



SECOND QUARTER INTERIM REPORT

For the three and six months ended June 30, 2019

pason

Performance Data

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
(CDN 000s, except per share data)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue	72,894	68,271	7	155,037	142,084	9
EBITDA ⁽¹⁾	25,606	23,614	8	66,041	55,834	18
Adjusted EBITDA ⁽¹⁾	30,675	29,458	4	71,316	64,211	11
As a % of revenue	42.1	43.1	(100) bps	46.0	45.2	80 bps
Funds flow from operations	23,794	27,836	(15)	59,693	61,794	(3)
Per share – basic	0.28	0.33	(15)	0.70	0.73	(4)
Per share – diluted	0.28	0.32	(13)	0.69	0.72	(4)
Cash from operating activities	37,938	27,617	37	46,380	51,961	(11)
Capital expenditures	4,216	4,771	(12)	14,533	10,568	38
Free cash flow ⁽¹⁾	32,547	23,133	41	32,932	42,039	(22)
Cash dividends declared	0.18	0.17	6	0.36	0.34	6
Net Income	9,245	5,479	69	28,289	17,838	59
Per share – basic	0.11	0.06	83	0.33	0.21	57
Per share – diluted	0.11	0.06	83	0.33	0.21	57
Total interest bearing debt	—	—	—	—	—	—
Shares outstanding end of period (#000's)	85,393	85,378	—	85,393	85,378	—

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Q2 2019 vs Q2 2018

The Company generated consolidated revenue of \$72.9 million in the second quarter of 2019, an increase of 7% from the same period in 2018. The increase is attributable to increased activity in the International business unit, increased market share and an increase in revenue per EDR day in the US and Canadian business units, offset by lower drilling activity in both of these units.

Adjusted EBITDA increased to \$30.7 million in the second quarter, an increase of 4% from the same period in 2018. The increase in adjusted EBITDA was driven by the increase in consolidated gross profit offset by an increase in research and development expense.

Funds flow from operations was \$23.8 million in the second quarter, a decrease of 15% from the same period in 2018. The decrease is driven by an increase in current tax expense as a result of the Company no longer having tax loss carry forwards to reduce current income tax expense.

Cash from operating activities was \$37.9 million in the second quarter of 2019, an increase of 37% from the same period in 2018. The increase is attributable to movements in working capital.

Free cash flow was \$32.5 million in the second quarter of 2019, an increase 41% from the same period in 2018. The increase is largely driven by the increase in cash from operating activities.

The Company recorded net income of \$9.2 million (\$0.11 per share) in the second quarter of 2019, compared to net income of \$5.5 million (\$0.06 per share) recorded in the same period in 2018. Net income was positively impacted by increased activity and profitability in the International business unit, a smaller foreign exchange loss, lower stock-based compensation expense, and a lower effective tax rate. These positive impacts were

offset by higher research and development costs and a non-cash charge associated with the Chapter 7 bankruptcy filing by the Company's sub-lease tenant.

President's Message

Pason continues to perform well despite the fact that we have witnessed decreases in industry activity in the second quarter in the United States and in Canada of 6% and 24%, respectively. The company generated revenue of \$72.9 million in the period, an increase of 7% compared to the same quarter last year. The main drivers of revenue growth were higher activity levels in all of Pason's international markets, and higher market share and an increase in revenue per EDR day in the US and Canadian business units.

Adjusted EBITDA was \$30.7 million for the quarter, an increase of 4%. Adjusted EBITDA as a percentage of revenue was 42% compared to 43% one year ago. Pason recorded net income for the quarter of \$9.2 million (\$0.11 per share) compared to \$5.5 million (\$0.06 per share) in the prior year quarter.

Second quarter revenue, adjusted EBITDA, and net income were down from first the quarter 2019 due to the seasonality of Canadian drilling activity.

At June 30, 2019, our working capital position stood at \$250 million, including cash and short-term investments of \$189 million. Consistent growth in the regular dividend remains a priority within our capital allocation program and, as such, we are increasing our quarterly dividend to \$0.19 per share.

Key developments in our five product categories were as follows:

- **Drilling Data** contains all products and services associated with acquiring, displaying, storing, and delivering drilling data. Revenue in this segment increased 11% in the second quarter compared to the prior year period and accounted for 54% of our total revenue. The increase was driven by an increase in international drilling activity, with the largest absolute increases in Australia and Argentina, EDR market share gains in North America and strong customer demand for data delivery products.
- **Mud Management & Safety** includes products such as the Pit Volume Totalizer, Smart Alarms, Gas Analyzer, Hazardous Gas Alarm, and the Electronic Choke Actuator. In the second quarter, Mud Management & Safety revenue increased 10% and generated 29% of total revenue.
- **Drilling Intelligence** bundles Pason's product offerings targeted at enabling our customers' drilling optimization and automation efforts. It contains products such as autodrillers, abbl Directional Advisor®, the ExxonMobil Drilling Advisory System® and Pivot, a pipe oscillation system for improving slide drilling. Drilling Intelligence increased 5% in the second quarter compared to the prior year and accounted for 6% of our total revenue.
- **Communications** includes satellite and terrestrial Internet bandwidth, Wireless Rigsite, VoIP and Intercom services and accounted for 6% of total revenue. Revenue in this segment is showing negative growth because of the transition from satellite to terrestrial bandwidth with lower pricing, but better user experience, for our customers.
- **Analytics & Other** includes our Verdazo Discovery Analytics product suite, various reports, and other revenue streams. This segment is not directly correlated to drilling activity, grew 8% and accounted for 5% of total revenue in the second quarter.

R&D and IT expenses grew 16% in the second quarter compared to the prior year period. The drivers of this growth were a greater proportion of project costs being expensed and the ongoing transition to a more cloud-based IT infrastructure, which implies lower capital spending but higher operating costs in the IT space.

From a macro perspective, oil demand forecasts have been reduced slightly on global trade fears and geopolitical tensions, but no change for the medium-term outlook is anticipated. On the supply side, we continue to see US shale oil as the only source of global production growth. These effects, combined with the recent decision by OPEC and Russia to extend production cuts through the first quarter of 2020, are likely to keep oil prices around present levels.

However, we believe that a paradigm shift is underway in North American land and the outlook for E&P investments has deteriorated. This ought to temper any enthusiasm around growing E&P capital expenditures in the near term. E&P drilling plans will likely be restrained as they focus on keeping capital spending levels within operating cash flows.

In contrast, international land E&P investment is expected to continue growing about 10% annually leading to further increases in international rig counts. Pason's leading market positions in Latin America and Australia, and our growing presence in the Middle East, will allow us to generate profitable growth in our International business unit.

We are keeping our fixed costs low and maintain flexibility for our plans for 2019 and 2020, which gives us the means and confidence to address any activity scenario. Our capital expenditures will be relatively modest going forward with a larger portion of development efforts focused on software and analytics. We intend to spend up to \$30 million in capital expenditures in 2019. Our highly capable and flexible IT and communications platform can host additional new Pason and third-party software at the rigsite and in the cloud.

Our market positions remain strong, and we expect to be able to deliver growth in our international markets and through higher product adoption going forward. We are the service provider of choice for many leading operators and drilling contractors with Pason equipment installed on over 65% of all active land drilling rigs in the Western Hemisphere.



Marcel Kessler
President and Chief Executive Officer
August 8, 2019

Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of August 8, 2019, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the Consolidated Financial Statements and accompanying notes.

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

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

Impact of IFRS 16

The Company adopted IFRS 16, Leases, effective January 1, 2019, using the modified retrospective approach. This new standard supersedes IAS 17, Leases, and introduces a single lessee accounting model by eliminating a lessee's classification of leases as either operating leases or finance leases. Comparative figures have not been restated. Further disclosure is provided in Note 3 to the Condensed Consolidated Interim Financial Statements.

The impact of adopting this new standard on IFRS Measures and Non-IFRS Measures is described below. The figures presented below are the 2019 actual numbers that are classified differently than the 2018 comparative figures. Effectively, the operating expense line items recognized under the previous standard will be bifurcated between depreciation expense and interest expense.

Impact on IFRS Measures

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
(000s)	(\$)	(\$)
Reduction in rental services and local administration expenses	285	557
(Increase) reduction in research and development expenses	(98)	135
Reduction in corporate services costs	296	592
(Increase) in depreciation of right of use assets	(481)	(1,280)
(Increase) in net interest expense on lease liabilities	(100)	(230)
Reduction in Income tax provision	29	61
(Decrease) in net income	(69)	(165)
Increase in depreciation of right of use assets	481	1,280
(Reduction) in Income tax provision	(29)	(61)
Total increase in funds flow from operations and cash from operating activities	383	1,054

Impact on Non-IFRS Measures

	Three Months Ended June 30,	Six Months Ended June 30,
(000s)	(\$)	(\$)
Decrease in rental services and local administration - Canada operating segment	40	80
Decrease in rental services and local administration - United States operating segment	199	396
Decrease in rental services and local administration - International operating segment	46	81
(Increase) decrease in research and development expenses	(98)	135
Decrease in corporate services costs	296	592
Total increase in EBITDA and Adjusted EBITDA	483	1,284

Additional IFRS Measures

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

Funds flow from operations

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

Cash from operating activities

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

Non-IFRS Financial Measures

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

Revenue per EDR day

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

EBITDA

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

Adjusted EBITDA

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

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

Free cash flow

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

Overall Performance

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	39,269	35,420	11	82,522	72,715	13
Mud Management and Safety	21,142	19,304	10	44,816	40,564	10
Communications	4,582	6,111	(25)	10,539	13,909	(24)
Drilling Intelligence	4,588	4,374	5	10,561	8,955	18
Analytics and Other	3,313	3,062	8	6,599	5,941	11
Total revenue	72,894	68,271	7	155,037	142,084	9

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

Total revenue increased 7% in the second quarter of 2019 compared to the corresponding period in 2018. This increase is attributable to an increase in revenue per EDR day in all three operating segments combined with an increase in the activity in the International business unit.

Industry activity in the US market decreased by 6% in the second quarter of 2019 compared to the corresponding period in 2018, while second quarter Canadian industry activity decreased by 24%.

US EDR days decreased by 5% in the second quarter of 2019 compared to the corresponding period in 2018, while Canadian EDR days, which includes non-oil and gas-related activity, decreased 23% from 2018 levels.

In the second quarter of 2019, the Pason EDR was installed on 62% of the land rigs in the US market, an increase of 100bps over the same time period in 2018.

In the second quarter of 2019, the Pason EDR was installed on 87% of the land rigs in the Canadian market, an increase of 200bps over the same period in 2018. For the purposes of market share, the Company uses the number of EDR days billed and oil and gas drilling days as reported by accepted industry sources.

For the second quarter of 2019, the Company saw an increase in activity in all major regions of the International business unit with the largest absolute increases in Australia and Argentina.

Communication revenue decreased 25% in the second quarter of 2019 compared to the corresponding period in 2018. In the Company's major operating segments, wellsite communications have been transitioning from satellite to terrestrial bandwidth. The transition has resulted in a lower rental service cost to Pason with cost savings shared with its customers.

Discussion of Operations

United States Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	29,242	26,973	8	58,418	50,671	15
Mud Management and Safety	17,038	14,643	16	34,255	27,879	23
Communications	3,101	4,200	(26)	6,330	7,898	(20)
Drilling Intelligence	3,128	2,909	8	6,280	5,053	24
Analytics and Other	1,122	1,553	(28)	2,813	2,885	(2)
Total revenue	53,631	50,278	7	108,096	94,386	15
Rental services and local administration	20,250	17,455	16	39,340	34,340	15
Depreciation and amortization	5,062	4,100	23	9,836	7,928	24
Segment gross profit	28,319	28,723	(1)	58,920	52,118	13

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	(%)	2019	2018	(%)
(000s)	\$	\$		(#)	(#)	
Electronic Drilling Recorder (EDR) Rental Days	53,600	56,300	(5)	109,300	107,200	2

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	(%)	2019	2018	(%)
	\$	\$		(\$)	(\$)	
Revenue per EDR day - USD	745	685	9	736	682	8
Revenue per EDR day - CAD	996	884	13	981	872	13

Revenue from the US operations increased by 7% in the second quarter of 2019 over the 2018 comparable period (4% when measured in USD).

Industry activity in the US market decreased by 6% in the second quarter of 2019 over the 2018 comparable period as US producers continue to restrict capital spending. On a year to date basis, industry activity in the US market increased by 1%. US market share was 62% for the second quarter of 2019 compared to 61% during the same period in 2018.

EDR rental days decreased by 5% in the second quarter of 2019 over the 2018 comparable period. Revenue per EDR day increased to US\$745 in the second quarter of 2019, an increase of US\$60 over the same period in 2018. The increase in revenue per EDR day was driven by higher adoption of data delivery, drilling intelligence products and other peripheral products and selective price increases on certain products.

Communication revenue decreased 26% in the second quarter of 2019 compared to the corresponding period in 2018. Wellsite communications have been transitioning from satellite to terrestrial bandwidth. The transition has resulted in a lower rental service cost to Pason with cost savings shared with its customers.

Rental services and local administration increased by 16% in the second quarter of 2019 over the 2018 comparative period (13% when measured in USD). The increase in operating costs is attributable to higher

field staff levels, particularly in the Permian Basin, and higher direct costs to support additional activity. Included in these costs are administrative expenses relating to Pason Power.

Depreciation expense increased by 23% in the second quarter of 2019 over the 2018 comparative period. The increase is due to the adoption of IFRS 16, Leases, an increase in the capital program, and a stronger US dollar relative to the Canadian dollar.

Canadian Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	3,642	4,180	(13)	11,734	14,100	(17)
Mud Management and Safety	2,296	2,962	(22)	6,979	9,623	(27)
Communications	1,060	1,506	(30)	3,352	5,275	(36)
Drilling Intelligence	1,179	1,117	6	3,669	3,235	13
Analytics and Other	1,038	900	15	1,994	1,856	7
Total revenue	9,215	10,665	(14)	27,728	34,089	(19)
Rental services and local administration	4,873	6,136	(21)	10,582	13,464	(21)
Depreciation and amortization	3,824	4,223	(9)	8,379	8,608	(3)
Segment gross profit	518	306	69	8,767	12,017	(27)

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018		2019	2018	
(000s)	\$	\$	(%)	(#)	(#)	(%)
Electronic Drilling Recorder (EDR) Rental Days	6,400	8,300	(23)	21,900	29,400	(26)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018		2019	2018	Change
	\$	\$	(%)	(\$)	(\$)	(%)
Revenue per EDR day - CAD	1,290	1,184	9	1,185	1,102	8

Canadian drilling activity in the second quarter of 2019 decreased by 24% relative to the same period in 2018, while EDR rental days decreased 23% in the second quarter of 2019 compared to 2018. On a year to date basis, Canadian drilling activity has decreased 29%. The decrease in drilling activity was impacted by spending constraints, production curtailments, and wet weather in many parts of western Canada.

Revenue in the Canadian business unit decreased by 14% in the second quarter of 2019 over the 2018 comparative period. Canadian market share was 87% for the second quarter of 2019 compared to 85% during the same period of 2018.

Revenue per EDR day increased by \$106 to \$1,290 during the second quarter of 2019 compared to 2018. The increase is driven by the successful introduction of drilling intelligence products and increased data delivery functionality.

Rental services and local administration decreased by 21% in the second quarter of 2019 relative to the same period in 2018, primarily due to the bandwidth cost savings the Company has achieved in its communications category.

Depreciation and amortization expense decreased by 9% in the second quarter of 2019 over the 2018 comparative period. The decrease is due to a greater proportion of research and development project costs being expensed for accounting purposes, rather than being capitalized and amortized, and the recording of investment tax credits.

Segment gross profit for the second quarter of 2019 increased 69% to \$0.5 million compared to \$0.3 million in segment gross profit in the 2018 comparative period.

International Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	6,385	4,267	50	12,370	7,944	56
Mud Management and Safety	1,808	1,699	6	3,582	3,062	17
Communications	421	405	4	857	736	16
Drilling Intelligence	281	348	(19)	612	667	(8)
Analytics and Other	1,153	609	89	1,792	1,200	49
Total revenue	10,048	7,328	37	19,213	13,609	41
Rental services and local administration	5,540	4,765	16	10,846	9,448	15
Depreciation and amortization	1,092	897	22	1,985	1,859	7
Segment gross profit	3,416	1,666	105	6,382	2,302	177

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

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

Revenue in the International business unit increased by 37% in the second quarter of 2019 compared to the same period in 2018.

Rental services and local administration expenses increased by 16% in the second quarter of 2019 compared to the same period in 2018. Depreciation expense increased by 22% in the second quarter of 2019 compared to the same period in 2018. The increase operating costs is attributable higher field staff levels and capital expenditures incurred to support additional activity.

Segment gross profit was \$3.4 million for the second quarter of 2019, an improvement from the \$1.7 million profit recorded in the corresponding period in 2018.

Corporate Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	2019	2018	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Other expenses						
Research and development	7,661	6,617	16	15,405	12,976	19
Corporate services	3,895	3,840	1	7,548	7,645	(1)
Stock-based compensation	3,089	3,855	(20)	6,913	6,389	8
Other						
Foreign exchange loss	553	5,787	(90)	654	8,191	(92)
Net interest expense - lease liability	108	—	—	245	—	—
Interest income - short term investments	(283)	—	—	(468)	—	—
Derecognition of lease receivable	4,289	—	—	4,289	—	—
Other	227	57	298	332	186	78
Total corporate expenses	19,539	20,156	(3)	34,918	35,387	(1)

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

In July 2019, the Company was notified that the tenant that was leasing the Company's previous office space in Colorado, USA filed for Chapter 7 bankruptcy. As a result, the Company derecognized the lease receivable

that it had previously recorded and reported a non-cash charge of \$4.3 million in the second quarter of 2019. Management intends to initiate the process of finding a tenant for the remaining lease term.

Research and development expenses increased in the second quarter of 2019 over the 2018 comparative period. This is due to a greater proportion of research and development project costs being expensed for accounting purposes and the Company's continued transition towards more cloud-based IT infrastructure.

Net interest expense - lease liability is a result of the adoption of the new lease accounting standard.

The Company recorded a significant unrealized foreign exchange loss in the second quarter of 2018 on inter-company advances made to the Company's Argentinian subsidiary as a result of a significant devaluation of the Argentina peso relative to the Canadian dollar.

Q2 2019 vs Q1 2019

Consolidated revenue was \$72.9 million in the second quarter of 2019 compared to \$82.1 million in the first quarter of 2019, a decrease of \$9.2 million. The second quarter of the year is typically the weakest for the Company due to the seasonality of Canadian drilling activity.

Revenue in the US business unit was \$53.6 million in the second quarter of 2019 compared to \$54.5 million in the first quarter of 2019. Sequentially, EDR rental days decreased by 4% which was partially offset by an increase in revenue per EDR days. US market share increased 100bps to 62%.

Revenue in the Canadian business unit was \$9.2 million in the second quarter of 2019 compared to \$18.5 million in the first quarter of 2019.

The International business unit earned revenue of \$10.0 million in the second quarter of 2019 compared to \$9.2 million in the first quarter of 2019. The Company participated in the increase in drilling activity in a number of international markets.

Adjusted EBITDA, which adjusts EBITDA for foreign exchange and certain non-recurring charges, was \$30.7 million in the second quarter of 2019 compared to \$40.6 million in the first quarter of 2019. Funds flow from operations was \$23.8 million in the second quarter of 2019 compared to \$35.9 million in the first quarter of 2019.

The Company recorded net income in the second quarter of 2019 of \$9.2 million (\$0.11 per share) compared to net income of \$19.0 million (\$0.22 per share) in the first quarter of 2019.

Summary of Quarterly Results

Three Months Ended	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019
(000s, except per share data)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue	64,576	66,226	73,813	68,271	82,344	81,965	82,143	72,894
EBITDA ⁽¹⁾	25,493	26,651	32,220	23,614	44,633	38,803	40,435	25,606
Adjusted EBITDA ⁽¹⁾	26,158	27,797	34,753	29,458	42,473	39,303	40,641	30,675
Funds flow from operations	19,896	27,356	33,958	27,836	36,039	30,711	35,899	23,794
Per share – basic	0.23	0.32	0.40	0.33	0.42	0.36	0.42	0.28
Per share – diluted	0.23	0.32	0.40	0.32	0.00	0.36	0.42	0.28
Cash from operating activities	15,128	16,637	24,344	27,617	31,809	23,407	8,442	37,938
Free cash flow ⁽¹⁾	11,002	6,690	18,906	23,133	26,880	16,603	385	32,547
Net Income	7,404	5,014	12,359	5,479	24,386	20,720	19,044	9,245
Per share – basic	0.08	0.06	0.15	0.06	0.00	0.24	0.22	0.11
Per share – diluted	0.08	0.06	0.14	0.06	0.00	0.24	0.22	0.11

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Reconcile Income to EBITDA

Three Months Ended	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Net Income	7,404	5,014	12,359	5,479	24,386	20,720	19,044	9,245
Add:								
Income taxes	3,760	7,043	8,152	5,060	8,754	7,192	7,393	3,469
Depreciation and amortization	11,184	11,701	9,175	9,220	8,904	7,556	10,222	9,978
Stock-based compensation	3,145	2,893	2,534	3,855	2,589	3,335	3,824	3,089
Net interest income	—	—	—	—	—	—	(48)	(175)
EBITDA ⁽¹⁾	25,493	26,651	32,220	23,614	44,633	38,803	40,435	25,606

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
EBITDA	25,493	26,651	32,220	23,614	44,633	38,803	40,435	25,606
Add:								
Foreign exchange	113	1,459	2,404	5,787	(1,516)	1,007	101	553
Derecognition of lease	—	—	—	—	—	—	—	4,289
Other	552	(313)	129	57	(644)	(507)	105	227
Adjusted EBITDA ⁽¹⁾	26,158	27,797	34,753	29,458	42,473	39,303	40,641	30,675

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Reconcile cash from operating activities to free cash flow

Three Months Ended	Sept 30, 2017	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Cash from operating activities	15,128	16,637	24,344	27,617	31,809	23,407	8,442	37,938
Less:								
Net additions to property, plant and equipment	(3,881)	(8,749)	(4,452)	(3,227)	(3,890)	(5,621)	(7,489)	(5,510)
Deferred development costs	(245)	(1,198)	(986)	(1,257)	(1,039)	(1,183)	(568)	119
Free cash flow ⁽¹⁾	11,002	6,690	18,906	23,133	26,880	16,603	385	32,547

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Pason's quarterly financial results vary quarter to quarter due in part to the seasonality of the oil and gas service industry in Canada, which is somewhat offset by the less seasonal nature of US and International operations. The first quarter is generally the strongest quarter for the Company due to strong activity in Canada, where location access is best during the winter. The second quarter is typically 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, access to most areas in Canada becomes available when the ground freezes. Consequently, the performance of the Company may not be comparable quarter to consecutive quarter, but should be considered on the basis of results for the whole year, or by comparing results in a quarter with results in the same quarter for the previous year.

Liquidity and Capital Resources

As at June 30,	2019	2018	Change
(000s)	(\$)	(\$)	(%)
Cash and cash equivalents and short term investments ⁽¹⁾	189,133	177,182	7
Working capital ⁽¹⁾	250,359	224,749	11
Funds flow from operations ⁽¹⁾	59,693	61,794	(3)
Capital expenditures ⁽¹⁾	14,533	10,568	38
As a % of funds flow ^{(1) (2)}	24.3%	17.1%	724 bps

(1) Figures are for the six months ended June 30.

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Payment of Income Tax - Other

During the first quarter of 2019, the Company paid withholding tax owing to the Canada Revenue Agency (CRA) of \$15,304 as part of the Bilateral Advanced Pricing Arrangement entered into with the CRA and the Internal Revenue Service (IRS). The Company will recover this amount from the IRS when its previous years US tax returns are reassessed.

Income Tax Provision

In 2019, the Province of Alberta announced a reduction to corporate income tax rates that decrease the provincial corporate income tax rate from 12% to 8% by 2022. The reduction in the Alberta provincial corporate income tax rate is considered enacted and accordingly the Company recorded its Canadian tax provision based upon these new rates. This change did not have a material impact on the Company's 2019 tax provision.

Normal Course Issuer Bid (NCIB)

During the fourth quarter of 2018, the Company implemented a NCIB program. Under the NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 6,556 common shares, which represent 10% of the public float.

The actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 32 common shares.

The NCIB commenced on December 18, 2018 and expires on December 17, 2019. In the second quarter of 2019, the Company purchased 473 common shares for cancellation, for a total cash consideration of \$9,097. On a year to date basis, the Company purchased 573 common shares for cancellation, for a total cash consideration of \$11,119.

Under an automatic purchase plan with an independent broker (APP), the Company recorded a liability of \$2,000 for share repurchases that could take place during its internal blackout period. The total accrual is included in the Consolidated Balance Sheet under trade payables and accruals.

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	(\$)	(\$)	(\$)	(\$)
Operating leases and other contracts	6,468	7,898	3,235	17,601

Contractual obligations relate primarily to minimum future lease payments required primarily for operating leases of certain facilities. A portion of these future obligations have been recognized on the balance sheet as a leased asset and a corresponding liability, in accordance with IRFS 16, Leases.

The Company has available a \$5.0 million demand revolving credit facility. At June 30, 2019, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at June 30, 2019, there were 85,393 common shares and 5,202 options issued and outstanding.

SEDAR

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

Critical Accounting Estimates

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

Depreciation and Amortization

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

Carrying Value of Assets

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

Stock-Based Payments

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

Income Taxes

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

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

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

Risk and Uncertainties

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

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

Operating Risks

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

Commodity Prices

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

Seasonality

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

Proprietary Rights

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

Litigation

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

Credit Risk

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

Availability of Qualified Personnel

Due to the specialized and technical nature of Pason's business, Pason is highly dependent on attracting and retaining qualified or key personnel. There is competition for qualified personnel in the areas where Pason operates, and there can be no assurance that qualified personnel can be attracted or retained to meet the growth needs of the business. To mitigate this risk, Pason has a Human Resources department within each significant business unit to support that function.

Alternative Energies

There continues to be extensive discussion at all levels of government worldwide and by the public concerning the burning of fossil fuels and the impact this may have on the global environment. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability, which could lead to potentially increased capital expenditures and operating costs. Implementation of strategies for reducing greenhouse gases could have a material impact on the nature of operations of the Company. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and the possible resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Company.

International Operations

Assets outside of Canada and the US may be adversely affected by changes in governmental policy, social instability, or other political or economic developments beyond the Company's control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and considered warranted. Approximately 90% of the Company's revenues are generated in Canada and the US, which limits exposure to risks and uncertainties in foreign countries. The Company's Argentinian subsidiary is operating in a highly inflationary economy and its operating results are being impacted by a weakening Argentina peso relative to the Canadian dollar.

Foreign Exchange Exposure

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

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

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

Major Customers

Pason has a large customer base, consisting of both operators and contractors, and does not rely on any single customer for a significant portion of its revenue. No single customer accounted for more than 10% of the consolidated revenues of the Company. The loss of one or more customers, or a reduction in the amount of business Pason does with any of its customers, if not offset by obtaining new customers or increasing the amount of business it does with existing customers, could have a detrimental impact on Pason's revenue.

Key Personnel

Pason's success depends to a significant extent on the contributions of a number of its officers and key employees. The Company does not carry "key person" insurance on any of its key employees. As such, the loss of services of one or more of these key employees could have a material adverse effect on Pason's business, operating results, or financial condition.

Dividends

The decision to pay dividends and the amount paid is at the discretion of Pason's Board of Directors, which regularly reviews the Company's financial position, operating results, and industry outlook. Pason's ability to pay dividends is dependent on the Company's ability to generate cash flow in excess of its operating and investment needs and the Company's financial position.

Taxation

Pason and its subsidiaries are subject to income and other forms of taxation in the various jurisdictions in which they operate. Pason attempts to structure its operations in a tax efficient manner in light of prevailing tax regimes. Any adverse change to existing taxation measures, policies or regulations, or the introduction of new taxation measures, policies or regulations in any of the jurisdictions in which Pason operates could have a negative impact on Pason's business, operating results, or financial condition.

The management of Pason believes that the provision for income taxes is adequate and in accordance with both generally accepted accounting principles and appropriate regulations. However, the tax filing positions of the Company are subject to review and audit by tax authorities who may challenge and succeed in management's interpretation of the applicable tax legislation.

Information Security

Pason's business operations use an extensive network of communications and computer hardware and software systems. In addition, Pason's equipment captures, transmits, and stores significant quantities of drilling data on behalf of its customers. The Company takes measures to protect the security and integrity of its information systems and data, however, there is a risk that these measures may not fully protect against a potential security breach, which could have a negative impact on the Company's ability to operate or its reputation with existing and potential customers.

Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	June 30, 2019	December 31, 2018
(CDN 000s) (unaudited)		(\$)	(\$)
Assets			
Current			
Cash and cash equivalents	9,12	189,133	203,838
Trade and other receivables		72,713	80,020
Income tax recoverable other	10	15,304	15,304
Prepaid expenses		2,847	3,934
Income taxes recoverable		4,957	6,203
Total current assets		284,954	309,299
Non-current			
Property, plant and equipment	3	123,876	120,417
Intangible assets and goodwill		28,416	32,000
Total non-current assets		152,292	152,417
Total assets		437,246	461,716
Liabilities and equity			
Current			
Trade payables and accruals		25,857	34,229
Income taxes payable other	10	—	15,304
Stock-based compensation liability	6	6,016	3,301
Lease liability	3	2,722	312
Total current liabilities		34,595	53,146
Non-current			
Deferred tax liabilities	11	7,838	17,060
Lease liability	3	12,531	2,233
Stock-based compensation liability	6	5,216	3,200
Total non-current liabilities		25,585	22,493
Equity			
Share capital	6	167,550	164,723
Share-based benefits reserve		28,789	27,287
Foreign currency translation reserve		60,962	63,574
Retained earnings		119,765	130,493
Total equity		377,066	386,077
Total liabilities and equity		437,246	461,716

*The Notes are an integral part of these Consolidated Financial Statements.

Condensed Consolidated Interim Statements of Operations

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note*	2019	2018	2019	2018
(CDN 000s, except per share data) (unaudited)		(\$)	(\$)	(\$)	(\$)
Revenue		72,894	68,271	155,037	142,084
Operating expenses					
Rental services		27,264	25,209	54,058	51,248
Local administration		3,399	3,147	6,710	6,004
Depreciation and amortization		9,978	9,220	20,200	18,395
		40,641	37,576	80,968	75,647
Gross profit		32,253	30,695	74,069	66,437
Other expenses					
Research and development		7,661	6,617	15,405	12,976
Corporate services		3,895	3,840	7,548	7,645
Stock-based compensation expense	6	3,089	3,855	6,913	6,389
Other expense	8	4,894	5,844	5,052	8,377
		19,539	20,156	34,918	35,387
Income before income taxes		12,714	10,539	39,151	31,050
Income tax provision		3,469	5,060	10,862	13,212
Net income		9,245	5,479	28,289	17,838
Income per share	7				
Basic		0.11	0.06	0.33	0.21
Diluted		0.11	0.06	0.33	0.21

*The Notes are an integral part of these Consolidated Financial Statements.

Condensed Consolidated Interim Statements of Other Comprehensive Income

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note*	2019	2018	2019	2018
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
Net income		9,245	5,479	28,289	17,838
Items that may be reclassified subsequently to net income:					
Tax recovery (expense) on net investment in foreign operations related to an inter-company financing	11	9,690	(777)	10,481	(1,766)
Foreign currency translation adjustment		(5,567)	8,874	(13,093)	18,654
Other comprehensive (loss) gain		4,123	8,097	(2,612)	16,888
Total comprehensive income		13,368	13,576	25,677	34,726

*The Notes are an integral part of these Consolidated Financial Statements.

Condensed Consolidated Interim Statements of Changes in Equity

	Note*	Share Capital	Share-Based Benefits Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)	(\$)
Balance at January 1, 2018		150,887	24,425	40,358	131,816	347,486
Net income		—	—	—	17,838	17,838
Dividends		—	—	—	(28,971)	(28,971)
Other comprehensive loss		—	—	16,888	—	16,888
Exercise of stock options	6	4,388	(716)	—	—	3,672
Expense related to vesting of options		—	2,292	—	—	2,292
Balance at June 30, 2018		155,275	26,001	57,246	120,683	359,205
Net income		—	—	—	45,106	45,106
Dividends		—	—	—	(30,814)	(30,814)
Other comprehensive loss		—	—	6,328	—	6,328
Exercise of stock options		8,466	(1,126)	—	—	7,340
Expense related to vesting of options		—	2,412	—	—	2,412
Prior years business acquisition		1,500	—	—	—	1,500
Shares cancelled under Normal Course Issuer Bid		(95)	—	—	(826)	(921)
Liability for automatic share purchase plan commitment pursuant to NCIB		(423)	—	—	(3,656)	(4,079)
Balance at December 31, 2018		164,723	27,287	63,574	130,493	386,077
Net income		—	—	—	28,289	28,289
Dividends		—	—	—	(30,856)	(30,856)
Other comprehensive income	11	—	—	(2,612)	—	(2,612)
Exercise of stock options	6	3,706	(579)	—	—	3,127
Expense related to vesting of options		—	2,081	—	—	2,081
Shares cancelled under Normal Course Issuer Bid	6	(1,100)	—	—	(10,019)	(11,119)
Liability reversal for automatic share purchase plan commitment pursuant to NCIB	6	423	—	—	3,656	4,079
Liability for automatic share purchase plan commitment pursuant to NCIB	6	(202)	—	—	(1,798)	(2,000)
Balance at June 30, 2019		167,550	28,789	60,962	119,765	377,066

*The Notes are an integral part of these Consolidated Financial Statements.

Condensed Consolidated Interim Statements of Cash Flows

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note*	2019	2018	2019	2018
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
Cash from (used in) operating activities					
Net income		9,245	5,479	28,289	17,838
Adjustment for non-cash items:					
Depreciation and amortization		9,978	9,220	20,200	18,395
Stock-based compensation	6	3,089	3,855	6,913	6,389
Deferred income taxes		(1,356)	3,361	1,419	10,664
Derecognition of lease receivable	8	4,289	—	4,289	—
Unrealized foreign exchange (gain) loss and other		(1,451)	5,921	(1,417)	8,508
Funds flow from operations		23,794	27,836	59,693	61,794
Movements in non-cash working capital items:					
Decrease (increase) in trade and other receivables		13,353	2,150	4,099	(6,747)
Decrease in prepaid expenses		742	794	1,021	1,275
(Decrease) increase in income taxes		(2,302)	1,205	1,223	1,270
Increase (decrease) in trade payables, accruals and stock-based compensation liability		834	387	(6,164)	(978)
Effects of exchange rate changes		1,661	76	1,588	310
Cash generated from operating activities		38,082	32,448	61,460	56,924
Income tax paid	10	(144)	(4,831)	(15,080)	(4,963)
Net cash from operating activities		37,938	27,617	46,380	51,961
Cash flows from (used in) financing activities					
Proceeds from issuance of common shares	6	1,114	3,444	3,127	3,672
Payment of dividends	6	(15,417)	(14,491)	(30,856)	(28,971)
Repurchase and cancellation of shares under Normal Course Issuer Bid	6	(9,097)	—	(11,119)	—
Repayment of lease liability	3	(382)	—	(1,053)	—
Net cash used in financing activities		(23,782)	(11,047)	(39,901)	(25,299)
Cash flows (used in) from investing activities					
Additions to property, plant and equipment		(4,335)	(3,514)	(14,084)	(8,325)
Development costs		119	(1,257)	(449)	(2,243)
Proceeds on disposal of investment and property, plant and equipment		508	76	618	96
Purchase of short-term investments		—	(65,840)	—	(65,840)
Changes in non-cash working capital		(1,683)	211	467	550
Net cash used in investing activities		(5,391)	(70,324)	(13,448)	(75,762)
Effect of exchange rate on cash and cash equivalents		(3,563)	2,254	(7,736)	6,313
Net increase (decrease) in cash and cash equivalents		5,202	(51,500)	(14,705)	(42,787)
Cash and cash equivalents, beginning of period		183,931	162,842	203,838	154,129
Cash and cash equivalents, end of period	9	189,133	111,342	189,133	111,342

*The Notes are an integral part of these Consolidated Financial Statements.

Notes to Condensed Consolidated Interim Financial Statements

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

1. Description of Business

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

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

2. Basis of Preparation

Statement of compliance

These unaudited condensed Consolidated Interim Financial Statements have been prepared in accordance with the requirements of International Accounting Standard ("IAS") 34, Interim Financial Reporting and include the accounts of Pason and its wholly owned subsidiaries. All significant inter-company balances and transactions including revenue and expenses have been eliminated. These unaudited condensed Consolidated Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2018.

3. Significant Accounting Policies

Adoption of new standard

IFRS 16, Leases

Effective January 1, 2019, the Company adopted IFRS 16, Leases. This new standard supersedes IAS 17, Leases, and introduces a single lessee accounting model by eliminating a lessee's classification of leases as either operating leases or finance leases.

For the transition of this standard, the Company applied the modified retrospective approach with the recognition of the initial present value of fixed lease payments over the remaining lease term as a right of use asset and a corresponding lease liability on the Consolidated Balance Sheets as at January 2019, each totaling \$9,764. The asset is disclosed as a right-of-use asset and the liability as a lease liability. The weighted average discount rate of 5% was used and is based on our estimated incremental borrowing rate. The prior year figures were not restated.

At the inception of a contract, the Company determines whether such a contract is or contains a lease under IFRS 16. Leased assets are capitalized at the date the lease commences and are comprised of the initial lease liability, less any lease incentives received. The lease term includes periods covered by any option to renew, where it is reasonably certain that the option will be exercised. The lease term will also include periods covered by any option to terminate, where it is reasonably certain that the option will not be exercised. The discount rate used will be the rate implicit in the lease if readily determinable. Depreciation is calculated based on the initial cost of the asset and recognized in net income on a straight line basis over the estimated useful life of the lease. The lease asset is included

in property, plant, and equipment on the Consolidated Balance Sheets. Payments made related to the finance lease obligation are allocated between finance costs and the reduction of the outstanding liability. Finance costs are allocated to each period during the lease term using the effective interest rate method. Leases with durations of twelve months or less and leases for low-value assets are both exempted and in these cases the lease payments will be treated as an expense on the Consolidated Statement of Operations.

The cash flows of the total lease expense over the term of a lease will be unaffected by the new standard. However, the impact of the new standard on the Consolidated Statement of Operations results in the Company's lease expense being presented as depreciation of right of use assets and financing costs arising from lease liabilities rather than being a part of either rental services and local administration expense, research and development expenses, or corporate service costs.

The Company's actual cash flows will be unaffected, however relative to the prior year presentation and the prior standard, the Company's Consolidated Statement of Cash Flows will reflect an increase in net cash from operating activities offset by a corresponding decrease in financing activity cash flows due to the payment of the principal component of leases.

Under the new standard the onerous lease that the Company recorded previously has been segregated into two separate contracts, applying both the lessee and lessor accounting requirements. The sublease the Company entered into is classified as a finance lease for purposes of IFRS 16.

Balance sheet reconciliation as at January 1, 2019

Asset

(000s)	(\$)
Right of use assets - real estate	9,307
Right of use assets - other	457
Right of use asset as at January 1, 2019	9,764

The right of use assets are recorded as Property, plant, and equipment in the Condensed Consolidated Interim Balance Sheets.

Liability

(000s)	(\$)
Operating commitments as at December 31, 2018	18,261
Relief for short term leases and low value assets	(1,103)
New right of use asset entered into	485
Operating commitments not recognized as a lease liability	(6,527)
Gross lease liability as at January 1, 2019	11,116
Discounting	(1,352)
Lease liability as at January 1, 2019	9,764

4. Seasonality

Pason's quarterly financial results vary quarter to quarter due in part to the seasonality of the oil and gas service industry in Canada, which is somewhat offset by the less seasonal nature of US and International operations. The first quarter is generally the strongest quarter for the Company due to strong activity in Canada, where location access is best during the winter. The second quarter is typically the slowest due to spring break-up in Canada, when many areas are not accessible due to ground conditions, and, which, do not permit the movement of heavy equipment. Activity generally increases in the third quarter, depending on the year, as ground conditions often improve and location access becomes available; however, a rainy summer can have a significant adverse effect on drilling activity. By the fourth quarter, access to most areas in Canada becomes available when the ground freezes.

Consequently, the performance of the Company may not be comparable quarter to consecutive quarter, but should be considered on the basis of results for the whole year, or by comparing results in a quarter with results in the same quarter for the previous year.

5. Operating Segments

The Company operates in three geographic segments: Canada, the United States, and International (Latin America, Offshore, the Eastern Hemisphere, and the Middle East). The three geographic segments are considered 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.

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

The following table represents a disaggregation of revenue from contracts with customers along with the reportable segment for each category:

Three Months Ended June 30, 2019	Canada	United States	International	Total
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	3,642	29,242	6,385	39,269
Mud Management and Safety	2,296	17,038	1,808	21,142
Communications	1,060	3,101	421	4,582
Drilling Intelligence	1,179	3,128	281	4,588
Analytics and Other	1,038	1,122	1,153	3,313
Total Revenue	9,215	53,631	10,048	72,894
Rental services and local administration	4,873	20,250	5,540	30,663
Depreciation and amortization	3,824	5,062	1,092	9,978
Segment gross profit	518	28,319	3,416	32,253
Research and development				7,661
Corporate services				3,895
Stock-based compensation				3,089
Other expense				4,894
Income tax expense				3,469
Net Income				9,245
Capital expenditures	592	2,390	1,234	4,216
As at June 30, 2019				
Property plant and equipment	41,013	67,824	15,039	123,876
Goodwill	1,259	7,468	2,600	11,327
Intangible assets	17,089	—	—	17,089
Segment assets	106,984	276,687	53,575	437,246
Segment liabilities	28,337	25,623	6,220	60,180

Three Months Ended June 30, 2018	Canada	United States	International	Total
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	4,180	26,973	4,267	35,420
Mud Management and Safety	2,962	14,643	1,699	19,304
Communications	1,506	4,200	405	6,111
Drilling Intelligence	1,117	2,909	348	4,374
Analytics and Other	900	1,553	609	3,062
Total Revenue	10,665	50,278	7,328	68,271
Rental services and local administration	6,136	17,455	4,765	28,356
Depreciation and amortization	4,223	4,100	897	9,220
Segment gross profit	306	28,723	1,666	30,695
Research and development				6,617
Corporate services				3,840
Stock-based compensation				3,855
Other expense				5,844
Income tax expense				5,060
Net income				5,479
Capital expenditures	1,087	3,537	147	4,771
As at				
Property plant and equipment	40,312	68,432	14,903	123,647
Goodwill	1,259	7,342	2,600	11,201
Intangible assets	21,952	—	—	21,952
Segment assets	110,409	272,311	41,703	424,423
Segment liabilities	45,763	14,713	4,742	65,218

Six Months Ended June 30, 2019	Canada	United States	International	Total
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	11,734	58,418	12,370	82,522
Mud Management and Safety	6,979	34,255	3,582	44,816
Communications	3,352	6,330	857	10,539
Drilling Intelligence	3,669	6,280	612	10,561
Analytics and Other	1,994	2,813	1,792	6,599
Total Revenue	27,728	108,096	19,213	155,037
Rental services and local administration	10,582	39,340	10,846	60,768
Depreciation and amortization	8,379	9,836	1,985	20,200
Segment gross profit	8,767	58,920	6,382	74,069
Research and development				15,405
Corporate services				7,548
Stock-based compensation				6,913
Other expense				5,052
Income tax expense				10,862
Net Income				28,289
Capital expenditures	1,496	11,172	1,865	14,533
As at June 30, 2019				
Property plant and equipment	41,013	67,824	15,039	123,876
Goodwill	1,259	7,468	2,600	11,327
Intangible assets	17,089	—	—	17,089
Segment assets	106,984	276,687	53,575	437,246
Segment liabilities	28,337	25,623	6,220	60,180

Six Months Ended June 30, 2018	Canada	United States	International	Total
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	14,100	50,671	7,944	72,715
Mud Management and Safety	9,623	27,879	3,062	40,564
Communications	5,275	7,898	736	13,909
Drilling Intelligence	3,235	5,053	667	8,955
Analytics and Other	1,856	2,885	1,200	5,941
Total Revenue	34,089	94,386	13,609	142,084
Rental services and local administration	13,464	34,340	9,448	57,252
Depreciation and amortization	8,608	7,928	1,859	18,395
Segment gross profit	12,017	52,118	2,302	66,437
Research and development				12,976
Corporate services				7,645
Stock-based compensation				6,389
Other expense				8,377
Income tax expense				13,212
Net Income				17,838
Capital expenditures	3,050	6,800	718	10,568
As at				
Property plant and equipment	40,312	68,432	14,903	123,647
Goodwill	1,259	7,342	2,600	11,201
Intangible assets	21,952	—	—	21,952
Segment assets	110,409	272,311	41,703	424,423
Segment liabilities	45,763	14,713	4,742	65,218

6. Share Capital

Common Shares				
	Six Months Ended June 30, 2019		Year Ended December 31, 2018	
	(\$)	(#)	(\$)	(#)
Balance, beginning of period	164,723	85,783	150,887	85,158
Exercise of stock options	3,706	183	12,854	595
Previous business acquisition	—	—	1,500	80
Shares repurchased and cancelled under Normal Course Issuer Bid (NCIB)	(1,100)	(573)	(95)	(50)
Prior period liability for automatic share purchase plan commitment pursuant to NCIB	423	—	—	—
Liability for automatic share purchase plan commitment pursuant to NCIB	(202)	—	(423)	—
Balance, end of period	167,550	85,393	164,723	85,783

Common shares

At June 30, 2019, 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 to purchase shares in the Company. Options, which are issued at market price, vest over three years and expire after five years.

At June 30, 2019, 5,202 (2018: 5,225) stock options were outstanding for common shares at exercise prices ranging from \$15.94 to \$26.68 per share, expiring between 2019 and 2024 as follows:

	Six Months Ended June 30, 2019		Six Months Ended June 30, 2018	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
Outstanding, beginning of period	5,534	20.00	5,514	20.06
Granted	40	18.85	—	—
Equity settled	(184)	17.02	(220)	16.74
Expired or forfeited	(188)	22.75	(69)	18.93
Outstanding, end of period	5,202	20.00	5,225	20.21
Exercisable, end of period	2,546	21.17	2,475	22.81
Available for grant, end of period	775		751	

Stock-based compensation expense and liability

The stock option, restricted share unit (RSU), deferred share unit (DSU), and performance share unit (PSU) plans expense can be summarized as follows:

Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(\$)	(\$)	(\$)	(\$)
Stock options	1,009	1,168	2,082	2,291
RSUs	602	1,104	1,600	1,603
DSUs	93	593	414	585
PSUs	1,312	720	2,671	1,370
Deferred compensation expense	73	270	146	540
Stock-based compensation	3,089	3,855	6,913	6,389

Liability

As at	June 30, 2019	December 31, 2018
	(\$)	(\$)
RSUs	2,010	1,109
PSUs	3,277	1,609
Deferred compensation expense	729	583
Current portion of stock-based compensation liability	6,016	3,301
RSUs	940	341
DSUs	2,770	2,355
PSUs	1,506	504
Non-current portion of stock-based compensation liability	5,216	3,200
Total stock-based compensation liability	11,232	6,501

Common share dividends

During the quarter ended June 30, 2019, the Company declared and paid dividends of \$15,417 (2018: \$14,491) or \$0.18 per common share (2018: \$0.17).

Normal Course Issuer Bid (NCIB)

During the fourth quarter of 2018, the Company implemented a NCIB program. Under the NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 6,556 common shares, which represent 10% of the public float.

The actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 32 common shares.

The NCIB commenced on December 18, 2018 and expires on December 17, 2019. In the second quarter of 2019, the Company purchased 473 common shares for cancellation, for a total cash consideration of \$9,097. On a year to date basis, the Company purchased 573 common shares for cancellation, for a total cash consideration of \$11,119.

Under an automatic purchase plan with an independent broker (APP), the Company recorded a liability of \$2,000 for share repurchases that could take place during its internal blackout period. The total accrual is included in the Consolidated Balance Sheet under trade payables and accruals.

As at	June 30, 2019	December 31, 2018
	(\$)	(\$)
Amounts charged to		
Share capital	202	423
Retained earnings	1,798	3,656
Liability for automatic share purchase plan commitment	2,000	4,079

7. Income Per Share

Basic income per share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(#)	(#)	(#)	(#)
Issued common shares outstanding, beginning of period	85,801	85,172	85,783	85,158
Effect of exercised options and NCIB	(151)	70	(60)	50
Weighted average number of common shares outstanding for the period	85,650	85,242	85,723	85,208

Diluted income per share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(#)	(#)	(#)	(#)
Weighted average number of common shares (basic)	85,650	85,242	85,723	85,208
Effect of share options	294	496	327	413
Weighted average number of common shares (diluted)	85,944	85,738	86,050	85,621

Options totaling 2,789 are excluded from the above calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices during the period.

8. Other Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Foreign exchange loss	553	5,787	654	8,191
Net interest expense - lease liabilities	108	—	245	—
Interest income - short term investments	(283)	—	(468)	—
Derecognition of lease receivable	4,289	—	4,289	—
Other	227	57	332	186
Other expense	4,894	5,844	5,052	8,377

In July 2019, the Company was notified that the tenant that was leasing the Company's previous office space in Colorado, USA filed for Chapter 7 bankruptcy. As a result, the Company derecognized the lease receivable that it had previously recorded and reported a non-cash charge of \$4,289 in the second quarter of 2019.

Net interest expense - lease liabilities is a result of the adoption of the new lease accounting standard.

The Company recorded a significant unrealized foreign exchange loss in the second quarter of 2018 on inter-company advances made to the Company's Argentinian subsidiary as a result of a significant devaluation of the Argentina peso relative to the Canadian dollar.

9. Cash and Cash Equivalents

As at	June 30, 2019	December 31, 2018
(CDN 000s) (unaudited)	(\$)	(\$)
Cash	116,293	57,819
Cash equivalents	72,840	146,019
Cash and cash equivalents	189,133	203,838

Cash equivalents are made up of cash invested in money market funds with interest rates of approximately 1.75%, and maturities from 1–30 days.

10. Income Tax Payable - Other

During the first quarter of 2019, the Company paid withholding tax owing to the Canada Revenue Agency (CRA) of \$15,304 as part of the Bilateral Advanced Pricing Arrangement entered into with the CRA and the Internal Revenue Service (IRS). The Company has recorded an amount under current income tax recoverable - other which represents a corresponding amount owing from the IRS.

11. Deferred Tax Liabilities

During the second quarter of 2019 the inter-company financing, which was initially put in place in 2012, expired. The Company refinanced the internal structure and as a result of the restructuring a previously recorded deferred tax liability of \$9,690 was derecognized through the statement of Other Comprehensive Income. To complete the internal financing the Company borrowed \$124,420 against a new day-light loan facility which it repaid the same day.

12. Financial Instruments

The carrying values of financial assets and liabilities approximate their fair value due to the short-term nature of these items. Pason's financial instruments include cash and cash equivalents, short-term investments, trade and other receivables, trade payables and accruals, and stock-based compensation liability.

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	June 30, 2019
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	189,133	—	—	189,133
Total financial assets at fair value	189,133	—	—	189,133

13. Approval of Financial Statements

The condensed unaudited Consolidated Interim Financial Statements were approved by the Board of Directors on August 8, 2019.

14. Events After the Reporting Period

On August 8, 2019, the Company announced a quarterly dividend of \$0.19 per share on the Company's common shares. The dividend will be paid on September 27, 2019 to shareholders of record at the close of business on September 13, 2019.

Corporate Information

Directors

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

James B. Howe⁽¹⁾⁽⁴⁾⁽⁶⁾⁽⁷⁾
President
Bragg Creek Financial
Consultants Ltd.
Calgary, Alberta

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

T. Jay Collins⁽²⁾⁽³⁾⁽⁶⁾
Director
Oceaneering International Inc.
Houston, Texas

Judi Hess⁽²⁾⁽⁴⁾⁽⁵⁾
CEO & Director
Copperleaf Technologies Inc.
Vancouver, British Columbia

Laura Schwinn
President Specialty Catalysts
W. R. Grace & Co.
Columbia, Maryland

(1) Audit Committee Chairman

(2) Audit Committee Member

(3) HR and Compensation Committee
Chairman

(4) HR and Compensation Committee
Member

(5) Corporate Governance and Nominations
Committee Chairman

(6) Corporate Governance and Nomination
Committee Member

(7) Lead Director

Officers & Key Personnel

Marcel Kessler
President
& Chief Executive Officer

Jon Faber
Chief Financial Officer

David Elliott
Vice President, Finance

Timur Kuru
Vice President, Operations – United
States

Bryce McLean
Vice President, Operations – Canada

Russell Smith
Vice President, Operations –
International & Offshore

Ryan Van Beurden
Vice President, Rig-site Research &
Development

Lars Olesen
Vice President, Product Management

Kevin Boston
Vice President, Business Development

Reid Wuntke
Vice President, New Ventures

Natalie Fenez
General Counsel

Corporate Head Office

Pason Systems Inc.
6130 Third Street SE
Calgary, Alberta
T2H 1K4
T: 403-301-3400
F: 403-301-3499
InvestorRelations@pason.com
www.pason.com

Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

**Computershare Trust Company of
Canada**
Calgary, Alberta

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI.TO

Eligible Dividend Designation

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