2012 Annual Report

Technology · Deployed · Simply

Pason Systems Inc.

Overview

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.

Quick Facts

- Over **2,000** rigs worldwide with Pason rental instrumentation
- Over **10,000** users of Pason data per day
- Business value over **$1.4** billion
- 2012 revenue of **$387** million
- Headquartered in **Calgary, Canada**
- US offices in **Denver, Houston, and Austin**
- International offices in **Argentina, Australia, Bolivia, Brazil, Colombia, Ecuador, Mexico, and Peru**
- Listed on the Toronto Stock Exchange under the symbol **PSI**
- Impressive EDR market share:
  Canada **93%**
  United States **56%**
  Latin America **55%**
  Australia **95%**

Performance Data

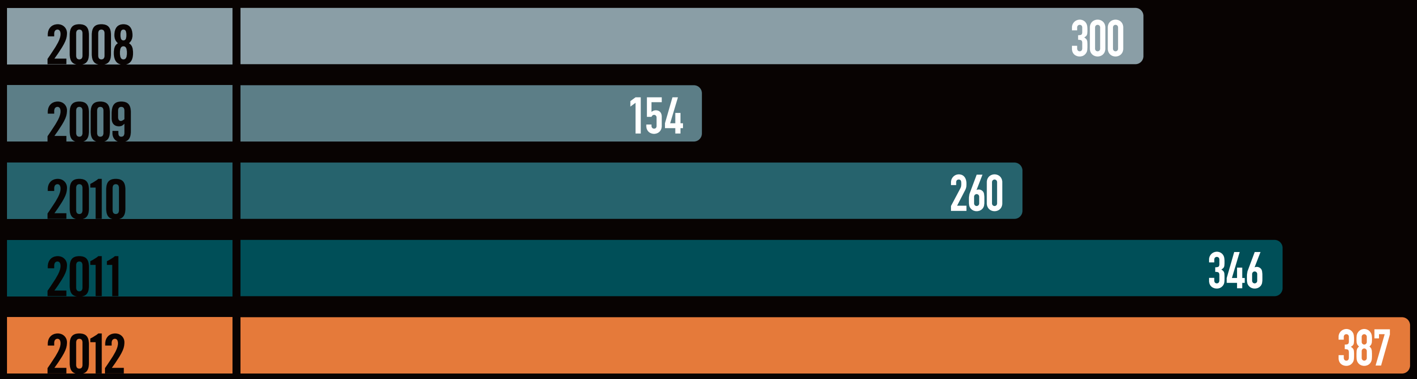
(CDN 000s, except per share data)	Three Months Ended December 31, 2012 ($)	2011 (reclassified) ($)	Change (%)	Years Ended December 31, 2012 ($)	2011 (reclassified) ($)	Change (%)
Revenue (1)	**90,995**	100,933	(10)	**386,514**	346,158	12
EBITDA (2)	**8,286**	47,920	(83)	**151,753**	171,661	(12)
As a % of revenue	**9.1**	47.5	(81)	**39.3**	49.6	(21)
Per share – basic	**0.10**	0.59	(83)	**1.85**	2.10	(12)
Per share – diluted	**0.10**	0.58	(83)	**1.84**	2.08	(12)
Funds flow from operations (2)	**36,278**	42,089	(14)	**158,948**	145,358	9
Per share – basic	**0.44**	0.51	(14)	**1.94**	1.78	9
Per share – diluted	**0.44**	0.51	(14)	**1.92**	1.76	9
(Loss) earnings	**(13,703)**	31,702	N/A	**39,884**	86,223	(54)
Per share – basic	**(0.17)**	0.39	N/A	**0.49**	1.05	(54)
Per share – diluted	**(0.17)**	0.38	N/A	**0.48**	1.04	(54)
Capital expenditures	**13,602**	21,927	(38)	**69,780**	78,357	(11)
Working capital	**163,371**	126,605	29	**163,371**	126,605	29
Total assets	**488,378**	455,901	7	**488,378**	455,901	7
Total long-term debt	**--**	--	--	**--**	--	--
Total equity	**368,696**	367,269	--	**368,696**	367,269	--
Market capitalization	**1,407,141**	982,848	43	**1,407,141**	982,848	43
Cash dividends declared	**0.24**	0.20	20	**0.46**	0.38	21
Common shares outstanding (#)						
Basic	**82,035**	81,903	--	**81,968**	81,851	--
Diluted	**83,056**	82,077	2	**82,679**	82,572	2
Shares outstanding end of period (#)	**82,049**	81,904	--	**82,049**	81,904	--

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly. This change has no impact on reported EBITDA, funds flow from operations, or earnings.

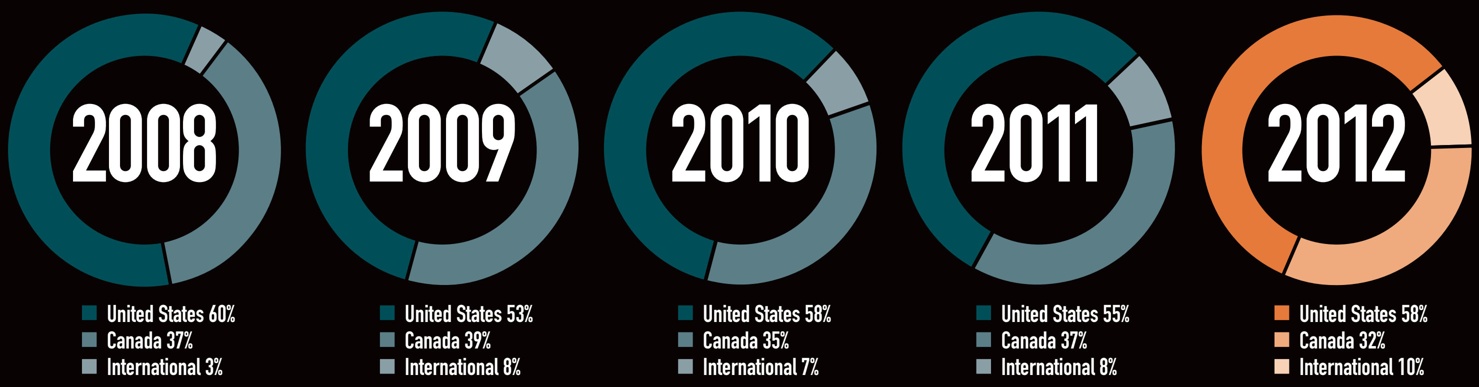
(2) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense, and depreciation and amortization expense. Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, impairment losses, stock-based compensation expense, deferred income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. These definitions are not recognized measures under International Financial Reporting Standards, and accordingly, may not be comparable to measures used by other companies.

Written, designed, and produced by Pason employees.

Revenue ($millions)

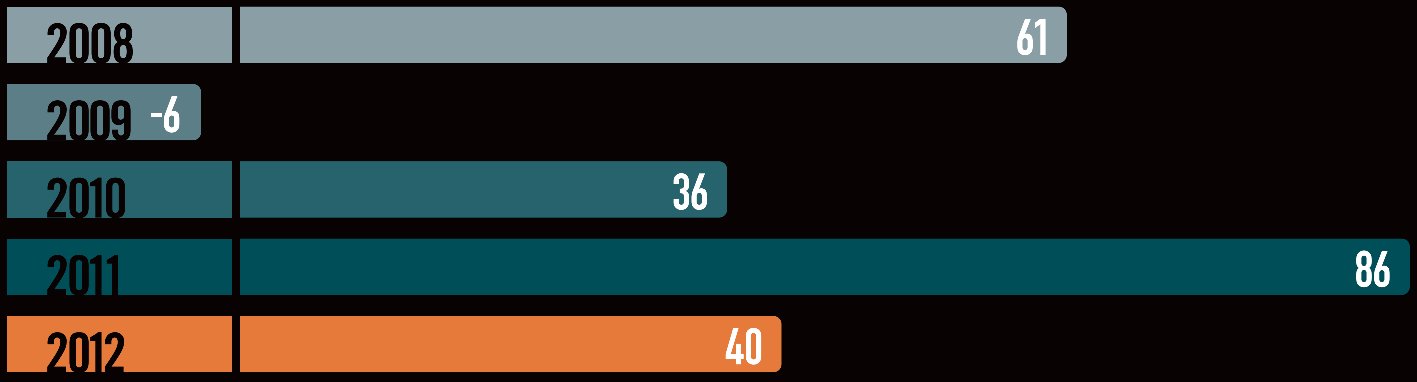


Contribution to Revenue per Business Unit (%)

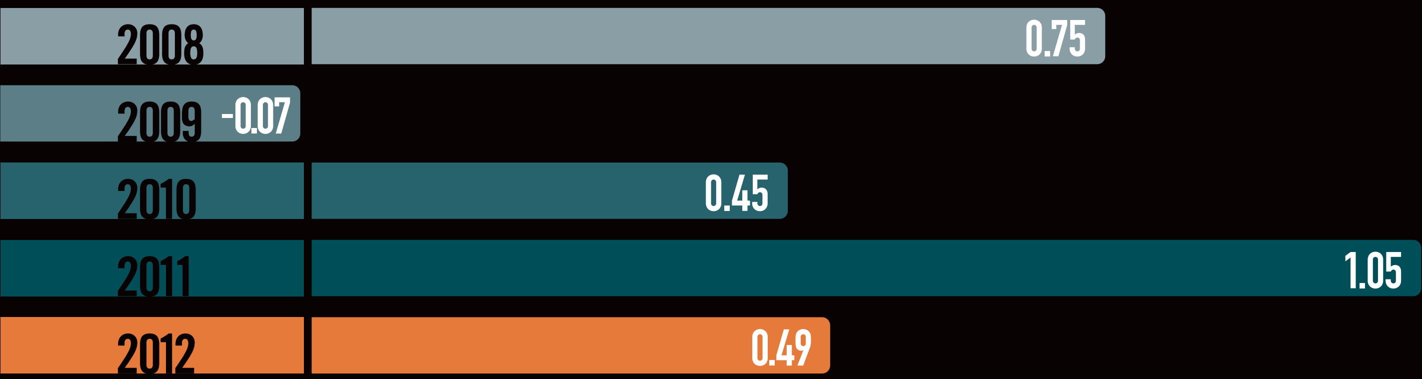


EBITDA ($millions)

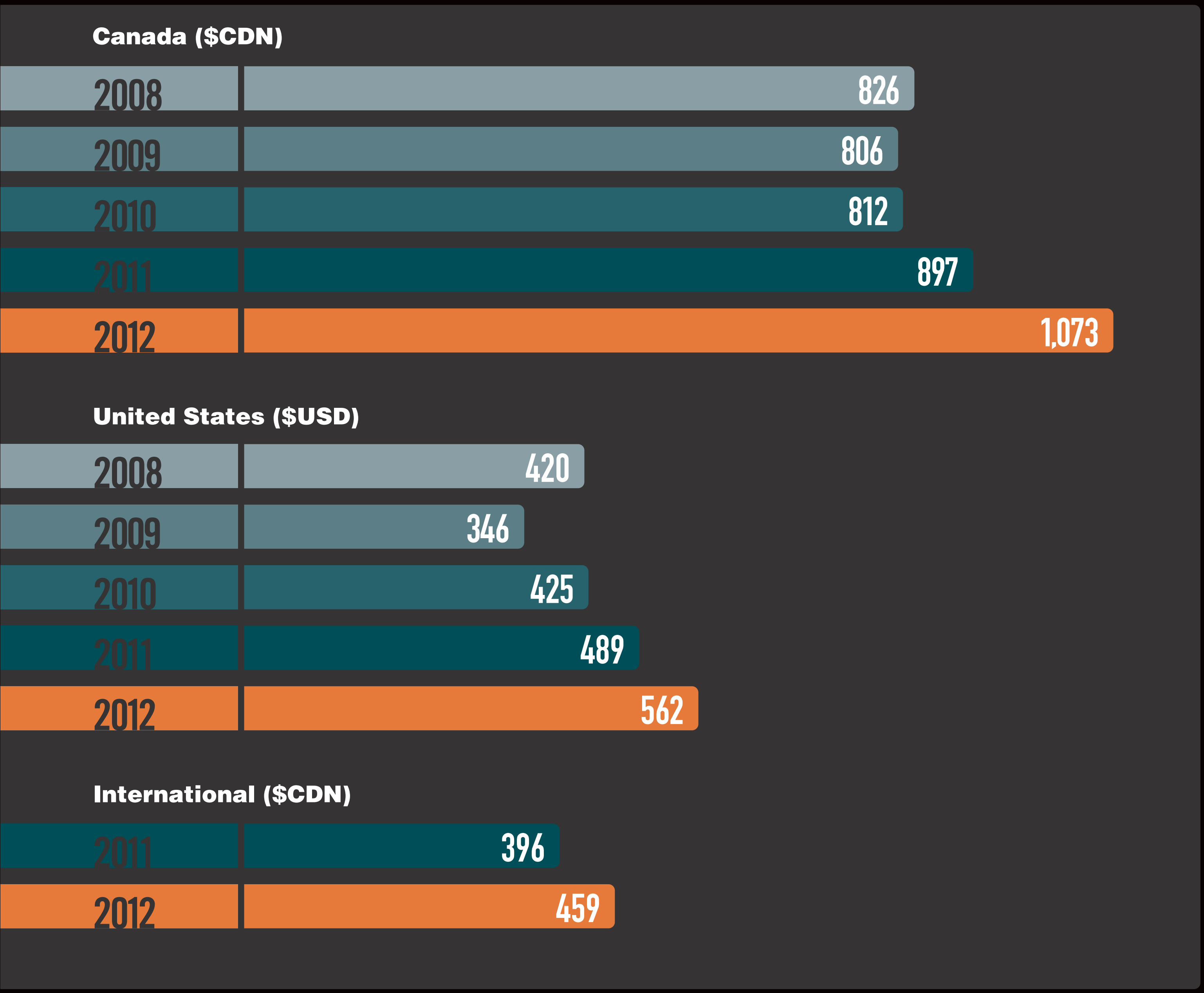
Earnings ($millions)



Earnings per Share ($)



Rental Revenue per EDR Day



Note: All amounts are in Canadian dollars unless otherwise indicated.

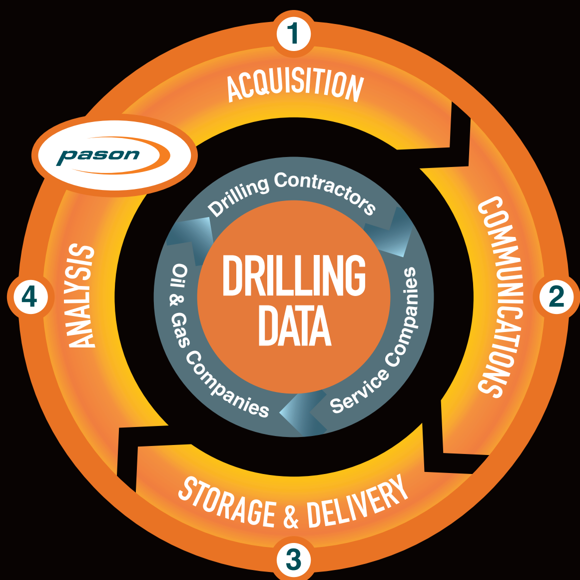
Customers

Our customers need reliable, rig-tough hardware and easy-to-use software that seamlessly link providers and consumers of drilling data in the field and in the office. For over 30 years, we have met that need with the best drilling management solutions in the industry.

Pason provides integrated solutions that enable drilling data management at the key stages of data acquisition, communications, storage and delivery, and analysis. And the foundation of our data management solutions lies in our unrivalled support services.

Pason Enables Drilling Data Management

1. Data Acquisition, Cleaning, and Validation systems acquire, clean, and validate Pason and third-party data collected at the wellsite. Pason engineers deploy new, state-of-the-art drilling peripherals.



2. Data Transport and Communications systems provide bandwidth and bandwidth management to enable reliable data transport, mobile tools, and collaboration applications, and support the delivery of customer applications at the wellsite.

3. Data Storage and Delivery systems provide storage and customized data viewers for all industry participants. These systems support seamless delivery of data into third-party applications and data centres, and enable stationary and mobile data access.

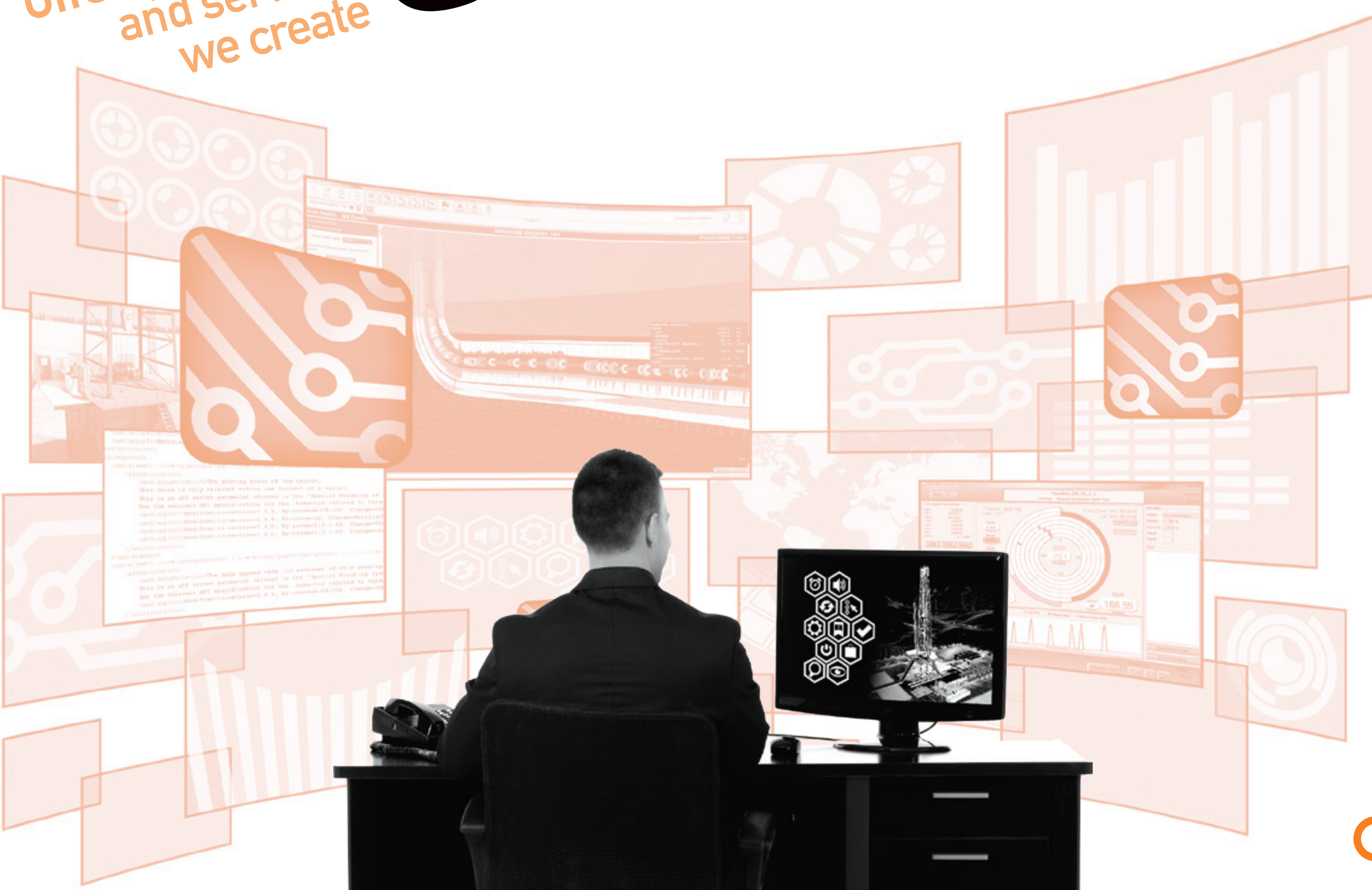
4. Data Analysis and Reporting systems support custom reports and enable integration with operator and contractor back offices.

99.7

Percentage of Average DataHub Uptime

Customers

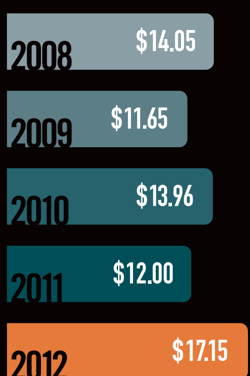
Pason provides its customers with **seamlessly** integrated hardware and software systems, coupled with unrivalled support. We don't just offer products and services: we create **solutions.**



Investors

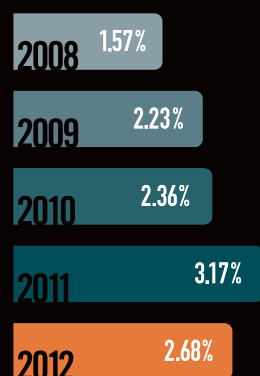
Pason's strategic focus on proprietary leading-edge technologies and strong service gives us a competitive advantage when meeting the challenges of the drilling industry. Leveraging these offerings to create a dominant Canadian wellsite presence, a leading position in the United States, and a solid presence internationally, Pason has generated an average return on equity of almost 25% over the last decade. This growth has provided the company with funds to reinvest in both capital assets and research and development to ensure Pason's competitive edge—now and in the future.

Share Price*



Dividends per Share

Dividend Yield*



*At year end

46

Total Return to Shareholders in 2012 (%)

Investors

Pason is a leading provider of specialized data management systems for drilling rigs, with **solid** market share in Canada, the United States, and internationally. And our **investment** in R&D attests to our plans for continued growth.

Employees

Pason is a distinctly rewarding place to work, which enables us to attract, develop, and retain the best talent.

To do this, we have created a strong and vibrant community based on Pason's values. We take pride in our corporate culture and the freedom it provides for our people to achieve a balance between their commitments to work, family, and personal interests. We believe that when employees pursue meaningful work within a supportive and challenging environment, they willingly give their peak performance on the job.

Our people are the heart of our success.

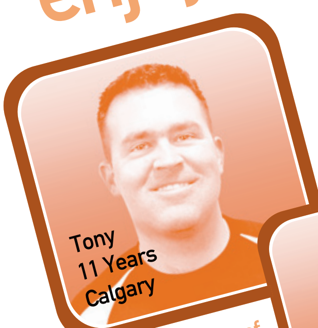
Pason Values:
Teamwork, openness, passion, initiative, and curiosity.

800

Number of Pason Employees Worldwide

Employees

Pason knows that challenging work makes for satisfied employees. That's why we've created a culture at the work place that ensures our people enjoy a rewarding career.



Tony has a great sense of humour and is always ready to lend a hand when his colleagues need some help. He loves spending time with his family, especially while lounging on a beach in Mexico.

Though a native Colombian, Myrian lived in Calgary for 6 years where she perfected her English and also became an avid professional wrestling fan.

Chris enjoys wakeboarding, playing golf, and watching college football.

Terry is a father to two great kids and enjoys playing volleyball and reading comics.

Lynn enjoys working out, reading, and any vacation that involves a beach. She canned 144 jars of homemade salsa last summer.

Communities

Pason employees around the world contribute to a variety of non-profit organizations and programs that enhance local quality of life. Through donations, sponsorships, and employee volunteerism, our people take an active role in making their communities better places to live, work, and play.

112 Units of blood donated*

36 Families in crisis helped*

133 Food hampers distributed*

*In 2012

Just a few of the organizations we have donated time, materials, and funding to, include:

- United Way
- Habitat for Humanity
- Special Olympics
- Angels Unaware
- Children's Cancer Centers
- Local blood drives
- Food banks
- Homeless shelters
- School playgrounds
- Tree planting

1000

Hours Volunteered by Employees Building Playgrounds and Homes*

Communities

Pason is committed to giving back to the communities in which we live. We believe in making a difference where it really counts.

President's Message

Pason's 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, and by providing the most flexible data and applications to enable effective collaboration between the field and the office. Pason links providers and consumers of drilling data with seamlessly integrated, end-to-end solutions that are simpler and more reliable than those available from a collection of third parties.

"At the end of 2012, our cash position stood at $158 million and working capital at $163 million. We do not carry any debt on our balance sheet."

Pason is pursuing a balanced value strategy with four core elements. First, we intend to defend our market positions and steadily grow revenue per rig in the North American rental market. Second, we intend to increase our share of revenue independent of North American land drilling activity. Third, we are pursuing a small number of significant new growth initiatives. Finally, we aim to deliver consistent dividend growth while maintaining a strong balance sheet.

Overall performance

In 2012, Pason maintained its ten-year track record of regular dividend increases and a pristine balance sheet. Our dividend, which started at 5¢ a share per year in 2003, has steadily increased each year, reaching 46¢ a share in 2012. We recently decided to move from a semi-annual to a quarterly dividend and have declared a dividend of 13¢ a share for the first quarter of 2013. Our dividend yield currently stands at about 3%. At the end of 2012, our cash position stood at $158 million and working capital at $163 million. We do not carry any debt on our balance sheet.

Drilling days, a key driver of revenue generation for Pason, was down 14% in Canada and essentially flat in the United States compared to the previous year. Cost focus and pricing pressure in the market increased throughout the year and we lost some EDR (Electronic Drilling Recorder) market share in both Canada and the United States as a result.

Despite these adverse developments, we were able to grow revenue by 12% to $387 million in 2012. The key drivers of revenue growth were significant increases in the average revenue generated on each customer rig, measured as revenue per EDR day, and strong performance in our international markets.

All product categories generated revenue growth above North American drilling industry activity during the year. Of the major product

Marcel Kessler
President and CEO

categories, the Software segment demonstrated the highest year over year growth rate at 68%, followed by the Gas Analyzer at 28%. The Software category includes revenue generated through DataHub updates with LiveData (enhanced Live Rig View, or eLRV), specialized software (e.g., Directional System) and data delivery (WITSML Service) products. Eighty-eight percent of US customers and 99% of Canadian customers using the Pason DataHub are currently subscribing to live data. This compares to 68% and 92% the previous year. Growth in the Gas Analyzer category was driven by the deployment of the new Pason Gas Analyzer that started toward the end of 2011 and continued throughout 2012. The Gas Analyzer is a step change in gas detector reliability and gas analysis capability. It provides on-demand real-time compositional analysis of hydrocarbons and CO2. We are proud of the technical performance and market reception that eLRV and the Gas Analyzer have demonstrated in 2012.

Funds flow from operations increased 9% to $159 million in 2012. EBITDA decreased 12% to $152 million and earnings were down 54% to $40 million, or $0.49 per share, for the year. EBITDA and earnings were negatively affected by two significant factors:

- An additional non-cash accrual of $38 million for the reserve related to the ongoing patent litigation. Management's assessment of the three cases continues to be that the asserted claims of the 142 patent are not valid, and/or Pason does not infringe on any valid claims. Nevertheless, consistent with accounting rules, and in light of the cumulative effect of the progress on these cases in 2012 (including the appeal of the Colorado case, the fact that the Texas case has been filed, and a recent mediation that did not result in a settlement), Pason decided to accrue this amount.
- A $24 million stock-based compensation expense compared to $1 million in 2011 due to an increase in the company's stock price.

Capital expenditures were $70 million in 2012 compared to $78 million in 2011.

United States

The US segment includes our US rental business and 3PS Inc., which is our Austin based equipment manufacturer. Drilling activity, as measured by industry days, was up 2% for 2012 but experienced a downward trend throughout the year. Our EDR market share for the full year was 56%, compared to 57% in 2011. Revenue for the US segment was up 18% to $223 million, and operating profit was also up 18% to $105 million. Revenue growth above industry day growth was achieved through higher product penetration and a price increase at the beginning of 2012, resulting in a 15% increase in average daily revenue per rig from USD 489 in 2011 to USD 562 in 2012. The Software, Gas Analyzer, and Hazardous Gas Alarm products achieved above-average revenue growth.

"Our dividend, which started at 5¢ a share per year in 2003, has steadily increased each year, reaching 46¢ a share in 2012."

Canada

Drilling activity in Canada was significantly lower in 2012 than in the previous year, with industry days down 14%. Our Canadian business unit was able to partially offset this significant reduction in activity levels through new product adoption and more products on each rig. EDR market share was 93%, compared to 97% in the previous year. For the full year, revenue was down 2% to $126 million while operating profit increased 5% to $62 million. Average daily revenue generated on each rig with a Pason product installed grew 20% to $1,073 in 2012 from $897 in 2011. As in the United States, Software and the Gas Analyzer products showed above-average growth rates during the period.

> **"Our International business unit, which includes our businesses in Latin America, Australia, and offshore, had an excellent year. Revenue increased 32% to $38 million..."**

International

Our International business unit, which includes our businesses in Latin America, Australia, and offshore, had an excellent year. Revenue increased 32% to $38 million for the year. This represents 10% of Pason's total revenue. We realized gains in all major international markets, with notable gains in Argentina, Brazil, Australia, and Mexico. Operating costs were up 16% whereas depreciation and amortization decreased by 12%. As a result, the International business unit was able to generate an operating profit of $6 million in 2012, up from a loss of $2 million the previous year.

Outlook

There is significant uncertainty regarding the outlook for North American drilling activity in 2013 at this point. Several operating companies have reduced 2013 capital expenditure budgets. The natural gas glut generated by unconventional plays does limit gas-directed drilling activity, challenging our ability to significantly grow revenue in the short term. As with every year, the timing of spring break-up in Canada will be a key driver of first-quarter 2013 results. We expect the International business unit to continue to realize robust, profitable growth this year.

Our capital expenditure budget for the next 12 months is up to $84 million, of which $57 million is directed towards equipment that can generate incremental revenue or save operating costs, $13 million is for maintenance capital, and $14 million is for capitalized R&D.

Our cash-generating capacity, a cash position at $158 million, and working capital of $163 million are strong enough to comfortably cover new business development, planned equipment upgrades, and our dividend.

We believe that Pason's service remains unrivalled in the industry. Our service includes a network of highly skilled field service technicians geographically distributed across North America, South America, and Australia. This network is supported by technical support analysts available 24 hours a day, 365 days a year and backed up by technical experts and valuable information resources. With access to 2,000 drilling 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 weather a period of lower North American drilling activity and 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 21, 2013 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 2012 Fourth Quarter

	Three Months Ended December 31,			Years Ended December 31,		
	2012	2011 (reclassified)	2010 (reclassified)	**2012**	2011 (reclassified)	2010 (reclassified)
(000s, except per share data)	**($)**	($)	($)	**($)**	($)	($)
Revenue [1]	**90,995**	100,933	76,390	**386,514**	346,158	260,397
EBITDA [2]	**8,286**	47,920	29,359	**151,753**	171,661	110,867
As a % of revenue	**9.1**	47.5	38.4	**39.3**	49.6	42.6
Per share – basic	**0.10**	0.59	0.36	**1.85**	2.10	1.36
Per share – diluted	**0.10**	0.58	0.36	**1.84**	2.08	1.36
Funds flow from operations [2]	**36,278**	42,089	27,899	**158,948**	145,358	93,973
Per share – basic	**0.44**	0.51	0.34	**1.94**	1.78	1.15
Per share – diluted	**0.44**	0.51	0.34	**1.92**	1.76	1.15
(Loss) earnings	**(13,703)**	31,702	10,525	**39,884**	86,223	36,474
Per share – basic	**(0.17)**	0.39	0.13	**0.49**	1.05	0.45
Per share – diluted	**(0.17)**	0.38	0.13	**0.48**	1.04	0.45
Total assets	**488,378**	455,901	402,082	**488,378**	455,901	402,082
Total long-term debt	**--**	--	--	**--**	--	--

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly. This change has no impact on reported EBITDA, funds flow from operations, or earnings.

(2) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense, and depreciation and amortization expense. Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, impairment losses, stock-based compensation expense, deferred income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. These definitions are not recognized measures under International Financial Reporting Standards, and accordingly, may not be comparable to measures used by other companies.

Overall Performance

	Three Months Ended December 31,			Years Ended December 31,		
	2012	2011 (reclassified)	Change	**2012**	2011 (reclassified)	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder [(1)]	**38,448**	42,905	(10)	**159,607**	145,771	9
Pit Volume Totalizer	**14,100**	16,888	(17)	**59,220**	58,591	1
Communications [(1)(2)]	**7,533**	9,196	(18)	**32,227**	32,209	--
Software [(2)]	**6,188**	4,662	33	**24,916**	14,798	68
Automatic Driller	**9,410**	11,520	(18)	**40,399**	39,395	3
Gas Analyzer/Total Gas System	**6,898**	6,413	8	**27,304**	21,306	28
Hazardous Gas Alarm System	**1,932**	1,490	30	**7,345**	5,258	40
Mobilization	**3,098**	2,481	25	**12,265**	9,523	29
Other [(2)]	**3,388**	5,378	(37)	**23,231**	19,307	20
Total revenue	**90,995**	100,933	(10)	**386,514**	346,158	12

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly.

(2) 2011 revenue associated with the Company's software applications has been reclassified from Communications to Software.

Change in Accounting Classification

In the fourth quarter of 2012, the Company changed the way it records expenses associated with data transmission costs. Previously, the Company recorded these costs as a reduction in revenue. Effective for 2012, these costs have been reclassified to rental services expense. This change, which does not impact EBITDA or net income, was applied retroactively, with all comparative figures being restated accordingly. All revenue and operating cost figures, as well as key metrics based upon revenue, in the following Management Discussion and Analysis, have been calculated based upon this new presentation.

The impact of this reclassification on the 2011 comparative figures presented above is as follows:

	Three Months Ended December 31, 2011			Year Ended December 31, 2011		
	Reported	Previously Disclosed	Change	**Reported**	Previously Disclosed	Change
(000s)	**($)**	($)	($)	**($)**	($)	($)
Revenue						
Electronic Drilling Recorder [1]	**42,905**	40,079	2,826	**145,771**	134,935	10,836
Communications [1][2]	**9,196**	8,711	485	**32,209**	30,407	1,802
Total revenue	**100,933**	97,622	3,311	**346,158**	333,520	12,638

Canada

	Three Months Ended December 31,			Years Ended December 31,		
	2012	2011	Change	**2012**	2011	Change
			(%)			(%)
EDR rental days (#)	**28,300**	40,800	(31)	**115,800**	141,200	(18)
PVT rental days (#)	**27,900**	37,900	(26)	**114,100**	135,400	(16)

United States

	Three Months Ended December 31,			Years Ended December 31,		
	2012	2011	Change	**2012**	2011	Change
			(%)			(%)
EDR rental days (#)	**86,100**	100,200	(14)	**378,800**	381,700	(1)
PVT rental days (#)	**62,100**	70,100	(11)	**267,800**	264,200	1

Electronic Drilling Recorder

The Pason Electronic Drilling Recorder (EDR) remains the Company's primary product. The EDR provides a complete system of drilling data acquisition, data networking, and drilling management tools and reports at both the wellsite and customer offices. The EDR is the base product from which all other wellsite instrumentation products are linked. By linking these products, a number of otherwise redundant elements such as data processing, display, storage, and networking are eliminated. This ensures greater reliability and a more robust system of instrumentation for the customer. Revenue generated from the EDR declined 10% for the fourth quarter of 2012 compared to the same period in 2011; however, for the year ended December 2012, EDR revenue increased 9% over 2011 levels. The decrease in the fourth quarter is attributable to a decrease in rig activity in both the United States (US) and Canadian markets, offset by an increase in the Company's International markets. The year to date increase in revenue is due to previous price increases, continued demand by customers for EDR peripheral devices in all of its markets, and a strong increase in International rentals, reduced by an 18% drop in EDR days in Canada.

During 2012, the Pason EDR was installed on 93% of all active land rigs in Canada and 56% of the land rigs in the US.

Pit Volume Totalizer

The Pit Volume Totalizer (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 both the quarter and year to date were impacted by an increase in product penetration in all of the Company's markets as well as changes to rig activity and price increases previously described above. During the 2012 fiscal year, the PVT was installed on 99% of rigs with a Pason EDR in Canada and 71% in the US, compared to 96% and 69%, respectively, in 2011.

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 amongst 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.

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. DataHub provides access to data through a number of innovative applications or services including:

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

During the 2012 year, 98% of the Company's Canadian customers and 87% of customers in the US were using all or a portion of the functionality of the DataHub, compared to 94% and 76%, respectively, in 2011. The 2012 revenue generated from customers using the applications included with the DataHub rose 68% over comparable 2011 levels, even though rig activity was relatively flat in the US and down significantly in Canada.

Gas Analyzer and Total Gas System

The Pason Gas Analyzer, which has replaced the Total Gas System (TGAS) in the Company's major markets, measures the total hydrocarbon gases (C1 through C4[1]) exiting the wellbore, and then calculates the lag time to show the formation depth where the gases were produced. The new Gas Analyzer increases the functionality that was found in the TGAS product to include the actual composition of the gas, much like a gas chromatograph, 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. For the twelve months ended December 2012, the Gas Analyzer generated $21.3 million of revenue compared to $6.0 million for TGAS. The Company has now completed the deployment of the Gas Analyzer in both Canada and the US and is realizing increased product penetration as compared to TGAS in both markets. For 2012, both of these systems combined were installed on 52% of Canadian and 19% of US land rigs operating with a Pason EDR system. The combined market penetration of both products in Canada is an increase of approximately 9% over 2011 levels while the US has seen an increase of 2%. The rollout of the Gas Analyzer in the International markets started in 2012, and will accelerate in 2013.

[1] C4 also includes nC5

Automatic Driller

Pason's Automatic Driller (AutoDriller) is used to maintain constant weight on the drill bit while a well is being drilled. During 2012, Pason's AutoDriller was installed on 78% of Canadian and 49% of US land rigs operating with a Pason EDR system, compared to 78% and 47%, respectively, in 2011.

Hazardous Gas Alarm System

The Pason Hazardous Gas Alarm System (HGAS) monitors lower explosive limit (LEL) 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. The Hazardous Gas Alarm System was installed on 21% of Canadian rigs in 2012, up from 18% for the same period in 2011, and 9% of US land rigs operating with a Pason EDR system, an increase from 6% in 2011. This increase in product penetration, along with price increases in particular markets, led to an increase in revenue of 30% for the fourth quarter of 2012 over 2011 levels, and an increase of 40% for the full year.

Discussion of Operations

United States Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2012	2011 (reclassified)	Change	**2012**	2011 (reclassified)	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder [(1)]	**22,552**	25,154	(10)	**97,816**	89,634	9
Pit Volume Totalizer	**7,685**	8,959	(14)	**33,459**	32,623	3
Communications [(1)(2)]	**3,112**	3,931	(21)	**14,367**	13,916	3
Software [(2)]	**4,075**	2,266	80	**16,741**	7,761	116
Automatic Driller	**5,073**	6,230	(19)	**23,222**	21,900	6
Gas Analyzer/Total Gas System	**2,667**	2,134	25	**11,312**	7,906	43
Hazardous Gas Alarm System	**800**	565	42	**3,169**	1,620	96
Mobilization	**2,299**	1,924	19	**9,233**	6,939	33
Other [(2)]	**746**	3,147	(76)	**13,735**	6,992	96
Total revenue	**49,009**	54,310	(10)	**223,054**	189,291	18
Operating costs	**18,073**	21,988	(18)	**85,811**	78,105	10
Depreciation and amortization	**7,713**	5,538	39	**32,381**	22,535	44
Segment operating profit	**23,223**	26,784	(13)	**104,862**	88,651	18

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly.

(2) 2011 revenue associated with the Company's software applications has been reclassified from Communications to Software.

The impact of the accounting reclassification of data transmission costs from revenue to operating costs previously discussed had the following impact on the 2011 comparative figures presented above:

	Three Months Ended December 31, 2011			Year Ended December 31, 2011		
	Reported	Previously Disclosed	Change	**Reported**	Previously Disclosed	Change
(000s)	**($)**	($)	($)	**($)**	($)	($)
Revenue						
Electronic Drilling Recorder [(1)]	**25,154**	23,685	1,469	**89,634**	84,040	5,594
Communications [(1)(2)]	**3,931**	3,834	97	**13,916**	13,609	307
Total revenue	**54,310**	52,744	1,566	**189,291**	183,390	5,901
Operating costs	**21,988**	20,422	1,566	**78,105**	72,204	5,901
Revenue per EDR day	**517**	495	22	**484**	473	11
Revenue per Industry day	**289**	280	9	**278**	266	12

US segment revenue decreased by 10% in the fourth quarter of 2012 over the 2011 comparable period (7% decrease when measured in US dollars). Rental service revenue decreased 6% for the quarter (USD 3%) while the remaining difference is a result of a drop in sales at 3PS, Inc. and a drop in revenue from Auxsol.

For the full year 2012, US segment revenue increased by 18% (USD 17%), which includes $7.8 million of sales by 3PS, Inc., included in Other revenue.

As expected, the number of US drilling days was down approximately 11% in the fourth quarter of 2012 versus the fourth quarter of 2011 due to a pullback in drilling for both natural gas and oil. However, revenue from the rental of instrumentation compared very favourably to the drop in activity, with a decrease of only 6% (USD 3%) over 2011 levels. On a year to date basis, rental instrumentation revenue increased 15% (USD 14%) over 2011 levels, compared to only a very modest increase in industry days of 2%.

Revenue was impacted by the following factors:

- More products on each rig, new product adoption, and better pricing. Revenue was increased by additional product penetration on each rig, primarily with gains in EDR peripheral devices, AutoDriller rentals, customer acceptance of the Company's Enhanced Live Rig View (eLRV) real-time data software, and increased adoption of the Gas Analyzer compared to the previous TGAS system. Mobilization income, which represents the cost recovery of the labour incurred by the Company for a field technician visit to a rig, was up 33% for the full year due to an increased number of "rig ups" and "rig downs" as a result of higher rig turnover compared to 2011. In addition, prices on specific products increased at the beginning of 2012. These factors combined resulted in an increase in revenue per EDR day in the fourth quarter of 2012 over 2011 levels of $51 (USD $67). On a year to date basis, revenue per EDR day increased 16% or $77 (USD $73).
- A decrease in EDR rental days of 14% for the three months ended December 2012, over the same time period in 2011, and a small drop of 1% on a year to date basis over 2011 levels. This compares to a drop in industry days of 11% and an increase in industry days of 1% for the similar time period.

The factors explained above resulted in the US segment being able to realize revenue per EDR day during the fourth quarter of 2012 of $568 (USD $574) compared to $517 (USD $507) during the same time period in 2011. For the full year of 2012, revenue per EDR day was $561 (USD $562) compared to $484 (USD $489) in 2011.

Revenue per industry day for the fourth quarter of the year was $305 (USD $308) compared to $289 (USD $283) in 2011. Year to date figures were $314 (USD $314) compared to 2011 amounts of $278 (USD $281).

The majority of the increase in "Other" revenue relates to the Company realizing an entire year of sales of 3PS,Inc. compared to only approximately five months in 2011. Segment profit, as a percentage of revenue, was 47% for the fourth quarter of 2012 and 47% year to date, compared to 49% and 47% for the respective periods in 2011.

The US business unit was able to maintain its operating margin year over year, even with a significant increase in depreciation and amortization costs, by leveraging its fixed cost structure, while at the same time continuing to control variable costs and implementing changes to operations to adapt to changing market conditions. The 2012 segment profit percentage was impacted by the following factors (all amounts in $CDN):

- Field technician-related costs and repair costs in the fourth quarter of 2012 compared to 2011 increased approximately $0.3 million. On a year to date basis, these costs increased by approximately $2.7 million. This increase consists of a 7% increase in field costs (attributed to an increase in health care-related costs and other field technician-related costs), offset by a reduction in repair costs of $1.0 million (associated with the phased-out TGAS system).
- As disclosed in prior quarters, the US business unit made a concerted effort in 2012 to strengthen its sales presence. This led to an increase in sales and marketing costs of $1.5 million for the twelve months ended December, 2012 over 2011 amounts.

- Fourth quarter 2012 depreciation and amortization expense was up $2.2 million compared to the same period in 2011. On a year to date basis, these costs were up $9.8 million, due in large part to:
    - The accelerated depreciation on the Company's original EDR system as a result of the EDR evolution project, which will make obsolete a portion of the Company's base EDR system,
    - A full twelve months' depreciation on 3PS, Inc. assets,
    - Depreciation on the new Gas Analyzer system, and
    - Depreciation costs relating to the vehicle fleet, as vehicles are now purchased rather than leased.
- Legal fees associated with the Automatic Driller lawsuit decreased $0.3 million in the fourth quarter of 2012 and $0.9 million for the year compared to the respective 2011 periods.
- Year-to-date 2012 figures include a full year's results of 3PS, Inc., which generates a lower margin than the US rental business.

Canadian Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2012	2011 (reclassified)	Change	**2012**	2011 (reclassified)	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder [1]	**11,864**	14,715	(19)	**46,632**	46,163	1
Pit Volume Totalizer	**4,929**	6,445	(24)	**19,921**	21,649	(8)
Communications [1][2]	**4,308**	5,443	(21)	**17,323**	18,193	(5)
Software [2]	**1,938**	2,303	(16)	**7,662**	6,721	14
Automatic Driller	**3,368**	4,678	(28)	**13,500**	15,175	(11)
Gas Analyzer/Total Gas System	**3,357**	3,405	(1)	**12,303**	11,252	9
Hazardous Gas Alarm System	**609**	682	(11)	**2,443**	2,603	(6)
Mobilization	**178**	198	(10)	**638**	781	(18)
Other [2]	**1,488**	1,893	(21)	**5,316**	5,795	(8)
Total revenue	**32,039**	39,762	(19)	**125,738**	128,332	(2)
Operating costs	**8,858**	10,788	(18)	**36,291**	42,616	(15)
Depreciation and amortization	**6,246**	6,897	(9)	**26,964**	25,934	4
Segment operating profit	**16,935**	22,077	(23)	**62,483**	59,782	5

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly.

(2) 2011 revenue associated with the Company's software applications has been reclassified from Communications to Software.

The impact of the accounting reclassification of data transmission costs from revenue to operating costs previously discussed had the following impact on the 2011 comparative figures presented above:

	Three Months Ended December 31, 2011			Year Ended December 31, 2011		
	Reported	Previously Disclosed	Change	**Reported**	Previously Disclosed	Change
(000s)	**($)**	($)	($)	**($)**	($)	($)
Revenue						
Electronic Drilling Recorder (1)	**14,715**	13,464	1,251	**46,163**	41,130	5,033
Communications (1)(2)	**5,443**	5,055	388	**18,193**	16,698	1,495
Total revenue	**39,762**	38,123	1,639	**128,332**	121,804	6,528
Operating costs	**10,788**	9,149	1,639	**42,616**	36,088	6,528
Revenue per EDR day	**963**	923	40	**897**	850	47
Revenue per Industry day	**968**	927	41	**872**	827	45

Canadian segment revenue decreased 19% for the three months ended December 2012, compared to the fourth quarter of 2011. This decrease is a result of a 24% decrease in the number of Canadian drilling industry days from 2011 levels. On a year to date basis, revenue decreased only 2% when compared to a decline in the number of Canadian drilling days of 14%.

EDR rental days declined 31% in the fourth quarter of 2012 over the fourth quarter of 2011. On a year to date basis, EDR rental days declined by 18% over 2011 levels.

The Canadian business unit was able to lessen the impact of the significant reduction in activity levels in Canada due to current weak oil and natural gas prices and uncertainty around future pricing through better pricing, new product adoption, and more products on each rig. The business unit increased pricing on most of its key products in the fourth quarter of 2011 and this, combined with increased market penetration of the Gas Analyzer and Hazardous Gas Alarm System, customer acceptance of the Company's Enhanced Live Rig View (eLRV) real-time data software, and more products on each rig, primarily with gains in EDR peripheral devices, lessened the impact of the significant drop in the number of wells being drilled.

The factors above combined to result in:

- An increase in revenue per EDR day during the fourth quarter of 2012 compared to 2011 of 16% ($157) to $1,120. For 2012, revenue per EDR day increased by $177 to $1,073.
- Fourth quarter revenue per industry day of $1,025 in 2012 compared to $968 in 2011. For the entire year, revenue per industry day increased 14% to $997.

The segment profit for the fourth quarter of 2012 of $16.9 million is a decrease of $5.1 million over the 2011 amount. Factors impacting the fourth quarter results include:

- The weak drilling activity in the Western Canadian Sedimentary Basin (WCSB), together with a slight decrease in the Company's market share, resulted in 12,500 fewer EDR days during the fourth quarter of 2012 compared to 2011, resulting in much lower revenue.
- A decrease in the loss on the disposal of assets of $0.8 million, which is included in depreciation and amortization, offset by an increase in amortization costs relating to capitalized research and development costs, as a result of the deployment of new software applications to customers.
- A decrease in most repair cost categories due to a drop in drilling activity, combined with a reduction in costs associated with the new Gas Analyzer as compared to the TGAS system.
- In the fourth quarter of 2011, $1.3 million of legal fees were incurred, mostly relating to the Automatic Driller litigation. These costs were minimal in the fourth quarter of 2012.

The segment profit, as a percent of revenue, was 50% for the year ended December 2012, compared to 47% for 2011. Factors impacting the year results include:

- An increase in depreciation and amortization charges relating to the accelerated depreciation on the Company's EDR systems, the depreciation on the new Gas Analyzer system and increased amortization of previously deferred research and development costs. These increases were offset by a reduction in depreciation relating to the previously disposed water treatment business and a decline in the loss relating to the scrapping of obsolete equipment.
- An increase in field costs of $1.2 million, which is mostly attributable to the expansion of the work force. This was deemed necessary given the shift in drilling activity in the WCSB, anticipation of additional product opportunities, and an adjustment to the field technician shift schedule.
- A decrease in repair costs of $2.8 million, mostly attributable to the rollout of the new Gas Analyzer, resulting in a decline in repair costs for this category, combined with a decline in other repair costs due to lower drilling activity.
- In 2011, the Canadian business unit incurred $4.5 million in legal costs, mostly related to the Automatic Driller litigation. Total legal expense for 2012 was approximately $0.7 million.
- $1.5 million of net expenses relating to the water treatment business were recorded in the 2011. This business unit was disposed of in the fourth quarter of 2011.

International Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2012	2011 (reclassified)	Change	**2012**	2011 (reclassified)	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Electronic Drilling Recorder (1)	**4,032**	3,036	33	**15,159**	9,974	52
Pit Volume Totalizer	**1,486**	1,484	--	**5,840**	4,319	35
Communications (1)(2)	**113**	(178)	N/A	**537**	100	437
Software (2)	**175**	93	88	**513**	316	62
Automatic Driller	**969**	612	58	**3,677**	2,320	58
Gas Analyzer/Total Gas System	**874**	874	--	**3,689**	2,148	72
Hazardous Gas Alarm System	**523**	243	115	**1,733**	1,035	67
Mobilization	**621**	359	73	**2,394**	1,803	33
Other (2)	**1,154**	338	241	**4,180**	6,520	(36)
Total revenue	**9,947**	6,861	45	**37,722**	28,535	32
Operating costs	**6,152**	6,897	(11)	**23,073**	19,967	16
Depreciation and amortization	**2,518**	3,903	(35)	**8,868**	10,096	(12)
Segment operating profit (loss)	**1,277**	(3,939)	N/A	**5,781**	(1,528)	N/A

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly.

(2) 2011 revenue associated with the Company's software applications has been reclassified from Communications to Software.

The impact of the accounting reclassification of data transmission costs from revenue to operating costs previously discussed had the following impact on the 2011 comparative figures presented above:

	Three Months Ended December 31, 2011			Year Ended December 31, 2011		
	Reported	Previously Disclosed	Change	**Reported**	Previously Disclosed	Change
(000s)	**($)**	($)	($)	**($)**	($)	($)
Revenue						
Electronic Drilling Recorder [1]	**3,036**	2,930	106	**9,974**	9,765	209
Communications [1][2]	**(178)**	(178)	--	**100**	100	--
Total revenue	**6,861**	6,755	106	**28,535**	28,326	209
Operating costs	**6,897**	6,791	106	**19,967**	19,758	209

Revenue in the International operations improved 45% in the fourth quarter of 2012 from the same period in 2011. On a year-over-year basis, revenue increased approximately $9.2 million or 32% over 2011 amounts. The Company realized gains in all of its major markets, with notable gains in both revenue and segment profit in Argentina, Brazil, Australia, and Mexico.

Operating profit increased by $5.2 million for the fourth quarter of 2012 and by $7.3 million for the twelve months ending December 31, over 2011 results.

A number of factors influenced these results:

- Increased market share combined with price increases in Argentina contributed to significant gains in both revenue and operating profit. Year over year operating profit has increased $1.9 million.
- Triple-digit revenue growth in Brazil as a result of an increase in the number of rigs deploying the Company's equipment, resulting in an increase in the year to date revenue of $2.1 million and an increase in operating profit of $2.0 million over 2011 levels.
- An increase in drilling activity in both Mexico and Australia has led to these two business units realizing increases in operating profit from 2011 levels of $2.2 million and $2.1 million, respectively.
- The Company's International segment includes our Offshore business unit, which generated a triple digit increase in its rental revenue for the twelve months ended December, 2012 over the same period in 2011. These gains are a result of the deployment of Pason hardware onto offshore drilling rigs in the Gulf of Mexico and internationally.
- Depreciation expense is down in large part due to a decrease in capital expenditures as a result of a concerted effort to increase the utilization of equipment within this market.

Consolidated Results

	Three Months Ended December 31,			Years Ended December 31,		
	2012	2011	Change	**2012**	2011	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Other expenses						
Research and development	**7,033**	5,371	31	**22,467**	17,366	29
Corporate services	**4,326**	3,816	13	**15,723**	12,975	21
Stock-based compensation	**7,237**	(2,561)	N/A	**23,792**	1,309	1,718
Other						
Litigation provision	**32,500**	--	N/A	**37,913**	--	N/A
Foreign exchange loss (gain)	**10**	690	(99)	**4,573**	(2,713)	N/A
Impairment loss	**5,282**	2,780	90	**7,918**	4,580	73
Other	**475**	683	(30)	**992**	1,601	(38)
	56,863	10,779	527	**113,378**	35,118	223

Q4 2012 versus Q4 2011

The active rig count in both the US and Canadian markets declined from the fourth quarter of 2011, with the Canadian drop in activity much more severe than the US decline. The International market saw an increase in drilling days. The increased revenue and profitability in the International markets were not sufficient to offset the drop in operating results in both Canada and the US. Revenue decreased 10%, while EBITDA dropped by 83% and funds flow from operations was down 14%.

The company incurred a net loss of $13.7 million or $0.17 per share compared to net earnings of $31.7 million or $0.39 per share in the fourth quarter of 2011. The fourth quarter consolidated results, when compared to 2011 figures, were impacted by the following significant items:

- A non-cash accrual of an additional $32.5 million for the liability related to the ongoing patent litigation. Management continues to be confident in its defenses in the three cases, namely that the asserted claims of the 142 patent are not valid, and/or the Company does not infringe on any valid claims. Nevertheless, in light of the cumulative effect of the progress on these cases in 2012, including the appeal of the Colorado case, the fact that the Texas case has been filed, the reopening of the Canadian case, and a recent mediation that did not result in a voluntary resolution, the Company decided to accrue, in accordance with accounting guidelines, this additional amount;
- An increase in research and development costs in the fourth quarter of 2012 of $1.7 million as the Company completed the hiring of additional staff to support the EDR evolution project and other product developments.
- Stock-based compensation increased by $9.8 million compared to the fourth quarter of 2011 due to an increase in the Company's stock price, which impacts the valuation under the Black-Scholes pricing model. The Company's stock price increased approximately 5% during the fourth quarter of 2012 compared to a decline in the corresponding period in 2011.
- During the fourth quarter of 2012, the Company recorded a non-cash impairment loss of $4.7 million against its Torque and Tension Sub (TTS) program, and an additional $0.6 million against the US water treatment business. In 2012, the Company initiated the rollout of the TTS, and 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, including deployment issues and sales and marketing challenges due to the fact that the TTS is different from the Company's

traditional products, 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. Management made the decision to supplement the rental model by providing its customers the option of sold units and at the same time identified new markets within the oil and gas industry. The Canadian and US business units will continue to rent these assets while 3PS, Inc. will offer to sell the units to a wider range of customers. The Company believes that this change in strategy, which expands the customer base and allows for more options to the customer, will result in an increase in demand from current levels. As a result of this change, the Company identified raw materials that are no longer required and that some of the TTS accessories are obsolete, which led the Company to record the non-cash impairment loss. In the fourth quarter of 2011, a non-cash impairment loss of $2.8 million was recorded against the US water treatment business.

- A decrease in the foreign exchange loss recorded in the fourth quarter of 2012 of $0.5 million.
- An increase in corporate service costs of $0.5 million due in most part to staff restructuring costs.

Q4 2012 versus Q3 2012

Revenue was lower in the fourth quarter of 2012 versus the third quarter by $5.3 million. The Canadian business unit realized an increase in revenue of $1.7 million, but this was offset by a drop of $4.5 million in the US rental market. The Canadian business unit realized a profit of $16.9 million for the three months ended December 2012 compared to a $14.6 million profit in the third quarter. The US business unit profit declined from a profit of $27.0 million in the previous quarter to a profit of $23.2 million in the current quarter, due to a drop in drilling days.

The following items also impacted the comparison to the 2012 third quarter results:

- An increase in the litigation accrual described above of $32.5 million.
- An increase in research and development costs of $1.7 million.
- During the third quarter of 2012, the Company recorded a non-cash impairment loss of $2.6 million on its US water treatment assets. During the fourth quarter of 2012, the Company recorded a non-cash impairment loss of $4.7 million against its Torque and Tension Sub program and an additional $0.6 million on the US water treatment asset.
- An increase in corporate service costs of $0.9 million, due in most part to staff restructuring costs.
- An increase in stock-based compensation expense of $1.8 million.
- A decrease in foreign exchange loss of $1.5 million.

Summary of Quarterly Results

Three Months Ended	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011	Mar 31, 2012	Jun 30, 2012	Sep 30, 2012	**Dec 31, 2012**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	**($)**
Revenue (1)	88,218	65,546	91,461	100,933	115,145	84,112	96,262	**90,995**
EBITDA (2)	44,729	25,850	53,162	47,920	64,146	31,656	47,665	**8,286**
Per share – basic	0.55	0.31	0.65	0.59	0.78	0.39	0.58	**0.10**
Per share – diluted	0.55	0.30	0.64	0.58	0.78	0.38	0.58	**0.10**
Funds flow from operations (2)	39,082	22,917	41,270	42,089	51,707	30,132	40,831	**36,278**
Per share – basic	0.48	0.28	0.50	0.51	0.63	0.37	0.50	**0.44**
Per share – diluted	0.48	0.27	0.50	0.51	0.63	0.37	0.50	**0.44**
Earnings (loss) (3)	17,757	8,217	28,547	31,702	29,073	6,772	17,742	**(13,703)**
Per share – basic	0.22	0.10	0.35	0.39	0.35	0.08	0.22	**(0.17)**
Per share – diluted	0.22	0.09	0.35	0.38	0.35	0.08	0.21	**(0.17)**

(1) Data transmission expenses have been reclassified from revenue to rental service expense. All comparative figures have been restated accordingly. This change has no impact on reported EBITDA, funds flow from operations or earnings.

(2) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense, and depreciation and amortization expense. Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, impairment losses, stock-based compensation expense, deferred income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. These definitions are not recognized measures under International Financial Reporting Standards, and accordingly, may not be comparable to measures used by other companies.

(3) Earnings for the quarters ended March 31, June 30, and September 30, 2012 have been reduced to correct a non-cash error in the statement of operations related to stock-based compensation of $400, $1,700, and $1,600 respectively. Per share amounts have been recalculated accordingly.

Three Months Ended	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011	Mar 31, 2012	Jun 30, 2012	Sep 30, 2012	**Dec 31, 2012**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Income (loss) before taxes (3)	26,337	11,833	39,474	34,143	40,329	10,425	24,422	**(15,428)**
Depreciation and amortization	12,945	14,247	15,035	16,338	16,897	16,987	17,852	**16,477**
Stock-based compensation (3)	5,447	(230)	(1,347)	(2,561)	6,920	4,244	5,391	**7,237**
EBITDA (2)	44,729	25,850	53,162	47,920	64,146	31,656	47,665	**8,286**

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 with ground freezing. 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

At December 31, 2012, the Company's liquidity position and change over the prior year is detailed in the table below.

	2012	2011	Change
(000s)	**($)**	($)	(%)
Cash	**157,944**	104,993	50
Working capital	**163,371**	126,605	29
Funds flow from operations	**158,948**	145,358	9
Capital expenditures and acquisitions	**71,424**	102,951	(31)
As a % of funds flow (1)	**44.9**	70.8	(36)

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

The Company's cash balance was up significantly from the prior year. The increase in cash is a combination of a drop in capital expenditures and acquisitions from 2011 levels, an increase in funds flow from operations, offset by an increase in dividends.

Contractual Obligations

	Less than 1 year	1 – 3 years	Thereafter	Total
(000s)	($)	($)	($)	($)
Operating leases	3,266	5,199	11,968	20,433

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

During 2012, the Company purchased 2.3 million stock options for a total cash consideration of $8.8 million.

At December 31, 2012, 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, 2012, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at December 31, 2012, there were 82.0 million common shares and 4.9 million options issued and outstanding. As at February 21, 2013, there were 82.1 million common shares and 4.6 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.

Accounting Changes and Critical Accounting Estimates

Accounting Changes

Reclassification of Communications Expenses

In 2012, the Company changed the way in which it records expenses associated with data transmission costs. Previously, the Company recorded these costs as a reduction in revenue. Effective for 2012, these costs have been reclassified to rental services expense. This change, which does not impact net income, was applied retroactively, with all comparative figures being restated accordingly.

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 estimates that have the greatest impact on the Company's financial statements are 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.

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 would 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, 2012, 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 General 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, 2012, our ICFR, as defined in NI 52-109, was effective. There were no changes in our ICFR during the year ended December 31, 2012 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, 2012 and 2011.

The Audit Committee of the Board of Directors, which is comprised of four 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 21, 2013

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, 2012 and 2011, and the consolidated statements of operations, the consolidated statements of comprehensive income, consolidated statement 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, 2012 and 2011, 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 21, 2013

Consolidated Balance Sheets

As at	Note	**December 31,2012**	December 31,2011
(CDN 000s)		**($)**	($)
Assets			
Current			
Cash and cash equivalents	12	**157,944**	104,993
Trade and other receivables	13	**84,506**	102,321
Prepaid expenses		**2,920**	1,970
Total current assets		**245,370**	209,284
Non-current			
Property, plant and equipment	6	**174,651**	183,007
Intangible assets	7	**59,593**	58,071
Deferred tax assets	11	**8,764**	5,539
Total non-current assets		**243,008**	246,617
Total assets		**488,378**	455,901
Liabilities and equity			
Current			
Trade payables and accruals	15	**25,674**	40,668
Litigation provision	20	**19,533**	14,543
Income taxes payable		**3,313**	5,318
Stock-based compensation liability	8	**13,788**	5,770
Dividend payable	8	**19,691**	16,380
Total current liabilities		**81,999**	82,679
Non-current			
Stock-based compensation liability	8	**2,583**	1,030
Deferred tax liabilities	11	**2,600**	4,923
Litigation provision	20	**32,500**	--
Total non-current liabilities		**37,683**	5,953
Equity			
Share capital	8	**79,393**	77,613
Employee benefits reserve	8	**12,927**	12,927
Foreign currency translation reserve		**(8,348)**	(5,835)
Retained earnings		**284,724**	282,564
Total equity		**368,696**	367,269
Total liabilities and equity		**488,378**	455,901

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

HAROLD R. ALLSOPP
Director

JAMES B. HOWE
Director

Consolidated Statements of Operations

Year Ended December 31,	Note	**2012**	2011
(CDN 000s, except per share data)		**($)**	($)
Revenue			
Equipment rentals and other		**386,514**	346,158
Operating expenses			
Rental services		**125,269**	119,342
Local administration		**19,906**	21,346
Depreciation and amortization	6,7	**68,213**	58,565
		213,388	199,253
Operating profit		**173,126**	146,905
Other expenses			
Research and development		**22,467**	17,366
Corporate services		**15,723**	12,975
Stock-based compensation	8	**23,792**	1,309
Other expenses	10	**51,396**	3,468
		113,378	35,118
Income before income taxes		**59,748**	111,787
Income taxes	11	**19,864**	25,564
Net income		**39,884**	86,223
Earnings per share	9		
Basic		**0.49**	1.05
Diluted		**0.48**	1.04

The notes are an integral part of these consolidated financial statements.

Consolidated Statements of Other Comprehensive Income

Year Ended December 31,	**2012**	2011
(CDN 000s)	**($)**	($)
Net income	**39,884**	86,223
Other comprehensive (loss) income		
Foreign currency translation adjustment	**(2,513)**	213
Total comprehensive income	**37,371**	86,436

The notes are an integral part of these consolidated financial statements.

Consolidated Statements of Changes in Equity

	Note	Share Capital	Employee Benefits Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
(CDN 000s)		($)	($)	($)	($)	($)
Balance at December 31, 2010		75,040	13,228	(6,048)	227,464	309,684
Net income		--	--	--	86,223	86,223
Dividends	8	--	--	--	(31,123)	(31,123)
Other comprehensive income		--	--	213	--	213
Exercise of stock options	8	2,265	--	--	--	2,265
Options exercised that were previously expensed	8	308	(308)	--	--	--
Stock-based compensation		--	7	--	--	7
Balance at December 31, 2011		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**

The notes are an integral part of these consolidated financial statements.

Consolidated Statements of Cash Flows

Year Ended December 31,	Note	2012	2011
(CDN 000s)		**($)**	($)
Cash flows from operating activities			
Net income		**39,884**	86,223
Adjustment for non-cash items:			
Depreciation and amortization		**68,213**	58,565
Litigation provision	20	**32,500**	--
Impairment loss	6,7	**7,918**	4,580
Stock-based compensation (recovery)	8	**16,067**	(2,112)
Deferred income taxes	11	**(6,019)**	1,329
Unrealized foreign exchange loss (gain)		**385**	(3,227)
Funds flow from operations		**158,948**	145,358
Movements in non-cash working capital			
Decrease (increase) in trade and other receivables		**16,376**	(19,896)
Increase in prepaid expenses		**(994)**	(446)
Increase in income taxes payable		**18,072**	13,819
(Decrease) increase in trade payables, accruals and provisions		**(7,101)**	5,444
Increase (decrease) in stock-based compensation liability		**2,312**	(732)
Effects of exchange rate changes		**1,778**	832
Changes in non-cash working capital		**30,443**	(979)
Cash generated from operating activities		**189,391**	144,379
Income tax paid		**(20,213)**	(18,050)
Net cash from operating activities		**169,178**	126,329
Cash flows from (used in) financing activities			
Proceeds from issuance of common shares	8	**1,780**	2,265
Purchase of stock options	8	**(8,772)**	(3,355)
Payment of dividends	8	**(34,413)**	(28,631)
Net cash used in financing activities		**(41,405)**	(29,721)
Cash flows (used in) from investing activities			
Additions to property, plant and equipment	6	**(58,640)**	(71,382)
Additions to intangibles	7	**(1,644)**	(184)
Deferred development costs	7	**(11,140)**	(6,975)
Proceeds on disposal of property, plant and equipment		**586**	505
Acquisitions, net of cash acquired	7	**--**	(24,410)
Changes in non-cash working capital		**(2,646)**	(520)
Net cash used in investing activities		**(73,484)**	(102,966)
Effect of exchange rate on cash and cash equivalents		**(1,338)**	951
Net increase (decrease) in cash and cash equivalents		**52,951**	(5,407)
Cash and cash equivalents, beginning of year		**104,993**	110,400
Cash and cash equivalents, end of year	12	**157,944**	104,993

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") designs and manufactures specialized proprietary instrumentation for rent or sale on drilling and service rigs.

The Company is headquartered in 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 (Note 22).

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 21, 2013.

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 2012, the Company changed the accounting policy for recognition of expenses associated with data transmission costs. Previously, the Company recorded revenue net of these costs. Effective for 2012, these costs have been reclassified to rental services expense. The 2011 comparative financial statements have been adjusted to reflect this change in the accounting policy. Revenue and operating expenses for the year ended December 31, 2011 were increased by $12,638. This change, which does not impact net earnings, was applied retroactively, with all comparative figures being restated accordingly. The change results in the consolidated financial statements providing reliable and more relevant information about the effects of transactions on the Company’s financial performance.

Use of estimates and judgments

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgements, 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.

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

The most significant of these estimates are related to the amortization period for property, plant and equipment, the valuation of property, plant and equipment and the determination of cash generating units, the assessment of the viability of new product development projects (Note 7), stock-based compensation assumptions (Note 8), valuation of intangible assets acquired in business combinations (Note 7), impairment of intangible assets and goodwill (Note 7), estimates in the provision for deferred income taxes (Note 11), and provisions and contingencies (Note 20).

Critical judgments

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.

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.

Key sources of estimation uncertainty

During the year, management changed its estimates of the provision required for the litigation described in Note 20. Management believes that the valuation technique and assumptions used are appropriate and within the range of possible outcomes; however, the final amounts owing under these claims could be significantly different from the amount that has been reserved for, and this could lead to a material adjustment to the reserve amount.

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

Acquisitions

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 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 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.

(b) Non-derivative financial liabilities

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

The Group derecognizes a financial liability when its contractual obligations are discharged 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 can include 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 judgement 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.

The recoverable amount of an asset or cash-generating unit (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 purposes of determining if any impairment exists, the Group has determined that each of its distinguishable rental systems, as a group, is a CGU. For its water treatment business, each individual water treatment plant is considered a CGU, while for its Offshore business unit, the entire fleet of equipment for sale is considered a 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 re-measured 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

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

Compensation expense for the RSU plan 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. Sales of equipment 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 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 against which they can be utilized. 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.

Earnings per share

The Group presents basic and diluted earnings per share (EPS) data for its common shares. Basic EPS is calculated by dividing the profit or loss available to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted EPS is determined by adjusting the profit 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 of 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 not yet adopted

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. IFRS 9, Financial Instruments, was issued in November 2009 and addresses classification and measurement of financial assets. It replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments. Such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent that they do not clearly represent a return of investment; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely.

Requirements for financial liabilities were added to IFRS 9 in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments - Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss are generally recorded in other comprehensive income. The amendment is applicable for annual years beginning on or after January 1, 2015, with earlier application permitted.

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.

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 following methods. 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 market value 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 Internationally (Latin America, Offshore, and the Eastern Hemisphere). The amounts related to each segment are as follows:

Year Ended December 31, 2012	Canada	United States	International	Total
	($)	($)	($)	($)
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 and acquisitions	**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**

Year Ended December 31, 2011				
Revenue	128,332	189,291	28,535	346,158
Operating costs	42,616	78,105	19,967	140,688
Depreciation and amortization	25,934	22,535	10,096	58,565
Segment operating profit (loss)	59,782	88,651	(1,528)	146,905
Research and development				17,366
Corporate services				12,975
Stock-based compensation				1,309
Other expenses				3,468
Income taxes				25,564
Net income				86,223
Capital expenditures and acquisitions	29,488	64,249	9,214	102,951
Goodwill	--	18,823	2,600	21,423
Intangible assets	20,188	11,890	4,570	36,648
Segment assets	149,453	243,423	63,025	455,901
Segment liabilities	64,194	15,433	9,005	88,632

6. Property, Plant and Equipment

	Parts and Raw Materials	Rental Equipment	Other	Total
	($)	($)	($)	($)
Property, plant and equipment				
Balance at January 1, 2011	13,016	337,426	39,725	390,167
Additions	18,695	42,061	10,626	71,382
Acquisitions	--	--	5,035	5,035
Disposals	(4,055)	(22,249)	(195)	(26,499)
Parts and raw materials consumed	(18,039)	18,039	--	--
Reclass	--	5,529	(5,529)	--
Effects of exchange rate changes	1,511	794	1,222	3,527
Balance at December 31, 2011	11,128	381,600	50,884	443,612
Additions	24,658	25,203	8,779	58,640
Acquisitions	--	--	--	--
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**
Depreciation and impairment losses				
Balance at January 1, 2011	--	209,580	18,705	228,285
Provisions	--	35,376	5,639	41,015
Disposals	--	(15,972)	(748)	(16,720)
Reclass	--	(51)	51	--
Impairment loss recognized in income	--	3,050	--	3,050
Effects of exchange rate changes	--	3,460	1,515	4,975
Balance at December 31, 2011	--	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**
Carrying Amounts				
At December 31, 2011	11,128	146,157	25,722	183,007
At December 31, 2012	**9,512**	**139,547**	**25,592**	**174,651**

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

Water treatment assets

In 2011, the Company initiated a strategic review of its ongoing investment in the water treatment business in both Canada and the US.

During 2011, the Company made a formal decision to dispose of the assets related to the Canadian mobile water cleaning segment. As a result, a non-cash impairment loss of $1,800 was recognized to reduce the carrying value of the assets to the anticipated proceeds on disposal. These assets were disposed of in the fourth quarter of 2011.

In light of Management's decision to dispose of its Canadian water treatment assets, the Company re-evaluated its investment in Auxsol Inc. (Auxsol), the US-based water treatment subsidiary. In 2011, the Company estimated the recoverable amount on the disposal of the water treatment facility owned by Auxsol, and the carrying value of the asset exceeded management's best estimate on the anticipated proceeds by $1,250 and a non-cash impairment loss was recorded for this difference in 2011. During 2012, the Company made a formal decision to dispose of the facility. As a result of the continuing decline in throughput at the plant, due to low drilling activity in the oil and gas basins surrounding the plant and with no indication that market conditions would improve any time soon, it became apparent that the original recoverable amount could not be realized. As a result, an additional non-cash impairment loss of $3,236 was recorded in 2012. The remaining book value of the facility has been included in current assets in the Consolidated Balance Sheets at December 31, 2012. The facility was disposed of in early 2013 and proceeds equalled the carrying value.

Torque and tension sub

In 2012, the Company initiated the rollout of a new rental product, a 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 impairment loss of $4,682 in the fourth quarter of 2012. The remaining recoverable amount represents management's best estimate on the anticipated proceeds that the Company could realize on the sale of the TTS to its customers.

Disposal of assets

Included in depreciation and amortization expense are losses on the disposal of assets and inventory obsolescence reserves in the amount of $9,911 (2011: $9,274) for the year ended December 31, 2012.

7. Intangible Assets

	Goodwill	Research & Development	Technology	Distribution Rights	Other	Total
	($)	($)	($)	($)	($)	($)
Intangible assets						
Balance at January 1, 2011	8,749	21,443	5,538	14,264	4,617	54,611
Internally developed	--	7,852	--	--	--	7,852
Investment tax credits received	--	(877)	--	--	--	(877)
Additions	--	--	--	--	184	184
Acquisitions	12,199	--	5,246	3,421	156	21,022
Effects of exchange rate changes	959	14	472	(334)	50	1,161
Balance at December 31, 2011	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 changes	(419)	--	(245)	(66)	(39)	(769)
Balance at December 31, 2012	**21,488**	**39,572**	**11,011**	**17,285**	**6,612**	**95,968**
Amortization & impairment losses						
Balance at January 1, 2011	473	8,798	1,635	1,535	3,582	16,023
Amortization	46	2,976	1,331	3,183	740	8,276
Impairment loss recognized in income	--	--	1,530			1,530
Effects of exchange rate changes	(35)	--	76	(15)	27	53
Balance at December 31, 2011	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 changes	(10)	--	(110)	(36)	(23)	(179)
Balance at December 31, 2012	**474**	**16,618**	**6,950**	**7,624**	**4,709**	**36,375**
Carrying amounts						
At December 31, 2011	21,423	16,658	6,684	12,648	658	58,071
December 31, 2012	**21,014**	**22,954**	**4,061**	**9,661**	**1,903**	**59,593**

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

Technology

As previously described in Note 6, the Company re-evaluated its investment in Auxsol in 2011. As a result of this, the Company recognized a non-cash impairment charge of $1,530 against the technology that was previously allocated to this purchase for the year ended December 31, 2011.

3PS, Inc. acquisition

In August 2011, the Company purchased all of the outstanding shares of 3PS, Inc., a company located in Austin, Texas, for cash consideration of $23,845. 3PS designs and manufactures a drilling sub for the industry that provides real-time accurate torque. The fair value of the non-cash working capital acquired approximated its book value. The acquisition included a three-year non-compete agreement with the former owners of 3PS, Inc., the value of which is included in the purchase price allocation as an intangible asset. Neither the goodwill nor the intangible assets acquired are deductible for tax purposes. Acquisition costs incurred were expensed during 2011. By combining this drilling sub with the Company's data collection system, the Company envisioned that it would be able to offer its customers the tools they need to evaluate any down-hole problems in real time. With the addition of 3PS, the Company added to its current suite of drilling data acquisition product offerings, gained exposure to other segments of the upstream oil and gas market, and leveraged 3PS's significant design, engineering, production, and quality management expertise. This acquisition was recorded using the acquisition method and is included in the United States business segment. Its results of operations are included in the consolidated financial statements as at August 1, 2011.

Since the acquisition date to December 31, 2011, 3PS had contributed $3,605 of revenue and a loss of $1,414. Had the acquisition occurred on January 1, 2011, the acquisition would have contributed $11,954 of revenue and a loss of $446 for the year ended December 31, 2011.

The final purchase price equation for the acquisition of 3PS was as follows:

	3PS, Inc.
	($)
Cost of Acquisition	
Cash	23,845
	23,845
Allocation	
Cash	276
Trade and other receivables	1,919
Property, plant and equipment	5,035
Technology	5,246
Customer List	3,421
Other Intangibles	156
Goodwill	12,199
Trade payables and accruals	(1,011)
Deferred tax liability	(3,396)
	23,845

Goodwill arose in the acquisition of 3PS because the consideration paid included amounts in relation to the benefit of integrating 3PS products into the Company's existing portfolio and future market development. These benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

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, 2012 and 2011, 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 CGUs 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 represents 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	31	43
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			
Year Ended December 31,		**2012**		2011
	($)	**(#)**	($)	(#)
Balance, beginning of year	**77,613**	**81,904**	75,040	81,714
Exercise of stock options	**1,780**	**145**	2,265	190
Adjustment on exercise of stock options	**--**	**--**	308	--
Balance, end of year	**79,393**	**82,049**	77,613	81,904

Common shares

At December 31, 2012, 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, 2012, 4,854 (2011: 6,240) stock options were outstanding for common shares at exercise prices ranging from $10.99 to $16.67 per share, expiring between 2013 and 2017 as follows:

	December 31, 2012		December 31, 2011	
	Share Options	**Weighted Average Exercise Price**	Share Options	Weighted Average Exercise Price
	(#)	**($)**	(#)	($)
Outstanding, beginning of year	**6,240**	**12.43**	5,898	12.31
Granted	**1,379**	**16.61**	1,708	12.53
Equity settled	**(145)**	**12.27**	(190)	11.93
Cash settled	**(2,313)**	**11.99**	(992)	11.96
Expired or forfeited	**(307)**	**12.92**	(184)	12.51
Outstanding, end of year	**4,854**	**13.80**	6,240	12.43
Exercisable, end of year	**1,898**	**12.46**	2,815	12.02
Available for grant, end of year	**3,351**		1,951	

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

Year ended December 31,	**2012**	**2011**
Options (#)	**2,313**	992
Consideration ($)	**8,772**	3,355

The following table summarizes information about stock options outstanding at December 31, 2012:

			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 – 12.92	**2,239**	**3.06**	**12.04**	**1,220**	**11.68**
12.92 – 15.43	**1,261**	**2.97**	**13.86**	**678**	**13.87**
15.44 – 16.67	**1,354**	**4.91**	**16.67**	**--**	**--**
	4,854	**3.56**	**13.80**	**1,898**	**12.46**

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:

Year Ended December 31,	2012	2011
Fair value of stock options ($)	**5.38**	2.19
Forfeiture rate (%)	**11.95**	12.16
Risk-free interest rate (%)	**1.25**	1.07
Expected option life (years)	**3.45**	3.41
Expected volatility (%)	**34.52**	32.98
Expected annual dividends per share (%)	**2.80**	3.33

Restricted share units plan

At December 31, 2012, 878 (2011: 797) 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 $7,271 (2011: $3,421) 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:

Year Ended December 31,	2012	2011
	(#)	(#)
RSUs, beginning of year	**797**	642
Granted	**474**	511
Vested and paid	**(335)**	(336)
Forfeited	**(58)**	(20)
RSUs, end of year	**878**	797

Deferred share units plan

In 2011, the Company replaced the granting of RSUs and stock options to eligible directors with a DSU plan. The DSUs are granted annually and represent rights to share values based on the number of DSUs issued. DSUs vest evenly following the year in which they are awarded. There were 27 DSUs vested as at December 31, 2012 (2011: nil). Stock-based compensation expense arising from the DSU plan of $454 (2011: nil) was recorded in the Consolidated Statements of Operations under stock-based compensation. The corresponding liability is recorded in the Consolidated Balance Sheets.

Stock-based compensation expense and liability

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

Expense

Year Ended December 31,	2012	2011
	($)	($)
Stock options	**16,067**	(2,112)
RSUs	**7,271**	3,421
DSUs	**454**	--
Stock-based compensation	**23,792**	1,309

Liability

As at December 31,	2012	2011
	($)	($)
Stock options	**11,020**	4,289
RSUs	**2,768**	1,481
Current portion of stock-based compensation liability	**13,788**	5,770
Stock options	**966**	438
RSUs	**1,163**	592
DSUs	**454**	--
Long-term portion of stock-based compensation liability	**2,583**	1,030
Total stock-based compensation liability	**16,371**	6,800

Common share dividends

During 2012, the Company declared dividends of $37,724 (2011: $31,123) or $0.46 per common share (2011: $0.38). Of this amount, $19,691 (2011: $16,380) is payable at year-end, and the Company has transferred these funds to the transfer agent to be held in trust until the dividend payment was made in January 2013.

9. Earnings Per Share

Basic earnings per share

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

Year Ended December 31,	2012	2011
	(#)	(#)
Issued common shares outstanding for the year	**81,948**	81,836
Effect of outstanding options	**20**	15
Weighted average number of common shares for the year	**81,968**	81,851

For the year ended December 31, 2012, 145 (2011: 190) common shares were issued as a result of the exercise of vested options. Options were exercised at an average price of $12.27 per option. All issued shares are fully paid.

Diluted earnings per share

The calculation of diluted earnings 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:

Year Ended December 31,	2012	2011
	(#)	(#)
Weighted average number of common shares (basic)	**81,968**	81,851
Effect of share options	**711**	721
Weighted average number of common shares (diluted)	**82,679**	82,572

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

Year Ended December 31,	**2012**	2011
	($)	($)
Litigation provision (Note 20)	**37,913**	--
Foreign exchange loss (gain)	**4,573**	(2,713)
Impairment loss (Note 6,7)	**7,918**	4,580
Other	**992**	1,601
Other expenses	**51,396**	3,468

11. Income Tax

The major components of income tax expense are as follows:

Year Ended December 31,	**2012**	2011
	($)	($)
Current tax expense	**25,883**	24,235
Deferred tax expense	**(6,019)**	1,329
Total tax expense	**19,864**	25,564

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% (2011: 26.5%). The Company's US subsidiaries are subject to federal and state statutory tax rates of approximately 40% for both 2012 and 2011. The main differences are as follows:

Year Ended December 31,	**2012**	2011
	($)	($)
Income before income taxes	**59,748**	111,787
Expected income tax at statutory rate	**14,937**	29,624
Increase (decrease) resulting from:		
Tax rates in other jurisdictions	**725**	225
Non-taxable dividends	**(3,365)**	(3,008)
Non-deductible portion of stock-based compensation	**5,124**	10
Expenses not deductible for tax purposes and other items	**2,443**	(1,287)
Income tax expense	**19,864**	25,564

Deferred tax assets and liabilities are comprised of the following:

As at December 31,	**2012**	2011
	($)	($)
Tax loss carry-forwards	**24,479**	5,792
Inter-company transactions	**1,153**	20,967
Share-based payments	**2,535**	1,475
Provisions	**8,100**	--
Other	**2,047**	700
Property , plant and equipment	**(26,287)**	(20,901)
Intangible assets	**(5,863)**	(7,417)
	6,164	616
Deferred tax asset	**8,764**	5,539
Deferred tax liability	**(2,600)**	(4,923)
	6,164	616

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:

	Tax loss carry forwards	Inter-company transactions	Share-based payments	Provisions	Other	Property, plant and equipment	Intangible assets	Total
	($)	($)	($)	($)	($)	($)	($)	($)
Balance, December 31, 2010	14,682	15,344	1,264	--	643	(22,952)	(4,222)	4,759
Recognized in earnings	(9,079)	5,427	194	--	59	(1,351)	3,421	(1,329)
Acquisitions	--	--	--	--		(322)	(3,238)	(3,560)
Exchange differences and other	189	196	17	--	(2)	3,724	(3,378)	746
Balance, December 31, 2011	5,792	20,967	1,475	--	700	(20,901)	(7,417)	616
Recognized in earnings	19,405	(20,027)	1,060	8,100	1,347	(5,399)	1,533	6,019
Exchange differences	(718)	213	--	--	--	13	21	(471)
Balance, December 31, 2012	**24,479**	**1,153**	**2,535**	**8,100**	**2,047**	**(26,287)**	**(5,863)**	**6,164**

The Company has available US net operating losses of US$62,501, 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,	2012	2011
	($)	($)
Cash	**54,928**	46,627
Cash equivalents	**83,325**	41,986
Cash held in trust	**19,691**	16,380
Cash and cash equivalents	**157,944**	104,993

Cash held in trust is for the payment of declared dividends.

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,	2012	2011
	($)	($)
Trade receivables, net of allowances for doubtful accounts	**80,310**	96,265
Other receivables	**4,196**	6,056
	84,506	102,321

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 million 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 earnings 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	2012	2011
		($)	($)
Trade payables		**13,280**	21,429
Non-trade payables and accrued expenses		**12,394**	19,239
		25,674	40,668
Litigation provision	20	**52,033**	14,543
		77,707	55,211

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,	**2012**	2011
	($)	($)
Trade and other receivables, net of allowance for doubtful accounts	**84,506**	102,321

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

As at December 31,	**2012**	2011
	($)	($)
Canada	**25,282**	29,852
United States	**47,766**	60,431
International	**11,458**	12,038
	84,506	102,321

(c) Allowance for doubtful accounts

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

As at December 31,		**2012**		2011
	Gross	**Allowance**	Gross	Allowance
	($)	**($)**	($)	($)
Current	**64,177**	**(2)**	74,876	--
31 – 60 days	**14,024**	**--**	20,525	(13)
61 – 90 days	**4,722**	**(9)**	4,784	(22)
Greater than 90 days	**2,927**	**(1,333)**	3,080	(909)
	85,850	**(1,344)**	103,265	(944)

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

	Opening balance	Additions to provision	Write-off of uncollectible accounts	Effects of exchange rate changes	Ending balance
	($)	($)	($)	($)	($)
December 31, 2011	892	714	(660)	(2)	944
December 31, 2012	**944**	**642**	**(216)**	**(26)**	**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 and investment in debt securities with a maturity within 12 months, which are selected with appropriate maturities or sufficient liquidity to provide sufficient room as determined by the above-mentioned forecasts.

	December 31, 2012						
	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	25,674	25,674	25,674	--	--	--	--
Stock-based compensation	16,371	16,371	13,788	--	2,583	--	--
	42,045	42,045	39,462	--	2,583	--	--

The provision of $52,033, which relates to the lawsuit described in Note 20, has been excluded from the above table due to the uncertainty surrounding the timing and amount of such payment.

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,	2012	2011
	USD	USD
Cash	**118,058**	65,542
Trade and other receivables	**49,327**	60,766
Trade payables, accruals and other provisions	**(8,425)**	(15,143)
Balance sheet exposure	**158,960**	111,165
CDN$ Equivalent	**158,150**	113,055

As at December 31,	2012	2011
	PESO	PESO
Cash	**85,646**	38,889
Trade and other receivables	**25,876**	62,624
Trade payables, accruals and other provisions	**(22,069)**	(63,286)
Balance sheet exposure	**89,453**	38,227
CDN$ Equivalent	**6,788**	2,786

(a) Sensitivity analysis

A strengthening of the Canadian dollar against the US dollar by 1% at December 31, 2012, would have decreased net income and equity for the year by $6 and $3,254, 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, 2012 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, 2012**
	($)	($)	($)	**($)**
Cash and cash equivalents	157,944	--	--	**157,944**
Total financial assets at fair value	157,944	--	--	**157,944**

(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,	**2012**	2011
	($)	($)
Less than one year	**3,266**	4,538
Between one and three years	**5,199**	6,060
More than three years	**11,968**	4,474
	20,433	15,072

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 $6.8 million, and this amount is not included in the table above because of the termination clause.

18. Capital Commitments

At December 31, 2012, the Group has entered into contracts to purchase property, plant and equipment for $33,043, 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 both the RSU and DSU programs (Note 8).

Executive management personnel and director compensation is comprised of:

Year Ended December 31,	**2012**	2011
	($)	($)
Compensation, including bonuses	**5,709**	3,380
Share-based payments	**7,538**	1,133
	13,247	4,513

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 21% of the voting shares of the Company. No balances are owing from any employees or directors.

20. Contingencies

Patent litigation

Background. Since 2003, the Company has defended its position in three patent infringement lawsuits brought by its primary competitor. The three separate lawsuits all allege that the Company's automatic driller infringes a certain patent (the 142 Patent) which expires on April 19, 2013. Pason has defended its position on the grounds that the asserted claims in the 142 patent are invalid, and that in any event the Pason automatic driller does not infringe any of the claims of the 142 patent.

Colorado Case. The first of the three lawsuits brought by the plaintiff was filed in 2003 in Colorado, and relates to Pason's rental of its automatic driller in the US up to early 2009. Several motions, applications, appeals, and trials have taken place in the context of this lawsuit, including a jury trial in 2008, a US Patent and Trademark Office (USPTO) re-examination in 2009, and a bench trial in 2011. In 2008, a jury determined that Pason's automatic driller infringed the 142 patent and awarded damages in the amount of US$14,300. Following the jury verdict, the Company modified the technology in its automatic driller. Then, in 2010, in response to Pason's request for a re-examination, the USPTO rejected two of the three asserted claims of the 142 Patent on the grounds that prior art not disclosed in the patent application anticipated those claims and rendered them invalid. In late 2011, the Colorado District Court Judge overseeing the case held a bench trial on the issues of the inventor's inequitable conduct for failure to disclose relevant prior art to the USPTO, and the plaintiff's arguments on additional damages and request for a permanent injunction. The Judge issued his decision in June 2012, denying the plaintiff's request for enhanced damages based on willful infringement and denying the plaintiff's request for an injunction. The judge also denied the Company's inequitable conduct argument, and increased the damage award to US$19,400 to include interest, certain costs, and post-verdict damages (owing to the period of time from the jury verdict until Pason had implemented the new technology). The Company has accrued US$19,400 in its consolidated financial statements for this case, which is now on appeal to the US District Court of Appeals for the Federal Circuit on numerous issues. Pursuant to the appeal court's rules of procedure, the parties were required to participate in a mandatory mediation program administered by court officials before a date for the appeal hearing could be set. Having participated in the mediation program, without a voluntary resolution of the matters in dispute, the Company expects that the appeal court will set a hearing date shortly. The Company expects that appeal hearing date to be some time in the middle or later part of 2013. The appeal court could make a number of different rulings based on the issues raised, including a remission of the case back to district court for a new trial.

Canadian Case. The same plaintiff brought a second case in 2005 in the Federal Court of Canada, making similar infringement allegations as those made in the Colorado case, based upon the corresponding Canadian patent, which also expires on April 19, 2013. The Canadian trial took place in January-February 2011, but was re-opened a few months later to enter additional evidence to correct the inventor's inaccurate testimony at trial, which was admitted by the plaintiff to have been inaccurate through new documents found after the completion of trial. Argument concluded in January 2012, though a judgment has not yet been issued. Both versions of the technology in Pason's automatic driller were litigated in the Canadian case. The outcome of the Colorado case, including its appeal, does not bind the Canadian court.

Texas Case. The third and most recent complaint from the plaintiff was filed in Texas in December 2012 and alleges that the modified (post 2009) technology in the Company's automatic driller infringes the 142 Patent. The new technology was not yet implemented at the time of the 2008 jury trial in Colorado, and as a result, it was not considered in that case, nor will it be considered in the upcoming appeal of that case. Pason believes that the modified technology in the AutoDriller does not infringe the 142 Patent and intends to vigorously defend that position in the Texas case.

Management's Assessment. The Company's assessment of the liabilities that might arise from the patent litigation remains optimistic. However, in light of the Texas case being filed and after participating in the court-mandated meditation program facilitated through the US District Court of Appeals for the Federal Circuit, the Company has concluded that it is unlikely that a voluntary resolution of the matters will be possible outside of the court process. Consistent with accounting rules, the Company has recorded an additional $32,500 provision in its consolidated financial statements for the year ending December 31, 2012. With this additional provision, the total amount reserved for at December 31, 2012 is $52,033.

The total amount of the reserve is an aggregate provision for all three cases described above, and is to be viewed in isolation, only as being within the range of possible outcomes. The provision will be reviewed at the end of each reporting period and will be adjusted as necessary in light of future events or additional information. The Company continues to vigorously defend its position in the litigation.

The plaintiff's numerous prior motions for preliminary and permanent injunctions to prevent the Company from marketing its automatic driller have been denied. Given that history and upcoming April 19, 2013 expiration of the patent, the Company expects that this litigation will not affect its ongoing operations.

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.

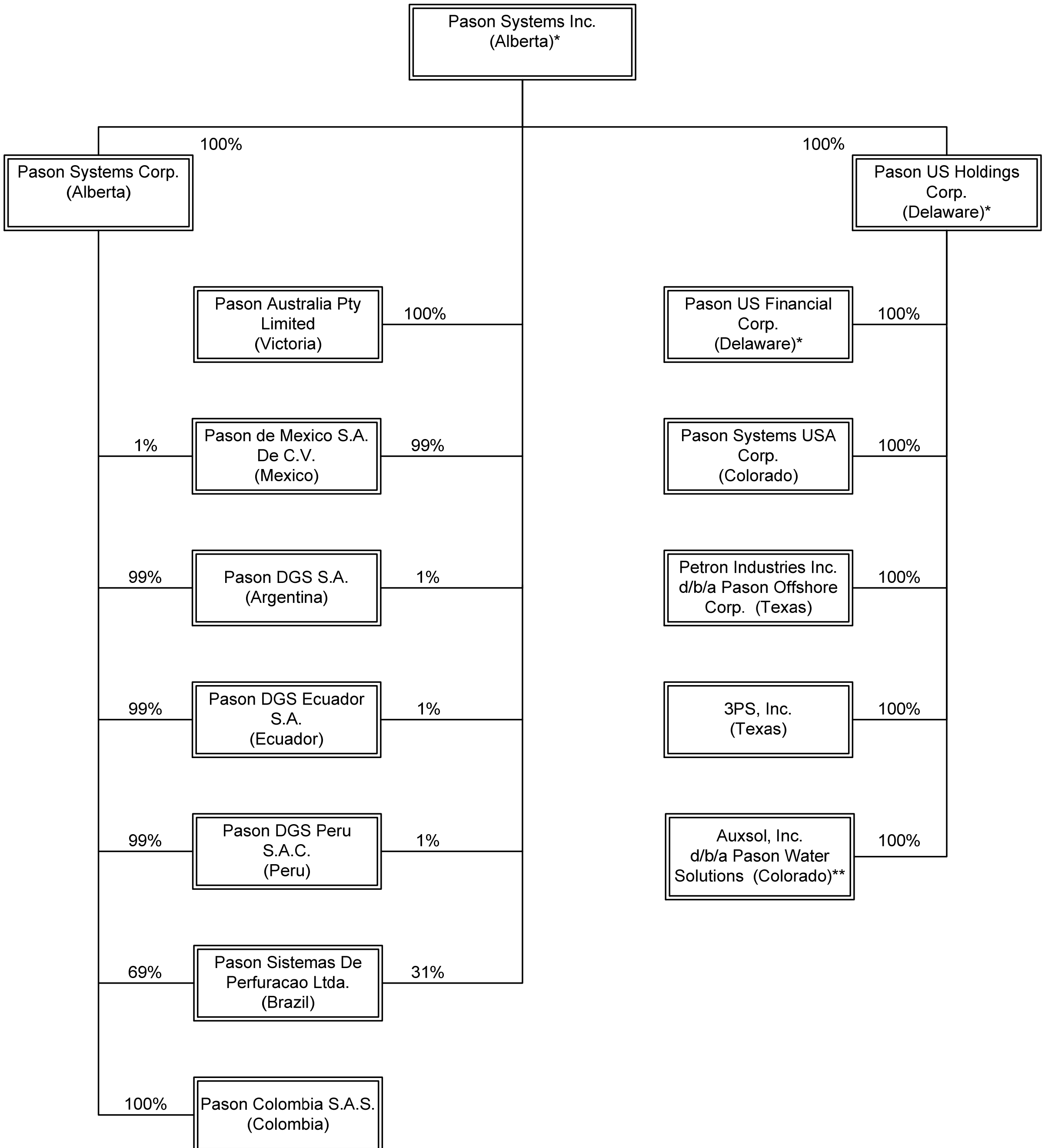
For the twelve months ended December 31, 2012, activity in the provision account is as follows:

	Balance, January 1, 2012	Provision	Foreign Exchange Adjustment	**Balance, December 31, 2012**
	($)	($)	($)	**($)**
Provision for patent infringement	14,543	37,913	(423)	**52,033**

21. Events After the Reporting Period

On February 21, 2013, the Company announced a quarterly dividend of $0.13 per share on the Company's common shares. The dividend will be paid on April 1, 2013 to shareholders of record at the close of business on March 15, 2013.

22. Organizational Structure



* Non-operating entity
**Auxsol, Inc. ceased operations in 2012 and will be dissolved in 2013.

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

Harold R. Allsopp(2)(3)(8)
President
Habede Holdings 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)(4)
Director
Oceaneering International Inc.
Houston, Texas

(1) Audit Committee Chairman
(2) Audit Committee Member
(3) Compensation Committee Chairman
(4) Compensation Committee Member
(5) Corporate Governance and Nominations Committee Chairman
(6) Corporate Governance and Nomination Committee Member
(7) Lead Director
(8) Mr. Allsopp has elected not to stand for re-election at the Annual General Meeting

Officers & Key Personnel

Marcel Kessler
President
& Chief Executive Officer

Dean Tremaine
Vice President, Product Development
& Chief Technology Officer

David Elliott
Vice President, Finance, Chief Financial
Officer & Treasurer

Greg Lindsay
Vice President, Operations – USA &
President, Pason Systems USA Corp.

David Holodinsky
Vice President, Operations – Canada

Russell Smith
Vice President, Operations –
International & Offshore

Gopinath Ramanan
Vice President, Research &
Development

Bryce McLean
Vice President, Legal & Corporate
Secretary

Kevin Boston
Vice President, Corporate Development
& Strategy

Ron Dudar
Vice President, People & Culture

Todd Perry
Vice President, 3PS, Inc.

Corporate Head Office

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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 General Meeting

The Annual General Meeting of the Shareholders of Pason Systems Inc. will be held on Thursday, May 2, 2013, at 3:30 pm (Calgary time) at the offices of Pason Systems Inc., 6120 Third Street SE, Calgary, Alberta. Shareholders who are unable to attend the meeting are requested to complete and return the Instrument of Proxy to Valiant Trust Company at their earliest convenience.

Historical Review

Selected Financial Data

Year Ended December 31,

	2012	2011	2010	2009	2008	2007	2006	2005	2004	2003
(CDN 000s, except per share data) (Unaudited)	**($)**	($)	($)	($)	($)	($)	($)	($)	($)	($)
Operating Results										
Revenue [1]	**386,514**	346,158	260,397	153,823	300,484	236,439	240,584	175,747	122,212	91,801
Expenses										
Rental services	**120,854**	113,568	94,299	72,428	106,600	83,058	72,933	52,193	38,422	27,650
Corporate services and local administration	**15,722**	12,975	17,770	11,611	13,250	12,708	6,699	4,076	3,062	2,647
Research and development	**22,467**	17,366	16,472	13,140	12,888	9,566	8,255	6,379	4,995	3,663
Stock-based compensation	**23,792**	1,309	11,233	5,684	7,525	5,248	4,597	2,595	1,290	170
Depreciation and amortization	**68,213**	58,565	49,108	55,842	55,719	42,797	39,923	27,198	18,992	15,017
Impairment losses	**7,918**	4,580	6,656	--	--	--	--	--	--	--
EBITDA[2]	**151,753**	171,661	110,867	46,651	144,883	128,088	143,238	106,677	72,154	55,005
As a % of revenue	**39.3**	49.6	47.1	32.0	49.5	54.2	59.5	60.7	59.0	59.9
Per share-basic	**1.85**	2.10	1.44	0.57	1.78	1.61	1.84	1.40	0.97	0.76
Funds flow from operations [2]	**158,948**	145,358	93,973	41,354	124,726	103,766	107,451	79,369	54,640	40,463
Per share – basic	**1.94**	1.78	1.15	0.51	1.53	1.30	1.38	1.04	0.73	0.56
Earnings (loss)	**39,884**	86,223	36,474	(5,510)	61,321	55,052	64,531	50,280	33,842	24,596
Per share – basic	**0.49**	1.05	0.45	(0.07)	0.75	0.69	0.83	0.66	0.46	0.34
Capital expenditures	**69,780**	78,357	50,164	21,493	56,292	76,615	71,233	76,064	41,518	34,041
Financial Position										
Total assets	**488,378**	455,901	402,082	354,273	427,016	302,593	270,860	216,306	139,012	112,289
Working capital	**163,371**	126,605	105,815	108,113	152,337	77,806	58,495	23,684	21,540	9,235
Total equity	**368,696**	367,269	309,684	308,335	354,589	270,717	231,209	163,159	114,747	83,902
Return on total equity [2]	**11%**	25%	12%	(2%)	20%	22%	33%	36%	34%	33%
Common Share Data										
Common shares outstanding (#)										
At December 31	**82,049**	81,904	81,714	81,487	81,456	80,346	78,738	77,045	75,530	73,784
Weighted average	**81,968**	81,851	81,525	81,476	81,426	79,586	77,899	76,240	74,658	72,700
Share trading										
High *($)*	**18.12**	16.53	14.82	14.45	18.40	17.93	19.20	15.13	9.90	6.38
Low *($)*	**12.04**	11.53	10.31	8.26	8.00	11.51	13.11	8.86	5.75	2.91
Close *($)*	**17.15**	12.00	13.96	11.65	14.05	12.49	13.26	14.45	9.25	6.30
Volume *(#)*	**25,053**	24,658	23,793	28,605	36,505	34,560	22,804	22,884	36,900	18,540
Dividends *($)*	**0.46**	0.38	0.33	0.26	0.22	0.16	0.13	0.09	0.06	0.05

(1) Data transmission expenses have been reclassified from revenue to operating costs.

(2) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense, and depreciation and amortization expense. Funds flow from operations is defined as earnings adjusted for depreciation and amortization expense, impairment losses, stock-based compensation expense, deferred income taxes and other non-cash items impacting operations as presented in the Consolidated Statements of Cash Flows. Return on total equity is calculated as earnings over the simple average of the beginning and ending total equity. These definitions are not recognized measures under International Financial Reporting Standards, and accordingly, may not be comparable to measures used by other companies.

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