>2017</b>	<b>2016</b>
	(#)	(#)
RSUs, beginning of year	262	289
Granted	126	165
Vested and paid	(109)	(138)
Forfeited	(21)	(54)
RSUs, end of year	258	262

### Deferred share units plan

The DSUs are awarded annually to non-management members of the Board of Directors and represent rights to share values based on the number of DSUs issued. DSUs are credited evenly following the year in which they are awarded. DSUs vest and are paid upon the retirement of the Director. There were 107 DSUs credited as at December 31, 2017 (2016: 120). Stock-based compensation expense arising from the DSU plan of \$263 (2016: \$527) was recorded in the Consolidated Statements of Operations under stock-based compensation. The corresponding liability is recorded in the Consolidated Balance Sheets.

The outstanding DSUs can be summarized as follows:

<b>Years Ended December 31,</b>	<b>2017</b>	<b>2016</b>
	(#)	(#)
DSUs, beginning of year	120	110
Credited	21	28
Vested and paid	(34)	(18)
DSUs, end of year	107	120

### Performance share units plan

Under the terms of the PSU Plan, the number of PSU's awarded to an employee shall be equal to one PSU for each \$1.00 of Grant Value awarded on such date. All PSU's vest over three years and will result in a cash payment to holders based upon the total shareholder return on the Company's common shares relative to two prescribed benchmark indices. There were 4,240 PSUs outstanding at December 31, 2017 (2016: 3,862). Stock-based compensation expense arising from the PSU plan of \$2,895 (2016: \$1,301) was recorded in the Consolidated Statements of Operations under stock-based compensation. The corresponding liability is recorded in the Consolidated Balance Sheets.

The outstanding PSUs can be summarized as follows:

<b>Years Ended December 31,</b>	<b>2017</b>	<b>2016</b>
	(#)	(#)
PSUs, beginning of year	3,862	4,222
Granted	2,220	2,170
Vested and paid	(1,842)	(1,501)
Forfeited	—	(1,029)
PSUs, end of year	4,240	3,862

## Stock-based compensation expense and liability

Stock-based compensation can be summarized as follows:

### Expense

Years Ended December 31,	Note	2017	2016
		(\$)	(\$)
Stock options		3,647	2,996
RSUs		2,127	1,371
DSUs		263	527
PSUs		2,895	1,301
Deferred compensation expense	7	2,830	—
Stock-based compensation expense		11,762	6,195

### Liability

As at December 31,	Note	2017	2016
		(\$)	(\$)
RSUs		935	867
PSUs		1,075	649
Deferred compensation expense	7	1,079	—
Current portion of stock-based compensation liability		3,089	1,516
RSUs		390	306
DSUs		1,951	2,348
PSUs		417	287
Long-term portion of stock-based compensation liability		2,758	2,941
Total stock-based compensation liability		5,847	4,457

### Common share dividends

During 2017, the Company declared dividends of \$57,697 (2016: \$57,338) or \$0.68 per common share (2016: \$0.68).

## 10. Income Per Share

### Basic income per share

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

Years Ended December 31,	2017	2016
('000s)	(#)	(#)
Issued common shares outstanding, beginning of year	84,628	83,675
Effect of exercised options	193	690
Weighted average number of common shares for the year	84,821	84,365

For the year ended December 31, 2017, 432 (2016: 497) common shares were issued as a result of the exercise of vested options. Options were exercised at an average price of \$16.59 per option. All issued shares are fully paid.

## Diluted income per share

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

Years Ended December 31,	2017	2016
('000s)	(#)	(#)
Weighted average number of common shares (basic)	84,821	84,365
Effect of share options	434	—
Weighted average number of common shares (diluted)	85,255	84,365

Options (2,574) are excluded from the above calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices for the period during which the options were outstanding.

## 11. Other Expenses

Years Ended December 31,	Note	2017	2016
		(\$)	(\$)
Foreign exchange loss (gain)		1,106	(1,943)
Impairment loss	8	—	17,474
Restructuring costs		—	10,861
Other		455	1,141
Other expenses		1,561	27,533

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

## 12. Income Tax

The major components of income tax expense are as follows:

Years Ended December 31,	2017	2016 (Restated-Note 2)
	(\$)	(\$)
Current tax expense	9,268	(3,542)
Deferred tax expense	4,762	(12,773)
Total tax provision (recovery)	14,030	(16,315)

The provision for income taxes, including deferred taxes, reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 27% for both 2017 and 2016.

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

The main differences are as follows:

<b>Years Ended December 31,</b>	<b>2017</b>	<b>2016 (Restated-Note 2)</b>
	(\$)	(\$)
Income (loss) before income taxes	<b>39,220</b>	(58,107)
Expected income tax at statutory rate of 27%	<b>10,589</b>	(15,689)
Increase (decrease) resulting from:		
Tax rates in other jurisdictions and impact of not recognizing deferred tax assets on net operating losses	<b>3,437</b>	(4,906)
Non-taxable dividends	<b>(4,795)</b>	(4,849)
Non-deductible portion of stock-based compensation	<b>1,184</b>	639
Recognition of Advanced Pricing Arrangement (APA)	<b>3,322</b>	—
Prior years reassessments and adjustments	<b>(206)</b>	2,236
Impairment of goodwill with no tax basis	—	6,471
Non-taxable items not deductible (deductible) for tax purposes and other items	<b>499</b>	(217)
Income tax expense (recovery)	<b>14,030</b>	(16,315)

Deferred tax assets and liabilities are comprised of the following:

<b>As at December 31,</b>	<b>2017</b>	<b>2016</b>
	(\$)	(\$)
Tax loss carry-forwards	<b>15,809</b>	30,485
Inter-company transactions	<b>4,367</b>	5,166
Share-based payments	<b>2,701</b>	2,257
Other	<b>(7,109)</b>	(6,914)
Property, plant and equipment	<b>(10,702)</b>	(20,409)
Intangible assets	<b>(8,191)</b>	(10,697)
	<b>(3,125)</b>	(112)
Deferred tax asset	<b>1,390</b>	16,544
Deferred tax liability	<b>(4,515)</b>	(16,656)
	<b>(3,125)</b>	(112)

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

The movement in deferred tax assets and liabilities is as follows:

As at	Tax loss carry forwards	Inter-company transactions	Share-based payments	Other	Property, plant and equipment	Intangible assets	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
January 1, 2016	21,742	3,095	1,973	(9,089)	(21,224)	(8,041)	(11,544)
Recognized in income	9,321	2,059	287	1,076	183	(153)	12,773
Recognized in Other Comprehensive Income (Note 2)	—	—	—	1,171	—	—	1,171
Business acquisition	—	—	—	—	—	(2,503)	(2,503)
Exchange differences	(578)	12	(3)	(72)	632	—	(9)
December 31, 2016	30,485	5,166	2,257	(6,914)	(20,409)	(10,697)	(112)
Recognized in income	(13,393)	(475)	442	(2,540)	8,515	2,689	(4,762)
Recognized in Other Comprehensive Income	—	—	—	2,500	—	—	2,500
Exchange differences	(1,283)	(324)	2	(155)	1,192	(183)	(751)
<b>December 31, 2017</b>	<b>15,809</b>	<b>4,367</b>	<b>2,701</b>	<b>(7,109)</b>	<b>(10,702)</b>	<b>(8,191)</b>	<b>(3,125)</b>

All deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. In addition, deferred tax assets and liabilities have been offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

After giving effect to the APA adjustment referred to below, the Company has available Canadian NOLs for federal purposes of \$27,032 and \$23,212 for Alberta purposes, and US NOLs of USD \$24,803, the benefits all of which have been recognized in the Consolidated Financial Statements. These losses can be used to reduce future income taxes otherwise payable. The Canadian losses expire between 2035 and 2036 while the US losses expire between 2028 and 2035.

The Company has in its International business segment \$6,309 of NOLs, for which no deferred tax asset has been recognized. Deferred tax assets are only recognized to the extent that it is probable that future taxable profits will be available to use unused tax losses.

### Advanced Pricing Arrangement

In 2014, the Company applied for a Bilateral Advanced Pricing Arrangement (APA) from the Canada Revenue Agency (CRA) and the Internal Revenue Service (IRS) (collectively, the Parties) covering the taxation years ended December 31, 2013 through to December 31, 2017. The purpose of this APA was for the Company to obtain agreement among the Parties on the Transfer Pricing (TP) methodology applied to the material inter-company transactions between Pason Systems Corp. (Pason Canada) and Pason Systems USA and Petron (collectively Pason USA) (the covered transactions). Once an APA is concluded it provides tax certainty for the Company. The Company's previous tax filings were based upon the TP methodology presented to the Parties under the APA submission.

Management has been notified that the Parties have substantially completed their negotiations and, based upon the Company's understanding of the terms of the agreement, management will accept the

methodology that both Parties have agreed to. Accordingly, the TP methodology will be amended from that on which the Company based its previous tax filings on. Management's best estimate of this change is to reduce the previously recorded royalty and management fee Pason Canada charged Pason USA for the five years commencing December 31, 2013 and ending December 31, 2017 by approximately \$26,667, resulting in a decrease in taxable income in Pason Canada and a decrease in the net operating losses (NOL) available in Pason USA.

The Company recorded an increase to current Canadian income tax recoverable amount of \$1,006, a \$6,074 deferred tax asset relating to an increase in the Company's Canadian NOLs, and a reduction in the deferred tax asset relating to Pason USA's NOLs of \$10,402. The net impact of these amounts, totaling \$3,322, was recognized through the income tax provision for the year ending December 31, 2017.

In addition to the TP methodology, the Parties have settled on the applicable withholding tax on the covered transactions. Pason USA will recover previously remitted withholding taxes of \$17,881 from one of the Parties while Pason Canada will be required to remit a corresponding amount to the other Party. There is no legal right of off-set for these amounts and, as a result, this amount has been separately disclosed in the Consolidated Balance Sheet as at December 31, 2017 as both a current asset and current liability with no impact on the Company's tax provision for the year ending December 31, 2017.

Management expects the APA to be finalized in 2018 and does not believe that the final outcome would have a material adverse impact on its consolidated financial periods in future periods. However, the final conclusion reached by the Parties may differ from the estimates recorded in these consolidated financial statements which may affect income tax amounts reported in future years.

#### Canadian NOLs

During the fourth quarter of 2017 management made the decision to carry forward to future tax years the Canadian NOLs realized in the years ending December 31, 2015 and 2016 rather than carry back the losses to recover previously paid income taxes. The impact of this decision was to reduce the Company's current income tax recoverable balance by \$8,182 with a corresponding increase to deferred tax assets.

### 13. Cash and Cash Equivalents

As at December 31,	2017	2016
	(\$)	(\$)
Cash	<b>74,902</b>	55,317
Cash equivalents	<b>79,227</b>	91,162
Cash and cash equivalents	<b>154,129</b>	146,479

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 17. Cash equivalents are made up mostly of cash invested in money market funds with interest rates of approximately 1.00%, and maturities from 1–30 days.

## 14. Trade and Other Receivables

As at December 31,	2017	2016
	(\$)	(\$)
Trade receivables, net of allowances for doubtful accounts	<b>52,275</b>	48,483
Other receivables	<b>2,794</b>	2,238
	<b>55,069</b>	50,721

All trade and other receivables are classified as current assets.

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables, is disclosed in Note 17.

## 15. Credit Facility

The Company has a \$5,000 demand revolving credit facility. Interest is payable monthly and is based on either the lender's prime rate, US base rate loans, Bankers' Acceptance rates, or the London Inter-Bank Offered Rate (LIBOR), plus applicable margins.

The credit facility is used by the Company for working capital purposes, and accordingly, amounts drawn against it are recorded as bank indebtedness offset by any excess cash balances.

The Company can repay, without penalty, advances under the facility. The facility is secured by a general security agreement on all of the assets of the Company, Pason Systems Corp., and Pason Systems USA Corp.

The Company is subject to the following financial covenants:

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

Both covenants have been met throughout the reporting period.

## 16. Trade Payables and Accruals

As at December 31,	Note	2017	2016
		(\$)	(\$)
Trade payables		<b>6,636</b>	4,301
Non-trade payables and accrued expenses		<b>12,705</b>	13,222
Amount owing on business acquisition	7	<b>1,050</b>	6,824
		<b>20,391</b>	24,347

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 17.

The amounts owing on the business acquisition will be settled in cash (\$225) and the issuance of common shares of the Company (\$825). The number of common shares issued on any particular date

will be calculated based upon the prior twenty day volume weighted average price of the Company's common shares.

## 17. Financial Risk Management and Financial Instruments Overview

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

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

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

### Risk management framework

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

### Credit risk

#### (a) Trade and other receivables

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

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

The Group establishes an allowance for doubtful accounts that represents its estimate of incurred losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective doubtful accounts allowance is determined based on historical data of payment statistics for similar financial assets.

(b) Exposure to credit risk

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

<b>As at December 31,</b>	<b>2017</b>	<b>2016</b>
	(\$)	(\$)
Trade and other receivables, net of allowance for doubtful accounts	<b>55,069</b>	50,721

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

<b>As at December 31,</b>	<b>2017</b>	<b>2016</b>
	(\$)	(\$)
Canada	<b>12,092</b>	10,150
United States	<b>34,427</b>	31,681
International	<b>8,550</b>	8,890
	<b>55,069</b>	50,721

The Company does not have any customers that comprised greater than 10% of total revenue.

(c) Allowance for doubtful accounts

The aging of trade and other receivables at the reporting date was:

<b>As at December 31,</b>	<b>2017</b>		<b>2016</b>	
	<b>Gross</b>	<b>Allowance</b>	<b>Gross</b>	<b>Allowance</b>
	(\$)	(\$)	(\$)	(\$)
Current	<b>39,865</b>	—	39,745	—
31–60 days	<b>10,823</b>	<b>(60)</b>	8,221	(3)
61–90 days	<b>3,419</b>	<b>(50)</b>	2,509	(59)
Greater than 90 days	<b>4,856</b>	<b>(3,784)</b>	5,027	(4,719)
	<b>58,963</b>	<b>(3,894)</b>	55,502	(4,781)

The movement in the allowance for doubtful accounts in respect of trade and other receivables during the year was as follows:

<b>As at December 31,</b>	<b>2017</b>	<b>2016</b>
	(\$)	(\$)
Opening balance	<b>4,781</b>	5,492
Additions to provision	<b>74</b>	564
Accounts collected, previously allowed for	<b>117</b>	26
Write-off of uncollectible accounts	<b>(830)</b>	(1,181)
Effects of exchange rate changes	<b>(248)</b>	(120)
<b>Ending balance</b>	<b>3,894</b>	4,781

## Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due. This is achieved through maintaining a strong working capital position, including significant cash balances.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements.

Cash flow forecasting is performed in the operating entities of the Company and aggregated in head office, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Company's debt financing plans and compliance with internal balance sheet ratio targets.

Surplus cash held by the operating entities over and above balances required for working capital management are invested in interest bearing short-term deposits which are selected with appropriate maturities or sufficient liquidity to provide sufficient room as determined by the above-mentioned forecasts.

December 31, 2017							
	Carrying amount	Contractual cash flows	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Non-derivative liabilities:							
Trade payables and accruals	19,341	19,341	19,341	—	—	—	—
Amounts owing on business acquisition	1,050	1,050	—	675	375	—	—
Stock-based compensation	5,847	5,847	—	3,089	2,758	—	—
	26,238	26,238	19,341	3,764	3,133	—	—

For trade payables and accruals and amounts owing on business acquisition, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

For stock-based compensation liabilities, the timing and amounts could differ significantly as a result of changes in the Company's share price.

## Market and foreign exchange risk

The Group has not entered into any hedging arrangements.

The Group's exposure to foreign currency risk relates to the US dollar is as follows:

As at December 31,	2017	2016
	USD	USD
Cash	112,534	91,839
Trade and other receivables	29,035	23,920
Trade payables, accruals and other provisions	(6,037)	(5,511)
Balance sheet exposure	135,532	110,248
CDN\$ Equivalent	170,024	148,030

(a) Sensitivity analysis

A strengthening of the Canadian dollar against the US dollar by 1% at December 31, 2017 would have decreased net income and equity for the year by \$241 and \$4,253, respectively. This analysis is based on foreign currency exchange rate variance that the Group considered to be reasonably possible at the end of the reporting year. The analysis assumes that all other variables remain constant. A weakening of the Canadian dollar at December 31, 2017 would have had the equal but opposite effect.

(b) Interest rate risk

The Company is exposed to changes in interest rates with respect to its credit facility. Management believes this risk to be minor given the small amounts drawn on the facility.

(c) Fair values versus carrying amounts

The carrying values of financial assets and liabilities approximate their fair value due to the short-term nature of these items.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data.

	Financial Assets at Fair Value			December 31, 2017
	Level 1	Level 2	Level 3	
	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	154,129	—	—	154,129
Total financial assets at fair value	154,129	—	—	154,129

(d) Capital risk

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

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

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

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

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

(e) Industry and seasonality risk

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

In addition to the cyclical nature of its business, the Company is also subject to risks and uncertainties associated with weather and seasonality. The Company continues to react to unfavourable weather conditions and spring breakup, which limit well access in Canada, through diversification into geographic regions such as the United States and internationally, where these factors are less likely to influence activity.

(f) Commodity risk

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

## 18. Operating Commitments

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

As at December 31,	2017	2016
	(\$)	(\$)
Less than one year	14,324	15,472
Between one and three years	8,293	15,414
More than three years	4,195	4,823
	26,812	35,709

Contractual obligations relate to minimum future payments required primarily for telecommunication charges and operating leases for certain facilities and vehicles. The amounts above do not include the payments owing on the lease of the Company's previous Golden, Colorado office which was closed and sub-leased

out in 2016. The Company has recorded an onerous lease obligation on the Consolidated Balance Sheets for this lease which is calculated at the present value of the expected net cost of continuing with the lease after adjusting for anticipated sublease rentals.

## 19. Capital Commitments

At December 31, 2017, the Group has entered into contracts to purchase property, plant, and equipment for \$5,644 (2016: \$6,628), the majority of which relates to the purchase of rental assets in the normal course of business.

## 20. Related Parties

### Transactions with key management personnel and directors

In addition to salaries and director fees, as applicable, the Group also provides compensation to executive officers and directors under the Group's long-term incentive plans (Note 9).

Executive management personnel and director compensation is comprised of:

Years Ended December 31,	2017	2016
	(\$)	(\$)
Compensation, including bonuses	3,200	2,982
Share-based payments	4,727	2,952
	7,927	5,934

The majority of these costs are included either in corporate services or stock-based compensation expense in the Consolidated Statements of Operations.

Key management and directors of the Company control approximately 13% of the voting shares of the Company. No balances are owing from any employees or directors.

## 21. Contingencies

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

## 22. Events After the Reporting Period

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

## 23. Organizational Structure

