A large orange graphic element consisting of two circles connected by a horizontal bar. The left circle contains the Pason logo, and the right circle contains the text '2011 ANNUAL REPORT'.

pason

2011
ANNUAL REPORT





MISSION

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, and 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

TECHNOLOGY

DEPLOYED

SIMPLY

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FINANCIAL SUMMARIES

PERFORMANCE DATA

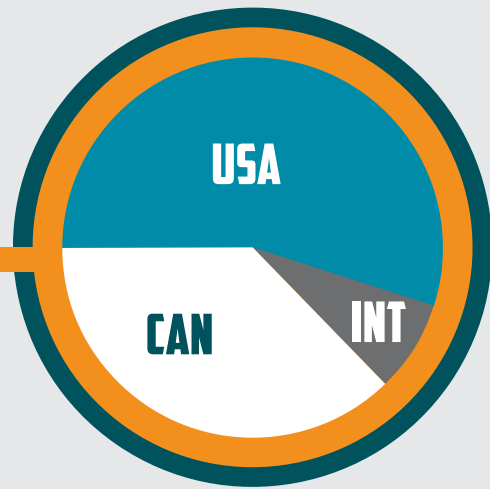
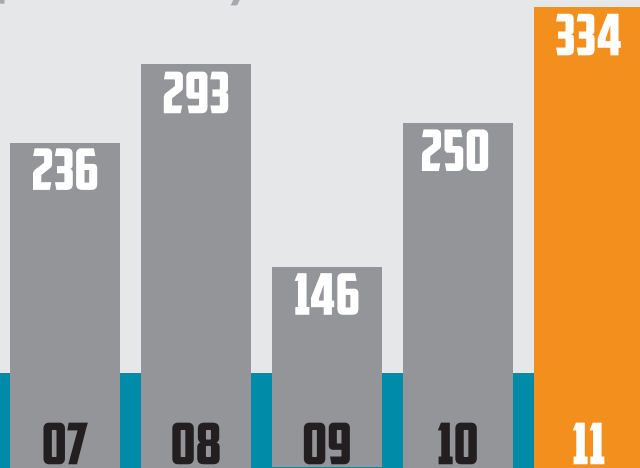
	Three Months Ended December 31,			Years Ended December 31,		
	2011	2010 ⁽¹⁾	Change	2011	2010 ⁽¹⁾	Change
(CDN 000s, except per share data)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue	97,622	73,494	33	333,520	249,562	34
EBITDA ⁽²⁾	50,700	36,016	41	176,241	117,524	50
As a % of revenue	51.9	49.0	6	52.8	47.1	12
Per share – basic	0.62	0.44	40	2.15	1.44	49
Per share – diluted	0.61	0.44	39	2.13	1.44	48
Funds flow from operations ⁽²⁾	42,089	27,899	51	145,358	93,973	55
Per share – basic	0.51	0.34	50	1.78	1.15	54
Per share – diluted	0.51	0.34	50	1.76	1.15	53
Earnings	31,702	10,525	201	86,223	36,474	136
Per share – basic	0.39	0.13	200	1.05	0.45	135
Per share – diluted	0.38	0.13	197	1.04	0.45	131
Capital expenditures and acquisitions	22,951	32,329	(29)	102,951	59,108	74
Working capital	126,605	105,815	20	126,605	105,815	20
Total assets	455,901	402,082	13	455,901	402,082	13
Total long-term debt	--	--	--	--	--	--
Shareholders' equity	367,269	309,684	19	367,269	309,684	19
Market capitalization	982,848	1,140,729	(14)	982,848	1,140,729	(14)
Cash dividends declared	0.20	0.17	17	0.38	0.33	15
Common shares outstanding (#)						
Basic	81,903	81,619	--	81,851	81,525	--
Diluted	82,077	82,007	--	82,572	81,525	--
Shares outstanding end of period (#)	81,904	81,714	--	81,904	81,714	--

(1) Comparative 2010 figures have been restated to conform to International Financial Reporting Standards.

(2) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense, depreciation and amortization expense, and impairment losses. 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.

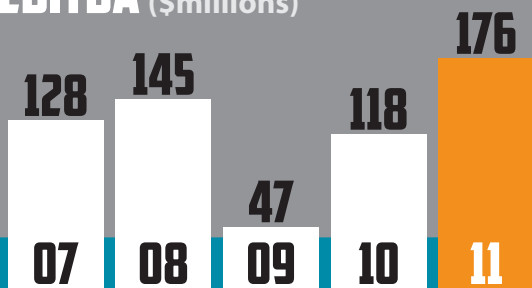
FINANCIAL SUMMARIES

TOTAL REVENUE (\$millions)

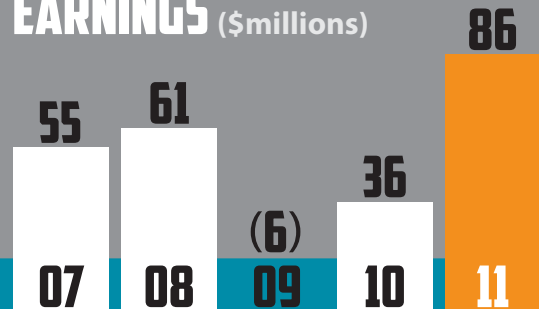


REVENUE BY REGION

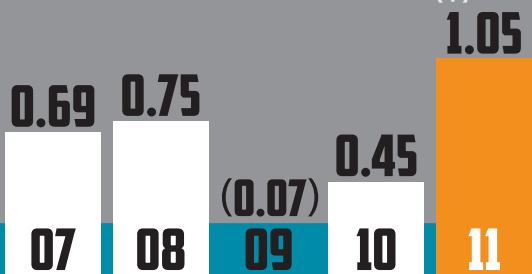
EBITDA (\$millions)



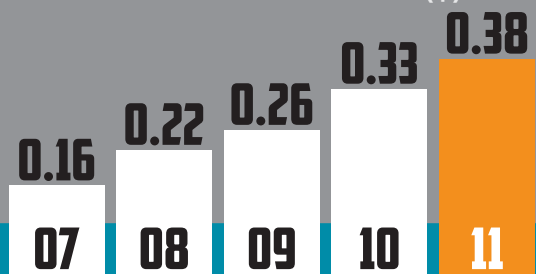
EARNINGS (\$millions)



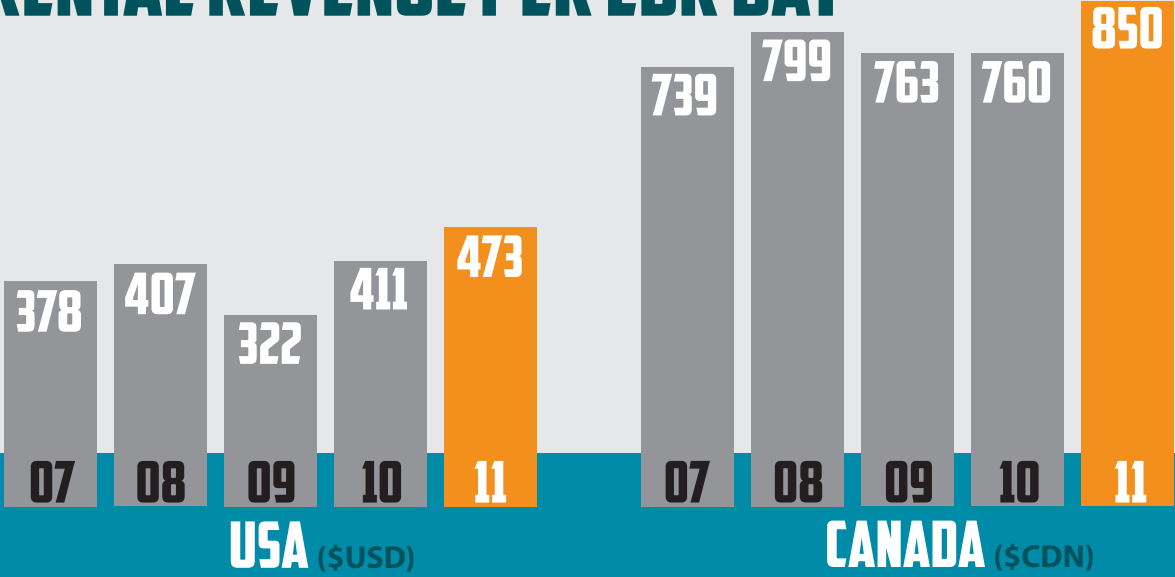
EARNINGS PER SHARE (\$)



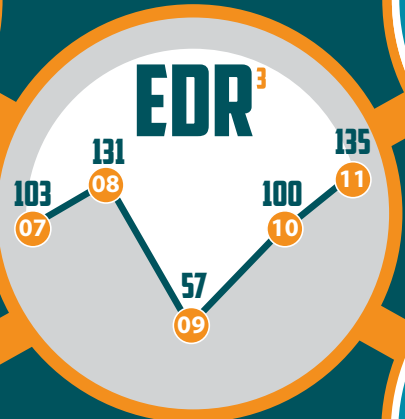
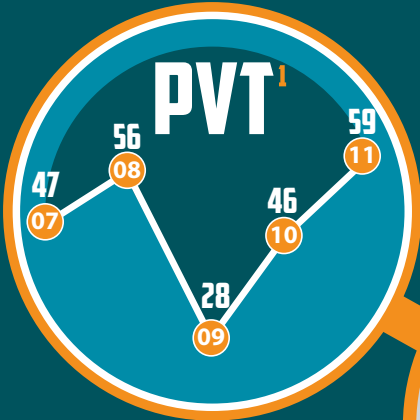
DIVIDEND PER SHARE (\$)



RENTAL REVENUE PER EDR DAY



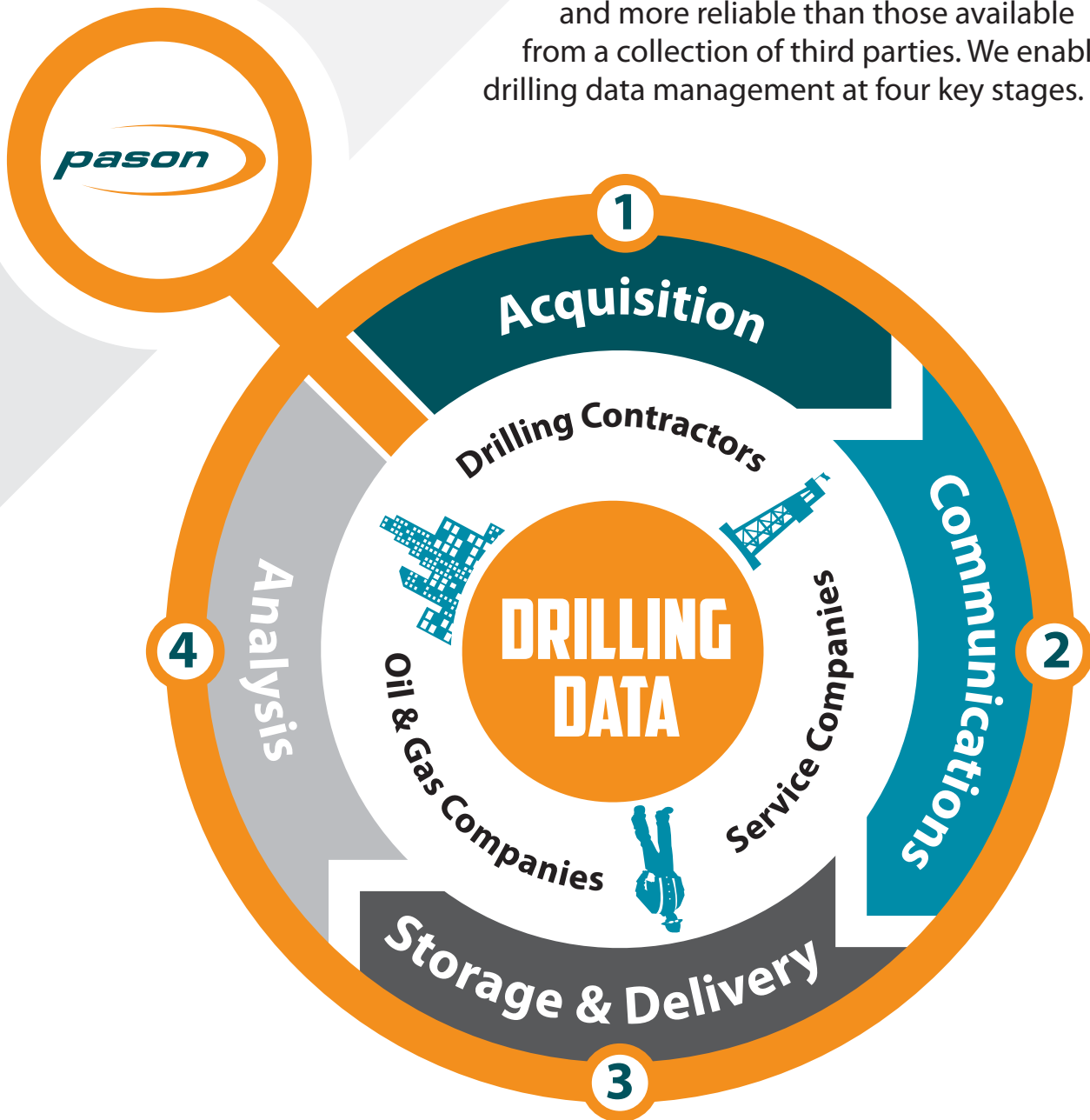
PRODUCT REVENUE (\$millions)



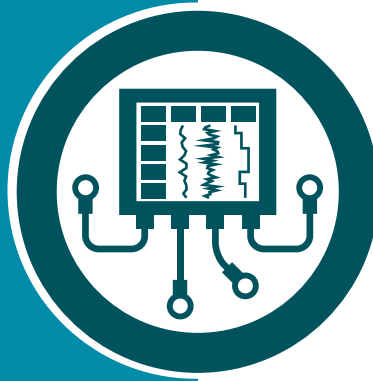
1. Pit Volume Totalizer 2. AutoDriller 3. Electronic Drilling Recorder 4. Communications 5. Total Gas System

PASON ENABLES DRILLING DATA MANAGEMENT

Pason links providers and consumers of drilling data with seamlessly integrated, end-to-end solutions. These solutions are simpler and more reliable than those available from a collection of third parties. We enable drilling data management at four key stages.



**1 DATA
ACQUISITION, CLEANING
& VALIDATION**



Acquire, clean, and validate all Pason and third-party data collected at the rigsite, and develop and deploy new, state-of-the-art drilling peripherals.

**2 DATA
TRANSPORT &
COMMUNICATIONS**



Provide bandwidth and bandwidth management to enable reliable data transport, mobile tools, and collaboration applications, and support the delivery of customer applications at the rigsite.

**3 DATA
STORAGE &
DELIVERY**



Provide storage and customized data views for all industry participants. Support seamless delivery of data into third-party applications and data centres, as well as enable stationary and mobile data access.

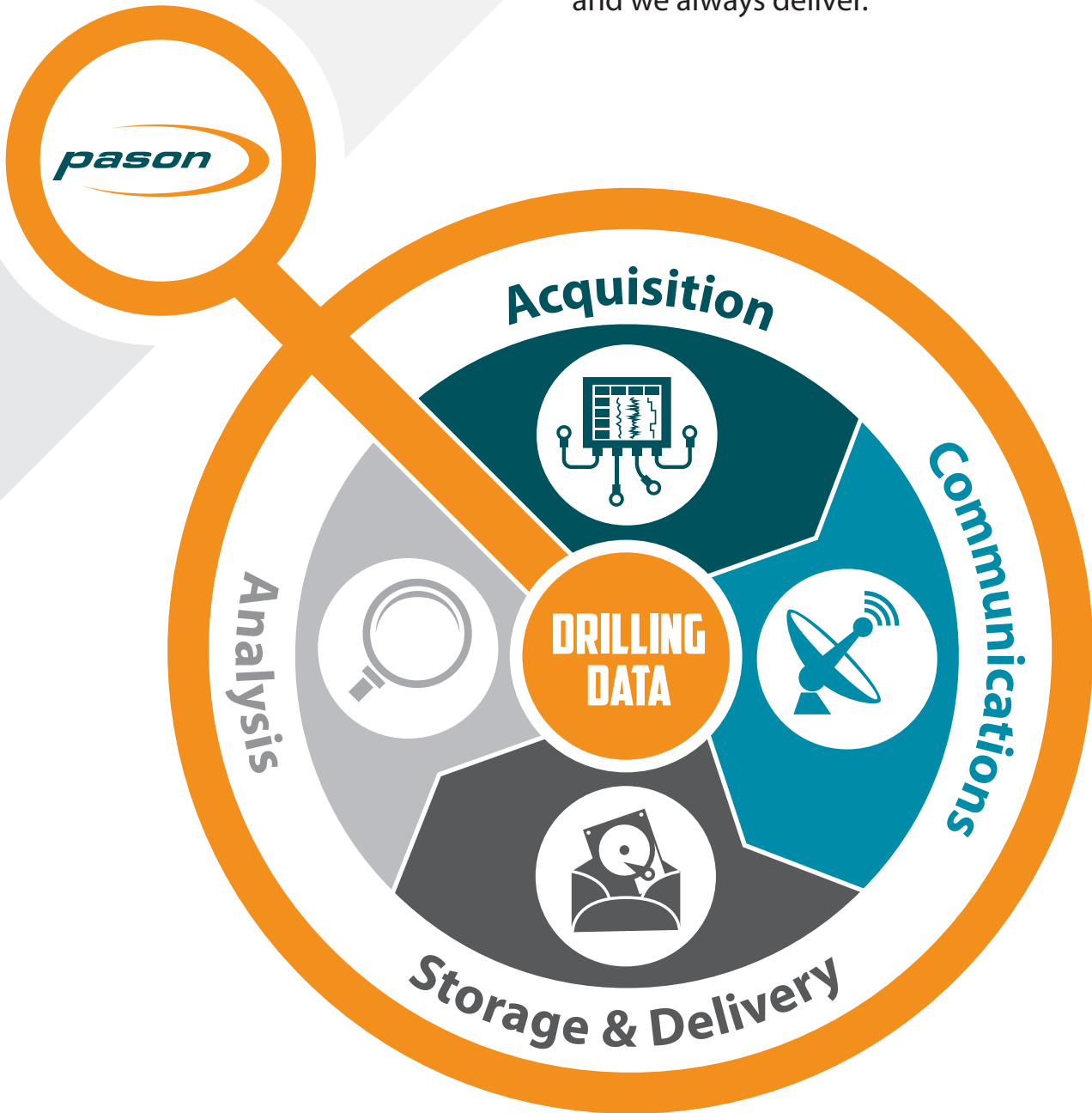
**4 DATA
ANALYSIS &
REPORTING**



Support custom reports and enable integration with contractor and operator back offices.

NEW PRODUCTS

At Pason, we design technology that is simple to deploy, use, and maintain. With a focus on innovation, our game-changing technology makes us industry leaders, and we always deliver.

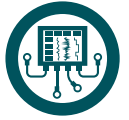




GAS ANALYZER

The evolution of gas analysis.

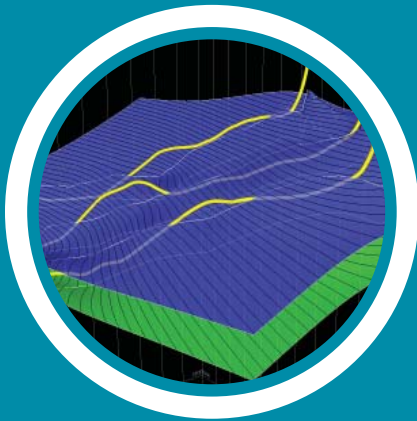
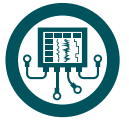
Towards the end of 2011, deployment of the Pason Gas Analyzer started in both Canada and the United States. A step change in gas detector reliability and gas analysis, the Pason Gas Analyzer provides on-demand, real-time compositional analysis of hydrocarbons (C1-C5) and CO₂. Market reception for the new system has been very positive.



TORQUE AND TENSION SUB

Unmatched accuracy resulting in improved drilling performance.

A sensor that provides accurate and reliable measurements of torque and hook load, the Pason Torque and Tension Sub measures the actual forces being exerted on the drill string at surface. The Pason Torque and Tension Sub far exceeds the accuracy and responsiveness of other sensors used in the industry today. It is currently undergoing field trials in both Canada and the United States.



ENHANCED LIVE RIG VIEW

Visualize Pason real-time data like never before.

A customizable, web-based data viewer, Pason Enhanced Live Rig View displays real-time drilling data to provide an accurate overview of current rig activity. A highly secure application which is accessible through the Pason DataHub, Pason Enhanced Live Rig View provides access to drilling data and reports. As a new feature, it now includes directional and 3D views.



VERSATILE SERVICES PLATFORM

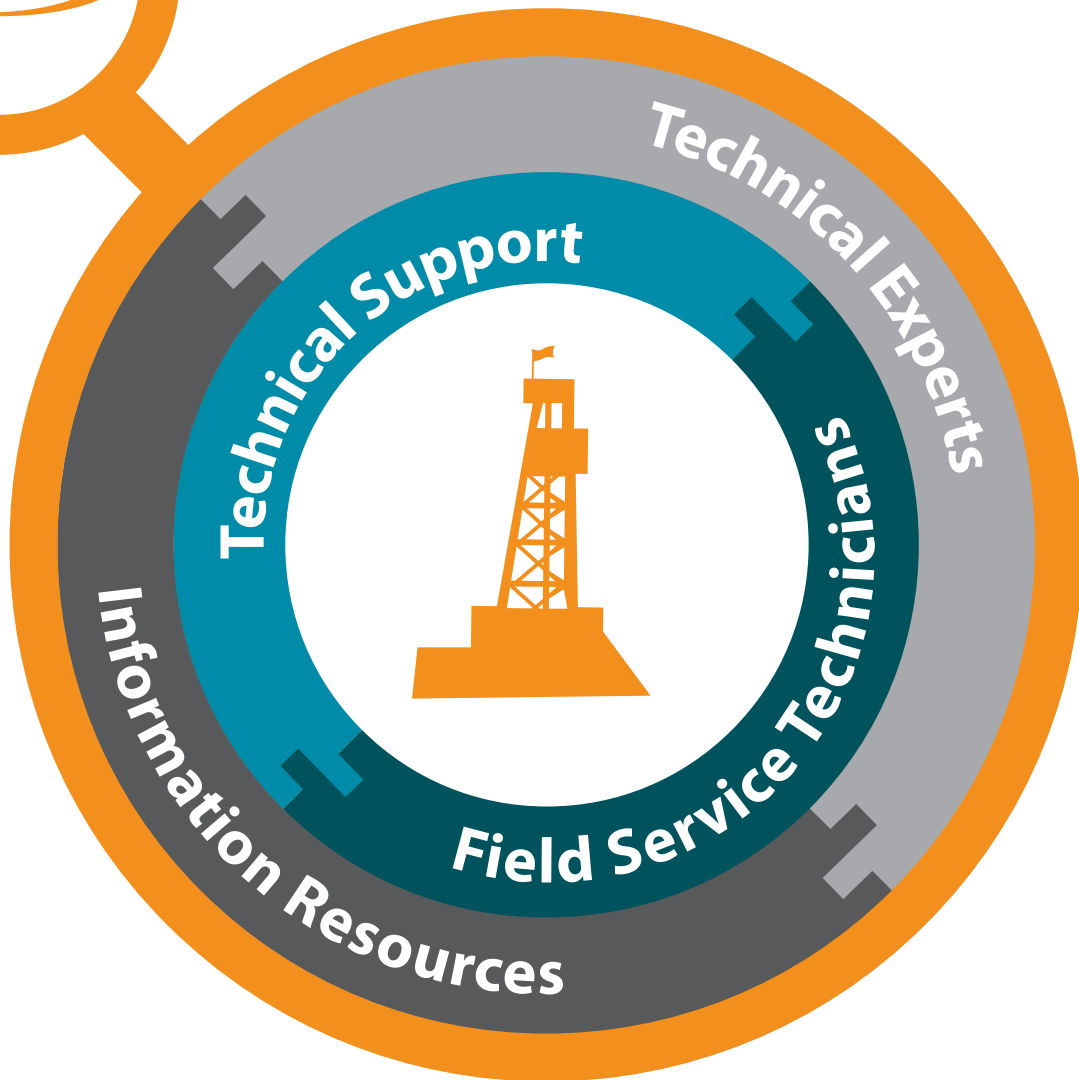
Enhancing rigsite communications.

The Versatile Services Platform is the evolution of Pason's communications and computing infrastructure at the rigsite. The communications centre of the rig, this multifaceted technology provides a flexible platform for the increasing communication and data analysis needs of our customers.



UNDERSTANDING PASON'S INDUSTRY-BEST SERVICE

Pason's service remains unrivalled in the industry. Our integrated approach to service provides both office and rig customers with the most immediate and direct assistance. And this is how we do it.





TECHNICAL SUPPORT

Our front line for customer service, Pason Technical Support is available to customers by phone, email, and Skype, 24 hours a day, 7 days a week. Experienced and knowledgeable technical support analysts are able to log directly onto the rig's data network and assist onsite personnel with training and troubleshooting. The analyst solves the problem as efficiently as possible, or if necessary, dispatches a field service technician, consults one of Pason's information resources, or contacts a Pason technical expert.



FIELD SERVICE TECHNICIANS

Pason field service technicians are geographically distributed in rural areas so they can respond quickly to the needs of our rigsite customers. Pason's field service technicians install Pason products, train rig personnel, and maintain equipment on the rig. By employing a network of field service technicians in Canada, the United States, and internationally, Pason ensures all customers get prompt, hands-on assistance from locally based professionals.



INFORMATION RESOURCES

Pason's technical support team and field service technicians have numerous resources at hand to assist them with customer issues at the office or at the rig. A centralized database provides them with quick access to current technical product, training, and troubleshooting information. This database also enables them to track equipment on the rigs, check inventory, and view the history of the rig so they can be prepared for service calls and make informed decisions.



TECHNICAL EXPERTS

Pason's research and development department is comprised of technical product teams, many of whom are product experts. These experts know Pason products inside and out, down to the last circuit board, bolt, or bit of code. If a Pason technical support analyst or field service technician is unable to resolve a customer's issue, a technical expert is always available. Technical experts provide Pason's frontline support with the product-specific knowledge that is necessary for highly technical calls.



LETTER FROM THE PRESIDENT AND CEO

Pason had an excellent year in 2011. Favourable market conditions and solid operational performance generated a record net income of \$86.2 million for the year and earnings per share of \$1.05. Despite very low natural gas prices, drilling activity in North America increased to 814,424 drilling industry days with an average rig count of 2,229, up 23% from 2010. This increase was driven by activity in shale-bearing oil deposits and renewed interest in conventional oil formations drilled horizontally.

Pason's total revenue for the year was \$333.5 million, a 34% increase over 2010. EBITDA (earnings before interest expense, income taxes, stock-based compensation expense, depreciation and amortization expense and impairment losses) increased 50% to \$176.2 million, and net earnings rose 136%. EBITDA as a percentage of revenue was 53%, compared to 47% in 2010, and our return on shareholders' equity was 23%, compared to 12% the previous year. We were able to grow revenue, EBITDA, and net earnings at a higher percentage than North American drilling activity through a combination of increased product penetration, price increases, and effectively controlling costs as evidenced by the improvement in our EBITDA margin.



**"Pason's
total revenue
for the year was
\$333.5 million, a
34% increase over
2010."**

At the beginning of August, we purchased all of the outstanding shares of 3PS Inc., a private Texas-based company, for a cash consideration of \$23.8 million. This company has used proprietary strain gauge technology to develop a revolutionary torque sensor for assembling casing strings. We believe this technology will be valuable in drilling applications now that directional and horizontal drilling are pushing the limits for drill pipe and rig power. Getting exact torque measurements is important to drill efficiently and to avoid critical failures. Initial field trials with a new Pason Torque and Tension Sub for drilling have been promising, and we believe that this 3PS technology will be a valuable addition to Pason's product rental suite.

During the year, we undertook a strategic review of our ongoing investment in the water treatment business in both Canada and the United States, and made the decision to dispose of the assets related to Canadian mobile water cleaning in the fourth quarter. We continue to operate our fixed water treatment plant in Colorado using the expertise gained in the Auxsol acquisition. The plant is now operating at break even and continues to attract more water volume while we consider options for the business.

Toward the end of the year, deployment of the new Pason Gas Analyzer started in North America. The Pason 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. Initial market reception for the new system has been very positive.

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

UNITED STATES

The United States drilling industry days increased by 22%, while our largest business unit was able to grow revenue by 29% (in USD terms) to a record \$183.4 million, exceeding its previous record revenue of \$174.9 million achieved in 2008. On average, 1,046 US land rigs were operating using Pason equipment during 2011, compared to 923 in 2010. Revenue growth above industry

"...[the US] business unit was able to grow revenue by 29% (in USD terms) to a record \$183.4 million, exceeding its previous record... achieved in 2008."

day growth was achieved with a price increase in the second quarter of 2010 and higher product penetration, resulting in a 15% increase of average daily revenue generated on each rig with a Pason product installed, to US\$473 in 2011, from US\$411 in 2010. The Automatic Driller, DataHub Updates with Live Data, and Hazardous Gas Alarm all achieved above-average revenue growth.

Our calculated US market share for 2011 was 57%. However, we believe that our actual market share is understated by almost 3% because we are tracking Pason Electronic Drilling Recorder (EDR) rental days under the new partial day billing method, but industry days are still calculated on a 24-hour basis.

Operating costs increased by 18%, compared to the 29% increase in revenues (both in USD terms). As a result, our US business unit was able to generate a record operating profit of \$88.7 million, an increase of 38%. EBITDA, as a percentage of revenue of the business unit, was 61% in 2011, compared to 58% in 2010.

With a strengthened sales and marketing organization, an ongoing emphasis on outstanding field service, continuous improvements to our products, and new product introductions made by our R&D department, we expect to be more aggressive in growing market share in the United States while maintaining our trajectory of growing revenue per rig in 2012.

"EBITDA... increased 50% to \$176.2 million, and net earnings rose 136%. EBITDA as a percentage of revenue was 53%, compared to 47% in 2010, and our return on shareholders' equity was 24%, compared to 12% the previous year."

CANADA

The Canadian business unit had an outstanding year and was able to generate revenues of \$121.8 million in 2011, up 42% from the previous year, compared to an increase of 22% in Canadian drilling industry days. On average, 389 Canadian land rigs were operating Pason equipment, compared to 303 the year before. Market share was up to 97% from 93%. Revenue growth above industry day growth was achieved with price increases and market share gains. The average daily revenue generated on each rig with a Pason product installed grew by 12% to \$850 in 2011, from \$760 in 2010.

Operating costs increased 25%, compared to the 42% increase in revenues. As a result, our Canadian business unit was able to generate a record operating profit of \$59.8 million, an increase of 65%. EBITDA as a percentage of revenue of the business unit was 70% in 2011, compared to 66% in 2010.

We expect to maintain market share while growing revenues in 2012. Revenue growth should be driven by new products as well as price increases in the last quarter of the year.



“The Canadian business unit had an outstanding year and was able to generate revenues of \$121.8 million in 2011, up 42% from the previous year...”

INTERNATIONAL

Our International business unit includes our businesses in Latin America, Australia, and Offshore. Revenue for the year improved 52% to \$28.3 million, 9% of Pason’s total revenue.

Since the buyout of our Latin American business partner in 2010, we are recording full revenue and cost for the region. Latin America’s revenue for 2011 was \$17.5 million and EBITDA was \$5.8 million. Average daily revenue generated on each rig with a Pason product installed was \$356.

Australia saw a 35% increase in revenue to \$4.4 million. EBITDA in Australia was \$2.2 million reflecting year-over-year growth of 83%. EBITDA as a percentage of revenue was 51% in 2011, compared to 37% in 2010.

This was a year of transition for the Offshore business unit. Pason rental equipment did not yet meet offshore technical requirements, and we continued to support Petron systems for selected customers. Revenue in the Offshore business unit was up 15% to \$6.4 million. Revenue generated through the sale of equipment was \$5.4 million, and the rest was generated through rentals. Expenses decreased 11% to \$9.7 million, including a loss of \$1.5 million on scrap disposal of fixed assets from the Petron acquisition, resulting in an operating loss of \$3.3 million for the year. EBITDA was \$0.5 million. Going forward, modifications to existing Pason hardware and new product rollouts should ensure an offering that meets the needs of the majority of offshore customers interested in a rental solution.

OUTLOOK

There is concern over the impact of very low natural gas prices on drilling activity in 2012. However, overall drilling activity levels are expected to stay relatively flat this year, especially if oil prices stay at, or near, current levels. Drilling activity will be driven by rapid growth in shale-bearing oil deposits and renewed interest in conventional oil formations drilled horizontally.

A major enhancement to our Pason EDR platform and capabilities is underway. Our capital expenditure budget for 2012 is \$104.7 million, with \$71.5 million directed toward equipment that can generate incremental revenue, \$23.2 million for maintenance capital, and \$10.0 million for capitalized R&D. The \$71.5 million includes \$31.3 million for the Pason EDR, \$20.9 million for the Pason Torque and Tension Sub, and \$14.2 million for the Pason Gas Analyzer.

We expect that the Pason Gas Analyzer will completely replace the existing Pason Total Gas System by the end of 2012, while gaining market share and generating higher revenues per unit. In addition, we expect that the new Pason Torque and Tension Sub rental fleet will start contributing to revenue toward the end of the year.

Our cash-generating capacity and our cash position at \$105.0 million are strong enough to comfortably cover new business development, move forward with planned equipment upgrades, and increase our semi-annual dividend to \$0.20 as approved by the Board of Directors.

With the industry's leading field services organization, outstanding technical support, a competitive product suite, and a promising R&D project pipeline, Pason is well-positioned to capitalize on growth opportunities in 2012 and beyond.



**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, 2012 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 2011 Fourth Quarter

	Three Months Ended December 31,			Years Ended December 31,		
	2011	2010 ⁽¹⁾	2009 ⁽¹⁾	2011	2010 ⁽¹⁾	2009 ⁽¹⁾
(000s, except per share data)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue	97,622	73,494	41,013	333,520	249,562	145,861
EBITDA ⁽²⁾	50,700	36,016	13,620	176,241	117,524	46,651
As a % of revenue	51.9	49.0	33.2	52.8	47.1	32.0
Per share – basic	0.62	0.44	0.17	2.15	1.44	0.57
Per share – diluted	0.61	0.44	0.17	2.13	1.44	0.57
Funds flow from operations ⁽²⁾	42,089	27,899	12,238	145,358	93,973	41,354
Per share – basic	0.51	0.34	0.15	1.78	1.15	0.51
Per share – diluted	0.51	0.34	0.15	1.76	1.15	0.51
Earnings (loss)	31,702	10,525	2,480	86,223	36,474	(5,510)
Per share – basic	0.39	0.13	0.03	1.05	0.45	(0.07)
Per share – diluted	0.38	0.13	0.03	1.04	0.45	(0.07)
Total assets	455,901	402,082	373,097	455,901	402,082	373,097
Total long-term debt	--	--	--	--	--	--

(1) Comparative figures for 2010 have been restated to conform to International Financial Reporting Standards. Figures for 2009 are presented in accordance with the Company's previous accounting framework, Canadian generally accepted accounting principles.

(2) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense, depreciation and amortization expense and impairment losses. 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,		
	2011	2010	Change	2011	2010	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Electronic Drilling Recorder	40,079	30,024	33	134,935	99,857	35
Pit Volume Totalizer	16,888	13,532	25	58,591	45,610	28
Communications	12,937	9,547	36	43,579	31,201	40
Automatic Driller	11,520	8,761	31	39,395	28,567	38
Total Gas System	6,413	4,846	32	21,306	16,601	28
Hazardous Gas Alarm System	1,490	789	89	5,258	2,945	79
Mobilization	2,481	1,956	27	9,523	8,270	15
Other	5,814	4,039	44	20,933	16,511	27
Total revenue	97,622	73,494	33	333,520	249,562	34

Canada

	Three Months Ended December 31,			Years Ended December 31,		
	2011	2010	Change	2011	2010	Change
			(%)			(%)
EDR rental days (#)	40,800	33,700	21	141,200	110,700	28
PVT rental days (#)	37,900	32,700	16	135,400	107,900	25

United States

	Three Months Ended December 31,			Years Ended December 31,		
	2011	2010	Change	2011	2010	Change
			(%)			(%)
EDR rental days (#)	100,200	95,100	5	381,700	337,000	13
PVT rental days (#)	70,100	63,500	10	264,200	221,800	19

Electronic Drilling Recorder

Consistent with prior years, the Pason Electronic Drilling Recorder (EDR) remains the Company's prime 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 rigsite 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. The EDR generated a 33% increase in revenue for the fourth quarter of 2011 compared to 2010 and an increase of 35% on a full year basis versus the prior year. These increases are due to increased rig activity in the Company's major markets, price increases in both Canada and the United States (US), the Company's purchase of its former Latin American partner in 2010 and expanding demand by customers for EDR peripheral devices.

During 2011, the Pason EDR was installed on 97% of all active land rigs in Canada and approximately 57% of the land rigs in the United States.

In Canada, until the start of 2011, industry days used to calculate market share were based upon a 24-hour period. As a result, since the adoption of the Company's new billing policy described below, Canada was reporting slightly lower market share figures than was actually the case. Starting in 2011, the industry drilling day now recognizes these partial days and brings this method of activity reporting in line with how the Company bills.

In the United States, the opposite impact is occurring. The Company is tracking EDR rental days under the new partial billing method but the industry days that are reported are still calculated on a 24-hour basis. The Company's calculated US market share for 2011 was 57% but management believes this is understated by almost three percentage points due to the inconsistency between Pason's method of tracking rental days and how the industry calculates drilling days.

The method by which the Company bills its customers has impacted both the Canadian and US market share figures. Previously, the Company billed for an entire day's worth of rentals regardless of whether the equipment was activated for the entire 24-hour period or not. To address customer concerns, the Company implemented a change to bill in increments, recognizing that during the initial start up or tear down of a rig the equipment is only utilized a portion of the day.

This partial billing process has been in place in Canada since 2009 and was rolled out to the United States market beginning in 2010.

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. Revenue increases for this product were in line with the rise in drilling days in North America. During 2011, the PVT was installed on 96% of rigs with a Pason EDR in Canada and 69% in the US, compared to 97% and 66%, respectively, in 2010.

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 Internet DataHub, 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). During 2010, the Company began complementing 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 90% of the 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 under way.

Total Gas System and Gas Analyzer

The Total Gas System (TGAS), which is being replaced by the Company's new Gas Analyzer, measures the total hydrocarbon gases (C1 through C5) exiting the wellbore, and then calculates the lag time to show the formation depth where the gases were produced. The new Gas Analyzer increases this functionality to include the actual break down by type of gas and also provides chromatograph features. For the year ended December 31, 2011, both of these systems combined were installed on 43% of Canadian and 17% of US land rigs operating with a Pason EDR system. The market penetration in both countries is an increase of approximately 2% points over 2010 levels.

Automatic Driller

Pason's Automatic Driller (ADR) is used to maintain constant weight on the drill bit while a well is being drilled. During 2011, Pason's ADR was installed on 78% of Canadian and 47% of US land rigs operating with a Pason EDR system compared to 77% and 38%, respectively, in 2010.

Hazardous Gas Alarm System

Pason's Hazardous Gas Alarm System (HGAS) monitors both lower explosive limit gases (LEL) and H₂S where both readings and an alarm system are integrated with the EDR. The Hazardous Gas Alarm System was installed on 18% of Canadian rigs in 2011, up from 15% for the same period in 2010, and 6% of US land rigs operating with a Pason EDR system, an increase from 3% in 2010.

Discussion of Operations

United States Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2011	2010	Change	2011	2010	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Electronic Drilling Recorder	23,685	20,001	18	84,040	67,042	25
Pit Volume Totalizer	8,959	8,026	12	32,623	27,561	18
Communications	5,871	4,404	33	20,399	14,363	42
Automatic Driller	6,230	4,943	26	21,900	15,776	39
Total Gas System	2,134	2,021	6	7,906	6,679	18
Hazardous Gas Alarm System	565	280	102	1,620	701	131
Mobilization	1,924	1,809	6	6,939	6,938	--
Other	3,376	1,066	217	7,963	5,857	36
Total revenue	52,744	42,550	24	183,390	144,917	27
Operating costs	20,422	14,108	45	72,204	60,979	18
Depreciation and amortization	5,538	4,525	22	22,535	19,573	15
Segment operating profit	26,784	23,917	12	88,651	64,365	38

US segment revenue increased by 24% in the fourth quarter of 2011 over the 2010 comparable period (18% increase when measured in US dollars), which compared with US drilling industry days that were up 18% over the fourth quarter of 2010. For the year, revenue increased 27% versus 2010 results (a 29% increase when measured in USD), compared to an increase in US drilling industry days of 22%.

Revenue was impacted by the following factors:

- Better pricing. Prices increased by approximately 30% in the second quarter of 2010 and have held steady since. The net impact of average weighted pricing, when comparing the full 12-month period of 2011 to 2010, was to increase revenue by approximately 10% in USD.
- More products on each rig. Revenue was increased by more products on each rig, primarily with gains in ADR rentals and customer acceptance of the Company's live rig view and rig data software. Increased product penetration contributed to approximately a 2% revenue gain for 2011.

The factors explained above resulted in the US segment being able to realize an increase in revenue per EDR day during the fourth quarter of \$53 (USD\$52) from 2010 amounts while the full year increase was \$61 (USD\$62). These increases are due to the Company's customers requesting additional Pason products on their rigs.

In the fourth quarter of 2011, revenue per industry day was \$280 (USD\$275) compared to \$277 (USD\$276) in 2010 and \$153 (USD\$146) in 2009. The US business unit realized annual revenue per industry day of \$266 (USD\$272) for 2011, compared to \$264 (USD\$256) for 2010 and \$186 (USD\$155) for 2009.

The majority of the increase in "Other" revenue relates to sales realized by 3PS, Inc., the US-based company acquired in August of 2011.

Segment profit, as a percentage of revenue, was 51% for the fourth quarter of 2011, compared to 56% realized in 2010 and a loss of 14% in the fourth quarter of 2009.

For 2011, segment profit, as a percentage of revenue, was 48%, compared to 44% generated in 2010 and a loss of 7% realized in 2009.

The benefit of the increase in revenue for the fourth quarter and 12 months ending December 31, 2011, was reduced by increases in operating costs from 2010 levels:

- An increase in field technician related costs, to support the increase in rig activity, of \$1.5 million for the quarter and \$6.8 million year to date, mostly attributable to increased staff levels and the costs associated to support such an increase, including vehicle expense and consumable supplies.
- Year-to-date net operating expenses of 3PS Inc. of \$1.7 million.
- Increase in depreciation expense for the quarter of \$1.0 million and year to date of \$3.0 million, due in most part to the continuing increase in capital expenditures as well as accelerating the depreciation rate on the Company's TGAS systems, which are being phased out by the new gas analyzer.
- Legal costs increased by \$0.9 million due to the continuing ADR litigation.

Canadian Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2011	2010	Change	2011	2010	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Electronic Drilling Recorder	13,464	8,916	51	41,130	26,882	53
Pit Volume Totalizer	6,445	4,968	30	21,649	15,247	42
Communications	7,233	5,111	42	23,020	16,529	39
Automatic Driller	4,678	3,543	32	15,175	11,514	32
Total Gas System	3,405	2,583	32	11,252	8,064	40
Hazardous Gas Alarm System	682	425	60	2,603	1,566	66
Mobilization	198	108	83	781	750	4
Other	2,018	1,889	7	6,194	5,493	13
Total revenue	38,123	27,543	38	121,804	86,045	42
Operating costs	9,149	9,462	(3)	36,088	28,870	25
Depreciation and amortization	6,897	5,677	21	25,934	20,884	24
Segment operating profit	22,077	12,404	78	59,782	36,291	65

Canadian segment revenue rose 38% for the three months ended December 31, 2011, a significant increase over the change in the number of Canadian drilling industry days of 18%. On an annual basis, revenue increased 42% compared to industry days increasing by 22%.

The improvement in revenue for both the fourth quarter and 2011 was due to:

- An increase in EDR rental days of 21% for the fourth quarter of 2011 and 28% for the full year, compared to the corresponding period in 2010.
- Improved pricing. Prices were reduced by approximately 20% in the second quarter of 2009 and did not rise again until a 10% price increase was applied in the fourth quarter of 2010. In addition, a price increase was implemented in the fourth quarter of 2011. The net impact of average weighted

pricing, when comparing the fourth quarter and year to date 2011 to 2010, was an increase to revenue of approximately 12%.

- More products on each rig. Revenue was increased by more products on each rig, primarily with gains in sensors, workstations and sidekick rentals. Increased product penetration contributed to approximately a 3% revenue gain for 2011.

The factors explained above resulted in fourth quarter revenue per industry day of \$927 in 2011 compared to \$748 in 2010 and \$695 in 2009. For 2011, revenue per industry day was \$827, compared to \$709 in 2010 and \$712 in 2009.

The segment profit for the fourth quarter of 2011 of \$22.1 million is significantly higher than the \$12.4 million profit in 2010 and a significant improvement over the \$7.6 million profit in 2009. During the fourth quarter of 2011, the Canadian business unit was able to reduce its operating costs by \$0.3 million over the same period in 2010 and at the same time increase revenue by 38%.

Other factors impacting the fourth quarter of 2011 results include:

- A price increase applied in October 2011.
- An increase in the inventory obsolescence reserve of \$1.5 million, due to the phasing out of the Company's TGAS system as well as the EDR evolution project. This increase is included in depreciation and amortization expense.

Segment profit, as a percent of revenue, was 49% for 2011, up from 42% when compared to 2010 levels, and a significant improvement from the 24% realized in 2009. The profit for the year was impacted by the following factors:

- Improvement in the business unit's ability to leverage its cost structure. Rental costs rose 25%, while at the same time revenue increased by 42%. The increase in rental costs is due in large part to higher field costs as a result of the increase in the rig count.
- Legal costs increased by \$1.5 million as a result of the ADR litigation.
- \$1.5 million of net expenses relating to water treatment. The Company disposed of this segment in the fourth quarter of 2011.
- Increase in the inventory obsolescence reserve of \$3.4 million.
- Increase in repair costs of \$0.7 million.

International Operations

	Three Months Ended December 31,			Years Ended December 31,		
	2011	2010	Change	2011	2010	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Electronic Drilling Recorder	2,930	1,107	165	9,765	5,933	65
Pit Volume Totalizer	1,484	538	176	4,319	2,802	54
Communications	(167)	32	(622)	160	309	(48)
Automatic Driller	612	275	123	2,320	1,277	82
Total Gas System	874	242	261	2,148	1,858	16
Hazardous Gas Alarm System	243	84	189	1,035	678	53
Mobilization	359	39	821	1,803	582	210
Other	420	1,084	(61)	6,776	5,161	31
Total revenue	6,755	3,401	99	28,326	18,600	52
Operating costs	6,791	3,431	98	19,758	12,911	53
Depreciation and amortization	3,903	2,647	47	10,096	8,651	17
Segment operating loss	(3,939)	(2,677)	47	(1,528)	(2,962)	(48)

Revenue in the International operations improved 99% from the fourth quarter of 2010, while the operating loss increased by \$1.3 million. For 2011, revenue increased by 52% while the operating loss improved by \$1.4 million from 2010. At the close of 2010, the Company purchased the distribution rights and operating companies of its Latin American partner. This purchase increased revenue and costs in 2011 relative to 2010 as the Company now benefits from 100% of the operating results.

A number of factors influenced these results:

- The South American operations recorded significant expenses in 2011 due to the change in the business model that was implemented as a result of the change in ownership that occurred when the company purchased the distribution rights. One-time costs were incurred relating to changing the ownership of the assets to comply with local laws and regulations as well as integration costs. These one time costs, a majority of which were incurred in the fourth quarter of 2011, exceeded \$2.0 million.
- Drilling activity in Mexico continued to increase in 2011 from the lows seen in the second half of 2010. Full year 2011 revenue was up approximately 29% over 2010 results and the business unit was able to record operating profit of \$0.9 million, an increase of 10% over 2010 levels.
- Results in Australia continue to improve with the operation posting record revenues in Q4 2011. The business continues to benefit from increased drilling activity in Australia. This, combined with cost control initiatives, resulted in this segment generating \$1.0 million of operating profit for the full year 2011 compared to \$0.5 million for 2010.
- The Company's International segment includes our Offshore business unit, which represents the offshore portion of the business acquired from Petron. In 2011, a decision was made to only offer Pason equipment for rent in lieu of Petron systems, which were historically sold. Progress has been made with Pason equipment being installed on offshore rigs both in the Gulf of Mexico and internationally. Offshore operating results have increased by approximately \$1.9 million for the year ending December 31, 2011, as compared to the same period in 2010.

Summary of Quarterly Results

Three Months Ended ⁽¹⁾	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011
(000s, except per share data)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue	56,384	51,031	68,653	73,494	84,745	62,420	88,733	97,622
EBITDA⁽²⁾	25,390	21,512	34,606	36,016	44,729	25,850	54,962	50,700
Per share – basic	0.31	0.26	0.42	0.44	0.55	0.31	0.67	0.62
Per share – diluted	0.31	0.26	0.42	0.44	0.55	0.30	0.67	0.61
Funds flow from operations⁽²⁾	20,454	18,764	26,856	27,899	39,082	22,917	41,270	42,089
Per share – basic	0.25	0.23	0.33	0.34	0.48	0.28	0.50	0.51
Per share – diluted	0.25	0.23	0.33	0.34	0.48	0.27	0.50	0.51
Earnings	7,891	6,156	11,902	10,525	17,757	8,217	28,547	31,702
Per share – basic	0.10	0.08	0.15	0.13	0.22	0.10	0.35	0.39
Per share – diluted	0.10	0.08	0.15	0.13	0.22	0.09	0.35	0.38

(1) Comparative 2010 figures have been restated to conform to International Financial Reporting Standards.

(2) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense, depreciation and amortization expense and impairment losses. 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.

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 when 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 become available with ground freezing. Consequently, the performance of the Company may not be comparable quarter to consecutive quarter and 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.

Q4 2011 versus Q4 2010

The active rig count in both Canada and the US improved over the fourth quarter of 2010, resulting in gains in all of the Company's key metrics. Revenue increased 33%, while EBITDA increased by 41% and funds flow from operations was up 51%.

Net earnings increased to \$31.7 million or \$0.39 per share compared to \$10.5 million or \$0.13 per share in the fourth quarter of 2010. The fourth quarter consolidated results were impacted by the following items:

- Increase in depreciation expense of \$3.5 million, attributable mostly to increased capital expenditures, the accelerated depreciation on the Company's TGAS systems, and an increase in the inventory obsolescence reserve.
- Increase in research and developments costs of \$1.8 million as the Company hires additional staff to support its EDR evolution project.
- Corporate services costs primarily relate to personnel located in the corporate headquarters who directly support the Company's field operations and perform other corporate functions. The

increase in corporate operating expenses from 2010 of \$0.9 million is mainly due to higher expenses as a result of more resources dedicated to the Company's growth strategy.

- Stock-based compensation decreased by \$7.0 million compared to the fourth quarter of 2010 due to a reduction in the Company's stock price, which impacts the pricing under the Black-Scholes pricing model.
- Gains and losses from foreign exchange changes relating to monetary assets and liabilities must be taken into earnings in the period in which they occurred. The fluctuation in the exchange rate between the Canadian dollar and U.S dollar resulted in a foreign exchange loss of \$0.7 million compared to a loss of \$3.4 million in 2010.
- In 2011, the Company recorded an impairment loss against its U.S water treatment assets of \$2.8 million. In the fourth quarter of 2010, the Company recorded an impairment loss against its Offshore business unit of \$5.6 million.
- The effective tax rate for 2011 of 7%, compared to a rate of 20% in 2010, is a result of a change in the relative amounts of taxable income earned in each respective tax jurisdiction combined with prior year adjustments flowing through the current quarter provision. Taxable income increased year over year in lower rate jurisdictions.

Q4 2011 versus Q3 2011

Revenue was higher in the fourth quarter of 2011 versus the third quarter due to an increase in drilling days in both the Canadian and US markets. Operating profit of \$44.9 million in the fourth quarter exceeded the third quarter results by \$5.2 million, due mostly to the combination of increased rig activity and the Company's ability to leverage its cost structure, which is largely fixed in nature.

The Canadian business unit realized a profit of \$22.1 million, compared to \$16.4 million in the third quarter of 2011. Revenue was up 13% while operating profit increased by \$5.7 million.

The US business unit operating profit of \$26.8 million was up \$4.5 million compared to the results achieved in the third quarter of 2011. Revenue was up 10% while operating profit, as a percentage of revenue, was 51% versus 46% in the previous quarter.

Other items affecting the results of the fourth quarter of 2011 as compared to the third quarter of 2011 include the following items:

- In the fourth quarter, an impairment loss was recorded against the Company's US water treatment assets of \$2.8 million.
- Increase in research and developments costs of \$1.0 million, as the Company invests in maintaining and upgrading its product offerings.
- Increase in costs in Latin America relating to integration and logistic costs of \$1.5 million.
- Increase in foreign exchange expense of \$6.9 million.
- Reduction in the effective tax rate of approximately 14%.

Liquidity and Capital Resources

At December 31, 2011, the Company's liquidity position and change over the prior year is detailed in the table below.

	2011	2010 ⁽¹⁾	Change
(000s)	(\$)	(\$)	(%)
Cash	104,993	110,400	(5)
Working capital	126,605	105,815	20
Funds flow from operations	145,358	93,973	55
Capital expenditures and acquisitions	102,951	59,108	74
As a % of funds flow ⁽²⁾	70.8	62.8	13

(1) Comparative 2010 figures have been restated to conform to International Financial Reporting Standards.

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

The Company's cash balance was down slightly from the prior year. The reduction in cash is a combination of an increase in dividends, capital expenditures, and the purchase of 3PS, Inc. in August of 2011. The Company benefited from higher funds flow from operations.

Contractual Obligations

	Less than 1 year	1 – 3 years	Thereafter	Total
(000s)	(\$)	(\$)	(\$)	(\$)
Operating leases	4,538	6,060	4,474	15,072

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

During 2011 the Company purchased 1.0 million stock options for a total cash consideration of \$3.4 million.

At December 31, 2011, the Company had no capital lease obligations, and other than the operating leases detailed above, has no off-balance sheet arrangements.

The Company has a \$5.0 million committed revolving credit facility available. At December 31, 2011, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at December 31, 2011, and February 21, 2012, there were 81.9 million common shares and 6.2 million options issued and outstanding.

SEDAR

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

Accounting Changes and Critical Accounting Estimates

Accounting Changes

Convergence with International Financial Reporting Standards

Canada's Accounting Standards Board ratified a plan that resulted in Canadian GAAP being converged with IFRS on January 1, 2011. The Company was required to report its financial results under IFRS effective January 1, 2011, with quarterly comparatives for 2010. Management completed a detailed assessment, with involvement and input from the Company's Board of Directors (including the Audit Committee) and its external auditors. The Company focused primarily on the areas with the highest potential impact to the Company: including the choices under IFRS 1 (First Time Adoption), capital assets, impairment of assets and stock-based compensation. The areas with the greatest impact were the retroactive application of IFRS and stock-based compensation expense.

A more detailed explanation of the impact of the adoption of IFRS can be found in Note 21 to the Consolidated Financial Statements at December 31, 2011.

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 organizations 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 which 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 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 financial position, results of operations or liquidity (other than what is set out in Note 19 to the Consolidated Financial Statements).

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 Human Resources Manager and continues to engage the services of recruiters to improve recruiting effectiveness.

Alternative Energies and Reduction of Green House Gases

There continues to be extensive discussions 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, among other things, 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

Over 90% of Pason's revenues are generated in North America, which limits exposure to risks and uncertainties in foreign countries. Pason's assets outside of North America may be adversely affected by changes in governmental policy, social instability or other political or economic developments beyond Pason's control, including expropriation of property, cancellation or modification of contract rights and restrictions on repatriation of cash. Pason 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 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.

Management's Responsibility for the Financial Statements and Report on Internal Control 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 financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and necessarily include estimates, which are based on management's best judgments. Information contained elsewhere in the Annual Report and MD&A is consistent, where applicable, with that contained in the financial statements.

Management is also 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. The company uses a control framework based on the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management conducted an evaluation of the effectiveness of the system of internal control over financial reporting during 2011. Based on this evaluation, the President and Chief Executive Officer and the Chief Financial Officer have concluded that the Company's system of internal control over financial reporting did not contain any material weakness and was effective as at December 31, 2011.

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.

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.

The Chief Executive Officer and the Chief Financial Officer have also concluded that disclosure controls and procedures and controls over financial reporting were effective during 2011.

Statement Regarding Internal Controls over Financial Reporting and Disclosure Controls

At December 31, 2011, the Company had carried out a review and evaluation of internal controls over financial reporting under the supervision of and with the participation of management, including the President and Chief Executive Officer and the Chief Financial Officer.

Consolidated Financial Statements and Notes

Management's Report

To the Shareholders of Pason Systems Inc.,

The accompanying consolidated financial statements are the responsibility of management and have been approved by the Board of Directors of the Company. Management is responsible for and has prepared and presented the consolidated financial statements in accordance with International Financial Reporting Standards (IFRS) and has made significant accounting judgments and estimates as required. 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, 2011 and 2010.

The Audit Committee of the Board of Directors, which is comprised of three independent directors, has discussed the consolidated financial statements, including the notes thereto, with management and the external auditors. The Board of Directors has approved the consolidated financial statements on the recommendation of the Audit Committee.

MARCEL KESSLER



President & Chief Executive Officer

DAVID ELLIOTT



Chief Financial Officer

Calgary, Alberta
February 21, 2012

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, 2011, December 31, 2010 and January 1, 2010, and the consolidated statements of operations and consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended December 31, 2011 and 2010, 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Pason Systems Inc. as at December 31, 2011, December 31, 2010 and January 1, 2010, and its financial performance and its cash flows for the years ended December 31, 2011 and 2010 in accordance with International Financial Reporting Standards.

Deloitte & Touche LLP

Chartered Accountants

Calgary, Alberta
February 21, 2012

Consolidated Balance Sheets

As at	Note	December 31, 2011	December 31, 2010 (Note 21)	January 1, 2010 (Note 21)
(CDN 000s)		(\$)	(\$)	(\$)
Assets				
Current				
Cash and cash equivalents	11	104,993	110,400	109,849
Trade and other receivables	12	102,321	79,880	39,102
Prepaid expenses		1,970	1,489	1,416
Income taxes recoverable		--	--	2,928
Total current assets		209,284	191,769	153,295
Non-current				
Property, plant and equipment	6	183,007	161,882	169,012
Intangible assets	7	58,071	38,588	27,195
Deferred tax assets	10	5,539	9,843	4,771
Total non-current assets		246,617	210,313	200,978
Total assets		455,901	402,082	354,273
Liabilities and equity				
Current				
Trade payables, accruals and provisions	14	55,211	51,398	29,780
Income taxes payable		5,318	9,021	--
Stock-based compensation liability	8	5,770	11,645	3,994
Dividend payable		16,380	13,890	11,408
Total current liabilities		82,679	85,954	45,182
Non-current				
Stock-based compensation liability	8	1,030	1,360	1,644
Deferred tax liabilities	10	4,923	5,084	2,524
Total non-current liabilities		5,953	6,444	4,168
Equity				
Share capital	8	77,613	75,040	71,864
Employee benefits reserve	8	12,927	13,228	15,139
Foreign currency translation reserve		(5,835)	(6,048)	--
Retained earnings		282,564	227,464	217,920
Total equity		367,269	309,684	304,923
Total liabilities and equity		455,901	402,082	354,273

Commitments (Notes 16 and 17)

Contingencies (Note 19)

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	2011	2010 (Note 21)
(CDN 000s, except per share data)		(\$)	(\$)
Revenue			
Equipment rentals and other		333,520	249,562
Operating expenses			
Rental services		111,364	94,299
Local administration		16,686	8,461
Depreciation and amortization	6,7	58,565	49,108
		186,615	151,868
Operating profit		146,905	97,694
Other expenses			
Research and development		17,366	16,472
Corporate services		12,975	9,309
Stock-based compensation	8	1,309	11,233
Manufacturing and distribution		1,601	1,450
Foreign exchange and other		(2,713)	2,047
Impairment loss	6,7	4,580	6,656
		35,118	47,167
Income before income taxes		111,787	50,527
Income taxes	10	25,564	14,053
Net income		86,223	36,474
Earnings per share			
	9		
Basic		1.05	0.45
Diluted		1.04	0.45

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

Consolidated Statements of Comprehensive Income

Year Ended December 31,	2011	2010 (Note 21)
(CDN 000s)	(\$)	(\$)
Net income	86,223	36,474
Other comprehensive income (loss)		
Foreign currency translation adjustment	213	(6,048)
Total comprehensive income	86,436	30,426

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 January 1, 2010		71,864	15,139	--	217,920	304,923
Net Income		--	--	--	36,474	36,474
Dividends	8	--	--	--	(26,930)	(26,930)
Foreign currency translation		--	--	(6,048)	--	(6,048)
Exercise of stock options	8	2,736	--	--	--	2,736
Options exercised that were previously expensed	8	440	(440)	--	--	--
Stock-based compensation		--	(1,471)	--	--	(1,471)
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)
Foreign currency translation		--	--	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

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

Consolidated Statements of Cash Flows

Year Ended December 31,	Note	2011	2010 (Note 21)
(CDN 000s)		(\$)	(\$)
Cash flows from operating activities			
Net income		86,223	36,474
Adjustment for non-cash items:			
Depreciation and amortization		58,565	49,108
Impairment loss		4,580	6,656
Stock-based compensation	8	(2,112)	7,109
Deferred income taxes	10	1,329	(5,771)
Unrealized foreign exchange (gain) loss		(3,227)	397
		145,358	93,973
Movements in working capital			
Increase in trade and other receivables		(19,896)	(35,010)
Increase in prepaid expenses		(446)	(112)
Increase in income taxes payable/recoverable		13,819	13,450
Increase in trade payables, accruals and provisions		5,444	6,248
(Decrease) increase in stock-based compensation liability		(732)	639
Effects of exchange rate changes		832	1,667
		(979)	(13,118)
Cash generated from operating activities		144,379	80,855
Income tax paid		(18,050)	(1,500)
Net cash from operating activities		126,329	79,355
Cash flows (used in) from financing activities			
Proceeds from issuance of common shares	8	2,265	2,736
Purchase of stock options	8	(3,355)	(1,854)
Payment of dividends	8	(28,631)	(24,448)
Net cash used in financing activities		(29,721)	(23,566)
Cash flows used in investing activities			
Additions to property, plant and equipment	6	(71,382)	(45,419)
Additions to intangibles	7	(184)	(358)
Deferred development costs	7	(6,975)	(4,387)
Proceeds on disposal of property, plant and equipment		505	72
Business acquisitions, net of cash acquired	7	(24,410)	(8,944)
Changes in non-cash working capital		(520)	5,973
Net cash used in investing activities		(102,966)	(53,063)
Effect of exchange rate changes on cash		951	(2,175)
Net (decrease) increase in cash and cash equivalents		(5,407)	551
Cash and cash equivalents, beginning of year		110,400	109,849
Cash and cash equivalents, end of year	11	104,993	110,400

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'. 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 20).

2. Basis of Preparation

Statement of compliance

The Company prepares its consolidated financial statements in accordance with Canadian generally accepted accounting principles as defined in the Handbook of the Canadian Institute of Chartered Accountants (CICA Handbook). In 2010, the CICA Handbook was revised to incorporate International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board and to require publically accountable enterprises to apply these standards effective for the years beginning on or after January 1, 2011. Accordingly, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS. In these consolidated financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of 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 have been prepared in compliance with IFRS. Subject to certain transition elections and exceptions disclosed in Note 21, the Company has consistently applied the accounting policies used in the preparation of its opening IFRS statement of financial position at January 1, 2010, throughout all years presented, as if these policies had been in effect.

Comparative figures for 2010 have been restated from Canadian GAAP to comply with IFRS (Note 21).

The consolidated financial statements were authorized for issue by the Board of Directors on February 21, 2012.

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.

Use of estimates and judgments

The preparation of the consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. 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 10), and provisions and contingencies (Note 19).

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements and in preparing the opening IFRS balance sheet at January 1, 2010, for the purposes of the transition to IFRS, unless otherwise indicated.

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

Basis of consolidation

(a) Business combinations

Acquisitions on or after January 1, 2010

For acquisitions on or after January 1, 2010, 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.

Acquisitions prior to January 1, 2010

As part of its transition to IFRS, the Group elected to restate only those business combinations that occurred on or after January 1, 2010. In respect of acquisitions prior to January 1, 2010, goodwill represents the amount recognized under Canadian GAAP, the Group's previous accounting framework. Under Canadian GAAP, transaction costs were included in the purchase price of business acquisitions and available net operating losses from a business combination were recognized when allocating the purchase price.

(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. On January 1, 2010, the date of transition, the Group elected to re-set the amount to nil. Since January 1, 2010, 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 12).

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. The Company has elected to apply the IFRS 1 exemption to measure the cost of property, plant and equipment using the revaluation model as deemed cost.

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.

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.

In respect of acquisitions prior to January 1, 2010, goodwill is included on the basis of its deemed cost, which represents the amount recorded under Canadian GAAP (Note 21).

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 it increases the future economic benefits embodied in the specific asset to which it relates. 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.

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.

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 early applied the following new and revised IFRS standards that have been issued but are not yet effective:

IFRS 7, Financial Instruments: Disclosures, has been amended to include additional disclosure requirements in the reporting of transfer transactions and risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The amendment is applicable for annual years beginning on or after July 1, 2011, with earlier application permitted.

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 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. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and does not always reflect a clear measurement basis or consistent disclosures.

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.

IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in Other Comprehensive Income (OCI) into two groups, based on whether or not items may be recycled in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately. The amendment is effective for annual years beginning on or after July 1, 2012 with earlier application permitted.

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, 2011	Canada	United States	International	Total
	(\$)	(\$)	(\$)	(\$)
Revenue	121,804	183,390	28,326	333,520
Operating costs	36,088	72,204	19,758	128,050
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
Manufacturing and distribution				1,601
Foreign exchange and other				(2,713)
Impairment loss				4,580
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

Year ended December 31, 2010

Revenue	86,045	144,917	18,600	249,562
Operating costs	28,870	60,979	12,911	102,760
Depreciation and amortization	20,884	19,573	8,651	49,108
Segment operating profit (loss)	36,291	64,365	(2,962)	97,694
Research and development				16,472
Corporate services				9,309
Stock-based compensation				11,233
Manufacturing and distribution				1,450
Foreign exchange and other				2,047
Impairment loss				6,656
Income taxes				14,053
Net income				36,474
Capital expenditures and acquisitions	18,192	22,545	18,371	59,108
Goodwill	--	5,676	2,600	8,276
Intangible assets	13,482	6,070	10,760	30,312
Segment assets	169,309	163,483	69,290	402,082
Segment liabilities	63,223	15,421	13,754	92,398

6. Property, Plant and Equipment

	Parts and Raw Materials	Rental Equipment	Other	Total
	(\$)	(\$)	(\$)	(\$)
Property, plant and equipment				
Balance at January 1, 2010	14,654	338,232	25,224	378,110
Additions	4,638	25,448	15,333	45,419
Acquisitions	--	--	932	932
Disposals	(864)	(19,028)	(1,284)	(21,176)
Parts and raw materials consumed	(5,553)	5,553	--	--
Reclass	--	(2,901)	2,901	--
Effects of exchange rate changes	141	(9,878)	(3,381)	(13,118)
Balance at December 31, 2010	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
Depreciation and impairment losses				
Balance at January 1, 2010	--	194,579	14,519	209,098
Provisions	--	33,195	4,071	37,266
Disposals	--	(15,148)	(195)	(15,343)
Impairment loss recognized in income	--	4,651	--	4,651
Reclass	--	(1,576)	1,576	--
Effects of exchange rate changes	--	(6,121)	(1,266)	(7,387)
Balance at December 31, 2010	--	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
Carrying Amounts				
At January 1, 2010	14,654	143,653	10,705	169,012
At December 31, 2010	13,016	127,846	21,020	161,882
At December 31, 2011	11,128	146,157	25,722	183,007

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

2011

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. Management concluded that the Company's carrying value of the property, plant, and equipment in Auxsol exceeded the recoverable amount and a non-cash impairment loss of \$1,250 was recorded in 2011. The recoverable amount represents management's best estimate on the anticipated proceeds that the Company could realize on the disposal of such assets, with proceeds being determined by using a multiple of future earnings before interest, taxes, depreciation and amortization (EBITDA). Management estimated EBITDA based upon past performance of the plant, adjusted for new levels of expected throughput.

Included in depreciation and amortization expense are losses on the disposal of assets and inventory obsolescence reserves in the amount of \$9,274 (2010 - \$5,761) for the year ended December 31, 2011.

2010

In 2010, the Company decided to pursue a different business model with its Offshore business unit. The Company made the decision to offer a rental model to its customers, rather than providing the option of sold units through its Offshore unit. The Offshore assets will continue to be sold for spare parts to legacy customers and on one off sales to certain drilling contractors. As a result of this decision, a non-cash impairment loss of \$4,651 was taken against the capital assets of the Offshore business unit, part of the International segment, to recognize lower anticipated proceeds on the sale of such assets.

7. Intangible Assets

	Goodwill	Research & Development	Technology	Distribution Rights	Other	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Intangible assets						
Balance at January 1, 2010	6,470	17,056	5,846	2,617	4,454	36,443
Internally developed	--	5,140	--	--	--	5,140
Investment tax credits received	--	(753)	--	--	--	(753)
Additions	--	--	--	--	358	358
Acquisitions	2,600	--	--	11,554	--	14,154
Effects of exchange rate changes	(321)	--	(308)	93	(195)	(731)
Balance at December 31, 2010	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	3,338	156	20,939
Acquisition adjustment	--	--	--	83	--	83
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
Amortization & impairment losses						
Balance at January 1, 2010	498	5,834	171	115	2,630	9,248
Amortization	--	1,883	653	1,379	2,177	6,092
Impairment loss recognized in income	--	1,081	924	--	--	2,005
Effects of exchange rate changes	(25)	--	(113)	41	(1,225)	(1,322)
Balance at December 31, 2010	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
Carrying amounts						
At January 1, 2010	5,972	11,222	5,675	2,502	1,824	27,195
At December 31, 2010	8,276	12,645	3,903	12,729	1,035	38,588
At December 31, 2011	21,423	16,658	6,684	12,648	658	58,071

Other intangible assets include mostly software costs, customer contracts, and non-compete agreements.

2011

As previously described in Note 6, the Company re-evaluated its investment in Auxsol. 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.

2010

In 2010, the Company recorded a non-cash impairment charge of \$1,081 relating to the write-off of projects that were no longer commercially viable as well as a non-cash impairment charge of \$924 relating to the write-off of a portion of technology that the Company was no longer going to support.

2011 Acquisition

3PS, Inc.

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 industry in the past has relied on a relative indicator of torque rather than an actual measurement. Real-time accurate values provide data to manage critical drilling operations, as directional and horizontal wells are pushing the limits of design both on the drill pipe and the rig, and understanding the accurate amount of torque being applied to the string will assist users from critical failures. Combining this drilling sub with the Company's data collection system will enable the Company to offer its customers the tools they need to evaluate any down-hole problems in real time. With the addition of 3PS, the Company will add to its current suite of drilling data acquisition product offerings, gain exposure to other segments of the upstream oil and gas market, and leverage 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.

The fair value of the non-cash working capital acquired approximates 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 the period. Since the acquisition date, the 3PS acquisition has 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.

2010 Acquisitions

Repurchase of Australian Distribution Rights

In January 2010, the Company re-purchased its Australian distribution rights for \$2,829 from its former partner. This amount has been recorded as an intangible asset in the International business segment.

Repurchase of Latin American Distribution Rights

On December 31, 2010, the Company re-purchased its distribution rights in Latin America through an acquisition of 100% of the shares of the former agent's Latin American companies for \$9,109. This acquisition was recorded using the acquisition method. This acquisition is included in the International business segment. All goodwill was allocated to the International business segment.

The final purchase price was subject to post closing adjustments, which the Company finalized in 2011.

The intangibles re-purchased by the Company of the Australian and Latin America distribution rights in 2010 are included in distribution rights.

The reason for the purchase of the distribution rights is that the Company believes that there is a point in the maturation of start-up foreign businesses where the business can be managed more effectively by integrating the operations into the Company, than through an independent agent.

Disclosure of pro-forma revenue and earnings for the purchase of the distribution rights is impractical due to the nature of the businesses which previously held the rights.

The final purchase price equation for the acquisitions is as follows:

	3PS	Latin America	Australia
	(\$)	(\$)	(\$)
Cost of Acquisition			
Cash	23,845	9,109	2,829
	23,845	9,109	2,829
Allocation			
Cash	276	2,153	--
Trade and other receivables	1,919	5,377	--
Property, plant and equipment	5,035	932	--
Technology	5,246	--	--
Distribution rights	3,421	8,725	2,829
Other Intangibles	156	--	--
Goodwill	12,199	2,600	--
Trade payables and accruals	(1,011)	(8,078)	--
Deferred tax liability	(3,396)	(2,600)	--
	23,845	9,109	2,829

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.

Goodwill on the Latin American acquisition was as a result of recognizing a deferred tax liability.

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, 2011 and 2010, 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 for both 2011 and 2010 included the following:

	United States	International
	(%)	(%)
Budgeted EBITDA margin	40	48
Weighted average growth rate	2	2
Pre-tax discount rate	14	18

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

Year Ended December 31	Common Shares			
	2011		2010	
	(\$)	(#)	(\$)	(#)
Balance, beginning of year	75,040	81,714	71,864	81,487
Exercise of stock options	2,265	190	2,736	227
Adjustment on exercise of stock options	308	--	440	--
Balance, end of year	77,613	81,904	75,040	81,714

Common shares

At December 31, 2011, 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.

At December 31, 2011, 6,240 (2010 - 5,898) stock options were outstanding for common shares at exercise prices ranging from \$10.99 to \$15.48 per share, expiring between 2012 and 2016 as follows:

	December 31, 2011		December 31, 2010	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
Outstanding, beginning of year	5,898	12.31	6,540	12.05
Granted	1,708	12.53	1,918	13.81
Equity settled or cash settled	(1,182)	11.96	(1,229)	12.04
Expired or forfeited	(184)	12.51	(1,331)	13.44
Outstanding, end of year	6,240	12.43	5,898	12.31
Exercisable, end of year	2,815	12.02	2,282	11.77
Available for grant, end of year	1,951		2,274	

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

Year ended December 31,	2011	2010
Options (#)	992	1,002
Consideration (\$)	3,355	1,854

The following table summarizes the life of options issued:

Date of issuance	Years
May 2008 through October 2008	3.50
November 2008 and thereafter	5.00

The following table summarizes information about stock options outstanding at December 31, 2011:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable (Vested)	Weighted Average Exercise Price
(\$)	(#)	(Years)	(\$)	(#)	(\$)
10.99 – 11.85	2,688	2.41	11.40	2,199	11.50
11.86 – 13.62	1,739	4.85	12.50	6	12.63
13.63 – 15.48	1,813	3.90	13.89	610	13.90
	6,240	3.52	12.43	2,815	12.02

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,	2011	2010
Fair value of stock options (\$)	2.19	3.88
Forfeiture rate (%)	12.16	13.04
Risk-free interest rate (%)	1.07	2.20
Expected option life (years)	3.41	3.23
Expected volatility (%)	32.98	35.56
Expected annual dividends per share (%)	3.33	2.36

Restricted Share Units Plan

At December 31, 2011, 797 (2010 - 642) 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 \$3,421 (2010 - \$4,124) 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,	2011	2010
	(#)	(#)
RSUs, beginning of year	642	629
Granted	511	315
Vested and paid	(336)	(250)
Forfeited	(20)	(52)
RSUs, end of year	797	642

Deferred Share Units Plan

In November, 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. No value has been recognized in the 2011 financial statements for the DSUs awarded in November 2011 as the DSUs have not yet vested.

Stock-based compensation expense and liability

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

Expense

Year ended December 31,	2011	2010
	(\$)	(\$)
Stock options	(2,112)	7,109
RSUs	3,421	4,124
Stock-based compensation	1,309	11,233

Liability

As at,	December 31, 2011	December 31, 2010	January 1, 2010
	(\$)	(\$)	(\$)
Stock options	4,289	9,385	2,706
RSUs	1,481	2,260	1,288
Current portion of stock-based compensation liability	5,770	11,645	3,994
Stock options	438	814	765
RSUs	592	546	879
Long-term portion of stock-based compensation	1,030	1,360	1,644
Total stock-based compensation liability	6,800	13,005	5,638

Common share dividends

During 2011, the Company declared dividends of \$31,123 (2010 - \$26,930) or \$0.38 per common share (2010 - \$0.33). Of this amount, \$16,380 (2010 - \$13,890) 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 is made in January, 2012.

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,	2011	2010
	(#)	(#)
Issued common shares outstanding for the year	81,836	81,497
Effect of outstanding options	15	28
Weighted average number of common shares for the year	81,851	81,525

For the year ended December 31, 2011, 190 (2010 – 227) common shares were issued as a result of the exercise of vested options. Options were exercised at an average price of \$11.93 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,	2011	2010
	(#)	(#)
Weighted average number of common shares (basic)	81,851	81,525
Effect of share options	721	-
Weighted average number of common shares (diluted)	82,572	81,525

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. Income Tax

The major components of income tax expense are as follows:

Year ended December 31,	2011	2010
	(\$)	(\$)
Current tax expense	24,235	19,824
Deferred tax expense	1,329	(5,771)
Total tax expense	25,564	14,053

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 26.5% (2010 - 28.0%). The Company's US subsidiaries are subject to federal and state statutory tax rates of approximately 40.0% for both 2011 and 2010. The main differences are as follows:

Year ended December 31,	2011	2010
	(\$)	(\$)
Income before income taxes	111,787	50,527
Expected income tax at statutory rate	29,624	14,148
Increase (decrease) resulting from:		
Tax rates in other jurisdictions	(575)	(1,123)
Non-taxable dividends	(3,008)	(3,196)
Non-deductible portion of stock-based compensation	10	1,989
Expenses not deductible for tax purposes and other items	(487)	2,235
Income tax expense	25,564	14,053

Deferred tax assets and liabilities are comprised of the following:

	December 31, 2011	December 31, 2010	January 1, 2010
	(\$)	(\$)	(\$)
Tax loss carry-forwards	5,792	14,682	14,559
Inter-company transactions	20,967	15,344	8,709
Share-based payments	1,475	1,264	840
Other	700	643	875
Property, plant and equipment	(24,333)	(22,952)	(20,246)
Intangible assets	(3,985)	(4,222)	(2,490)
	616	4,759	2,247
Deferred tax asset	5,539	9,843	4,771
Deferred tax liability	(4,923)	(5,084)	(2,524)
	616	4,759	2,247

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	Other	Property, plant and equipment	Intangible assets	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Balance, January 1, 2010	14,559	8,709	840	875	(20,246)	(2,490)	2,247
Recognized in earnings	328	6,756	436	(228)	(2,423)	902	5,771
Acquisitions	--	--	--	--	--	(2,600)	(2,600)
Exchange differences	(205)	(121)	(12)	(4)	(283)	(34)	(659)
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	189	196	17	(2)	292	54	746
Balance, December 31, 2011	5,792	20,967	1,475	700	(24,333)	(3,985)	616

The Company has available US net operating losses of US\$68,600, 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 2027 and 2031.

11. Cash and Cash Equivalents

	December 31, 2011	December 31, 2010	January 1, 2010
	(\$)	(\$)	(\$)
Cash	46,627	46,576	45,472
Short-term investments	41,986	49,934	52,969
Cash held in trust	16,380	13,890	11,408
Cash and cash equivalents	104,993	110,400	109,849

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 15.

12. Trade and Other Receivables

	December 31, 2011	December 31, 2010	January 1, 2010
	(\$)	(\$)	(\$)
Trade receivables, net of allowances for doubtful accounts	96,265	62,012	36,950
Other receivables	6,056	17,868	2,152
Total	102,321	79,880	39,102

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 15.

13. Credit Facility

The Company has a \$5.0 million committed revolving credit facility. Interest is payable monthly and is based on either the lenders' 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.

No amounts were drawn on this facility throughout the reporting year.

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 at each reporting period.

14. Trade Payables, Accruals and Provisions

	Note	December 31, 2011	December 31, 2010	January 1, 2010
		(\$)	(\$)	(\$)
Trade payables		21,429	16,341	7,818
Non-trade payables and accrued expenses		19,239	20,834	6,996
Provision	19	14,543	14,223	14,966
		55,211	51,398	29,780

The change in the provision is due to changes in foreign exchange rates only and is included in current liabilities in the Consolidated Balance Sheets.

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 15.

15. 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 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

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 credit worthiness 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.

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:

	December 31, 2011	December 31, 2010	January 1, 2010
	(\$)	(\$)	(\$)
Trade and other receivables, net of allowance for doubtful accounts	102,321	79,880	39,102

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

	December 31, 2011	December 31, 2010	January 1, 2010
	(\$)	(\$)	(\$)
Canada	29,852	29,597	18,964
United States	60,431	40,462	16,829
International	12,038	9,821	3,309
	102,321	79,880	39,102

Allowance for doubtful accounts

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

	December 31, 2011		December 31, 2010		January 1, 2010	
	Gross (\$)	Allowance (\$)	Gross (\$)	Allowance (\$)	Gross (\$)	Allowance (\$)
Current	74,876	--	64,630	--	32,736	--
31 – 60 days	20,525	(13)	11,158	--	5,755	--
61 – 90 days	4,784	(22)	2,149	--	634	(23)
Greater than 90 days	3,080	(909)	2,835	(892)	1,305	(1,305)
	103,265	(944)	80,772	(892)	40,430	(1,328)

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 (\$)
January 1, 2010	1,249	--	--	79	1,328
December 31, 2010	1,328	239	(636)	(39)	892
December 31, 2011	892	714	(660)	(2)	944

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, 2011						
	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	40,668	40,668	40,668	--	--	--	--
Stock-based compensation	6,800	6,800	5,770	--	1,030	--	--
	47,468	47,468	46,438	--	1,030	--	--

The provision of \$14,543, which relates to the lawsuit described in Note 19, 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 does not enter into any hedging arrangements.

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

	December 31, 2011	December 31, 2010	January 1, 2010
	USD	USD	USD
Cash	65,542	47,734	30,772
Trade and other receivables	60,766	40,632	16,030
Trade payables, accruals and other provisions	(15,143)	(11,204)	(6,685)
Balance sheet exposure	111,165	77,162	40,117

	December 31, 2011	December 31, 2010	January 1, 2010
	PESO	PESO	PESO
Cash	38,889	39,579	36,666
Trade and other receivables	62,624	59,976	45,577
Trade payables, accruals and other provisions	(63,286)	(47,511)	(27,489)
Balance sheet exposure	38,227	52,044	54,754

Sensitivity analysis

A strengthening of the Canadian dollar against the US dollar by 1% at December 31, 2011, would have decreased net income and equity for the year by \$7 and \$1,996, 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, 2011, would have had the equal but opposite effect.

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.

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, 2011
	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	104,993	--	--	104,993
Total financial assets at fair value	104,993	--	--	104,993

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, 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.

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.

16. Operating Leases

Non-cancellable operating lease rentals are payable as follows:

	December 31, 2011	December 31, 2010	January 1, 2010
	(\$)	(\$)	(\$)
Less than one year	4,538	4,449	4,587
Between one and three years	6,060	6,143	6,496
More than three years	4,474	4,501	4,161
	15,072	15,093	15,244

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 \$5.2 million, and this amount is not included in the table above because of the termination clause.

17. Capital Commitments

At December 31, 2011, the Group has entered into contracts to purchase property, plant and equipment for \$33,300, the majority of which relates to the purchase of rental assets in the normal course of business.

18. 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,	2011	2010
	(\$)	(\$)
Compensation, including bonuses	2,837	3,096
Share-based payments	1,052	2,851
	3,889	5,947

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.

19. Contingencies

Since late 2003, the Company has defended its position in patent infringement lawsuits in Canada and the US regarding the Company's automatic driller. Trial on the US lawsuit concluded on November 6, 2008. The jury determined Pason's automatic driller infringed three claims of the patent at issue, denied the Company's claim that the patent was invalid, and awarded damages in the amount of US\$14,300. The Company has accrued this amount in the consolidated financial statements.

On April 30, 2009, the trial judge denied Pason's motion to reverse the jury verdict and the alternative motion for a new trial, approved the jury's damages award of US\$14,300, plus interest and court costs, and certified the matter for appeal. The judge denied the plaintiff's request for enhanced damages based on wilful infringement and refused the plaintiff's motion for a permanent injunction that would have prevented the rental of Pason's automatic driller in the US.

The Company appealed the verdict to the Federal Circuit. Subsequently, the Federal Circuit determined that the certification was premature and remanded the case to the trial court, where further proceedings were stayed in deference to the re-examination proceedings described below.

Upon application by the Company, the US Patent and Trademark Office (USPTO) determined in August 2009 that prior art not previously considered in the prosecution of the patent at issue raised substantial new questions of patentability. In February 2010, the USPTO issued a "Final Rejection", rejecting two claims of the 142 Patent that were previously litigated in the US case but also confirmed two others. In response, the plaintiff moved to amend the two rejected claims to overcome the rejection. On March 27, 2010, the USPTO examiner allowed the plaintiff's amendment and in August 2010 issued a Re-examination Certificate that concluded the re-examination proceeding.

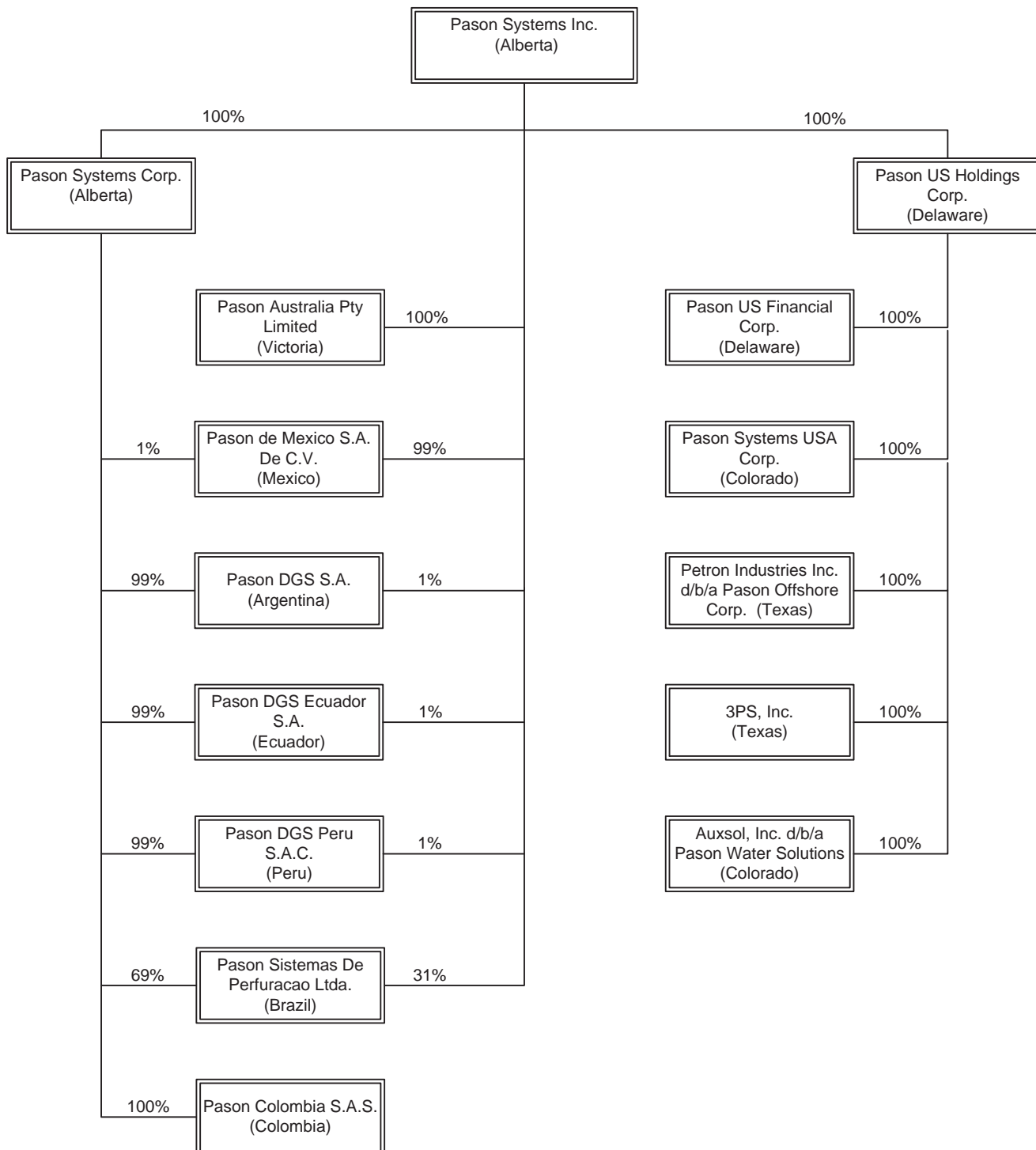
The matter is now back in front of the trial court for a trial on Pason's inequitable conduct claims and the plaintiff's request for post verdict damages and enhanced damages for rentals that occurred from November 8, 2008 until Pason implemented a new control algorithm in its automatic driller, a process that began in early 2009 and was substantially completed by April of that year. The plaintiff is not at this time

seeking damages or an injunction against the modified device. The evidentiary portion of that trial occurred November 2011 and will be followed by final arguments concluding in April or May of 2012. If the Company does not prevail on its inequitable conduct defence and claim, it intends to renew its appeal on all issues.

The trial of the Canadian case was held in January–February, 2011. Since that time and prior to a judgment being issued, additional relevant documents were located, and the Company successfully brought a motion to reopen the trial to consider that evidence. Additional evidence was heard in November of 2011 and final arguments were made in January 2012. A decision from the Federal Court of Canada will follow. Management's assessment of the outcome continues to be that the asserted claims of the patent are not valid, and/or the Company does not infringe on any valid claims, and as a result, the Canadian litigation is not expected to have a significant adverse impact on the Company's financial position or operations. The outcome of the US case does not bind a Canadian Court. Accordingly, no amount has been accrued for any potential loss under the Canadian case in the consolidated financial statements.

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.

20. Organizational Structure



21. Explanation of Transition to IFRS

As stated in Note 2, these are the Group's consolidated financial statements prepared in accordance with IFRS.

The accounting policies set out in Note 3 have been applied in preparing the Consolidated Statement of Operations and the Consolidated Statement of Cash Flows for the year ended December 31, 2011, and the comparative information presented for the year ended December 31, 2010, the Consolidated Balance Sheets as at December 31, 2010, and in the preparation of an opening IFRS Consolidated Balance Sheet as at January 1, 2010 (the Group's date of transition).

In preparing its opening IFRS statement of financial position, the Group has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP. An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Group's financial position, financial performance and cash flows is set out in the following notes and tables.

Elected exemptions from full retrospective application

In preparing these consolidated financial statements in accordance with "First-time Adoption of International Financial Reporting Standards" (IFRS 1), the Company has applied certain of the optional exemptions from full retrospective application of IFRS. The optional exemptions applied are described below:

(a) Business combinations

The Company has elected not to apply IFRS 3 Business Combinations retroactively to past business combinations. Accordingly, the Company has not restated business combinations that took place prior to January 1, 2010.

(b) Fair value or revaluation as deemed cost

The Company has elected to use revaluation amounts previously determined under Canadian GAAP as its deemed cost for property, plant and equipment. The cost model will be used for recognition and measurement of new asset transactions after the adoption of IFRS.

(c) Cumulative translation differences

The Company has elected to set the previously accumulated translation account, which was included in Accumulated Other Comprehensive Loss, to nil at January 1, 2010 and absorbed the previously accumulated translation balance into retained earnings. The exemption has been applied to all subsidiaries.

(d) Share-based payment transactions

The Company has a stock option program. Under previous Canadian GAAP, the Group accounted for these stock-based payment arrangements by reference to either their intrinsic value or fair value, with fair value based upon the Black-Scholes pricing model. The Company has elected to apply IFRS 2 Share-based Payments to equity instruments granted after November 7, 2002, which had not vested by the transition date using the Black-Scholes tranche level accelerated amortization model.

Under IFRS, all options are accounted for by reference to their fair value. The Group anticipates that a significant number of options will be settled in cash and as a result, a liability is recorded.

Mandatory exceptions to retrospective application

In preparing these consolidated financial statements in accordance with IFRS 1, the Company has applied certain mandatory exceptions from full retrospective application of IFRS. The mandatory exceptions applied from full retrospective application of IFRS are described below:

(e) Estimates

The estimates previously made by the Company under Canadian GAAP are consistent in their application under IFRS.

Re-classifications

(f) Computer Software

Under IAS 38, computer software has been reclassified from property, plant and equipment to intangible assets.

(g) Deferred Taxes

Under IAS 12, all deferred taxes are classified as non-current, regardless 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 effect of this re-class is as follows:

As at,	December 31, 2010	January 1, 2010
	(\$)	(\$)
Asset		
Previous current deferred income taxes	15,551	10,425
Previous long-term deferred income taxes	16,382	14,558
	31,933	24,983
Reclassification	(22,090)	(20,212)
Deferred tax assets	9,843	4,771
Liability		
Previous current deferred income taxes	--	--
Previous long-term deferred income taxes	27,174	22,736
	27,174	22,736
Reclassification	(22,090)	(20,212)
Deferred tax liabilities	5,084	2,524

Material Adjustments to the Statement of Cash Flows for 2010

The only material difference between the statement of cash flows presented under IFRS and the statement of cash flows presented under Canadian GAAP result from the increase in stock-based payment expense upon adopting IFRS 2 using the Black-Scholes tranche level accelerated amortization model. The adoption of IFRS 2 does not result in a change to cash.

Reconciliation of Assets, Liabilities, and Equity as reported under Canadian GAAP to IFRS

As at	December 31, 2010				January 1, 2010		
	Note 21	CDN GAAP	Adj	IFRS	CDN GAAP	Adj	IFRS
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Assets							
Current							
Cash and cash equivalents		110,400	--	110,400	109,849	--	109,849
Trade and other receivables		79,880	--	79,880	39,102	--	39,102
Prepaid expenses		1,489	--	1,489	1,416	--	1,416
Income taxes recoverable		--	--	--	2,928	--	2,928
Total current assets		191,769	--	191,769	153,295	--	153,295
Non-current							
Property, plant and equipment	(f)	162,797	(915)	161,882	170,678	(1,666)	169,012
Intangible assets	(f)	37,673	915	38,588	25,529	1,666	27,195
Deferred tax assets	(g)	9,843	--	9,843	4,771	--	4,771
Total non-current assets		210,313	--	210,313	200,978	--	200,978
Total assets		402,082	--	402,082	354,273	--	354,273
Liabilities and equity							
Current							
Trade payables, accruals and provisions		51,398	--	51,398	29,780	--	29,780
Income taxes payable		9,021	--	9,021	--	--	--
Stock-based compensation liability	(d)	5,444	6,201	11,645	1,320	2,674	3,994
Dividend payable		13,890	--	13,890	11,408	--	11,408
Total current liabilities		79,753	6,201	85,954	42,508	2,674	45,182
Non-current							
Stock-based compensation liability	(d)	4,878	(3,518)	1,360	906	738	1,644
Deferred tax liabilities	(g)	5,084	--	5,084	2,524	--	2,524
Total non-current liabilities		9,962	(3,518)	6,444	3,430	738	4,168
Equity							
Share capital		75,040	--	75,040	71,864	--	71,864
Employee benefits reserve	(d)	12,331	897	13,228	14,029	1,110	15,139
Foreign currency translation reserve	(c)	(28,699)	22,651	(6,048)	(22,651)	22,651	--
Retained earnings		253,695	(26,231)	227,464	245,093	(27,173)	217,920
Total equity		312,367	(2,683)	309,684	308,335	(3,412)	304,923
Total liabilities and equity		402,082	--	402,082	354,273	--	354,273

Reconciliation of Retained Earnings

	December 31, 2010	January 1, 2010
Accumulated other comprehensive loss	(22,651)	(22,651)
Stock-based compensation	(3,580)	(4,522)
Change in retained earnings	(26,231)	(27,173)

Reconciliation of Comprehensive Income for the Year Ended December 31, 2010

	Note 21	Year Ended December 31, 2010		
		CDN GAAP (\$)	Adj (\$)	IFRS (\$)
Revenue				
Equipment rentals and other		249,562	--	249,562
Operating expenses				
Rental services		94,299	--	94,299
Local administration		8,461	--	8,461
Depreciation and amortization		49,108	--	49,108
		151,868	--	151,868
Operating profit		97,694	--	97,694
Other expenses				
Research and development		16,472	--	16,472
Corporate services		9,309	--	9,309
Stock-based compensation	(d)	12,175	(942)	11,233
Manufacturing and distribution		1,450	--	1,450
Foreign exchange and other		2,047	--	2,047
Impairment loss		6,656	--	6,656
		48,109	(942)	47,167
Income before income taxes		49,585	942	50,527
Income taxes		14,053	--	14,053
Net income		35,532	942	36,474
Other comprehensive income:				
Foreign currency translation adjustment		(6,048)	--	(6,048)
Total comprehensive income		29,484	942	30,426
Earnings per share				
Basic		0.44	0.01	0.45
Diluted		0.44	0.01	0.45

Reconciliation of Cash Flows for the Year Ended December 31, 2010

	Note 21	Year Ended December 31, 2010		
		CDN GAAP (\$)	Adj (\$)	IFRS (\$)
Cash flows from operating activities				
Net income	(d)	35,532	942	36,474
Adjustment for non-cash items:				
Depreciation and amortization		49,108	--	49,108
Impairment loss		6,656		6,656
Stock-based compensation	(d)	8,051	(942)	7,109
Deferred income taxes		(5,771)	--	(5,771)
Unrealized foreign exchange gain		397	--	397
		93,973	--	93,973
Movements in working capital				
Increase in trade and other receivables		(35,010)	--	(35,010)
Increase in prepaid expenses		(112)	--	(112)
Increase in income taxes payable		13,450	--	13,450
Increase in trade payables, accruals and provisions		6,248	--	6,248
Increase in stock-based compensation liability		639	--	639
Effects of exchange rate changes		1,667	--	1,667
		(13,118)	--	(13,118)
Cash generated from operating activities		80,855	--	80,855
Income tax paid		(1,500)	--	(1,500)
Net cash from operating activities		79,355	--	79,355
Cash flows used in financing activities				
Proceeds from issuance of common shares under the stock option plan		2,736	--	2,736
Purchase of stock options		(1,854)	--	(1,854)
Payment of dividends		(24,448)	--	(24,448)
Net cash used in financing activities		(23,566)	--	(23,566)
Cash flows used in investing activities				
Additions to property, plant and equipment		(45,419)	--	(45,419)
Additions to intangibles		(358)	--	(358)
Deferred development costs, net of investment tax credits received		(4,387)	--	(4,387)
Proceeds on disposal of property, plant and equipment		72	--	72
Business acquisitions, net of cash acquired		(8,944)	--	(8,944)
Changes in non-cash working capital		5,973	--	5,973
Net cash used in investing activities		(53,063)	--	(53,063)
Effect of exchange rate changes on cash		(2,175)	--	(2,175)
Net increase in cash		551	--	551
Cash and cash equivalents, beginning of year		109,849	--	109,849
Cash and cash equivalents, end of year		110,400	--	110,400

Corporate Information

Directors

Harold R. Allsopp, MBA, CA⁽²⁾⁽³⁾
President
Habede Holdings Ltd.
Calgary, Alberta

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

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

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

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

Peter S. Mackechnie, CA⁽⁶⁾
Private Investor
Vail, Colorado

(1) Audit Committee Chairman

(2) Audit Committee Member

(3) Compensation Committee Chairman

(4) Compensation Committee Member

(5) Corporate Governance and Nomination
Committee Chairman

(6) Corporate Governance and Nomination
Committee Member

(7) Lead Director

Officers & Key Personnel

Marcel Kessler
President
& Chief Executive Officer

Bob Rodda
Chief Revenue Officer

David Elliott
Chief Financial Officer & Treasurer

David Holodinsky
General Manager, Canada

Greg Lindsay
President & General Manager,
USA

Russell Smith
General Manager, International

Dean Tremaine
Research & Development
Manager

Joe Seeman
Manager, Global Logistics &
Supply Chain

James Parks
Manager Support Services

Ken Ledger
Enterprise Risk Manager

Ron Dudar
Human Resources Manager

Bryce McLean
Secretary

Corporate Head Office

Pason Systems Inc.
6130 3rd Street S.E.
Calgary, Alberta, Canada
T2H 1K4

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InvestorRelations@pason.com
www.pason.com

Auditors

Deloitte & Touche 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

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 Tuesday, May 8, 2012, at 3:30 pm (MST) at the offices of Pason Systems Inc., 6120 Third Street S.E., 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⁽¹⁾

Year Ended December 31,

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
(CDN 000s, except per share data) (Unaudited)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Operating Results										
Revenue	333,520	249,562	145,861	292,528	236,439	240,584	175,747	122,212	91,801	55,311
Expenses										
Rental services	111,364	94,299	72,428	106,600	83,058	72,933	52,193	38,422	27,650	21,767
Manufacturing and distribution	1,601	1,450	431	2,683	2,636	9,459	6,422	3,579	2,835	2,359
Corporate services and local administration	29,661	17,770	11,611	13,250	12,708	6,699	4,076	3,062	2,647	2,427
Research and development	17,366	16,472	13,140	12,888	9,566	8,255	6,379	4,995	3,663	3,009
Stock-based compensation	1,309	11,233	5,684	7,525	5,248	4,597	2,595	1,290	170	--
Depreciation and amortization	58,565	49,108	55,842	55,719	42,797	39,923	27,198	18,992	15,017	8,913
Impairment losses	4,580	6,656	--	--	--	--	--	--	--	--
EBITDA ⁽²⁾	176,241	117,524	46,651	144,883	128,088	143,238	106,677	72,154	55,005	25,749
As a % of revenue	52.8	47.1	32.0	49.5	54.2	59.5	60.7	59.0	59.9	46.6
Per share-basic	2.15	1.44	0.57	1.78	1.61	1.84	1.40	0.97	0.76	0.36
Funds flow from operations ⁽²⁾	145,358	93,973	41,354	124,726	103,766	107,451	79,369	54,640	40,463	18,534
Per share – basic	1.78	1.15	0.51	1.53	1.30	1.38	1.04	0.73	0.56	0.26
Earnings (loss)	86,223	36,474	(5,510)	61,321	55,052	64,531	50,280	33,842	24,596	9,606
Per share – basic	1.05	0.45	(0.07)	0.75	0.69	0.83	0.66	0.46	0.34	0.14
Capital expenditures	78,541	50,164	21,493	56,292	76,615	71,233	76,064	41,518	34,041	14,069
Financial Position										
Total assets	455,901	402,082	354,273	427,016	302,593	270,860	216,306	139,012	112,289	90,191
Working capital	126,605	105,815	108,113	152,337	77,806	58,495	23,684	21,540	9,235	4,295
Shareholders' equity	367,269	309,684	308,335	354,589	270,717	231,209	163,159	114,747	83,902	65,878
Return on shareholders'	23%	12%	(2%)	20%	22%	33%	36%	34%	33%	16%
Common Share Data										
Common shares outstanding (#)										
At December 31	81,904	81,714	81,487	81,456	80,346	78,738	77,045	75,530	73,784	71,612
Weighted average	81,851	81,525	81,476	81,426	79,586	77,899	76,240	74,658	72,700	70,992
Share trading										
High (\$)	16.53	14.82	14.45	18.40	17.93	19.20	15.13	9.90	6.38	3.34
Low (\$)	11.53	10.31	8.26	8.00	11.51	13.11	8.86	5.75	2.91	2.16
Close (\$)	12.00	13.96	11.65	14.05	12.49	13.26	14.45	9.25	6.30	2.99
Volume (#)	24,658	23,793	28,605	36,505	34,560	22,804	22,884	36,900	18,540	21,916

(1) Comparative 2010 figures have been restated to conform to International Financial Reporting Standards. The 2009 and previous figures are presented in accordance with the Company's previous accounting framework, Canadian generally accepted accounting principles.

(2) EBITDA is defined as earnings before interest expense, income taxes, stock-based compensation expense, depreciation and amortization expense, and impairment losses. 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 shareholders' equity is calculated as earnings over the simple average of the beginning and ending shareholders' equity. These definitions are not recognized measures under Canadian generally accepted accounting principles, and accordingly, may not be comparable to measures used by other companies.



pason systems inc.

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