PASON SYSTEMS INC.

2013 ANNUAL REPORT

pason

Technology • Deployed • Simply

QUICK FACTS

- Over **2,000** rigs worldwide with Pason rental instrumentation
- Over **10,000** users of Pason data per day
- Business value over **$2 billion**
- Record revenue of **$403 million** for 2013
- Headquartered in **Calgary, Canada**
- US offices in **Denver, Houston, and Austin**
- International offices in **Argentina, Bolivia, Brazil, Colombia, Ecuador, Peru, Mexico, and Australia**
- International presence in **Oman and Saudi Arabia**
- Listed on the Toronto Stock Exchange under the symbol **PSI**

Written, designed, and produced by Pason employees.

MISSION STATEMENT

Our mission is to provide technologies, information, and services that improve the effectiveness, efficiency, and safety of drilling operations.

We do this by:

- Deploying innovative, simple-to-use, rig-tough technologies that are supported by the industry's most advanced service organization.
- Providing the most flexible data and applications to enable effective collaboration between the field and the office.

Our corporate position and financial strength directly benefit four key stakeholders: our customers, investors, employees, and communities.


Fort Nelson, British Columbia, Canada
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Pico Truncado, Santa Cruz Province, Argentina
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PASON OFFICE

PASON PRESENCE

Legend

Adelaide, South Australia, Australia

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FINANCIALS AT A GLANCE

All dollar amounts are in $CDN unless otherwise indicated.

SHAREHOLDER RETURNS

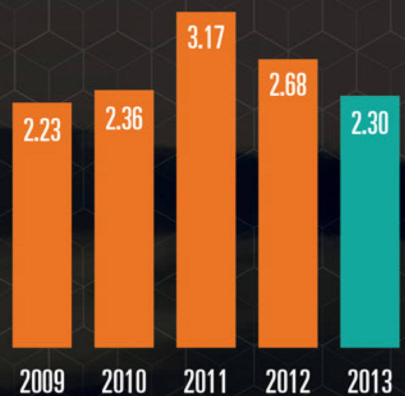
SHARE PRICE PERFORMANCE

DIVIDENDS PER SHARE

($)

DIVIDEND YIELD*

(%)



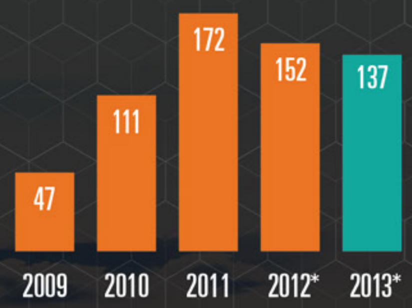
* At year end.

KEY FINANCIAL METRICS

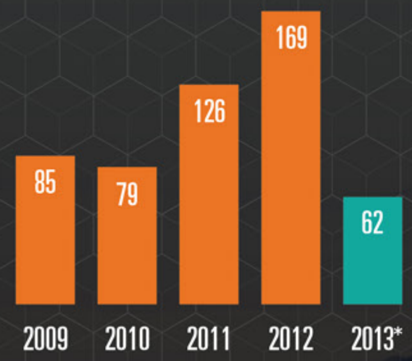
TOTAL REVENUE
($MILLIONS)

EARNINGS
($MILLIONS)

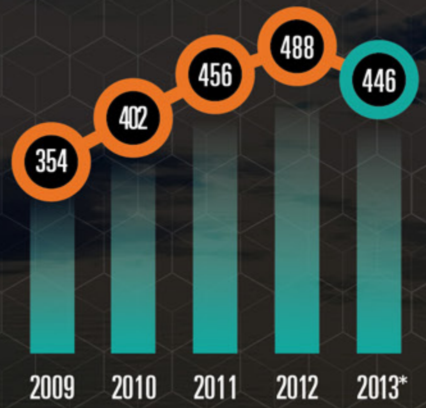
EBITDA
($MILLIONS)



CASH FROM OPERATING ACTIVITIES
($MILLIONS)



TOTAL ASSETS
($MILLIONS)

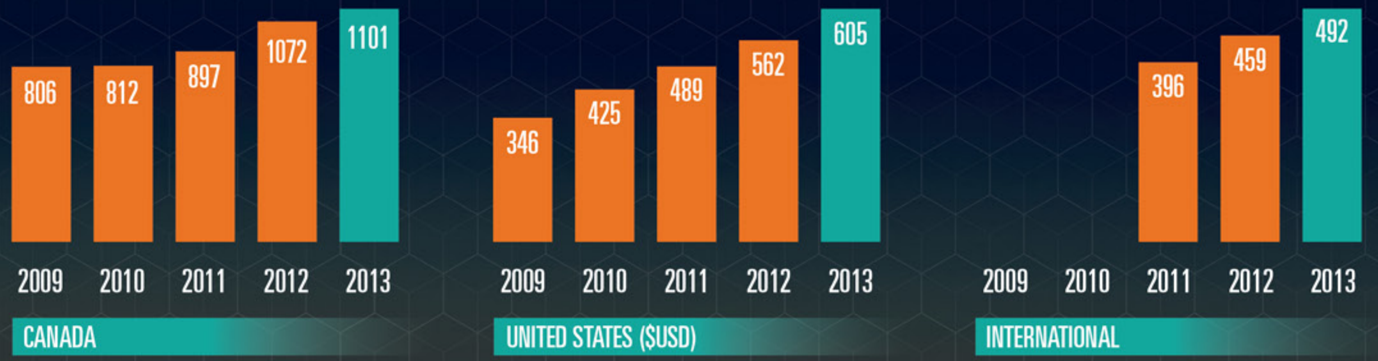


CASH BALANCE
($MILLIONS) No Debt

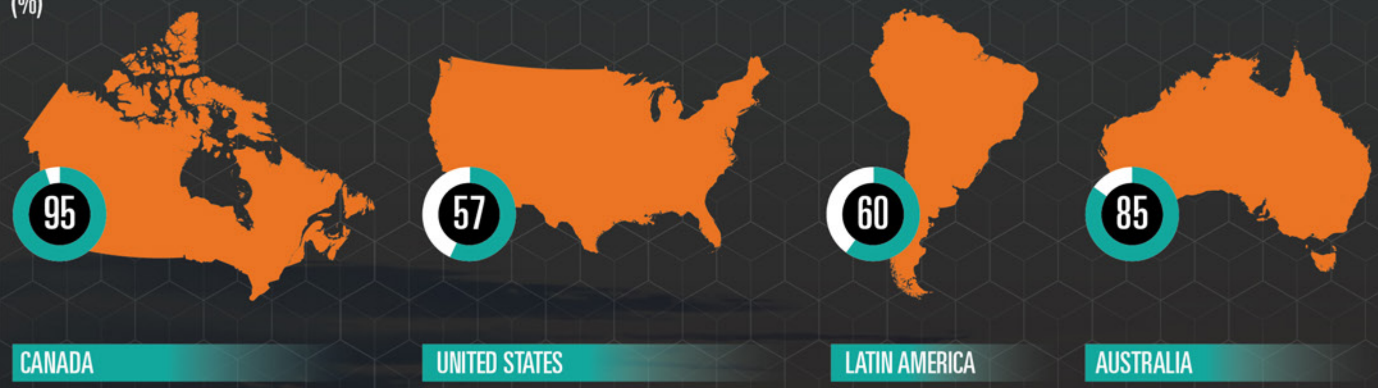
*Impacted by litigation provision and settlement. Refer to 2013 financial statements for more details.

KEY OPERATIONAL METRICS

RENTAL REVENUE PER EDR DAY
($)



MARKET SHARE
(%)



EMPLOYEE HEADCOUNT

ANNUAL R&D SPEND
($MILLIONS)

FOCUSED ON THE FIELD

Pason is a leading global provider of specialized data management systems for drilling rigs. Our solutions, which include data acquisition, wellsite reporting, remote communications, and web-based information management, enable collaboration between the rig and the office.

Our products are rig tough, and are specifically built to withstand diverse climates and harsh environmental conditions. Our products must endure extreme temperatures, humidity, wind, and exposure to seawater. No matter the weather conditions, our customers rely on Pason equipment to function.

Our products are robust, but so are our people. We hire talented field service technicians to keep our systems up and running. They travel great distances to remote rig locations—in some cases through different time zones—and must work in the same climates and weather conditions as our products. They are out there, and they're working hard.

We are global. We are tough. We are Pason.

These are some of our stories.

Dulac, Louisiana, United States

Fort Nelson, British Columbia, Canada

Adelaide, South Australia, Australia

Pico Truncado, Santa Cruz, Argentina

2013

BY LAND AND SEA

Imagine if your office was the Gulf of Mexico. Travis' is.

That makes a trip to the office no small affair. In fact, when Travis visits an offshore rig, he doesn't even have the option of deciding when he's leaving or when he's coming home. Every trip is coordinated with the rig, who informs him when and where to catch a boat that will take him out. Some boat rides are an easy 25 minutes up a river to an inland barge rig. But others might be hours into the Gulf with relentless six-foot waves the entire trip. And the dock? The nearest one is in Dulac, Louisiana—130 km from his home in Maurice, Louisiana. So his first task is to get himself there before departure time.

The difficulty of the trip also limits what he can bring. Every nut, bolt, target ring, mouse, and monitor is lifted off his

Dulac, Louisiana, United States

18°C/65°F
8°C/46°F

0.9m
3ft

Latitude: 29°23'5" N
Longitude: 90°41'49" W

1,500

Dulac is over 300 years old

60 PERCENT OF OFFSHORE RIGS IN THE GULF OF MEXICO USE THE GAS ANALYZER

COASTLINE COVERED BY PASON FIELD TECHNICIANS truck and into the boat, then off the boat and onto the rig: whatever isn't used makes the return trip home. For this reason, Travis almost has to solve the problem before he even heads out to the rig. It is simply too inefficient—and unsafe—to carry every piece of equipment he might need for a call.

That's a lot of hauling back and forth, but it's just the kind of dedication to the job that has earned Pason the reputation for the best service in the industry. Our customers like having a specific technician who they always deal with. That's one way we earn our customers' trust.

Having reliable equipment is another way. "The rigs really like the dependability of our system," says Travis. "That alone has helped in getting the operator to use the system."

As for Travis, he enjoys the challenge of working on the system. "I like the trouble-shooting part of the job. I like having to figure out what is wrong and getting it fixed."

Out of the whole spectrum of Pason's products, it's the Pason Gas Analyzer that many of our offshore customers appreciate most. It's worth noting that it is illegal to drill an offshore well without a gas detection system, and as Travis notes, our Gas Analyzer is "easy to use and is very dependable."

While our customers may come to expect reliability from any Pason product, they can also take comfort in knowing that we have field service technicians like Travis ready to help them out of a jam, whenever, wherever.

Gulf of Mexico, Offshore, United States

300%

INCREASE IN RIG COUNT* IN

ONE YEAR

*OFFSHORE RIG COUNT

WE WORK ON A VARIETY OF DIFFERENT TYPES OF RIGS

ICE ROADS, JET BOATS, AND HELICOPTERS

Fort Nelson, British Columbia, Canada

17°C/62°F
-20°C/-4°F

305m
1,000ft

Latitude: 60.2408° N
Longitude: 123.4697° W

Almost 4,000

Established in 1805

The radio alarm rings. It's 6:00 am, pitch black, and freezing cold. For Shane, it's a fairly typical winter morning in Fort Nelson, British Columbia (BC), Canada.

When you live this far north—just shy of the 60th parallel—it'll still be dark for hours. Pason field technicians in northern Canada must be prepared to work in the dark, endure extreme weather conditions, and travel long distances to their jobs.

Shane, who has worked as a Pason field technician for three years, is based in Fort Nelson. Located at historic mile 300 along the Alaska Highway, Fort Nelson is remote: his closest jobs are two hours away. Today, however, he doesn't have the luxury of a two-hour drive.

He rolls out of bed, puts his work clothes on, and prepares to head outside and start his truck. He glances at the thermometer: -32°C. That's not too bad for a place where January temperatures can dip as low as -52°C. In fact, Fort Nelson is the coldest location in BC from November through to February.

Shane knows that today is going to be a long day. Last night, he got a call from one of the biggest land rigs in Canada. They just moved the rig to a new lease near Fort Liard, Northwest Territories (NWT), which is not only in a different province, but in a different time zone. His first effort to talk the rig crew through the problem last night was unsuccessful, so he has to head out early to make the journey.

MAKING A DIFFERENCE IN OUR LOCAL COMMUNITY

$133,640
DONATED FOR
ALBERTA FLOOD RELIEF

8
SCHOOL
PLAYGROUNDS
BUILT SO FAR

ON A BARGE UP RIVER

ON A JET BOAT

IN THE PASON TRUCK

ON A HELICOPTER

"When a massive rig makes a move, they prefer to have the Pason field technician reconnect all of the equipment to ensure proper operation when it's time to drill," says Shane. This rig, in particular, has a full complement of Pason equipment, so there is a lot of rig up involved.

Depending on the season and the weather conditions, the trip to this rig varies drastically. Although winter conditions can result in treacherous roads, some aspects of travel are easier. When the ice roads are open, it's only a 3.5 hour drive from Fort Nelson to the Fort Liard rig. However, despite the frigid temperatures, the ice roads are not yet navigable.

Today, his plan is to drive 4 hours from Fort Nelson to Fort Liard and hop on a helicopter for a quick 20 minute flight up the Liard River to a pick up point, where the contractor rig crew will meet him and drive him to the rig.

During the spring and summer, the trip becomes even more complicated. It involves three different modes of transportation spanning close to a total of 300 km. He drives for 2.5 hours to Fort Liard and then takes a helicopter or a river boat to the other side, where he is then picked up by a crew truck and delivered to the rig.

If he needs his truck, it's a whole other story. He parks his truck on a barge that travels only 50 km upstream, but takes 12 hours to arrive due to the strong currents of the mighty Liard River. The same trip on a passenger boat takes only one hour from Fort Liard to the pick-up location. From there, he is met by the contractor's crew truck. He works with his bare-bones essentials for 12 hours before his truck arrives with the rest of his gear. The process of getting back is the same, but the fast-moving downstream current of the Liard River cuts the barge time in half.

So, what drives Pason's field technicians to work in these conditions? Well, for Shane, it's due to his own entrepreneurial spirit. As he jokes, "it's like running your own company—without the pains of *running your own company.*" Call it a win-win situation: Shane gets to do the job he loves, and Pason gets a dedicated field technician.

Photos: Courtesy of Shane Allin.

400 FAMILIES FED VIA DONATIONS TO THE CALGARY INTERFAITH FOODBANK

80 FIELD PERSONNEL ABLE TO MOBILIZE TO SEARCH FOR MISSING CHILDREN WITH CODESEARCH

THE FUTURE LOOKS BRIGHT ON THE BIGHT

What does it take to overcome record floods, blistering heat, bush fires, and downed rigs on a stretched budget and few spare parts? If you ask Keith, he'll tell you that all it takes is a little Aussie Pride. Overcoming difficulties and celebrating successes has been a large part of Keith's job description, as a field technician and now as Operations Manager of Pason Australia.

Today, he is in charge of 11 employees, 85 rigs, and 7 field trucks. But it wasn't always like that.

Back in 2008, he didn't even get the field sales and service technician (FSST) role at Pason that he had applied for. But two years later, to his surprise, he got a call from Pason inquiring "if I was still interested." He was. So he set off from the gold fields of Kalgoorlie, Western Australia, and drove 2,400 km across the Nullarbor Plain, a seemingly endless stretch of treeless semi-arid desert along the Great Australian Bight, to Adelaide, South Australia, to sit down and discuss the job.

Adelaide, South Australia, Australia

27°C/84°F
8°C/45°F

65m
213ft

Latitude: 34°55′59″ S
Longitude: 138°35′59″ E

1.2 million

Established in 1836

WINTER SUMMER
1°C 55°C

RANGE OF AVERAGE TEMPERATURES

1,460 DAYS LTI FREE*

*LOST TIME INJURY

IMPECCABLE SAFETY RECORD

His return trip across the Nullarbor was a nail-biting drive without cell reception. Thankfully, when he finally got reception there was a message saying that he had the job. Two weeks later, he was out on a rig. As Keith puts it, "there's nothing like being thrown in the deep end."

Nullarbor Plain, South Australia

In 2010, Pason Australia had four field technicians and one truck servicing over 20 rigs across an expansive 3,000 km². Keith and his colleagues endured 20-hour days and two-day trips to get to locations with minimal tools and parts.

Over the next year, the numbers of field technicians and rigs increased, and revenue rose correspondingly, allowing them to "splash out and buy an additional truck and tools." But rig counts quickly outnumbered capable hands—meaning a return to long days, sleepless nights, and weeks away from home. Nevertheless, they had record numbers of rigs and revenue, making all the hard work seem worthwhile. As Keith recalls, "we thought we were well on our way."

Flooding in Australia

And they were, until the worst floods in 100 years wiped out more than 75% of their rigs, resulting in a 90% loss in revenue. It was a disheartening blow that redoubled—literally—when the floods came back the following year, knocking out rigs, damaging parts, and deflating morale.

So what's an Aussie to do? Keith and his team simply rolled up their sleeves and went back to work.

"We decided we had to prove that Australia can make it."

And they did. By 2013, Pason Australia proved themselves a force to be reckoned with. With an 85% market share, a 52% increase in revenue, and a growing team of field technicians, the future is looking brighter than ever.

FIELD TECHNICIANS TRAVELLED

508,816 KM*

EQUIVALENT TO DRIVING AUSTRALIA

COAST TO COAST

101.076 TIMES

*BETWEEN 2010-2013

CONSTANT & STEADY

GROWTH

OF OUR FIELD TECHNICIAN TEAM

TO MEET INCREASING NEEDS

BLOWING IN THE WIND

Driving up to 450 km a day to assist a customer comes with the territory when you're a field technician in the province of Santa Cruz, Argentina. The territory in question is the southernmost region of Pason Argentina operations, and the field technician is Hernan.

He lives in Pico Truncado, which is just 60 km from the Atlantic Ocean and only 200 m above sea level. Being so close to the ocean, you might expect a humid coastal environment, but that's not the case. Pico Truncado is located in the steppes of Patagonia, a mountain range famous for its towering spires. However, it's also notorious for its wind. It's a place where trees grow sideways and humidity gets whisked away by the ever-present winds from the west.

Having joined the Pason family on June 4, 2007, he is the longest-serving field technician in the region. Pico Truncado is affectionately known as the

Pico Truncado, Santa Cruz, Argentina

24°C/75°F
3°C/37°F

286m
938ft

Latitude: -46°47′56″ S
Longitude: -67°58′00″ W

16,000

Established in 1910

Wind speeds up to 100km/h

100 PERCENT TRUCK RENEWAL

ON MORE THAN 120 ACTIVE JOBS*

*IN 2013

Patagonian Steppe, Argentina, South America

"Windy City," but the wind around here is no joke, especially when it affects your work. At times, the wind can be so severe that it becomes an obstacle at work, interfering with data transmission, causing road closures, and making customer service difficult.

But Hernan takes the wind in stride. In fact, the weather in Santa Cruz can get downright bitter in winter. And on snowy days, with temperatures at 18°C below zero, the wind is the least of his worries. Then he has to be very cautious while driving hundreds of kilometers on highways that, in some cases, have no signage at all. Somehow, he always makes it to the rig, though. But as he admits, "sometimes the biggest daily challenge is just reaching the customer on time."

That much driving naturally carries a certain risk. That's why Pason Argentina has focused on increasing its attention to the safety of employees like Hernan. One plan that was put into place by the safety team was the installation of the GPS tracking system to track incidents and accidents. Coupled with communication, supervision, and follow-up training in defensive driving, this program has shown a significant positive effect on driver safety.

A further boost to safety on the road has been the renewal of the entire fleet of trucks used by Pason Argentina. Although still underway, results in both safety and maintenance have so far been excellent. Upon completion of the renewal process, Pason Argentina anticipates continued improvements in vehicular safety.

And that's great news for Hernan, who counts on a reliable truck to get him out to two or three rigs a day. With new trucks and a great driver safety program in place, he and the rest of the Pason Argentina team are looking forward to a new era of safe travels.

82 PERCENT
REDUCTION IN RECORDED
ACCIDENTS*

*FROM 2011-2013

PERCENT
MARKET
SHARE

PRESIDENT'S MESSAGE

Pason's customer service remains unrivalled in the industry. Our operating model, along with a dynamic and entrepreneurial company culture, drives a business environment that enables those closest to our customers to provide the best possible care. Our service includes a network of highly skilled and motivated field service technicians, who are based across North America, South America, and Australia.

> "Pason's customer service remains unrivalled in the industry."

Our field network is supported 24 hours a day, 365 days a year, by on-call technical experts and a wealth of information resources. Because of this, Pason is able to respond to customers quickly and efficiently. In addition, our culture, which places an obligation on every Pason employee to challenge established beliefs and ways of doing things, is vital to meeting and exceeding customer expectations every day, and to maintaining an environment that is able to attract, motivate, and retain the best talent. This annual report celebrates the hard work and efforts of our field service technicians and highlights a few stories from the field around the world.

Pason is pursuing a multi-horizon growth strategy. In 2013, we had important developments and successes in each of the horizons:

- Deployment of the Universal Junction Box (UJB), which is part of the Electronic Drilling Recorder (EDR). The UJB makes the lives of our field service technicians, and our customers' rig crews, easier. First-time installations and rig moves are much quicker and simpler, especially on larger rigs and pad rigs.
- Continued growth in average revenue generated on each customer rig was driven by demand for Communications services (e.g., more bandwidth at the rigsite), and increasing penetration of the Gas Analyzer, including its more advanced features.
- Despite leading market shares in all core geographies, our business units were able to achieve further market share gains.
- Deployment of the new Rig Display (a ruggedized 19-inch touch screen computer) started towards the end of 2013. Initial customer reception and demand has been very positive.
- Progress has been made in growing our presence in new geographies including the Middle East and in the offshore drilling market.

Marcel Kessler
President and CEO

Overall performance

In 2013, Pason was able to maintain its eleven-year track record of regular dividend increases and a pristine balance sheet. Our dividend, which started at $0.05 a share per year in 2003, steadily increased to $0.53 a share by 2013. Now issued quarterly, we recently declared a dividend of $0.15 a share for the first quarter of 2014, a 7% increase over the previous quarter. At the end of 2013, our cash position stood at $89.5 million, which included $11.5 million cash held in trust for the January 2014 payment of the Q4 2013 dividend. We do not carry any debt on our balance sheet.

Our year-end cash position, as well as our EBITDA and net income for 2013, were significantly impacted by the provision and settlement of the litigation relating to our AutoDriller. An additional provision of $62 million was booked in 2013 related to this litigation. A payment of US$112 million was announced in August and paid in November 2013. This resolves all claims against Pason. Achieving a final resolution on this matter removes a significant uncertainty which has surrounded Pason for several years and allows us to more confidently pursue our plans for strategic growth.

Strong operational performance in all business units more than offsets continued declines in drilling activity across North America. In 2013, drilling industry days were down 9% in the United States and 4% in Canada compared to the previous year. Despite these adverse developments, revenue grew to a record $403 million, the first time in our history that we have surpassed the $400 million mark. The key drivers of this growth were increases in the average revenue generated on each customer rig (measured as revenue per EDR day), strong performance in our international markets, and market share gains in North America.

All major product categories generated revenue growth above North American drilling industry activity during the year, with the exceptions of the AutoDriller and the Hazardous Gas Alarm. The Communications segment demonstrated the highest year-over-year growth, followed by the Gas Analyzer. The AutoDriller demonstrated negative growth rates because this equipment is not typically installed on modern alternating current (AC) drilling rigs. Revenue generated by the Hazardous Gas Alarm decreased because the H_2S sensor functionality was suspended early in the year.

"Our dividend, which started at $0.05 a share per year in 2003, steadily increased to $0.53 a share by 2013."

United States

The US segment includes our US rental business and 3PS Inc., our Austin-based sensor manufacturer. We grew our EDR market share for the full year to 57%, compared to 56% in 2012. Revenue for the US segment was up 4% to $232 million. Revenue growth in excess of industry activity was achieved through higher product penetration, a change to the Communications pricing model, and a gain in market share, resulting in an 8% increase in average daily revenue per rig from US$562 in 2012 to US$605 in 2013. The major segments which demonstrated the highest year-over-year growth rate were Communications, followed by Gas Analyzer and Software.

Canada

Drilling activity in Canada was again lower in 2013 than in the previous year. Following a decline of 14% in 2012, industry days were down another 4% in 2013. Our Canadian business unit was able to offset this reduction through a modest

“Our International business unit had a strong year. . . operating profit was up 74% to $10 million for the year.”

increase in product adoption and an increase in market share. EDR market share was 95% in 2013 compared to 93% in 2012. Average daily revenue generated on each rig with a Pason product installed grew 3% to $1,101 in 2013 from $1,072 in 2012. As a result, Canadian revenue was up 1% to $127 million. Gas Analyzer, EDR (including Workstations and SideKicks), and software products showed above average growth rates during the year.

International

Our International business unit, which includes our businesses in Latin America, Australia, offshore and frontier regions, had a strong year. Revenue increased 18% to $45 million and operating profit was up 74% to $10 million for the year. We realized notable gains in Argentina, Australia, offshore, and frontier regions. Brazil and Mexico continue to be more challenging markets. The International business unit was able to generate 11% of Pason’s total revenue in 2013.

Outlook

Analyst forecasts for drilling industry activity in North America are flat to modestly positive for 2014, with a view to potentially increase towards the end of the year and into 2015, driven by LNG-related gas drilling activity.

We anticipate that some of the new products and product enhancements in both hardware and software will start gaining traction in the North American market in 2014. The new Rig Display is already deployed on over 300 drilling rigs in the United States and Canada. We also expect continued growth in the Gulf of Mexico, Middle East, and other frontier regions, where Pason equipment is already active on over 50 drilling rigs.

We plan for an increase in our R&D, IT, and Corporate Services cost as we make important investments in our technical infrastructure and systems, as well as in our business development capabilities. Our capital expenditure budget for the next 12 months is up to $96 million, $64 million of which is directed towards new hardware that can generate incremental revenue or save operating costs, $17 million for maintenance capital, and $15 million for capitalized R&D. Our cash-generating capacity and our cash position are more than sufficient to cover new business development, planned equipment upgrades, and the dividend.

With access to 2,000 drillings rigs and over 10,000 users of data per day worldwide, a competitive product suite, and a promising R&D project pipeline, Pason is well-positioned to capitalize on growth opportunities going forward.

Signed on behalf of the Board of Directors,
Marcel Kessler President & Chief Executive Officer

MANAGEMENT'S DISCUSSION & ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS & NOTES

Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of February 27, 2014, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the consolidated financial statements and accompanying notes.

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

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

Overview of the 2013 Fourth Quarter

	Three Months Ended December 31,			Years Ended December 31,		
	2013	2012	2011	**2013**	2012	2011
(000s, except per share data)	**($)**	($)	($)	**($)**	($)	($)
Revenue	**108,947**	94,006	100,933	**403,088**	386,514	346,158
Income (loss)	**24,288**	(13,703)	31,702	**23,655**	39,884	86,223
Per share – basic	**0.30**	(0.17)	0.39	**0.29**	0.49	1.05
Per share – diluted	**0.29**	(0.16)	0.39	**0.29**	0.48	1.04
EBITDA (1)	**55,231**	8,286	47,920	**136,647**	151,753	171,661
As a % of revenue	**50.7**	8.8	47.5	**33.9**	39.3	49.6
Per share – basic	**0.67**	0.10	0.59	**1.66**	1.85	2.10
Per share – diluted	**0.66**	0.10	0.58	**1.66**	1.84	2.08
Funds flow from operations	**44,981**	36,948	42,089	**123,075**	158,948	145,358
Per share – basic	**0.55**	0.45	0.51	**1.50**	1.94	1.78
Per share – diluted	**0.54**	0.44	0.51	**1.49**	1.92	1.76
Cash (used in) from operating activities	**(75,220)**	34,215	36,451	**62,047**	169,178	126,329
Per share – basic	**(0.92)**	0.42	0.45	**0.76**	2.06	1.54
Per share – diluted	**(0.90)**	0.41	0.44	**0.75**	2.05	1.53
Free cash flow (1)	**(95,347)**	20,199	14,340	**(8,617)**	97,754	47,788
Per share – basic	**(1.16)**	0.25	0.18	**(0.10)**	1.19	0.58
Per share – diluted	**(1.15)**	0.24	0.17	**(0.10)**	1.18	0.58
Cash dividends declared (2)	**0.14**	0.24	0.20	**0.53**	0.46	0.38

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

(2) The Company changed its dividend policy whereby, effective for 2013, the Company adopted a quarterly dividend to replace the semi-annual dividend. The $0.24 dividend declared in the fourth quarter of 2012 and the $0.20 dividend declared in the fourth quarter of 2011 represent the second semi-annual dividend in the respective year.

Additional IFRS Measures

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

Funds flow from operations

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

Cash from operating activities

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

Funds flow from operations and cash from operating activities were impacted by the Company's accounting for the litigation provision. Before 2013, the Company recorded it as a non-cash add back to arrive at funds flow from operations. In 2013, the provision and settlement was treated as a change in working capital to calculate cash from operating activities.

Non-IFRS Financial Measures

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

EBITDA

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

Free cash flow

Free cash flow is defined as cash from operating activities less capital expenditures and deferred development costs.

Overall Performance

	Three Months Ended December 31,			Years Ended December 31,		
	2013	2012	Change	**2013**	2012	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder (1)	**46,551**	40,601	15	**175,120**	168,951	4
Pit Volume Totalizer	**15,931**	14,100	13	**60,589**	59,220	2
Communications (1)	**7,844**	4,875	61	**28,597**	20,850	37
Software	**7,295**	6,694	9	**27,651**	26,950	3
AutoDriller	**9,896**	9,410	5	**37,445**	40,399	(7)
Gas Analyzer/Total Gas System	**8,585**	6,898	24	**31,501**	27,304	15
Hazardous Gas Alarm System	**1,218**	1,932	(37)	**5,152**	7,345	(30)
Mobilization	**2,897**	3,098	(6)	**11,292**	12,265	(8)
Sales (2)	**4,870**	2,949	65	**13,195**	9,575	38
Other	**3,860**	3,449	12	**12,546**	13,655	(8)
Total revenue	**108,947**	94,006	16	**403,088**	386,514	4

(1) A portion of the Company's USA communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue. All comparative figures have been restated accordingly. This change had no impact on reported key metrics, EBITDA, cash flow from operating activities, or net income (Q4 2012 - $2,153, YTD 2012 - $9,344, YTD Q3 2013 - $6,711).

(2) Sales and rental services expense for 2012 has been reclassified to conform with 2013 presentation.

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

Canada

	Three Months Ended December 31,			Years Ended December 31,		
	2013	2012	Change	**2013**	2012	Change
			(%)			(%)
EDR rental days (#)	**30,600**	28,300	8	**113,600**	115,700	(2)
PVT rental days (#)	**29,700**	27,900	6	**111,100**	114,200	(3)

United States

	Three Months Ended December 31,			Years Ended December 31,		
	2013	2012	Change	**2013**	2012	Change
			(%)			(%)
EDR rental days (#)	**88,500**	86,100	3	**351,300**	378,800	(7)
PVT rental days (#)	**66,700**	62,100	7	**263,700**	267,800	(2)

Electronic Drilling Recorder

The Pason EDR remains the Company's primary product. The EDR provides a complete system of drilling data acquisition, data networking, and drilling management tools and reports at both the wellsite and customer offices. The EDR is the base product from which all other wellsite instrumentation products are linked. By linking these products, a number of otherwise redundant elements such as data processing, display, storage, and networking are eliminated. This ensures greater reliability and a more robust system of instrumentation for the customer. Revenue generated from the EDR increased 15% for the fourth quarter of 2013 compared to the same period in 2012 and on an annual basis revenue was up 4%. This increase is attributable to continued growth in demand for EDR peripheral devices in all of the Company's major markets, an increase in US market share over the fourth quarter of 2012 (57% versus 54%), a similar increase in the Canadian market share (94% versus 92%), a strengthening US dollar relative to the Canadian dollar, and new revenue in frontier markets. These factors were offset by a drop in rig activity in the US market (4% for the fourth quarter and 9% year to date), while fourth quarter Canadian rig activity was up 5% over 2012 levels, but decreased 4% on an annual basis. Canadian EDR days increased 8% in the three months ended December 31, 2013, while US EDR days increased by 3%. On an annual basis, EDR days dropped 2% in Canada and 7% in the US, both of which compared favorably to the decline in rig activity.

During the year ended December 31, 2013, the Pason EDR was installed on 95% of all active land rigs in Canada and 57% of the land rigs in the US.

In addition, the Company continues to gain new customers in its International business unit.

Pit Volume Totalizer

The PVT is Pason's proprietary solution for the detection and early warning of “kicks” that are caused by hydrocarbons entering the wellbore under high pressure and expanding as they migrate to the surface. PVT revenue for the quarter was impacted by an increase in product penetration in the US market and the foreign exchange fluctuation, offset by the change in rig activity previously described above. During the year ended 2013, the PVT was installed on 98% of rigs with a Pason EDR in Canada and 75% in the US, compared to 99% and 71%, respectively, in 2012.

Communications

Pason's Communications rental revenue is derived from the Company's automatic aiming satellite system. This system provides high-speed wellsite communications for email and web application management tools. Pason displays all data in standard forms on its DataHub web application, although if customers require greater analysis or desire to have the information transferred to another supplier's database, data is available for export from the Pason DataHub using WITSML (a specification for transferring data among oilfield service companies, drilling contractors, and operators). The Company continues to complement its satellite equipment with High Speed Packet Access (HSPA), a high-speed wireless ground system that requires lower capital cost, less service, and lower cost per Internet kilobyte, benefiting Company margins. In Canada, HSPA has been installed on all rigs, and the majority of the rigs running will benefit from the investment in HSPA given the growth in cellular coverage. In the US, field coverage tests for HSPA are continuing with positive results. In addition, the US business unit increased its revenue as a result of a shift in the pricing model for communication services.

Software

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

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

During the year ended 2013, 97% of the Company's Canadian customers and 90% of customers in the US were using all or a portion of the functionality of the DataHub, compared to 98% and 87%, respectively, in 2012.

AutoDriller

Pason's AutoDriller is used to maintain constant weight on the drill bit while a well is being drilled. During the year ended December 31, 2013, the AutoDriller was installed on 73% of Canadian and 45% of US land rigs operating with a Pason EDR system, compared to 78% and 49%, respectively, in 2012. Pason's market share for this particular product has declined from previous levels due to the introduction and advancement of integrated drilling rigs.

Gas Analyzer and Total Gas System

The Pason Gas Analyzer, which has replaced the Total Gas System (TGAS) in the Canadian and US markets, measures the total hydrocarbon gases (C1 through C4) exiting the wellbore, and then calculates the lag time to show the formation depth where the gases were produced. The Gas Analyzer increases the functionality that was found in the TGAS product to include the actual composition of the gas, and further calculates geologic ratios from the gas composition to assist in indicating the type of gas, natural gas liquid, or oil in the formation. The Company continues to realize increased product penetration for this product. For 2013, the Gas Analyzer was installed on 57% of Canadian and 23% of US land rigs operating with a Pason EDR system. The penetration in Canada is an increase of approximately 5% in market share over 2012 levels while the US has seen an increase of 4%. The roll out of the Gas Analyzer in the International markets continues with anticipated completion in most of the major markets in 2014.

Hazardous Gas Alarm System

The Pason Hazardous Gas Alarm System (HGAS) monitors lower explosive limit (LEL) gases and H_2S gases and displays the readings on the EDR. If a hazardous rig atmosphere is detected, the system reacts immediately, sounding an alarm and flashing a strobe light. Early in 2013, the Company identified a sensor on the H_2S product, a part of the HGAS system, that was not performing to the manufacturer's standards. As a result, the Company suspended the functionality of this portion of the HGAS while it investigates a solution to the problem. The Company initiated field trials with a new technology in the third quarter of 2013 and while results showed improvements in performance, the Company continues to research alternatives. The Company is still able to rent this equipment out in its International operations, as the issues identified tend to be related to the operation of the sensors in cold climates.

Mobilization

Mobilization revenue is comprised of all services provided to our customers for which they are invoiced, and includes service calls, equipment installations, mileage, satellite transportation, and replacement parts.

Sales

Sales represent sensors and other systems sold by 3PS, Inc. and spare parts sold by Pason Offshore.

Other

Other is comprised mostly of service rig recorder rentals in Latin America and Electronic Choke Actuator rentals.

Discussion of Operations

United States Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2013	2012	Change	**2013**	2012	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder [1]	**27,883**	24,705	13	**108,021**	107,160	1
Pit Volume Totalizer	**8,755**	7,685	14	**33,959**	33,459	1
Communications [1]	**3,417**	901	279	**11,997**	4,789	151
Software	**4,548**	4,134	10	**17,586**	16,976	4
AutoDriller	**5,124**	5,073	1	**20,467**	23,222	(12)
Gas Analyzer/Total Gas System	**3,461**	2,667	30	**13,285**	11,312	17
Hazardous Gas Alarm System	**534**	800	(33)	**2,200**	3,169	(31)
Mobilization	**2,164**	2,299	(6)	**8,551**	9,233	(7)
Sales [2]	**4,381**	2,547	72	**11,998**	7,790	54
Other	**1,024**	1,209	(15)	**3,896**	5,944	(34)
Total revenue	**61,291**	52,020	18	**231,960**	223,054	4
Operating costs [2]	**22,502**	21,084	7	**88,697**	85,811	3
Depreciation and amortization	**7,909**	7,713	3	**29,366**	32,381	(9)
Segment operating profit	**30,880**	23,223	33	**113,897**	104,862	9

(1) A portion of the Company's USA communications revenue was reclassified to EDR revenue to better reflect the nature of such revenue. All comparative figures have been restated accordingly. This change had no impact on reported key metrics, EBITDA, cash flow from operating activities, or net income (Q4 2012 - $2,153, YTD 2012 - $9,344, YTD Q3 2013 - $6,711).

(2) Sales and rental services expense for 2012 has been reclassified to conform with 2013 presentation.

US segment revenue increased by 18% in the fourth quarter of 2013 over the 2012 comparable period (11% increase when measured in USD), while revenue from the rental of instrumentation equipment increased 16% for the quarter (USD 9%).

For the year ended 2013, US segment revenue increased by 4% (USD 1%) over the previous year, and revenue from the rental of instrumentation equipment increased by 3% (USD 0%).

As expected, the number of US drilling days decreased approximately 4% in the fourth quarter of 2013 versus the fourth quarter of 2012. However, revenue from the rental of instrumentation compared favorably to the drop in activity, with an increase of 16% (USD 9%) over 2012 levels.

Annual drilling days decreased 9% over 2012 levels while rental revenue continued to hold up well against the decline in activity with an increase of 3% (USD 0%).

Revenue was impacted by the following factors:

- More products on each rig, new product adoption, and a favorable exchange rate. Revenue increased as a result of a change in the pricing model for communications service, additional product penetration, primarily with gains in EDR peripheral devices (mostly due to Workstations), increased PVT market share, customer acceptance of the Company's Live Rig View (LRV) real-time data software, and an increase in the adoption of the Gas Analyzer. These factors combined resulted in an increase in revenue per EDR day in the fourth quarter of 2013 over 2012 levels of $73 (USD $37). On a year-to-date basis revenue per EDR increased by $62 (USD $43) over 2012.

- An increase in EDR rental days of 3% for the three months ended December 31, 2013, over the same time period in 2012, and a decrease of 7% for the year ended 2013 over 2012 levels.
- A reduction in Hazardous Gas Alarm revenue due to the Company removing the H_2S sensor from the rig site due to the issues surrounding the functionality described above and a reduction in product adoption of the AutoDriller.

The factors explained above resulted in the US segment being able to realize revenue per EDR day during the fourth quarter of 2013 of $641 (USD $611) compared to $568 (USD $574) during the same time period in 2012. For the year ended December 31, 2013, revenue per EDR day increased by $62 (USD $43) to $623 (USD $605) over 2012 amounts.

Revenue per industry day for the fourth quarter of the year was $367 (USD $350) compared to $305 (USD $308) in 2012. On a year-to-date basis, this metric increased by $42 (USD $31) to $356 (USD $345).

US market share was 57% during the year ended December 31, 2013, a slight increase from the corresponding period in 2012.

The majority of the increase in Sales revenue relates to the increase in sales of sensors and systems by 3PS to third parties.

Segment profit, as a percentage of revenue, was 50% for the fourth quarter of 2013 compared to 45% for the corresponding period in 2012, an increase of $7.6 million. Year-to-date operating profit increased $9.0 million. The US business unit was able to increase its operating margin by leveraging its fixed cost structure and controlling variable costs, including repair costs, which are down $0.3 million for the quarter and $1.4 million for the full year, as a result of the drop in active rig count, which allows the business unit to use idle equipment in its fleet to satisfy customer demand, and a drop in average repair costs on some products.

The 2013 fourth quarter and full year segment profit percentage was impacted by the following factors (all amounts in $CDN):

- An increase in communication-related expenses of $0.5 million for the fourth quarter and $2.4 million for the full year due to the US business unit implementing a more robust level of service to its customers. The business unit revised its pricing structure to reflect this increased level of performance.
- An increase in 3PS sales, with a corresponding increase in costs of goods sold, which is included in operating costs.
- Most other rental service costs were relatively flat over the corresponding period in 2012 when measured in USD. However, because of the weakening Canadian dollar, rental service costs, when measured in CDN, increased by $0.9 million for the fourth quarter and $0.7 million year to date.
- Fourth quarter 2013 depreciation and amortization expense was relatively flat compared to the fourth quarter of 2012. Year-to-date depreciation was down $3.0 million for the following reasons:
    - The Company began to accelerate the depreciation on its TGAS system in 2012 to recognize the fact that it was being replaced by the Gas Analyzer. The TGAS systems are now fully depreciated, resulting in a reduction in depreciation expense of $2.4 million.
    - In the first quarter of 2012, the Company began to accelerate the depreciation on a portion of its base EDR system, which will become obsolete as a result of new product initiatives. Later in 2012, the Company re-evaluated this assumption and reduced the amount of accelerated depreciation being recorded. This led to a reduction in depreciation of $2.7 million.

- The above reductions were offset by an increase in depreciation on the Gas Analyzer system and upgrades to its communication infrastructure to accommodate increased functionality. Both of these added approximately $2.0 million in depreciation expense.

Canadian Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2013	2012	Change	**2013**	2012	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder	**13,621**	11,864	15	**48,943**	46,632	5
Pit Volume Totalizer	**5,343**	4,929	8	**19,706**	19,921	(1)
Communications	**4,034**	3,861	4	**15,077**	15,524	(3)
Software	**2,620**	2,385	10	**9,631**	9,461	2
AutoDriller	**3,475**	3,368	3	**12,522**	13,500	(7)
Gas Analyzer/Total Gas System	**3,913**	3,357	17	**13,618**	12,303	11
Hazardous Gas Alarm System	**339**	609	(44)	**1,482**	2,443	(39)
Mobilization	**141**	178	(21)	**496**	638	(22)
Sales	**—**	—	—	**—**	—	—
Other	**1,367**	1,488	(8)	**5,147**	5,316	(3)
Total revenue	**34,853**	32,039	9	**126,622**	125,738	1
Operating costs	**10,228**	8,858	15	**37,116**	36,291	2
Depreciation and amortization	**7,757**	6,246	24	**26,088**	26,964	(3)
Segment operating profit	**16,868**	16,935	—	**63,418**	62,483	1

Canadian segment revenue grew by 9% for the three months ended December 31, 2013, compared to the same period in 2012. This positive growth is a result of a 5% increase in the number of drilling industry days from 2012 levels, combined with more product penetration of a number of different products, and an increase in market share to 94% versus 92% in 2012.

On a year-to-date basis, revenue increased by 1%, compared to the year ended 2012. The number of drilling days was down by 4%, but similar to the fourth quarter, revenue increased due to product penetration and growth in market share.

EDR rental days increased 8% in the fourth quarter of 2013 over 2012 levels. The decrease in EDR rental days for the year ended 2013 was 2%, which was a positive result compared to the decrease in industry days of 4%.

Canadian market share was 95% during the year ended December 31, 2013, compared to 93% in the corresponding period in 2012.

The Canadian business unit was able to increase its revenue over and above the change in industry activity in the fourth quarter mostly through increased product adoption, notably EDR peripherals, including SideKicks and Workstations, and increases in software revenue. In addition, the business unit continued to gain market acceptance of the Gas Analyzer. These factors combined to lessen the impact of the drop in revenue from the AutoDriller and the Hazardous Gas Alarm System as a result of the issues described previously.

The factors above combined to result in the following:

- An increase in revenue per EDR day during the fourth quarter of 2013 compared to 2012 of $5 to $1,121. For the year ended December 31, 2013, revenue per EDR increased by $29 to $1,101.

- Fourth quarter revenue per industry day of $1,055 in 2013 compared to $1,022 in 2012. This metric for the year ended December 31, 2013 was $1,041, an increase of 5% over the similar period in 2012.

The segment profit for the fourth quarter of 2013 of $16.9 million is a decrease of $0.1 million over the 2012 amount. Factors impacting the fourth quarter results include:

- Fourth quarter activity levels in Canada were modestly stronger year-over-year.
- Fourth quarter operating expenses include an increase in satellite bandwidth costs of $0.8 million, as an additional segment was added to improve the customer experience at the rig. These costs should remain at current levels going forward.
- A slight increase of $0.6 million in field-related costs and repairs due to the increase in industry activity.
- An increase in depreciation and amortization expense due to a non-cash write-off of $1.1 million of previously capitalized R&D costs as a result of the decision to discontinue funding such projects.

The increase in satellite costs and depreciation and amortization expense resulted in segment profit, as a percent of revenue, dropping to 48% in the fourth quarter of 2013, compared to 53% in the fourth quarter of 2012.

Factors impacting the year-to-date results include weakness in drilling activity in the first three quarters of 2013, which led to a decrease in industry days of 4,400 (4%) for the 2013 year, with a corresponding decrease in EDR rental days of 2,100 or 2%. Other factors impacting the year-to-date results include:

- An increase in satellite bandwidth costs of $1.6 million.
- A slight decrease in field-related costs, including repairs, due in most part to the drop in rig activity for the full year.
- A decrease in depreciation and amortization expense of $0.8 million comprised of:
  - A decrease in depreciation due to the TGAS being fully depreciated. This, combined with a drop in the acceleration of depreciation on a portion of its base EDR systems, led to a decline in expense of $2.7 million.
  - A non-cash write-off of $1.0 million of previously capitalized R&D costs as a result of the decision to discontinue funding such projects, combined with an increase in amortization of R&D costs of $1.0 million as a result of the deployment of new software applications.

International Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2013	2012	Change	**2013**	2012	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder	**5,047**	4,032	25	**18,156**	15,159	20
Pit Volume Totalizer	**1,833**	1,486	23	**6,924**	5,840	19
Communications	**393**	113	248	**1,523**	537	184
Software	**127**	175	(27)	**434**	513	(15)
AutoDriller	**1,297**	969	34	**4,456**	3,677	21
Gas Analyzer/Total Gas System	**1,211**	874	39	**4,598**	3,689	25
Hazardous Gas Alarm System	**345**	523	(34)	**1,470**	1,733	(15)
Mobilization	**592**	621	(5)	**2,245**	2,394	(6)
Sales	**489**	402	22	**1,197**	1,785	(33)
Other	**1,469**	752	95	**3,503**	2,395	46
Total revenue	**12,803**	9,947	29	**44,506**	37,722	18
Operating costs	**6,715**	6,152	9	**27,702**	23,073	20
Depreciation and amortization	**1,534**	2,518	(39)	**6,717**	8,868	(24)
Segment operating profit	**4,554**	1,277	257	**10,087**	5,781	74

Revenue in the International operations increased 29% in the fourth quarter of 2013 compared to the same time period in 2012. Year-to-date revenue increased 18%.

Operating profit increased by $3.3 million for the fourth quarter of 2013 over 2012 results. Operating profit for the year ended December 31, 2013 increased 74% over the similar period in 2012.

A number of factors influenced these results:

- In Latin America, increased activity in Argentina and the Andean region offset continued market weakness in Brazil and Mexico. Revenue was up 14% for the fourth quarter of 2013 versus the comparative period in 2012. On a year-to-date basis revenue increased 7%.
- Australia revenue increased 30% for the fourth quarter of 2013 and 46% for the full year from 2012 levels as drilling activity continues to increase across the region, combined with a slight uptick in market share. This revenue increase translated into an increase in operating profit of approximately 70% over 2012 for the three and twelve months ended December 31, 2013.
- The Company continues to increase its customer base in areas the Company has identified as "frontier markets" including the Middle East and North Africa (MENA) regions. These new markets, combined with increases in market share in the Gulf of Mexico, resulted in an increase in year-to-date revenue of 32% over 2012 levels.
- Operating costs increased due to importation-related expenses in getting additional equipment into certain markets and increases in field-related costs in the markets, which saw an increase in industry activity.

- Depreciation and amortization decreased because intangible assets that were being amortized are now fully amortized and increased asset utilization has reduced the need for new additional equipment.
- The Company's Argentinian subsidiary recorded a foreign exchange loss in the fourth quarter of 2013 of $0.5 million as a result of the devaluation of the Argentinian peso.

Corporate Expenses

	Three Months Ended December 31,			Years Ended December 31,		
	2013	2012	Change	**2013**	2012	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Other expenses						
Research and development	**6,820**	7,033	(3)	**27,252**	22,467	21
Corporate services	**4,319**	4,326	—	**17,373**	15,723	10
Stock-based compensation	**6,144**	7,237	(15)	**32,511**	23,792	37
Other						
Litigation provision	**—**	32,500	(100)	**61,614**	37,913	63
Foreign exchange loss	**2,797**	10	27,870	**2,175**	4,573	(52)
Earn-out provision	**—**	—	—	**3,071**	—	—
Impairment loss	**—**	5,282	(100)	**—**	7,918	(100)
Other	**335**	475	(29)	**1,441**	992	45
Total corporate expenses	**20,415**	56,863	(64)	**145,437**	113,378	28

Consolidated Results

The Company recorded net income of $23.7 million or $0.29 per share for the 2013 year compared to net income of $39.9 million or $0.49 per share in 2012. The 2013 results, when compared to the 2012 numbers, were impacted by the following corporate-related items:

- Research and development costs were higher in 2013 versus 2012, as the Company in 2012 completed the hiring of additional staff to support the product development initiatives.
- An increase in stock-based compensation expense of 37% due to the 34% increase in the value of the stock price during 2013.
- An additional provision of $61.6 million booked in 2013 relating to the litigation, which was settled in August, 2013.
- Part of the 2009 purchase of Petron was an earn-out clause that was conditional on the successful commercialization of a revenue stream generated from a product designed by Petron. In the third quarter of 2013, the Company and the previous shareholders of Petron agreed to an amount of $3.1 million and a provision for this amount was recorded.
- In 2012, the Company recorded additional non-cash write-downs relating to its investment in the US water treatment business and its Torque and Tension Sub product.
- The effective tax rate for 2013 is significantly higher than the 2012 rate due to the following factors:
    - The significant non-deductible, non-cash expense provision for the expensing of common share options under the Black-Scholes pricing model.
    - The Petron earn-out provision.

Q4 2013 versus Q4 2012

The active rig count in the US decreased by 4% over the fourth quarter of 2012, while Canadian activity increased by 5%, and both business units saw an increase in their market share. The International market saw a modest increase in total drilling days, with pockets of significant growth (Offshore, Australia, Argentina) combined with continued weakness in other markets (Brazil, Mexico).

The Company recorded a net profit of $24.3 million or $0.30 per share in the fourth quarter of 2013 compared to a net loss of $13.7 million or $0.17 per share in the fourth quarter of 2012. The fourth quarter consolidated results, when compared to 2012 figures, were impacted by the following significant items:

- Stock-based compensation expense decreased compared to the fourth quarter of 2012 due to a smaller increase in the Company's stock price in the fourth quarter of the current year versus 2012.
- In the fourth quarter of 2012, the Company recorded an additional accrual of $32.5 million for the liability related to the patent litigation. This litigation was settled in August of 2013.
- An increase in the foreign exchange loss of $2.7 million due to:
    - The weakening Canadian dollar versus the US dollar, which resulted in a loss on the revaluation of the litigation provision into Canadian dollars until the payment date in November of 2013.
    - A foreign exchange loss in Argentina as a result of the devaluation of the Argentinian peso.
- During the fourth quarter of 2012, the Company recorded a non-cash impairment loss of $4.7 million against its Torque and Tension Sub product, and an additional $0.6 million against the US water treatment business.

Q4 2013 versus Q3 2013

The Company's fourth quarter is usually its second-strongest quarter. The Canadian business unit realized a profit of $16.9 million for the three months ended December 31, 2013, compared to a $15.9 million profit in the third quarter of 2013. The US business unit realized a profit of $30.9 million for the three months ended December 31, 2013, compared to a $30.5 million profit in the third quarter of 2013. International operating profit was up $2.0 million from the prior quarter.

The following items also impacted the comparison to the third quarter 2013 results:

- A decrease in stock-based compensation expense of $9.6 million compared to the third quarter of the current year due to an increase in the Company's stock price of 19% during the third quarter compared to an increase in the stock price of 2% in the current quarter.
- An increase in depreciation and amortization expense of $1.1 million due to the Company recording in the fourth quarter a non-cash write-off of previously capitalized R&D costs.
- An increase in the foreign exchange loss of $2.1 million due to the factors described in the section above.
- A part of the 2009 purchase of Petron was an earn-out clause that was conditional on the successful commercialization of a revenue stream generated from a product designed by Petron. In the third quarter of 2013, the Company and the previous shareholders of Petron agreed to an amount of $3.1 million and a provision for this amount was recorded in the third quarter.

Summary of Quarterly Results

Three Months Ended	Mar 31, 2012	Jun 30, 2012	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	**Dec 31, 2013**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	**($)**
Revenue	115,145	84,112	93,251	94,006	109,267	81,367	103,507	**108,947**
Income (loss)	29,073	6,772	17,742	(13,703)	29,608	(39,376)	9,135	**24,288**
Per share – basic	0.35	0.08	0.22	(0.17)	0.36	(0.48)	0.11	**0.30**
Per share – diluted	0.35	0.08	0.21	(0.16)	0.36	(0.48)	0.11	**0.29**
EBITDA (1)	64,146	31,656	47,665	8,286	59,790	(28,275)	49,901	**55,231**
Per share – basic	0.78	0.39	0.58	0.10	0.73	(0.34)	0.61	**0.67**
Per share – diluted	0.78	0.38	0.58	0.10	0.72	(0.34)	0.60	**0.66**
Funds flow from (used in) operations	51,707	30,132	40,161	36,948	47,835	(24,979)	55,238	**44,981**
Per share – basic	0.63	0.37	0.49	0.45	0.58	(0.30)	0.67	**0.55**
Per share – diluted	0.63	0.36	0.49	0.44	0.58	(0.30)	0.66	**0.54**
Cash from (used in) operating activities	45,004	48,105	41,854	34,215	46,194	51,236	39,837	**(75,220)**
Per share – basic	0.55	0.59	0.51	0.42	0.56	0.62	0.49	**(0.92)**
Per share – diluted	0.55	0.58	0.51	0.41	0.56	0.62	0.48	**(0.90)**
Free cash flow (1)	25,521	27,119	24,915	20,199	32,250	37,059	17,421	**(95,347)**
Per share – basic	0.31	0.33	0.30	0.25	0.39	0.45	0.21	**(1.16)**
Per share – diluted	0.31	0.33	0.30	0.24	0.39	0.45	0.21	**(1.15)**

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

Reconcile income (loss) to EBITDA

Three Months Ended	Mar 31, 2012	Jun 30, 2012	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	**Dec 31, 2013**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Income (loss)	29,073	6,772	17,742	(13,703)	29,608	(39,376)	9,135	**24,288**
Add:								
Taxes	11,257	3,653	6,680	(1,725)	11,498	(9,718)	8,931	**7,599**
Depreciation and amortization	16,897	16,987	17,852	16,477	14,934	13,948	16,089	**17,200**
Stock-based compensation	6,919	4,244	5,391	7,237	3,750	6,871	15,746	**6,144**
EBITDA (1)	64,146	31,656	47,665	8,286	59,790	(28,275)	49,901	**55,231**

Reconcile cash from operating activities to free cash flow

Three Months Ended	Mar 31, 2012	Jun 30, 2012	Sep 30, 2012	Dec 31, 2012	Mar 31, 2013	Jun 30, 2013	Sep 30, 2013	**Dec 31, 2013**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from (used in) operating activities	45,004	48,105	41,854	34,215	46,194	51,236	39,837	**(75,220)**
Less:								
Additions to property, plant and equipment	(17,236)	(18,005)	(14,456)	(10,587)	(10,201)	(10,604)	(18,101)	**(17,265)**
Deferred development costs	(2,247)	(2,981)	(2,483)	(3,429)	(3,743)	(3,573)	(4,315)	**(2,862)**
Free cash flow (1)	25,521	27,119	24,915	20,199	32,250	37,059	17,421	**(95,347)**

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

Liquidity and Capital Resources

As at December 31,	**2013**	2012	Change
(000s)	**($)**	($)	(%)
Cash	**78,018**	138,253	(44)
Working capital	**127,933**	163,371	(22)
Funds flow from operations	**123,075**	158,948	(23)
Capital expenditures	**70,664**	71,424	(1)
As a % of funds flow (1)	**57.4%**	44.9%	28

(1) Calculated by dividing capital expenditures and acquisitions by funds flow from operations.

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	($)	($)	($)	($)
Operating leases	3,203	4,868	11,580	19,651

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

During the year ended December 31, 2013, the Company purchased 1.4 million stock options for a total cash consideration of $10.2 million.

At December 31, 2013, the Company had no capital lease obligations, and other than the operating leases detailed above, has no off-balance sheet arrangements.

The Company has available a $5.0 million demand revolving credit facility. At December 31, 2013, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at December 31, 2013, there were 82.2 million common shares and 4.6 million options issued and outstanding. As at February 27, 2014, there were 82.2 million common shares and 4.4 million options issued and outstanding.

SEDAR

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

Critical Accounting Estimates

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

Depreciation and Amortization

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

Carrying Value of Assets

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

Stock-Based Payments

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

Income Taxes

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

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

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

Risk and Uncertainties

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

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

Operating Risks

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

Commodity Prices

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

Seasonality

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

Proprietary Rights

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

Litigation

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

Credit Risk

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

Availability of Qualified Personnel

Due to the specialized and technical nature of Pason's business, Pason is highly dependent on attracting and retaining qualified or key personnel. There is competition for qualified personnel in the areas where Pason operates, and there can be no assurance that qualified personnel can be attracted or retained to meet the growth needs of the business. To mitigate this risk, Pason has a Vice President, People & Culture and continues to engage the services of recruiters to improve recruiting effectiveness.

Alternative Energies

There continues to be extensive discussion at all levels of government worldwide and by the public concerning the burning of fossil fuels and the impact this may have on the global environment. A number of countries have publicly committed to further advance the reduction of greenhouse gas emissions. Though it is much too early to determine the impact on the oil and gas industry, the global response to these initiatives may lead to consequences, such as increased focus on fuel conservation measures, additional research into renewable resources, and stringent limits on the amount of carbon dioxide emissions. The availability of alternative fuel sources, reductions in global consumption, or government regulations aimed at reducing the use of fossil fuels could negatively impact energy companies, which could in turn reduce the available capital for drilling programs, thereby impacting demand for associated drilling rig rental instrumentation.

International Operations

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

Foreign Exchange Exposure

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

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

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

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

An evaluation of the Company's Disclosure Controls and Procedures was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2013, our DC&P, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was effective.

Management's Report on Internal Control over Financial Reporting (ICFR)

Management, under the supervision and participation of the Company's CEO and CFO, is responsible for establishing and maintaining a system of internal controls over financial reporting to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements in accordance with Canadian Generally Accepted Accounting Principles. The Company uses a control framework based on the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the Company's ICFR was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2013, our ICFR, as defined in NI 52-109, was effective. There were no changes in our ICFR during the year ended December 31, 2013 that have materially affected, or are reasonably likely to affect, our ICFR.

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). 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, 2013 and 2012.

The Audit Committee of the Board of Directors, which is comprised of three independent directors, has discussed 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 Pason Systems Inc.'s consolidated financial statements 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, 2014

David Elliott

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, 2013 and 2012, and the consolidated statements of operations, the consolidated statements of other comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and 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 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, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Deloitte LLP

Chartered Accountants
Calgary, Canada
February 27, 2014

Consolidated Balance Sheets

As at	Note*	**December 31, 2013**	December 31, 2012
(CDN 000s)		**($)**	($)
Assets			
Current			
Cash and cash equivalents	12	**78,018**	138,253
Cash held in trust	8	**11,502**	19,691
Trade and other receivables	13	**87,469**	84,506
Prepaid expenses		**3,121**	2,920
Income taxes recoverable		**15,752**	—
Total current assets		**195,862**	245,370
Non-current			
Property, plant and equipment	6	**183,601**	174,651
Intangible assets	7	**65,261**	59,593
Deferred tax assets	11	**1,152**	8,764
Total non-current assets		**250,014**	243,008
Total assets		**445,876**	488,378
Liabilities and equity			
Current			
Trade payables and accruals	15	**30,485**	25,674
Litigation provision	20	**—**	19,533
Income taxes payable		**—**	3,313
Stock-based compensation liability	8	**25,942**	13,788
Dividend payable	8	**11,502**	19,691
Total current liabilities		**67,929**	81,999
Non-current			
Stock-based compensation liability	8	**3,905**	2,583
Deferred tax liabilities	11	**7,573**	2,600
Litigation provision	20	**—**	32,500
Total non-current liabilities		**11,478**	37,683
Equity			
Share capital	8	**80,725**	79,393
Share-based benefits reserve		**12,927**	12,927
Foreign currency translation reserve		**7,958**	(8,348)
Retained earnings		**264,859**	284,724
Total equity		**366,469**	368,696
Total liabilities and equity		**445,876**	488,378

Commitments (Notes 17 and 18)

Contingencies (Note 20)

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

Approved by the Board of Directors

James B. Howe
Director

Murray Cobbe
Director

Consolidated Statements of Operations

Years Ended December 31,	Note*	2013	2012
(CDN 000s, except per share data)		**($)**	($)
Revenue			
Equipment rentals and sales		**403,088**	386,514
Operating expenses			
Rental services		**134,874**	125,269
Local administration		**18,641**	19,906
Depreciation and amortization	6,7	**62,171**	68,213
		215,686	213,388
Operating profit		**187,402**	173,126
Other expenses			
Research and development		**27,252**	22,467
Corporate services		**17,373**	15,723
Stock-based compensation	8	**32,511**	23,792
Other expenses	10	**68,301**	51,396
		145,437	113,378
Income before income taxes		**41,965**	59,748
Income taxes	11	**18,310**	19,864
Net income		**23,655**	39,884
Income per share	9		
Basic		**0.29**	0.49
Diluted		**0.29**	0.48

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

Consolidated Statements of Other Comprehensive Income

Years Ended December 31,	2013	2012
(CDN 000s)	**($)**	($)
Net income	**23,655**	39,884
Items that may be reclassified subsequently to net income:		
Foreign currency translation adjustment	**16,306**	(2,513)
Total comprehensive income	**39,961**	37,371

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

Consolidated Statements of Changes in Equity

	Note*	Share Capital	Share-Based Benefits Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
(CDN 000s)		($)	($)	($)	($)	($)
Balance at January 1, 2012		77,613	12,927	(5,835)	282,564	367,269
Net income		—	—	—	39,884	39,884
Dividends	8	—	—	—	(37,724)	(37,724)
Other comprehensive loss		—	—	(2,513)	—	(2,513)
Exercise of stock options	8	1,780	—	—	—	1,780
Balance at December 31, 2012		79,393	12,927	(8,348)	284,724	368,696
Net income		—	—	—	23,655	23,655
Dividends	8	—	—	—	(43,520)	(43,520)
Other comprehensive income		—	—	16,306	—	16,306
Exercise of stock options	8	1,332	—	—	—	1,332
Balance at December 31, 2013		**80,725**	**12,927**	**7,958**	**264,859**	**366,469**

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

Consolidated Statements of Cash Flows

Years Ended December 31,	Note*	2013	2012
(CDN 000s)		($)	($)
Cash from operating activities			
Net income		**23,655**	39,884
Adjustment for non-cash items:			
Depreciation and amortization		**62,171**	68,213
Litigation provision	20	**—**	32,500
Impairment loss	6	**—**	7,918
Stock-based compensation	8	**20,656**	16,067
Deferred income taxes	11	**12,899**	(6,019)
Unrealized foreign exchange loss		**3,694**	385
Funds flow from operations		**123,075**	158,948
Movements in non-cash working capital items:			
(Increase) decrease in trade and other receivables		**(999)**	16,376
Increase in prepaid expenses		**(125)**	(994)
(Decrease) increase in income taxes		**(8,019)**	18,072
Decrease in litigation provision	20	**(52,033)**	—
Increase (decrease) in trade payables and accruals		**5,376**	(7,101)
Increase in stock-based compensation liability		**2,973**	2,312
Effects of exchange rate changes		**3,100**	1,778
Cash generated from operating activities		**73,348**	189,391
Income tax paid		**(11,301)**	(20,213)
Net cash from operating activities		**62,047**	169,178
Cash flows from (used in) financing activities			
Proceeds from issuance of common shares	8	**1,332**	1,780
Purchase of stock options	8	**(10,153)**	(8,772)
Payment of dividends	8	**(51,709)**	(34,413)
Net cash used in financing activities		**(60,530)**	(41,405)
Cash flows (used in) from investing activities			
Additions to property, plant and equipment	6	**(56,171)**	(60,284)
Deferred development costs	7	**(14,493)**	(11,140)
Proceeds on disposal of property, plant and equipment	6	**582**	586
Changes in non-cash working capital		**(989)**	(2,646)
Net cash used in investing activities		**(71,071)**	(73,484)
Effect of exchange rate on cash and cash equivalents		**1,130**	(1,338)
Net (decrease) increase in cash and cash equivalents		**(68,424)**	52,951
Cash and cash equivalents, beginning of year		**157,944**	104,993
Cash and cash equivalents, end of year		**89,520**	157,944
Cash and cash equivalents consists of:			
Cash and cash equivalents	12	**78,018**	138,253
Cash held in trust	8	**11,502**	19,691
Cash and cash equivalents, end of year		**89,520**	157,944

*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 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.

The consolidated financial statements were authorized for issue by the Board of Directors on February 27, 2014.

Basis of measurement

The consolidated financial statements have been prepared on the historical cost basis except for liabilities for share-based payment arrangements which are measured at fair value (Note 4).

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 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.

Change in accounting classification

In 2013, the Company changed how it discloses cash held in trust. Previously, this amount was included in "Cash and cash equivalents" on the Consolidated Balance Sheets. Effective for 2013, cash held in trust, representing cash held for the payment of the dividend, is separately identified as a current asset. The 2012 comparative financial statements have been adjusted to reflect this change in the accounting policy. The change results in the consolidated financial statements providing reliable and more relevant information.

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 future forfeiture rate, expected option life, and the future price volatility of the underlying security, which can vary from actual future events. The factors applied in the calculation are management's best estimates based on historical information and future forecasts.

Income taxes

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

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

Deferred tax assets are recognized 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 utilized. 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.

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 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 each of its distinguishable rental systems, as a group, is a CGU. The Company uses judgments in the determination of the CGUs. The Company applied judgment and determined that the assets of each of its geographic segments are an appropriate basis for its 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 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 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 forecast pricing.

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 period 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 presented in 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.

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 13).

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.

(a) 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 or cancelled or expire.

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.

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. The original cost and accumulated depreciation of the replaced part is removed from the accounts, and the net carrying amount of the replaced part is expensed. 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.

(d) Inventories

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is based on the weighted average principle, and includes expenditures incurred in acquiring the inventories, production, or conversion costs.

Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

Parts and raw materials 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 contracts and technology	6 years
Non-compete agreements	5 years
Distribution rights	6 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 has determined that each of its distinguishable rental systems, as a group, is a CGU. 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

The Company's stock option plan allows 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 is recognized as compensation expense, over the graded vesting period of three years, with a corresponding increase in a liability, as the benefit is expected to be settled in cash.

The grant date fair value is calculated using the Black-Scholes option pricing model and the fair value is remeasured at each reporting period.

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 an 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.

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, 2013

IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee, and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12, Consolidation - Special Purpose Entities and parts of IAS 27, Consolidated and Separate Financial Statements.

IFRS 11 replaces IAS 31, Interests in Joint Ventures. IFRS 11 deals with how a joint arrangement of which two or more parties have joint control should be classified. SIC 13, Jointly Controlled Entities - Non-monetary Contributions by Venturers, will be withdrawn upon the effective date of IFRS 11. Under IFRS 11, joint arrangements are classified as joint operations or joint ventures, depending on the rights and obligations of the parties to the arrangements. In contrast, under IAS 31, there are three types of joint arrangements: jointly controlled entities, jointly controlled assets, and jointly controlled operations. In addition, joint ventures under IFRS 11 are required to be accounted for using the equity method of accounting, whereas jointly controlled entities under IAS 31 can be accounted for using the equity method of accounting or proportional consolidation.

IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. IFRS 13 is effective for annual periods beginning on or after January 1, 2013.

There have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities, and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10–13.

Future Accounting Policy Changes

The Company has not applied the following new and revised IFRS standards that have been issued but are not yet effective. Unless otherwise indicated, based upon current facts and circumstances, the Company does not expect to be materially affected by the application of the following standards and is currently determining which date(s) it plans for initial compliance.

In May 2013, the IASB issued amendments to IAS 36 "Impairment of Assets" which reduce the circumstances in which the recoverable amount of CGUs is required to be disclosed and clarify the disclosures required when an impairment loss has been recognized or reversed in the period. The amendments are required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. These amendments will be applied by Pason on January 1, 2014 and the adoption will only impact Pason's disclosures in the notes to the consolidated financial statements in periods when an impairment loss or impairment reversal is recognized.

In May 2013, the IASB issued IFRIC 21 "Levies," which was developed by the IFRS Interpretations Committee (IFRIC). IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. The interpretation also clarifies that no liability should be recognized before the specified minimum threshold to trigger that levy is reached. IFRIC 21 is required to be adopted retrospectively for fiscal years beginning January 1, 2014, with earlier adoption permitted. IFRIC 21 will be applied by Pason on January 1, 2014 and the adoption may have an impact on Pason’s accounting for production and similar taxes, which do not meet the definition of an income tax in IAS 12 "Income Taxes." Pason is currently assessing and quantifying the effect on its consolidated financial statements.

The IASB has undertaken a three-phase project to replace IAS 39 "Financial Instruments: Recognition and Measurement" with IFRS 9 "Financial Instruments." In November 2009, the IASB issued the first phase of IFRS 9, which details the classification and measurement requirements for financial assets. Requirements for financial liabilities were added to the standard in October 2010. The new standard replaces the current multiple classification and measurement models for financial assets and liabilities with a single model that has only two classification categories: amortized cost and fair value.

In November 2013, the IASB issued the third phase of IFRS 9 which details the new general hedge accounting model. Hedge accounting remains optional and the new model is intended to allow reporters to better reflect risk management activities in the financial statements and provide more opportunities to apply hedge accounting. Pason does not employ hedge accounting for its risk management contracts currently in place. In July 2013, the IASB deferred the mandatory effective date of IFRS 9 and has left this date open pending the finalization of the impairment and classification and measurement requirements. IFRS 9 is still available for early adoption. The full impact of the standard on Pason's consolidated financial statements will not be known until the project is complete.

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 and DSUs 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, and the risk-free interest rate (based on government bonds) and estimated forfeiture rates.

Fair value is measured as the fair market price of the Company's common shares.

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 operating profit as included in the internal management reports. Operating 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.

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

Year Ended December 31, 2013	Canada	United States	International	Total
	($)	($)	($)	($)
Revenue	**126,622**	**231,960**	**44,506**	**403,088**
Operating costs	**37,116**	**88,697**	**27,702**	**153,515**
Depreciation and amortization	**26,088**	**29,366**	**6,717**	**62,171**
Segment operating profit	**63,418**	**113,897**	**10,087**	**187,402**
Research and development				**27,252**
Corporate services				**17,373**
Stock-based compensation				**32,511**
Other expenses				**68,301**
Income taxes				**18,310**
Net income				**23,655**
Capital expenditures	**37,709**	**26,101**	**6,854**	**70,664**
Goodwill	**—**	**19,685**	**2,600**	**22,285**
Intangible assets	**32,343**	**7,773**	**2,860**	**42,976**
Segment assets	**173,947**	**210,764**	**61,165**	**445,876**
Segment liabilities	**46,495**	**23,621**	**9,291**	**79,407**

Year Ended December 31, 2012				
Revenue	125,738	223,054	37,722	386,514
Operating costs	36,291	85,811	23,073	145,175
Depreciation and amortization	26,964	32,381	8,868	68,213
Segment operating profit	62,483	104,862	5,781	173,126
Research and development				22,467
Corporate services				15,723
Stock-based compensation				23,792
Other expenses				51,396
Income taxes				19,864
Net income				39,884
Capital expenditures	25,682	37,850	7,892	71,424
Goodwill	—	18,414	2,600	21,014
Intangible assets	25,583	9,711	3,285	38,579
Segment assets	182,458	241,391	64,529	488,378
Segment liabilities	96,780	13,120	9,782	119,682

6. Property, Plant, and Equipment

	Parts and Raw Materials	Rental Equipment	Other	Total
	($)	($)	($)	($)
Property, plant and equipment				
Balance at January 1, 2012	11,128	381,600	50,884	443,612
Additions	24,658	25,203	8,779	58,640
Disposals	(3,000)	(45,471)	(1,799)	(50,270)
Parts and raw materials consumed	(23,527)	23,527	—	—
Effects of exchange rate changes	253	(3,959)	(677)	(4,383)
Balance at December 31, 2012	9,512	380,900	57,187	447,599
Additions	40,582	8,423	6,963	55,968
Disposals	(39)	(26,921)	(2,911)	(29,871)
Parts and raw materials consumed	(38,842)	38,842	—	—
Effects of exchange rate changes	245	13,998	1,604	15,847
Balance at December 31, 2013	**11,458**	**415,242**	**62,843**	**489,543**
Depreciation and impairment losses				
Balance at January 1, 2012	—	235,443	25,162	260,605
Provisions	—	42,754	6,339	49,093
Disposals	—	(37,351)	(1,100)	(38,451)
Impairment loss recognized in income	—	6,517	1,401	7,918
Effects of exchange rate changes	—	(6,010)	(207)	(6,217)
Balance at December 31, 2012	—	241,353	31,595	272,948
Provisions	—	39,991	7,025	47,016
Disposals	—	(21,671)	(2,872)	(24,543)
Effects of exchange rate changes	—	9,779	742	10,521
Balance at December 31, 2013	**—**	**269,452**	**36,490**	**305,942**
Carrying Amounts				
At December 31, 2012	9,512	139,547	25,592	174,651
At December 31, 2013	**11,458**	**145,790**	**26,353**	**183,601**

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

Water Treatment Assets

During 2012 the Company continued its strategic review of its ongoing investment in the water treatment business in the US.

Part of this process involved re-evaluating its investment in Auxsol Inc. (Auxsol), the US-based water treatment subsidiary. In 2012, the Company made a formal decision to dispose of the water treatment facility owned by Auxsol. As a result of the continuing decline in throughput at the plant, it became apparent that the remaining book value could not be realized. As a result, a non-cash impairment loss of $3,236 was recorded in 2012. The remaining book value of the facility had been included in current assets in the Consolidated Balance Sheets at December 31, 2012. The facility was disposed of in early 2013 and proceeds equaled the carrying value.

Torque and Tension Sub

In 2012, the Company initiated the roll-out of a new rental product, the Torque and Tension Sub (TTS), which is part of the Company's rental equipment fleet. Initial field trials were promising; the TTS was able to provide measurements that were more accurate than indirect readings. However, due to a number of complications, customer acceptance and the resulting revenue was lower than the Company initially anticipated. As a result, the Company made the decision in the fourth quarter of 2012 to alter its business model. As a result of this change, the Company identified raw materials that were no longer required and a portion of the TTS accessories became obsolete, which led the Company to record a non-cash charge of $4,682 in the fourth quarter of 2012.

Disposal of Assets

Included in depreciation and amortization expense are losses on the disposal of assets and inventory obsolescence reserves in the amount of $5,572 (2012: $9,911) for the year ended December 31, 2013.

7. Intangible Assets

	Goodwill	Research & Development	Technology	Distribution Rights	Other	Total
	($)	($)	($)	($)	($)	($)
Intangible assets						
Balance at January 1, 2012	21,907	28,432	11,256	17,351	5,007	83,953
Internally developed	—	11,140	—	—	—	11,140
Additions	—	—	—	—	400	400
Acquisitions	—	—	—	—	1,244	1,244
Effects of exchange rate	(419)	—	(245)	(66)	(39)	(769)
Balance at December 31, 2012	21,488	39,572	11,011	17,285	6,612	95,968
Internally developed	—	15,508	—	—	—	15,508
Investment tax credits received	—	(1,015)	—	—	—	(1,015)
Additions	—	—	—	—	203	203
Dispositions	—	—	(1,963)	—	(47)	(2,010)
Effects of exchange rate	1,303	—	737	316	206	2,562
Balance at December 31, 2013	**22,791**	**54,065**	**9,785**	**17,601**	**6,974**	**111,216**
Amortization						
Balance at January 1, 2012	484	11,774	4,572	4,703	4,349	25,882
Amortization	—	4,844	2,488	2,957	383	10,672
Effects of exchange rate	(10)	—	(110)	(36)	(23)	(179)
Balance at December 31, 2012	474	16,618	6,950	7,624	4,709	36,375
Amortization	—	7,167	1,370	2,360	199	11,096
Dispositions	—	—	(1,963)	—	—	(1,963)
Effects of exchange rate	32	—	500	(174)	89	447
Balance at December 31, 2013	**506**	**23,785**	**6,857**	**9,810**	**4,997**	**45,955**
Carrying amounts						
At December 31, 2012	21,014	22,954	4,061	9,661	1,903	59,593
At December 31, 2013	**22,285**	**30,280**	**2,928**	**7,791**	**1,977**	**65,261**

Other intangible assets include mostly software costs, non-controlling equity interest in a software development company, customer contracts, and non-compete agreements.

Intangible Assets with Indefinite Lives and Goodwill

The carrying value of intangible assets with indefinite lives and goodwill are regularly tested for impairment. In assessing these assets for impairment at December 31, 2013 and 2012, 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:

	United States	International
	(%)	(%)
Budgeted EBITDA margin	33	35
Weighted average growth rate	2	2
Perpetuity growth rate	2.5	2.5
Pre-tax discount rate	15	15

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 the intangible assets with indefinite lives and goodwill.

8. Share Capital

	Common Shares			
Years Ended December 31,	**2013**		2012	
	($)	**(#)**	($)	(#)
Balance, beginning of year	**79,393**	**82,049**	77,613	81,904
Exercise of stock options	**1,332**	**109**	1,780	145
Balance, end of year	**80,725**	**82,158**	79,393	82,049

Common shares

At December 31, 2013, 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.

Stock option plan

The Group has a stock option plan that entitles qualified employees and directors 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, 2013, 4,597 (2012: 4,854) stock options were outstanding for common shares at exercise prices ranging from $10.99 to $22.95 per share, expiring between 2014 and 2018 as follows:

	December 31, 2013		December 31, 2012	
	Share Options	**Weighted Average Exercise Price**	Share Options	Weighted Average Exercise Price
	(#)	**($)**	(#)	($)
Outstanding, beginning of year	**4,854**	**13.80**	6,240	12.43
Granted	**1,351**	**22.95**	1,379	16.61
Equity settled	**(109)**	**12.28**	(145)	12.27
Cash settled	**(1,408)**	**12.69**	(2,313)	11.99
Expired or forfeited	**(91)**	**14.52**	(307)	12.92
Outstanding, end of year	**4,597**	**16.85**	4,854	13.80
Exercisable, end of year	**1,854**	**13.70**	1,898	12.46
Available for grant, end of year	**3,619**		3,351	

The Company purchased the following number of options from employees and directors:

Years ended December 31,	**2013**	2012
Options (#)	**1,408**	2,313
Consideration ($)	**10,153**	8,772

The following table summarizes information about stock options outstanding at December 31, 2013:

	Options Outstanding			**Options Exercisable**	
Range of Exercise Prices	**Options Outstanding**	**Weighted Average Remaining Contractual Life**	**Weighted Average Exercise Price**	**Exercisable (Vested)**	**Weighted Average Exercise Price**
($)	**(#)**	**(Years)**	**($)**	**(#)**	**($)**
10.99 – 13.62	**1,284**	**2.64**	**12.31**	**773**	**12.15**
13.63 – 19.81	**1,965**	**3.18**	**15.64**	**1,081**	**14.81**
19.82 – 22.95	**1,348**	**4.91**	**22.95**	**—**	**—**
	4,597	**3.54**	**16.85**	**1,854**	**13.70**

The total number of options outstanding at any given time must not exceed 10% of the total common shares outstanding.

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

Weighted average assumptions, which are revalued at the end of each reporting date, for options granted in the year are as follows:

Years Ended December 31,	**2013**	2012
Fair value of stock options ($)	**8.25**	5.38
Forfeiture rate (%)	**11.56**	11.95
Risk-free interest rate (%)	**1.42**	1.25
Expected option life (years)	**3.42**	3.45
Expected volatility (%)	**25.93**	34.52
Expected annual dividends per share (%)	**2.44**	2.80

Restricted share units plan

At December 31, 2013, 777 (2012: 878) 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 $10,879 (2012: $7,271) 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:

Years Ended December 31,	2013	2012
	(#)	(#)
RSUs, beginning of year	878	797
Granted	324	474
Vested and paid	(391)	(335)
Forfeited	(34)	(58)
RSUs, end of year	777	878

Deferred share units plan

The DSUs are awarded annually 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 62 DSUs credited as at December 31, 2013 (2012: 27). Stock-based compensation expense arising from the DSU plan of $976 (2012: $454) 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:

Years Ended December 31,	2013	2012
	(#)	(#)
DSUs, beginning of year	27	—
Credited	35	27
DSUs, end of year	62	27

Stock-based compensation expense and liability

The stock option, RSU, and DSU plans can be summarized as follows:

Expense

Years Ended December 31,	2013	2012
	($)	($)
Stock options	20,656	16,067
RSUs	10,879	7,271
DSUs	976	454
Stock-based compensation	32,511	23,792

Liability

As at	December 31, 2013	December 31, 2012
	($)	($)
Stock options	**21,447**	11,020
RSUs	**4,495**	2,768
Current portion of stock-based compensation liability	**25,942**	13,788
Stock options	**1,042**	966
RSUs	**1,433**	1,163
DSUs	**1,430**	454
Long-term portion of stock-based compensation liability	**3,905**	2,583
Total stock-based compensation liability	**29,847**	16,371

Common share dividends

The Company changed its dividend policy whereby, effective for 2013, the Company adopted a quarterly dividend to replace the semi-annual dividend. During 2013, the Company declared dividends of $43,520 (2012: $37,724) or $0.53 per common share (2012: $0.46). Of this amount, $11,502 (2012: $19,691) is payable at year-end, and the Company transferred these funds to the transfer agent to be held in trust until the dividend payment was made in January 2014.

9. 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,	2013	2012
	(#)	(#)
Issued common shares outstanding, beginning of year	**82,049**	81,948
Effect of exercised options	**49**	20
Weighted average number of common shares for the year	**82,098**	81,968

For the year ended December 31, 2013, 109 (2012: 145) common shares were issued as a result of the exercise of vested options. Options were exercised at an average price of $12.28 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,	2013	2012
	(#)	(#)
Weighted average number of common shares (basic)	**82,098**	81,968
Effect of share options	**649**	711
Weighted average number of common shares (diluted)	**82,747**	82,679

Options are excluded from the above calculation if 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.

10. Other Expenses

Years Ended December 31,	**Note**	**2013**	2012
		($)	($)
Litigation provision	20	**61,614**	37,913
Foreign exchange loss		**2,175**	4,573
Earn-out provision		**3,071**	—
Impairment loss	6	**—**	7,918
Other		**1,441**	992
Other expenses		**68,301**	51,396

Part of the 2009 purchase of Petron was an earn-out clause that was conditional on the successful commercialization of a revenue stream generated from a product designed by Petron. There had been some uncertainty around whether an amount would be due to the former shareholders of Petron. Management concluded in the third quarter of 2013 that an amount was owing and the Company and previous shareholders of Petron agreed to $3.1 million. The payment was made in the fourth quarter of 2013.

11. Income Tax

The major components of income tax expense are as follows:

Years Ended December 31,	**2013**	2012
	($)	($)
Current tax expense	**5,411**	25,883
Deferred tax expense (recovery)	**12,899**	(6,019)
Total tax expense	**18,310**	19,864

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 25% for both 2013 and 2012. The Company's US subsidiaries are subject to federal and state statutory tax rates of approximately 40%. The main differences are as follows:

Years Ended December 31,	**2013**	2012
	($)	($)
Income before income taxes	**41,965**	59,748
Expected income tax at statutory rate	**10,491**	14,937
Increase (decrease) resulting from:		
Tax rates in other jurisdictions	**981**	725
Non-taxable dividends	**(3,527)**	(3,365)
Non-deductible portion of stock-based compensation	**5,106**	5,124
Expenses not deductible for tax purposes and other items	**5,259**	2,443
Income tax expense	**18,310**	19,864

Deferred tax assets and liabilities are comprised of the following:

As at December 31,	**2013**	2012
	($)	($)
Tax loss carry-forwards	**15,413**	24,479
Inter-company transactions	**8,182**	1,153
Share-based payments	**1,691**	2,535
Provisions	**—**	8,100
Other	**2,600**	2,047
Property, plant and equipment	**(29,526)**	(26,287)
Intangible assets	**(4,781)**	(5,863)
	(6,421)	6,164
Deferred tax asset	**1,152**	8,764
Deferred tax liability	**(7,573)**	(2,600)
	(6,421)	6,164

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.

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

As at	Tax loss carry forwards	Inter-company transactions	Share-based payments	Provisions	Other	Property, plant and equipment	Intangible assets	Total
	($)	($)	($)	($)	($)	($)	($)	($)
January 1, 2012	5,792	20,967	1,475	—	700	(20,901)	(7,417)	616
Recognized in income	19,405	(20,027)	1,060	8,100	1,347	(5,399)	1,533	6,019
Exchange differences	(718)	213	—	—	—	13	21	(471)
December 31, 2012	24,479	1,153	2,535	8,100	2,047	(26,287)	(5,863)	6,164
Recognized in income	(10,676)	6,729	(844)	(8,100)	490	(1,767)	1,269	(12,899)
Exchange differences	1,610	300	—	—	63	(1,472)	(187)	314
December 31, 2013	**15,413**	**8,182**	**1,691**	**—**	**2,600**	**(29,526)**	**(4,781)**	**(6,421)**

The Company has available US net operating losses of USD $35,168, which includes timing differences relating to inter-company transactions that have been accrued for but are not deductible for tax purposes until paid. These losses, the benefit of which has been recognized in the Consolidated Financial Statements, can be used to reduce future income taxes otherwise payable, and expire between 2028 and 2032.

12. Cash and Cash Equivalents

As at December 31,	2013	2012
	($)	($)
Cash	**54,030**	54,928
Cash equivalents	**23,988**	83,325
Cash and cash equivalents	**78,018**	138,253

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 16.

13. Trade and Other Receivables

As at December 31,	2013	2012
	($)	($)
Trade receivables, net of allowances for doubtful accounts	**82,187**	80,310
Other receivables	**5,282**	4,196
	87,469	84,506

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 16.

14. Credit Facility

The Company has a $5.0 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.

Throughout the reporting year, no amounts were drawn on this facility.

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.

15. Trade Payables, Accruals and Provisions

As at December 31,	Note	2013	2012
		($)	($)
Trade payables		**13,595**	13,280
Non-trade payables and accrued expenses		**16,890**	12,394
		30,485	25,674
Litigation provision	20	**—**	52,033
		30,485	77,707

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 16.

16. 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:

As at December 31,	**2013**	2012
	($)	($)
Trade and other receivables, net of allowance for doubtful accounts	**87,469**	84,506

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

As at December 31,	**2013**	2012
	($)	($)
Canada	**26,043**	25,282
United States	**47,084**	47,766
International	**14,342**	11,458
	87,469	84,506

(c) Allowance for doubtful accounts

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

As at December 31,	**2013**		2012	
	Gross	**Allowance**	Gross	Allowance
	($)	**($)**	($)	($)
Current	**56,981**	**(8)**	64,177	(2)
31–60 days	**19,136**	**(32)**	14,024	—
61–90 days	**7,960**	**(34)**	4,722	(9)
Greater than 90 days	**5,502**	**(2,036)**	2,927	(1,333)
	89,579	**(2,110)**	85,850	(1,344)

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

As at December 31,	**2013**	2012
	($)	($)
Opening balance	**1,344**	944
Additions to provision	**1,640**	642
Accounts collected, previously allowed for	**(283)**	—
Write-off of uncollectible accounts	**(614)**	(216)
Effects of exchange rate changes	**23**	(26)
Ending balance	**2,110**	1,344

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, 2013						
	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	30,485	30,485	30,485	—	—	—	—
Stock-based compensation	29,847	29,847	25,942	—	3,905	—	—
	60,332	60,332	56,427	—	3,905	—	—

For trade payables and accruals, 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 and Mexican peso is as follows:

As at December 31,	2013	2012
	USD	USD
Cash	32,738	118,058
Trade and other receivables	46,158	49,327
Trade payables, accruals and other provisions	(12,504)	(8,425)
Balance sheet exposure	66,392	158,960
CDN$ Equivalent	70,615	158,150

As at December 31,	2013	2012
	PESO	PESO
Cash	2,537	268
Trade and other receivables	19,153	25,876
Trade payables, accruals and other provisions	(18,599)	(22,069)
Balance sheet exposure	3,091	4,075
CDN$ Equivalent	251	310

(a) Sensitivity analysis

A strengthening of the Canadian dollar against the US dollar by 1% at December 31, 2013 would have decreased net income and equity for the year by $17 and $3,945, 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, 2013 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			
	Level 1	Level 2	Level 3	**December 31, 2013**
	($)	($)	($)	**($)**
Cash and cash equivalents	78,018	—	—	**78,018**
Cash held in trust	11,502	—	—	**11,502**
Total financial assets at fair value	89,520	—	—	**89,520**

(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.

17. Operating Leases

Non-cancellable operating lease rentals are payable as follows:

As at December 31,	**2013**	2012
	($)	($)
Less than one year	**3,203**	3,266
Between one and three years	**4,868**	5,199
More than three years	**11,580**	11,968
	19,651	20,433

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

The Company is committed to an outsourcing agreement with a supplier to assist its software development team. Either party can terminate the agreement with six months' notice. The annual costs are anticipated to be approximately $7.0 million, and this amount is not included in the table above because of the termination clause.

18. Capital Commitments

At December 31, 2013, the Group has entered into contracts to purchase property, plant and equipment for $21,953, the majority of which relates to the purchase of rental assets in the normal course of business.

19. 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 stock option, and the RSU and DSU programs (Note 8).

Executive management personnel and director compensation is comprised of:

Years Ended December 31,	**2013**	2012
	($)	($)
Compensation, including bonuses	**4,941**	5,709
Share-based payments	**9,985**	7,538
	14,926	13,247

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 19% of the voting shares of the Company. No balances are owing from any employees or directors.

20. Contingencies

Patent Litigation

Since 2003, the Company had been defending its position in three patent infringement lawsuits relating to its automatic driller product. The three separate lawsuits all alleged that the Company's automatic driller infringed a certain patent which expired on April 19, 2013. Pason had been defending its position on the grounds that the asserted claims in the patent were invalid and that in any event the Pason automatic driller does not infringe any of the claims of the patent.

In August 2013, the Company and the plaintiff in the litigation negotiated a final resolution and settlement to all three of these cases, totaling USD $112,000. As a result of this settlement and license agreement, the Company recorded an additional provision in its consolidated financial statements in 2013. The payment required to resolve all claims against the Company regarding this matter was made in the fourth quarter of 2013.

The activity in the provision for patent infringement account was as follows:

Years Ended December 31,	**2013**	2012
	($)	($)
Balance, beginning of year	**52,033**	14,543
Provision	**61,614**	37,913
Foreign exchange adjustment	**3,975**	(423)
Payment	**(117,622)**	—
Balance, end of year	**—**	52,033

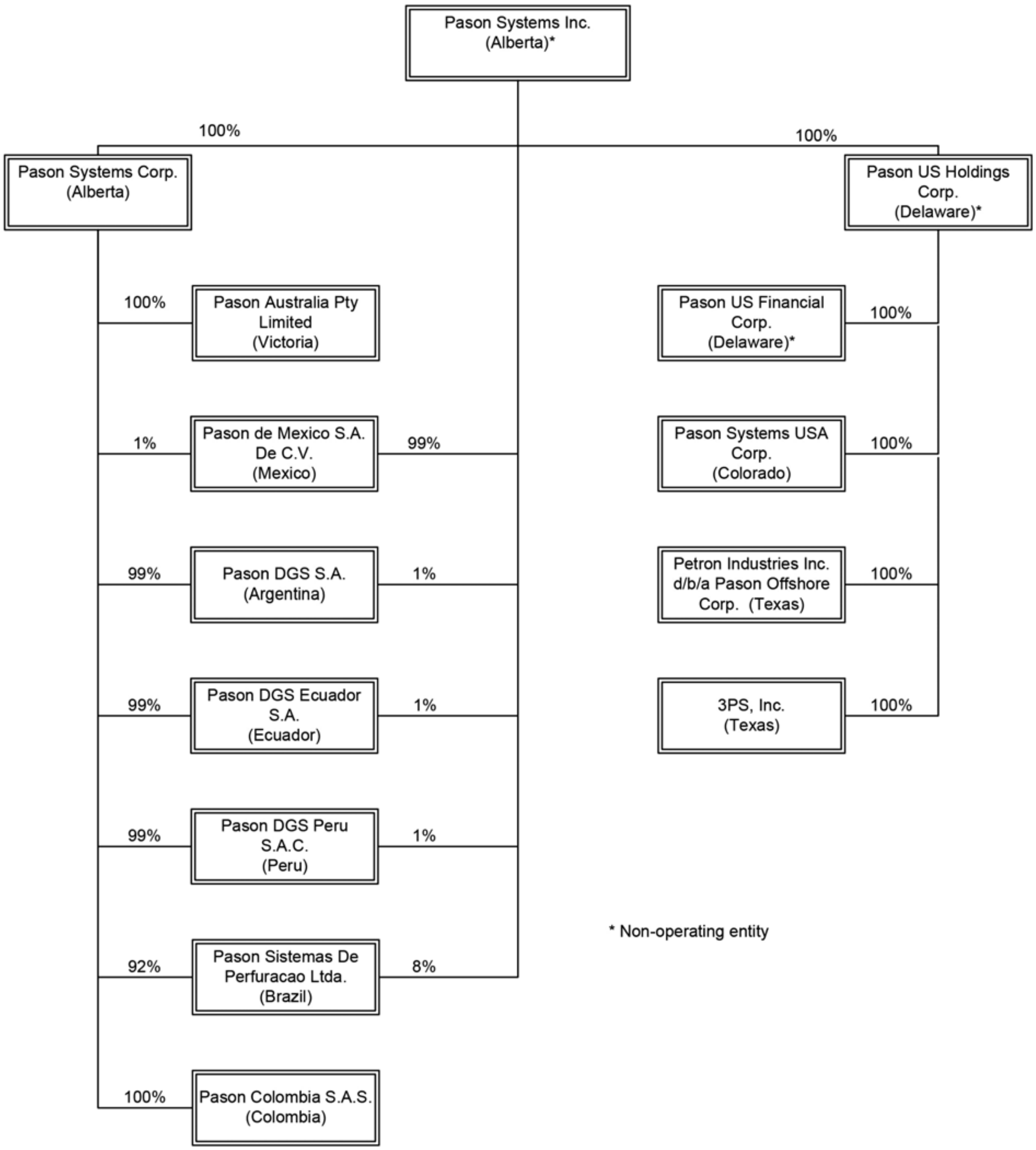
Other Litigation

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

21. Events After the Reporting Period

On February 27, 2014, the Company announced a quarterly dividend of $0.15 per share on the Company's common shares. The dividend will be paid on April 1, 2014 to shareholders of record at the close of business on March 14, 2014.

22. Organizational Structure



Corporate Information

Directors

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

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

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

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

Franz J. Fink(6)
Independent Businessman
Austin, Texas

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

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

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

Officers & Key Personnel

Marcel Kessler
President
& Chief Executive Officer

Jon Faber(8)
Chief Financial Officer

Dean Tremaine
Vice President, Product Development
& Chief Technology Officer

David Elliott(8)
Vice President, Finance

Greg Lindsay
Vice President, Corporate Operations

Chad Yetka
Vice President, Operations – USA

David Holodinsky
Vice President, Operations – Canada

Kevin Boston
Vice President, Operations – International & Offshore

Russell Smith
Vice President, Business Development
& Marketing

Gopinath Ramanan
Vice President, Research & Development

Bryce McLean
Vice President, Legal & Corporate Secretary

Ron Dudar
Vice President, People & Culture

Todd Perry
Vice President, 3PS, Inc.

(8) Jon Faber has been appointed to the role of Chief Financial Officer effective March 1, 2014. David Elliott retains the role of Vice President, Finance.

Corporate Head Office

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InvestorRelations@pason.com
www.pason.com

Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Legal Counsel

Gowling Lafleur Henderson LLP
Calgary, Alberta

Registrar and Transfer Agent

Valiant Trust Company
Calgary, Alberta

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI.TO

Eligible Dividend Designation

Pursuant to the Canadian Income Tax Act, dividends paid by the Company to Canadian residents are considered to be “eligible” dividends.

Annual and Special Meeting

Shareholders are also invited to attend the Company's Annual and Special Meeting on Wednesday, May 7, 2014, at 3:30 pm at the offices of Pason Systems Inc., 6120 Third Street SE, Calgary, Alberta.

Historical Review

Selected Financial Data

Years Ended December 31,

	2013	2012	2011	2010	2009	2008	2007	2006	2005	2004
(CDN 000s, except per share data)	**($)**	($)	($)	($)	($)	($)	($)	($)	($)	($)
Operating Results										
Revenue	**403,088**	386,514	346,158	260,397	153,823	300,484	236,439	240,584	175,747	122,212
Expenses										
Rental services	**134,874**	125,269	113,568	94,299	72,428	106,600	83,058	72,933	52,193	38,422
Corporate services	**17,373**	15,723	12,975	17,770	11,611	13,250	12,708	6,699	4,076	3,062
Research and development	**27,252**	22,467	17,366	16,472	13,140	12,888	9,566	8,255	6,379	4,995
Stock-based compensation	**32,511**	23,792	1,309	11,233	5,684	7,525	5,248	4,597	2,595	1,290
Depreciation and amortization	**62,171**	68,213	58,565	49,108	55,842	55,719	42,797	39,923	27,198	18,992
EBITDA(1)	**136,647**	151,753	171,661	110,867	46,651	144,883	128,088	143,238	106,677	72,154
As a % of revenue	**33.9**	39.3	49.6	47.1	32.0	49.5	54.2	59.5	60.7	59.0
Per share-basic	**1.66**	1.85	2.10	1.44	0.57	1.78	1.61	1.84	1.40	0.97
Funds flow from operations	**123,075**	158,948	145,358	93,973	41,354	124,726	103,766	107,451	79,369	54,640
Per share – basic	**1.50**	1.94	1.78	1.15	0.51	1.53	1.30	1.38	1.04	0.73
Income (loss)	**23,655**	39,884	86,223	36,474	(5,510)	61,321	55,052	64,531	50,280	33,842
Per share – basic	**0.29**	0.49	1.05	0.45	(0.07)	0.75	0.69	0.83	0.66	0.46
Capital expenditures	**70,664**	71,424	78,357	50,164	21,493	56,292	76,615	71,233	76,064	41,518
Financial Position										
Total assets	**445,876**	488,378	455,901	402,082	354,273	427,016	302,593	270,860	216,306	139,012
Working capital	**127,933**	163,371	126,605	105,815	108,113	152,337	77,806	58,495	23,684	21,540
Total equity	**366,469**	368,696	367,269	309,684	308,335	354,589	270,717	231,209	163,159	114,747
Return on total equity %(2)	**6**	11	25	12	(2)	20	22	33	36	34
Common Share Data										
Common shares outstanding (#)										
At December 31	**82,158**	82,049	81,904	81,714	81,487	81,456	80,346	78,738	77,045	75,530
Weighted average	**82,098**	81,968	81,851	81,525	81,476	81,426	79,586	77,899	76,240	74,658
Share trading										
High ($)	**23.77**	18.12	16.53	14.82	14.45	18.40	17.93	19.20	15.13	9.90
Low ($)	**15.75**	12.04	11.53	10.31	8.26	8.00	11.51	13.11	8.86	5.75
Close ($)	**22.98**	17.15	12.00	13.96	11.65	14.05	12.49	13.26	14.45	9.25
Volume (#)	**24,105**	25,053	24,658	23,793	28,605	36,505	34,560	22,804	22,884	36,900
Dividends ($)	**0.53**	0.46	0.38	0.33	0.26	0.22	0.16	0.13	0.09	0.06

(1) Non-IFRS financial measures are defined in the Management's Discussion and Analysis section.
(2) Return on total equity is calculated as earnings over the simple average of the beginning and ending total equity.

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