



MANAGEMENT'S DISCUSSION AND ANALYSIS



For the three and six months ended June 30, 2021

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") has been prepared by management as of August 10, 2021, 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 unaudited interim condensed consolidated financial statements and related notes for the three and six months ended June 30, 2021, the Consolidated Financial Statements for the twelve months ended December 31, 2020 and 2019, accompanying notes, and Pason's Annual Information Form dated March 17, 2021.

The Company uses certain non-GAAP measures to provide readers with additional information regarding the Company's operating performance, ability to generate funds to finance its operations, fund its research and development, capital expenditure program, and pay dividends. These non-GAAP measures are defined under Non-GAAP Financial Measures.

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. For further information, please refer to Forward Looking Information.

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

Company Profile

Pason is a leading global provider of specialized data management systems for oil and gas drilling. Pason's solutions, which include data acquisition, wellsite reporting, automation, remote communications, web-based information management, and data analytics enable collaboration between the drilling rig and the office. Pason services major oil and gas basins with a local presence in the following countries: United States, Canada, Argentina, Australia, Bolivia, Brazil, Columbia, Dubai, Ecuador, Mexico, Peru and Saudi Arabia. The Company has an over 40 year track record of distinctive technology and service capabilities offering end-to-end data management solutions enabling secure access to critical drilling operations information and decision making in real time.

Through Pason's subsidiary, Energy Toolbase (ETB), the Company also provides products and services for the solar power and energy storage industry. ETB's solutions enable solar and energy storage developers to model, control and measure economics and performance of solar energy and storage projects.

For a complete description of services provided by the Company, please refer to the headings 'General Development of the Business' and 'General Description of Business' in Pason's Annual Information Form for the year ended December 31, 2020.

Highlights

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
(CDN 000s, except per share data)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue	43,593	26,848	62	86,148	100,810	(15)
EBITDA ⁽¹⁾	14,984	4,271	251	30,657	37,740	(19)
Adjusted EBITDA ⁽¹⁾	12,786	(848)	nmf	25,956	32,457	(20)
As a % of revenue	29.3	nmf	nmf	30.1	32.2	(210) bps
Funds flow from operations	14,662	134	10,842	28,392	26,856	6
Per share – basic	0.18	—	nmf	0.34	0.32	6
Per share – diluted	0.18	—	nmf	0.34	0.32	6
Cash from operating activities	9,841	29,953	(67)	20,926	55,546	(62)
Capital expenditures	4,520	799	466	6,369	3,887	64
Free cash flow ⁽¹⁾	5,684	29,888	(81)	14,860	52,823	(72)
Cash dividends declared (per share)	0.05	0.19	(74)	0.10	0.38	(74)
Net income (loss)	4,880	(4,799)	nmf	8,871	11,753	(25)
Net income (loss) attributable to Pason	5,307	(4,487)	nmf	9,622	12,432	(23)
Per share – basic	0.06	(0.05)	nmf	0.12	0.15	(21)
Per share – diluted	0.06	(0.05)	nmf	0.12	0.15	(21)

(1) Non-GAAP financial measures are defined under Non-GAAP Financial Measures

As at	June 30, 2021	December 31, 2020	Change
(CDN 000s)	(\$)	(\$)	(%)
Cash and cash equivalents	135,033	149,282	(10)
Working capital	165,010	167,366	(1)
Total interest bearing debt	—	—	—
Shares outstanding end of period	82,775,041	83,088,941	—

Pason's financial results for the three months ended June 30, 2021, reflect the Company's strong competitive positioning, prudent balance sheet, and operating leverage as industry conditions continued to improve from the lows experienced in 2020. In comparison to the second quarter of 2020, which reflected the beginning of historically low activity levels due to impacts of the COVID-19 pandemic, financial results in the second quarter of 2021 have improved significantly. Although improved, results still reflect ongoing headwinds associated with the COVID-19 pandemic on the oil and gas industry, and on a year to date basis, Pason's 2021 results continue to reflect the decline in industry activity from the first quarter of 2020.

Pason generated \$43.6 million in revenue in the second quarter of 2021, a 62% increase from the \$26.8 million generated in the second quarter of 2020 as industry activity improved significantly, and further, the Company grew Revenue per Industry day by 13% during the same period. The second quarter is generally the weakest quarter due to spring break-up in Canada, however, the Company experienced a 2.4% sequential increase in revenue from the \$42.6 million generated in the first quarter of 2021, given the improvement in drilling activity in other regions and sequential growth in Revenue per Industry day muted the expected seasonal decline in Canada. With this increase in revenue, Pason generated \$12.8 million in Adjusted EBITDA, or 29.3% of revenue in the second quarter of 2021 compared to a \$0.8 million loss in the second quarter of 2020. While the Company incurred certain incremental expenses to support increased levels of activity, such as equipment repairs, research and development costs and compensation expenses, second quarter results continue to demonstrate the Company's strong operating leverage through improving industry conditions.

The Company recorded net income attributable to Pason of \$5.3 million (\$0.06 per share) in the second quarter of 2021 compared to a net loss attributable to Pason of \$4.5 million (\$0.05 per share) recorded in

the corresponding period in 2020. The year over year increase is due to the improving industry conditions outlined above, offset slightly by some incremental expenses incurred to support higher levels of activity in the quarter.

Pason's balance sheet remains strong with no interest bearing debt and \$135.0 million in cash and cash equivalents as at June 30, 2021 (as at December 31, 2020: \$149.3 million). During the second quarter of 2021, Pason generated \$14.7 million in funds flow from operations (Q2 2020: \$0.1 million). Given the improving industry conditions in the second quarter of 2021, Pason made necessary investments in working capital, primarily in accounts receivable to meet increased revenue levels. In contrast, the Company experienced a working capital release in the second quarter of 2020 given the steep decline in activity levels experienced. As a result, cash from operating activities was \$9.8 million in the second quarter of 2021, compared to \$30.0 million in the second quarter of 2020.

Pason's capital expenditures increased to \$4.5 million during the second quarter of 2021 from \$0.8 million in the second quarter of 2020, which represented a quarter where capital expenditure programs were halted given the existing uncertainty around industry conditions at the time. Capital expenditures in the current quarter are comprised primarily of rental equipment to meet activity levels, and also a \$1.5 million purchase of equipment and technology from a contract manufacturer wishing to divest a portion of its business.

With current quarter investments in working capital and capital expenditures, Free Cash Flow generated in Q2 2021 was \$5.7 million compared to \$29.9 million generated in the second quarter of 2020.

Pason's results for the first half of 2021 continue to demonstrate the decision to retain critical technology and service capabilities through the downturn, putting the Company in a position of strength with a prudent balance sheet and significant operating leverage as activity levels recover.

President's Message

The second quarter of 2021 marks the first time in which the prior year comparator reflects the full effects of the COVID-19 global pandemic. Comparing results of a year ago to those of this quarter provides a sense of how the industry landscape has improved. North American land drilling activity increased by 37% from the second quarter of 2020. The increase in industry activity in North America and international markets, coupled with a strengthened competitive position, drove a 62% year over year increase in consolidated revenue to \$43.6 million. The investments we made through the downturn to protect and grow our technology and service capabilities are delivering value. Revenue per Industry Day in North America grew by 13% from the second quarter of 2020, reflecting an expansion in market share, strong product adoption and a more favourable pricing environment. Increased industry activity in our international markets helped drive 157% year over year growth in revenue in our International business unit.

Adjusted EBITDA of \$12.8 million compared to an Adjusted EBITDA loss of \$0.8 million in the prior year. The fixed nature of a significant portion of our operating cost base continues to deliver strong earnings as revenue increases. Compared to the second quarter of 2020, Adjusted EBITDA increased by 81 cents for every dollar of increased revenue. We expect incremental margins will be strong as the industry continues to recover; however, we look to strike the right balance between effective cost management and ensuring we have the capabilities in place to fully participate in the recovery. As a result, we anticipate certain operating costs, notably product repairs and staffing, will continue to increase in the coming quarters in anticipation of future activity levels. Further, the current challenges facing all industries around supply chain disruptions and prevailing rates of inflation will likely put some pressure on margins, at least in the short term.

We will continue to make the necessary capital investments to support increasing activity and product enhancements. Free cash flow of \$5.7 million in the second quarter reflected increased investments in capital expenditures and working capital. Net income attributable to Pason for the quarter was \$5.3 million or \$0.06 per share.

Our balance sheet remains strong. We ended the second quarter with \$135 million of cash and cash equivalents and \$165 million of positive working capital.

We are maintaining a balanced approach to capital allocation – making growth-focused investments in the drilling-related business, establishing additional sources of revenue not directly tied to North American land drilling for longer term growth, and returning capital to shareholders. Capital expenditures in the second quarter totaled \$4.5 million and we expect to spend up to \$15 million in capital expenditures in 2021. Also in the second quarter, Intelligent Wellhead Systems (IWS) exercised one of the two remaining \$5 million put options for growth capital, and we also increased our minority ownership stake in the business by acquiring a portion of the outstanding common shares for \$7.1 million. We continue to be impressed by IWS' technology and trajectory of product adoption, and we are optimistic about the medium-term outlook for the business. We returned \$7.2 million to shareholders through a combination of dividends and share repurchases in the quarter and are maintaining our quarterly dividend at \$0.05 per share.

Energy Toolbase (ETB), our subsidiary in the solar and energy storage markets, made continued progress in the second quarter. Subscriptions for our leading economic analysis and proposal generation software package remain strong, and the team delivered a significant release of the next generation of the tool in the quarter. The pipeline of new opportunities and bookings for our energy storage control system continues to grow. We remain focused on developing and commercializing an integrated platform to enable the modeling, control and monitoring of energy storage systems.

Our outlook for growth continues to improve. While North American land drilling activity has more than doubled since bottoming in June 2020, activity levels remain significantly lower than pre-pandemic levels. In August 2019, there were over 1,000 active land drilling rigs in North America, compared to 625 today. At the same time, global oil demand currently sits at 97% of its August 2019 levels and leading supply indicators are constructive. WTI oil prices have recently traded above US\$70 per barrel for the first time since October 2018. US land production is approximately 10% lower than August 2019 and the inventory of drilled but uncompleted wells (DUCs) in the US has been reduced by more than 20% over the same timeframe. While uncertainty still weighs on oil markets due to potential demand implications from COVID-19 variants and supply questions around OPEC+ production levels and compliance, industry analysts continue to expect the US land rig count to grow from 475 rigs today and exit 2021 at approximately 500 rigs and to push toward 600 rigs in 2022. At over 150 rigs, the current Canadian land rig count is more than 10% higher than in August 2019 and is also expected to grow further through 2022.

Pason is well positioned to participate in the continued growth of the drilling industry. Our data and technology solutions continue to be aligned with customers' efforts to increasingly utilize automation and analytics to improve drilling performance and are supported by unmatched service quality.

Jon Faber

A handwritten signature in black ink, appearing to read "Jon Faber". The signature is fluid and cursive, with a large initial "J" and "F".

President and Chief Executive Officer
August 10, 2021

Discussion of Operations

Overall Performance

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	23,699	14,093	68	46,432	52,764	(12)
Mud Management and Safety	12,152	8,220	48	23,663	29,617	(20)
Communications	2,294	937	145	4,809	6,015	(20)
Drilling Intelligence	2,589	1,210	114	5,606	6,605	(15)
Analytics and Other	2,859	2,388	20	5,638	5,809	(3)
Total revenue	43,593	26,848	62	86,148	100,810	(15)
Operating expenses						
Rental services	17,205	15,554	11	33,662	40,335	(17)
Local administration	2,646	2,255	17	5,097	6,628	(23)
Depreciation and amortization	6,156	8,612	(29)	13,987	19,026	(26)
	26,007	26,421	(2)	52,746	65,989	(20)
Gross profit	17,586	427	4,019	33,402	34,821	(4)
Other expenses						
Research and development	7,849	6,737	17	14,965	14,799	1
Corporate services	2,913	2,827	3	5,945	6,512	(9)
Stock-based compensation expense	2,216	1,868	19	4,818	1,746	176
Other income	(2,274)	(5,134)	(56)	(4,456)	(5,940)	(25)
	10,704	6,298	70	21,272	17,117	24
Income before income taxes	6,882	(5,871)	nmf	12,130	17,704	(31)
Income tax provision	2,002	(1,072)	nmf	3,259	5,951	(45)
Net income	4,880	(4,799)	nmf	8,871	11,753	(25)
Adjusted EBITDA ⁽¹⁾	12,786	(848)	nmf	25,956	32,457	(20)

(1) Non-GAAP financial measures are defined under Non-GAAP Financial Measures

Changes in Reportable Segments

Prior to the third quarter of 2020, the Company presented three operating segments, based upon the geographic segments of the Company's core business of servicing the oil and gas industry, consisting of Canada, the United States, and International. The United States segment included ETB, which is the operating entity of the Company's solar and energy storage business.

In the third quarter of 2020 the Company streamlined its structure and operations by consolidating its core US and Canadian operations. As a result of this consolidation, along with the continued investment in its solar and energy storage business, the Company determined that the prior operating segments no longer reflected how management monitored and evaluated operating results. This conclusion was reached in part due to the fact that Pason's solar and energy storage business is distinct from its core business and that anticipated future operating results will be significant enough to warrant a distinct segment, and finally, the consolidation of management of North American operations. As such, the Company now reports on the following segments: (1) North America, (2) International, and (3) Solar and Energy Storage, and these reportable segments reflect how management allocates resources and assesses the performance of the Company.

All comparative figures have been reclassified to conform to the new reporting segments listed above.

North American Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	18,957	12,654	50	37,341	45,821	(19)
Mud Management and Safety	10,428	6,933	50	20,424	26,097	(22)
Communications	1,939	890	118	4,188	5,519	(24)
Drilling Intelligence	2,342	1,136	106	5,151	6,230	(17)
Analytics and Other	1,262	1,346	(6)	2,403	3,114	(23)
Total revenue	34,928	22,959	52	69,507	86,781	(20)
Rental services and local administration	14,036	13,049	8	27,956	35,085	(20)
Depreciation and amortization	5,640	7,605	(26)	12,630	16,974	(26)
Segment gross profit	15,252	2,305	562	28,921	34,722	(17)
	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue per Industry day	728	643	13	724	711	2

Industry conditions in North America continued to improve in the second quarter of 2021 with steady growth in US land rig counts muting the expected seasonal decline seen in Canada. In contrast, the second quarter of 2020 represented the precipitous drop in industry activity that occurred as the COVID-19 pandemic began. Industry days in North America increased 37% year over year. In the second quarter, Revenue per Industry day was \$728, an increase of 13% from the comparable period in 2020. The increase is due to an increase in North American market share, geographical mix, and further reflects the challenging pricing environment experienced in the second quarter of 2020.

Given the improvement in industry activity and Revenue per Industry day, revenue for the North American business unit increased by 52%, from \$23.0 million in the second quarter of 2020 to \$34.9 million during the second quarter of 2021.

As certain regions within the North American segment experience fluctuations in activity levels due to seasonality, Pason expects Revenue per industry day to fluctuate with the relative revenue levels associated within the North American regions.

Rental services and local administration increased by 8% in the second quarter of 2021 over the 2020 comparative period. The increase in operating costs is attributable to variable expenses incurred to support higher activity levels, such as repair costs on higher levels of equipment deployed, along with minor headcount increases in anticipation of continued growth in industry activity.

Depreciation and amortization decreased by 26% in the second quarter of 2021 over the 2020 comparative period. The decrease is due to a combination of lower capital expenditures in recent quarters, certain development projects becoming fully amortized in 2020, and the impacts of foreign exchange.

Segment gross profit was \$15.3 million during the second quarter of 2021 compared to \$2.3 million in the 2020 comparative period, representing a significant increase due to the factors outlined above.

On a year to date basis, revenue of \$69.5 million represents a 20% decline from \$86.8 million during the first half of 2020. Segment gross profit for the six months ended June 30, 2021 was \$28.9 million, a 17% decrease from \$34.7 million during the comparative 2020 period. Although second quarter results are significantly improved year over year as outlined above, the improvement did not offset the pandemic related declines seen during the first quarter.

International Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	4,742	1,439	230	9,091	6,943	31
Mud Management and Safety	1,724	1,287	34	3,239	3,520	(8)
Communications	355	47	655	621	496	25
Drilling Intelligence	247	74	234	455	375	21
Analytics and Other	741	191	288	1,467	953	54
Total revenue	7,809	3,038	157	14,873	12,287	21
Rental services and local administration	4,512	3,371	34	8,152	8,654	(6)
Depreciation and amortization	511	1,000	(49)	1,347	2,039	(34)
Segment gross profit	2,786	(1,333)	nmf	5,374	1,594	237

The International business unit reported revenue of \$7.8 million in the second quarter of 2021 compared to \$3.0 million in the comparative period of 2020. The second quarter of 2020 represented the beginning of historical low levels of global drilling activity as the impacts of the COVID-19 pandemic caused operators in many international regions to suspend drilling operations. Since then, international industry activity has improved, and Pason has defended its leading competitive position in Latin America and Australia, while continuing to grow its presence in other international end markets.

Rental services and local administration expense was \$4.5 million in the second quarter of 2021, an increase of 34% compared to \$3.4 million in the comparative period of 2020. As activity levels improve, certain variable costs such as repair costs are incurred to support the additional deployment of equipment.

Depreciation and amortization decreased by 49% in the second quarter of 2021 over the 2020 comparative period. The decrease is due to a combination of lower capital expenditures in recent years, several development projects becoming fully amortized in 2020, and the impacts of foreign exchange.

Segment gross profit was \$2.8 million during the second quarter of 2021 compared to a \$1.3 million loss in the 2020 comparative period due to the factors outlined above.

On a year to date basis, the International business unit generated revenue of \$14.9 million and segment gross profit of \$5.4 million, a 21% and 237% increase compared to the corresponding period in 2020, which further reflects the improvement in industry conditions year over year.

Solar and Energy Storage Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Analytics and Other	856	851	1	1,768	1,742	1
Total revenue	856	851	1	1,768	1,742	1
Operating expenses and local administration⁽¹⁾	1,303	1,389	(6)	2,651	3,224	(18)
Depreciation and amortization	5	7	(29)	10	13	(23)
Segment gross loss	(452)	(545)	(17)	(893)	(1,495)	(40)

(1) Included in rental services and local administration in the Condensed Interim Statements of Operations.

Revenue generated by the Solar and Energy Storage business unit for both the three and six month periods ending June 30, 2021 continued to be primarily comprised of subscription-based software licenses for the Company's solar energy planning tools, and represented a slight increase from the comparative prior year periods, despite the negative impact of foreign exchange in the current periods.

Operating expenses and local administration was \$1.3 million during the second quarter of 2021, a 6% decrease from \$1.4 million during the comparable period with impacts of foreign exchange. As a result, segment gross loss was \$0.5 million for both the second quarter of 2021 as well as the comparable period. Year to date, segment gross loss improved from \$1.5 million in the first half of 2020 to \$0.9 million in the 2021 comparative period, primarily due to the timing of certain compensation accruals in the first quarter.

The Solar and Energy Storage business unit incurred the following research and development costs, which are included in research and development in the Company's Condensed Interim Statement of Operations. Consistent with the Company's other reporting segments, research and development costs are excluded from the segment gross loss table above.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Research and development	1,170	773	51	2,213	1,776	25

Corporate Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Research and development	7,849	6,737	17	14,965	14,799	1
Corporate services	2,913	2,827	3	5,945	6,512	(9)
Stock-based compensation	2,216	1,868	19	4,818	1,746	176
Total corporate expenses	12,978	11,432	14	25,728	23,057	12

During the second quarter of 2021, research and development expenses, including amounts related to the Solar and Energy Storage business unit noted above, were \$7.8 million, an increase of 17% from the comparative period in 2020. The increase is primarily due to increased headcount and compensation levels.

The change in stock-based compensation expense is attributable to the change in the Company's share price performance and ongoing vesting of outstanding awards.

Other Income

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Other (income) expenses						
Government wage assistance	(2,966)	(4,363)	(32)	(5,890)	(4,363)	35
Derecognition of onerous lease	—	(5,757)	nmf	—	(5,757)	nmf
Reorganization costs	—	5,554	nmf	—	5,554	nmf
Net monetary gain	(11)	(396)	(97)	(60)	(815)	(93)
Net interest income	(270)	(338)	(20)	(278)	(736)	(62)
Equity loss	194	323	(40)	523	79	562
Foreign exchange loss	725	79	818	1,173	32	3,566
Other	54	(236)	nmf	76	66	15
Total other income	(2,274)	(5,134)	(56)	(4,456)	(5,940)	(25)

During the second quarter of 2021, Pason recognized \$3.0 million in government wage assistance, primarily related to the Canada Emergency Wage Subsidy (CEWS) (Q2 2020: \$4.4 million). In July 2021, the Government of Canada announced the extension of the CEWS program to the end of October 2021. The Company intends to participate through the duration of this program extension as applicable.

During the second quarter of 2020, the Company entered into an agreement to terminate the lease at its previous US head office in Golden, Colorado. As a result, a recovery of \$5.8 million was recorded, which is comprised of the derecognition of the previous recorded onerous lease liability, offset by a termination payment.

Also in Q2 2020, the Company initiated staff reduction initiatives to address the anticipated downturn in oil and gas drilling activity in all of its markets as the COVID-19 pandemic began. Accordingly, the Company recorded reorganization expenses of \$5.6 million, which is comprised of termination and other staff related costs.

Net monetary gain included in other income is a result of applying hyperinflation accounting to the Company's Argentinian subsidiary.

The 20% decrease in net interest income is primarily due to a decrease in the yield on the Company's passive investments.

The equity loss is a result of the Company using the equity method of accounting to account for its investments in Intelligent Wellhead Systems Inc. (IWS) and the Pason Rawabi joint venture and reflects the current period change in the value of the Company's equity investment.

Income Tax Provision

During the second quarter of 2021, the Company recorded an income tax expense of \$2.0 million, compared to an income tax recovery of \$1.1 million during the comparative period in 2020. The increase is primarily attributable to the improvement in income before income taxes, in light of higher activity levels year over year.

Summary of Quarterly Results

Three Months Ended	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021
(000s, except per share data)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue	72,195	68,410	73,962	26,848	23,068	32,758	42,555	43,593
EBITDA ⁽¹⁾	33,167	25,555	33,469	4,271	2,348	8,300	15,673	14,984
Adjusted EBITDA ⁽¹⁾	31,489	26,615	33,305	(848)	(1,118)	8,201	13,170	12,786
Funds flow from operations	29,899	22,126	26,722	134	4,765	8,939	13,730	14,662
Per share – basic	0.35	0.26	0.32	0.00	0.06	0.11	0.17	0.18
Per share – diluted	0.35	0.26	0.32	0.00	0.06	0.11	0.17	0.18
Cash from operating activities	37,453	24,714	25,593	29,953	5,754	(2,717)	11,085	9,841
Free cash flow ⁽¹⁾	33,067	19,955	22,935	29,888	4,141	(3,100)	9,176	5,684
Net income (loss)	15,418	10,096	16,552	(4,799)	(3,957)	(2,662)	3,991	4,880
Net income (loss) attributable to Pason	15,418	10,405	16,919	(4,487)	(3,698)	(2,166)	4,315	5,307
Per share – basic	0.18	0.12	0.20	(0.05)	(0.04)	(0.03)	0.05	0.06
Per share – diluted	0.18	0.12	0.20	(0.05)	(0.04)	(0.03)	0.05	0.06

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

Pason's quarterly financial results vary quarter to quarter due in part to the seasonality of the oil and gas industry in the North American business unit, which is somewhat offset by the less seasonal nature of the International and Solar and Energy Storage business units. The first quarter is generally the strongest quarter for the North American business unit 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 corresponding quarter for the previous year.

The overall seasonality of the Company's operations has, and will continue to become less pronounced as a result of market share growth internationally and in the US, along with increased diversification of operations with the Company's Solar and Energy Storage business units. Furthermore, as noted herein and specifically as it relates to results starting in Q2 2020, quarterly results will vary significantly due to the drastic impacts of the global COVID-19 pandemic on the oil and gas industry.

Q2 2021 vs Q1 2021

Following the historic lows in industry activity in Q3 2020, the improvement in North American and International rig counts seen throughout the end of 2020 continued through the first six months of 2021. Consolidated revenue was \$43.6 million in the second quarter of 2021, a 2.4% increase compared to consolidated revenue of \$42.6 million in the first quarter of 2021.

Revenue in the North American business unit was \$34.9 million in the second quarter of 2021, a 1% increase compared to revenue of \$34.6 million in the first quarter of 2021. The increase in revenue is attributable to steadily improving US industry days and the sequential improvement in Revenue per Industry Day through continued market share gains and strong product adoption offsetting the expected seasonal decline experienced in Canada in the second quarter.

The International business unit reported revenue of \$7.8 million in the second quarter of 2021, an 11% increase compared to revenue of \$7.1 million in the first quarter of 2021. The increase in revenue is attributable to improvements in drilling activity in Pason's international end markets, particularly Argentina, as impacts of the COVID-19 pandemic continued to ease.

The Company's Gross profit was \$17.6 million in the second quarter of 2021, an 11% increase compared to gross profit of \$15.8 million in the first quarter of 2021. The increase in gross profit is attributable to increased revenue and lower depreciation and amortization.

Adjusted EBITDA was \$12.8 million in the second quarter of 2021, a slight decline from \$13.2 million in the first quarter. The Company's cost structure remains primarily fixed and Pason continues to demonstrate its operating leverage from the lows experienced in 2020. Sequentially, the Company's research and development costs increased due to headcount additions and increased compensation levels. Further, repair expenses increased sequentially as more equipment was deployed.

Cash from operating activities was \$9.8 million in the second quarter of 2021, compared to \$11.1 million in the first quarter of 2021. The lower cash from operating activities is a result of the increased investment in working capital, primarily accounts receivable, as revenue levels improved sequentially.

The Company recorded net income attributable to Pason in the second quarter of 2021 of \$5.3 million (\$0.06 per share) compared to net income attributable to Pason of \$4.3 million (\$0.05 per share) in the first quarter of 2021. The second quarter net income result benefited from the increased activity levels, as noted above.

Liquidity and Capital Resources

As at	June 30, 2021	December 31, 2020	Change
(000s)	(\$)	(\$)	(%)
Cash and cash equivalents	135,033	149,282	(10)
Working capital	165,010	167,366	(1)
Total assets	354,106	361,416	(2)
Total interest bearing debt	—	—	—

Throughout the downturn, Pason managed to preserve its strong balance sheet with no interest bearing debt and as at June 30, 2021, had \$135.0 million in cash and cash equivalents. Working capital levels remained consistent from December 31, 2020 to June 30, 2021, as the Company's investment in accounts receivable to meet increased revenue was offset by the decline in cash and cash equivalents in the first half of the year. As industry conditions improve, Pason remains focused on disciplined management of required investments in working capital.

The Company has an undrawn \$5.0 million demand revolving credit facility available as at June 30, 2021, consistent with December 31, 2020.

Cash Flow Statement Summary

	Three Months Ended June 30,			Six Months Ended June 30,		
	2021	2020	Change	2021	2020	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Funds flow from operations	14,662	134	nmf	28,392	26,856	6
Cash from operating activities	9,841	29,953	(67)	20,926	55,546	(62)
Cash used in financing activities	(7,620)	(16,959)	(55)	(12,401)	(37,390)	(67)
Cash used in investing activities	(16,284)	(65)	nmf	(18,193)	(7,723)	136
Capital expenditures	4,520	799	466	6,369	3,887	64
As a % of funds flow ⁽¹⁾	30.8 %	596.3 %	nmf	22.4 %	14.5 %	790 bps

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

Cash from operating activities

As noted above, Funds flow from operations increased significantly in the second quarter of 2021 from Q2 2020 due to the improvement in gross profit experienced by the Company year over year. Cash from operating activities decreased by 67% in the second quarter of 2021 due to the investments made in working capital in Q2 2021 as activity levels continued to improve over Q1 2021. In contrast, the Company experienced a working capital release in the second quarter of 2020 given the steep decline in activity levels experienced.

Cash used in financing activities

Cash used in financing activities was \$7.6 million during the second quarter of 2021, a 55% decrease over the comparative quarter of 2020, primarily driven by reduction in the Company's quarterly dividend.

Dividend

During the three month period ended June 30, 2021, the Company paid dividends to holders of common shares totaling \$4.2 million, or \$0.05 per share, compared to \$16.0 million, or \$0.19 per share in Q2 2020. In light of the COVID-19 pandemic and related uncertainty surrounding the outlook for industry activity, on August 6, 2020, Pason announced a reduced quarterly dividend from an annualized \$0.76 per share to \$0.20 per share, preserving approximately \$46.5 million in cash on an annualized basis.

On August 10, 2021, the Company declared a quarterly dividend of \$0.05 per share on the Company's common shares. The dividend will be paid on September 29, 2021, to shareholders of record at the close of business on September 15, 2021.

Normal Course Issuer Bid (NCIB)

In 2020, the Company renewed its NCIB commencing on December 18, 2020 and expiring on December 17, 2021. Under the current NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 4,149,047 common shares, which represents 10% of the applicable 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 83,393 common shares. The Company may make one block purchase per calendar week that exceeds the daily purchase restriction.

For the six month period ended June 30, 2021, the Company repurchased 313,900 shares for cancellation for a total cash consideration of \$3.0 million. For the six month period ended June 2020, the Company repurchased 442,600 common shares for cancellation for a total cash consideration of \$4.1 million. The total consideration is allocated between share capital and retained earnings.

Pason continues to assess capital allocation on an ongoing basis taking into account, among other considerations, the Company's financial position, operating results, and industry outlook. Pason will continue to balance the Company's commitment to shareholder returns while preserving financial strength to support long-term success.

Cash used in investing activities

For the quarter ended June 30, 2021, net cash used in investing activities was \$16.3 million compared to \$0.07 million used in the comparative period in 2020.

During the second quarter of 2021, Pason increased its minority investment in Intelligent Wellhead Systems Inc. (IWS) and acquired a portion of outstanding common shares for total cash consideration of \$7.1 million. IWS is a privately-owned oil and gas technology and service company that provides

engineered controls, data acquisition and software to automate workflows and processes at live well operations in the completions segment of the oil and gas industry. The Company's initial minority investment was made in 2019, and consisted of total consideration of \$25.0 million. The investment consisted of initial cash consideration of \$10.0 million and \$15.0 million payable in three separate \$5.0 million put options, exercisable at IWS' discretion for a period of up to three years. The first \$5.0 million put obligation was exercised in the third quarter of 2020, while the second was exercised during the second quarter of 2021 to fund IWS' recent growth.

As such, total cash outflow associated with the Company's minority investment in IWS during the second quarter was \$12.1 million (Q2 2020 - \$nil).

Pason's capital expenditures increased to \$4.5 million during the second quarter of 2021 from \$0.8 million in the second quarter of 2020, which represented a quarter where capital expenditure programs were halted given the existing uncertainty around industry conditions at the time. Capital expenditures in the current quarter are comprised primarily of rental equipment to meet activity levels, and also a \$1.5 million purchase of equipment and technology from a contract manufacturer wishing to divest a portion of its business.

Contractual Obligations

As at June 30, 2021	Less than 1 year	1–3 years	Thereafter	Total
(000s)	(\$)	(\$)	(\$)	(\$)
Operating leases and other contracts	3,531	5,568	2,266	11,365

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 IFRS 16, Leases.

Disclosure of Outstanding Share and Options Data

As at June 30, 2021 and August 10, 2021, there were 82,775,041 common shares and 3,440,805 options issued and outstanding.

Impact of Hyperinflation

Due to various qualitative and quantitative factors, Argentina was designated a hyper-inflationary economy as of the second quarter of 2018 for accounting purposes. As such, the Company has applied accounting standards IAS 21, The Effects of Changes in Foreign Exchange, and IAS 29, Financial Reporting in Hyper-Inflationary Economies its Condensed Consolidated Interim Financial Statements for its Argentinian operating subsidiary. The Company's Condensed Consolidated Interim Financial Statements are based on the historical cost approach in IAS 29.

The impact of applying IAS 21 to the operating results of the Argentina subsidiary for the three and six months ended June 30, 2021 are detailed as follows:

Impact on IFRS Measures

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
(000s)	(\$)	(\$)	(\$)	(\$)
Increase (decrease) in revenue	6	(389)	275	(296)
(Increase) decrease in rental services and local administration expenses	(12)	265	(130)	210
(Increase) in depreciation expense	(138)	(267)	(371)	(411)
Increase (decrease) in segment gross profit	(144)	(391)	(226)	(497)
Net monetary gain (loss) presented in other expenses	(109)	396	(60)	815
Other expenses	(27)	11	(27)	—
(Increase) decrease in income tax provision	(24)	13	(56)	1
Increase (decrease) in net income	(304)	29	(369)	319

Impact on Non-GAAP Measures

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
(000s)	(\$)	(\$)	(\$)	(\$)
Increase (decrease) in revenue	6	(389)	275	(296)
(Increase) decrease in rental services and local administration expenses	(12)	265	(130)	210
Net monetary gain (loss) presented in other expenses	(109)	396	(60)	815
(Increase) in other expenses	(27)	11	(27)	—
Increase in EBITDA	(142)	283	58	729
Elimination of net monetary gain presented in other expenses	109	(396)	60	(815)
Elimination of other expenses	27	(11)	27	—
Increase in Adjusted EBITDA	(6)	(124)	145	(86)

Additional IFRS Measures

In its Condensed Consolidated Interim 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 Condensed Consolidated Interim 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, 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-GAAP Financial Measures

These definitions are not recognized measures under IFRS, and accordingly, may not be comparable to measures used by other companies. Management believes these non-GAAP measures provide readers with additional information regarding the Company's operating performance, and ability to generate funds to finance its operations, fund its research and development and capital expenditure program, and return capital to shareholders through dividends or share repurchases.

Revenue per Industry day

Revenue per Industry day is defined as the daily revenue generated from all products that the Company is renting over all active drilling rig days in the North American market. This metric provides a key measure of the Company's ability to evaluate and manage product adoption, pricing, and market share penetration. Drilling days are calculated by using accepted industry sources.

EBITDA and Adjusted EBITDA

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

Adjusted EBITDA is defined as EBITDA, adjusted for foreign exchange, impairment of property, plant, and equipment, restructuring costs, net monetary adjustments, government wage assistance, revaluation of put obligation, 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.

Reconcile Net Income to EBITDA

Three Months Ended	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Net income (loss)	15,418	10,096	16,552	(4,799)	(3,957)	(2,662)	3,991	4,880
Add:								
Income taxes	5,485	3,846	7,023	(1,072)	(1,369)	282	1,257	2,002
Depreciation and amortization	9,917	10,713	10,414	8,612	7,503	7,888	7,831	6,156
Stock-based compensation	2,446	1,481	(122)	1,868	276	2,818	2,602	2,216
Net interest income	(99)	(581)	(398)	(338)	(105)	(26)	(8)	(270)
EBITDA	33,167	25,555	33,469	4,271	2,348	8,300	15,673	14,984

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
EBITDA	33,167	25,555	33,469	4,271	2,348	8,300	15,673	14,984
Add:								
Foreign exchange loss (gain)	615	930	(47)	79	113	968	448	725
Recognition of onerous lease	—	—	—	(5,757)	—	—	—	—
Government wage assistance	—	—	—	(4,363)	(3,334)	(2,244)	(2,924)	(2,966)
Reorganization costs	—	—	—	5,554	—	—	—	—
Put option revaluation	—	—	—	—	—	1,812	—	—
Net monetary gain	(2,376)	(511)	(419)	(396)	(465)	(594)	(49)	(11)
Other	83	641	302	(236)	220	(41)	22	54
Adjusted EBITDA	31,489	26,615	33,305	(848)	(1,118)	8,201	13,170	12,786

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 capital expenditure programs, and provides an indication of the amount of cash available to finance, among other items, the Company's dividend and other investment opportunities.

Reconcile cash from operating activities to free cash flow

Three Months Ended	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Cash from operating activities	37,453	24,714	25,593	29,953	5,754	(2,717)	11,085	9,841
Less:								
Net additions to property, plant and equipment	(3,726)	(4,143)	(2,236)	(644)	(1,282)	(66)	(1,510)	(3,696)
Deferred development costs	(660)	(616)	(422)	579	(331)	(317)	(399)	(461)
Free cash flow	33,067	19,955	22,935	29,888	4,141	(3,100)	9,176	5,684

Critical Accounting Estimates

The preparation of the Company's Condensed Consolidated Interim Financial Statements requires that certain estimates and judgements 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 judgements based on information available as at the financial statement date, and, as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired. Furthermore, as the impacts of the COVID-19 pandemic on the oil and gas industry continue, management cannot reasonably estimate the resulting length or severity of the impact on the Company. As such, actual results may differ significantly from estimates made within the Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2021. Significant estimates made by the Company have most recently been set out in the Company's MD&A for the year ended December 31, 2020, and its consolidated financial statements and note disclosures for the year ended December 31, 2020, and within Note 2 of the Company's Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2021.

Significant Accounting Policies

The Company's significant accounting policies have been disclosed within the Consolidated Financial Statements for the year ended December 31, 2020, and within Note 3 of these Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2021.

Internal Control over Financial Reporting

There have been no significant changes in the design of the Company's internal controls over financial reporting during the three and six months ended June 30, 2021, that would materially affect, or is reasonably likely to materially affect, the Company's controls and processes over financial reporting.

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 Company's appetite for risk considering its 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.

COVID-19

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. COVID-19's negative impact on the demand for oil has been significant and this combined with an over-supply of oil led to a decline in oil prices. As a result, Pason customers reduced their capital expenditure programs, which led to a precipitous fall in the active rig count in Pason's major markets, starting in the second quarter of 2020. This supply/demand imbalance is having a direct impact on Pason's revenue. The ultimate impact of COVID-19 on future oil demand is unknown at the present time and thus, it is not possible to predict the long-term effects of COVID-19 on the Company's operating results. The current economic climate has or may have significant adverse impacts to Pason, including but not limited to: material declines in revenue and cash flows due to reduced drilling and demand for associated products and services, increased risk of non-payment of accounts receivable, potential for impairment charges on long-term assets, and additional reorganization costs, if deemed required in the context of Pason's ongoing efforts to reduce its cost structure.

Operationally, the Company experienced minimal adverse impacts to its business operations and workforce throughout the COVID-19 pandemic. With the exception of certain international regions that experienced temporary country-wide economic shutdowns, Pason's operations have been and continue to remain open and fully operating. In response to the pandemic, additional safety measures have been implemented throughout the Company's operations, both in the field and in office/warehouse settings, to ensure the ongoing safety of our employees and our customers' employees, and to maintain delivery of products and services to customers while complying with recommendations from global and local health authorities.

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, global supply and demand for crude oil and natural gas, 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 skills, 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 that 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.

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. Further, the Company does not carry "key person" insurance on any of its key employees. As such, the unexpected loss of a key employee could have an adverse effect on Pason's results. To mitigate these risks, Pason has a human resources department in each significant business unit that is focused on recruiting and retention initiatives. In addition, the Company has deployed necessary equipment and technology to enable remote work for employees impacted by COVID-19 restrictions.

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. The vast majority 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, the details of which are outlined in the Company's Consolidated Financial Statements.

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 public reporting 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 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, further consolidation in the industry, 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 significant impact on Pason's revenue.

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 successfully challenge 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.

SEDAR

Additional information relating to the Company, including the Company's most recent Annual Information Form 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.

Forward Looking Information

Certain statements contained herein constitute "forward-looking statements" and/or "forward-looking information" under applicable securities laws (collectively referred to as "forward-looking statements"). Forward-looking statements can generally be identified by the words "anticipate", "expect", "believe", "may", "could", "should", "will", "estimate", "project", "intend", "plan", "outlook", "forecast" or expressions of a similar nature suggesting a future outcome or outlook.

Without limiting the foregoing, this document includes, but is not limited to, the following forward-looking statements: the Company's growth strategy and related schedules; divergence in activity levels between the geographic regions in which we operate; demand fluctuations for our products and services; the Company's ability to increase or maintain market share; projected future value, forecast operating and financial results; planned capital expenditures; expected product performance and adoption, including the timing, growth and profitability thereof; potential dividends and dividend growth strategy; future use and development of technology; our financial ability to meet long-term commitments not included in liabilities; the collectability of accounts receivable; the application of critical accounting estimates and judgements; treatment under governmental regulatory and taxation regimes; and projected increasing shareholder value.

These forward-looking statements reflect the current views of Pason with respect to future events and operating performance as of the date of this document. They are subject to known and unknown risks, uncertainties, assumptions, and other factors that could cause actual results to be materially different from results that are expressed or implied by such forward-looking statements.

Although we believe that these forward-looking statements are reasonable based on the information available on the date such statements are made and processes used to prepare the information, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties and other factors, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such risks and uncertainties include, but are not limited to: the state of the economy; volatility in industry activity levels and resulting customer expenditures on exploration and production activities; customer demand for existing and new products; the industry shift towards more efficient drilling activity and technology to assist in that efficiency; the impact of competition; the loss of key customers; the loss of key personnel; cybersecurity risks; reliance on proprietary technology and ability to protect the Company's proprietary technologies; changes to government regulations (including those related to safety, environmental, or taxation); the impact of extreme weather events and seasonality on our suppliers and on customer operations; and war, terrorism, pandemics, social or political unrest that disrupts global markets.

These risks, uncertainties and assumptions include but are not limited to those discussed in Pason's Annual Information Form under the heading, "Risk and Uncertainty," in our management's discussion and analysis for the year ended December 31, 2020, and in our other filings with Canadian securities regulators. These documents are on file with the Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or through Pason's website (www.pason.com).

Forward-looking statements contained in this document are expressly qualified by this cautionary statement. Except to the extent required by applicable law, Pason assumes no obligation to publicly update or revise any forward-looking statements made in this document or otherwise, whether as a result of new information, future events or otherwise.

Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	June 30, 2021	December 31, 2020
(CDN 000s) (unaudited)		(\$)	(\$)
Assets			
Current			
Cash and cash equivalents	4	135,033	149,282
Trade and other receivables		38,858	25,747
Income taxes recoverable - other	6	15,162	15,304
Prepaid expenses		2,612	2,973
Income taxes recoverable		1,972	3,489
Total current assets		193,637	196,795
Non-current			
Property, plant and equipment		87,661	94,986
Investments	7	31,125	24,719
Intangible assets and goodwill		41,683	44,916
Total non-current assets		160,469	164,621
Total assets		354,106	361,416
Liabilities and equity			
Current			
Trade payables and accruals		17,582	14,035
Income taxes payable		802	2,039
Stock-based compensation liability	9	3,687	1,426
Lease liability		1,556	1,929
Obligation under put option	7	5,000	10,000
Total current liabilities		28,627	29,429
Non-current			
Deferred tax liabilities		7,033	7,927
Lease liability		6,159	4,240
Stock-based compensation liability	9	5,346	3,384
Obligation under put option		10,857	11,153
Total non-current liabilities		29,395	26,704
Equity			
Share capital	8	163,946	164,568
Share-based benefits reserve		33,735	33,170
Foreign currency translation reserve		46,771	54,090
Equity reserve		(8,375)	(8,375)
Retained earnings		62,540	63,609
Total equity attributable to equity holders of the Company		298,617	307,062
Non-controlling interest		(2,533)	(1,779)
Total equity		296,084	305,283
Total liabilities and equity		354,106	361,416

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

Condensed Consolidated Interim Statements of Operations

	Note*	Three Months Ended June 30,		Six Months Ended June 30,	
		2021	2020	2021	2020
(CDN 000s, except per share data) (unaudited)		(\$)	(\$)	(\$)	(\$)
Revenue		43,593	26,848	86,148	100,810
Operating expenses					
Rental services		17,205	15,554	33,662	40,335
Local administration		2,646	2,255	5,097	6,628
Depreciation and amortization		6,156	8,612	13,987	19,026
		26,007	26,421	52,746	65,989
Gross profit		17,586	427	33,402	34,821
Other expenses					
Research and development		7,849	6,737	14,965	14,799
Corporate services		2,913	2,827	5,945	6,512
Stock-based compensation expense	9	2,216	1,868	4,818	1,746
Other income	11	(2,274)	(5,134)	(4,456)	(5,940)
		10,704	6,298	21,272	17,117
Income (loss) before income taxes		6,882	(5,871)	12,130	17,704
Income tax provision		2,002	(1,072)	3,259	5,951
Net income (loss)		4,880	(4,799)	8,871	11,753
Net income (loss) attributable to:					
Shareholders of Pason		5,307	(4,487)	9,622	12,432
Non-controlling interest		(427)	(312)	(751)	(679)
Net income (loss)		4,880	(4,799)	8,871	11,753
Income (loss) per share	12				
Basic		0.06	(0.05)	0.12	0.15
Diluted		0.06	(0.05)	0.12	0.15

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

Condensed Consolidated Interim Statements of Other Comprehensive Income (Loss)

	Note*	Three Months Ended June 30,		Six Months Ended June 30,	
		2021	2020	2021	2020
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
Net income (loss)		4,880	(4,799)	8,871	11,753
Items that may be reclassified subsequently to net income:					
Foreign currency translation adjustment		(3,639)	(11,660)	(7,322)	12,228
Other comprehensive (loss) income		(3,639)	(11,660)	(7,322)	12,228
Total comprehensive income		1,241	(16,459)	1,549	23,981
Total comprehensive income (loss) attributed to:					
Shareholders of Pason		1,675	(16,178)	2,303	24,669
Non-controlling interest		(434)	(281)	(754)	(688)
Total comprehensive income (loss)		1,241	(16,459)	1,549	23,981

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

Condensed Consolidated Interim Statements of Changes in Equity

	Note*	Share Capital	Share- Based Benefits Reserve	Foreign Currency Translation Reserve	Equity Reserve	Retained Earnings	Total Equity Attributable to Pason	Non- Controlling Interest	Total Equity
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Balance at January 1, 2020		166,701	30,863	57,830	(8,375)	99,806	346,825	(371)	346,454
Net income (loss)		—	—	—	—	12,432	12,432	(679)	11,753
Dividends		—	—	—	—	(32,064)	(32,064)	—	(32,064)
Other comprehensive income		—	—	12,237	—	—	12,237	(9)	12,228
Expense related to stock options		—	1,006	—	—	—	1,006	—	1,006
Shares cancelled under NCIB	8	(872)	—	—	—	(3,211)	(4,083)	—	(4,083)
Liability reversal for automatic share purchase plan commitment pursuant to NCIB	8	732	—	—	—	4,268	5,000	—	5,000
Balance at June 30, 2020		166,561	31,869	70,067	(8,375)	81,231	341,353	(1,059)	340,294
Net (loss)		—	—	—	—	(5,864)	(5,864)	(755)	(6,619)
Dividends		—	—	—	—	(8,356)	(8,356)	—	(8,356)
Other comprehensive income		—	—	(15,977)	—	—	(15,977)	35	(15,942)
Expense related to stock options		—	1,301	—	—	—	1,301	—	1,301
Shares cancelled under NCIB		(1,993)	—	—	—	(3,402)	(5,395)	—	(5,395)
Balance at December 31, 2020		164,568	33,170	54,090	(8,375)	63,609	307,062	(1,779)	305,283
Net income (loss)		—	—	—	—	9,622	9,622	(751)	8,871
Dividends		—	—	—	—	(8,322)	(8,322)	—	(8,322)
Other comprehensive income		—	—	(7,319)	—	—	(7,319)	(3)	(7,322)
Expense related to stock options		—	565	—	—	—	565	—	565
Shares cancelled under NCIB	8	(622)	—	—	—	(2,369)	(2,991)	—	(2,991)
Balance at June 30, 2021		163,946	33,735	46,771	(8,375)	62,540	298,617	(2,533)	296,084

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

Condensed Consolidated Interim Statements of Cash Flows

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note*	2021	2020	2021	2020
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
Cash from (used in) operating activities					
Net income		4,880	(4,799)	8,871	11,753
Adjustment for non-cash items:					
Depreciation and amortization		6,156	8,612	13,987	19,026
Stock-based compensation expense	9	2,216	1,868	4,818	1,746
Deferred income taxes		248	(285)	(797)	(278)
Net monetary gain		142	(287)	(58)	(731)
Derecognition of lease liability		—	(5,757)	—	(5,757)
Unrealized foreign exchange loss and other		1,020	782	1,571	1,097
Funds flow from operations		14,662	134	28,392	26,856
Movements in non-cash working capital items:					
(Increase) decrease in trade and other receivables		(5,277)	36,301	(11,904)	35,941
Decrease in prepaid expenses		374	770	408	1,869
(Increase) decrease in income taxes payable		(1,257)	(2,208)	2,828	4,423
Increase (decrease) in trade payables, accruals and stock-based compensation liability		1,274	(3,679)	3,923	(11,142)
Effects of exchange rate changes		149	(640)	(279)	(143)
Cash generated from operating activities		9,925	30,678	23,368	57,804
Income tax paid		(84)	(725)	(2,442)	(2,258)
Net cash from operating activities		9,841	29,953	20,926	55,546
Cash flows from (used in) financing activities					
Payment of dividends	8	(4,164)	(16,038)	(8,322)	(32,064)
Repurchase and cancellation of shares under NCIB	8	(2,991)	(263)	(2,991)	(4,083)
Repayment of lease liability		(465)	(658)	(1,088)	(1,243)
Net cash used in financing activities		(7,620)	(16,959)	(12,401)	(37,390)
Cash flows (used in) from investing activities					
Equity investments	7	(12,127)	—	(12,127)	(5,000)
Additions to property, plant and equipment		(4,059)	(1,378)	(5,509)	(4,044)
Development costs		(461)	579	(860)	157
Proceeds on disposal of property, plant and equipment		191	393	343	807
Changes in non-cash working capital		172	341	(40)	357
Net cash used in investing activities		(16,284)	(65)	(18,193)	(7,723)
Effect of exchange rate on cash and cash equivalents		(2,331)	(6,773)	(4,581)	5,037
Net increase (decrease) in cash and cash equivalents		(16,394)	6,156	(14,249)	15,470
Cash and cash equivalents, beginning		151,427	170,330	149,282	161,016
Cash and cash equivalents, ending	4	135,033	176,486	135,033	176,486

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

Notes to Condensed Consolidated Interim Financial Statements

(000s, except per share data)

1. Description of Business

Pason Systems Inc. ("Pason" or 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 Condensed Consolidated Interim Financial Statements include the accounts of Pason Systems Inc., its wholly owned subsidiaries, and Energy Toolbase Software Inc.

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 intercompany 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, 2020.

These Condensed Consolidated Interim Financial Statements are presented in Canadian dollars, which is the Company's functional currency. All financial information presented in Canadian dollars has been rounded to the nearest thousand except for per share amounts.

Key Sources of Estimation Uncertainty

The preparation of these Condensed Consolidated Interim Financial Statements in compliance with IAS 34 requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas where significant judgment and estimates have been made in preparing the financial statements and their effect are disclosed in Note 2 of the Company's 2020 consolidated annual financial statements. As the COVID-19 pandemic continues to have significant impacts on the global demand for fossil fuels, the impact on Pason's financial and operational performance remains uncertain at this time. The Company continues to closely monitor current developments as it relates to the COVID-19 pandemic and should the duration, spread, or intensity of the pandemic continue or worsen, further negative impacts on the Company's financial and operational performance can be expected. As such, actual results may differ significantly from estimates made within these Condensed Consolidated Interim Financial Statements.

3. Changes in Accounting Standards

Adoption of new standard

IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments; Disclosures, IFRS 4, Insurance Contracts, and IFRS 16, Leases, collectively named 'Interest Rate Benchmark Reform – Phase 2' (adopted January 1, 2021).

The amendments provide relief for modifications of financial contracts and leases and discontinuing hedge accounting required solely by Interest Rate Benchmark Reform. The amendments include a

practical expedient to apply the change in the basis for determining the contractual cash flows prospectively by revising the effective interest rate. A similar practical expedient is also provided for modifications of the cash flows of lease liabilities.

In relation to hedge accounting, the amendments introduce an exception to the existing requirements so that changes in the formal designation of a hedge accounting relationship that are needed to reflect the changes required by Interest Rate Benchmark Reform do not result in the discontinuation of hedge accounting or the designation of a new hedging relationship.

4. Cash and Cash Equivalents

As at	June 30, 2021	December 31, 2020
	(\$)	(\$)
Cash	44,566	41,124
Cash equivalents	90,467	108,158
Cash and cash equivalents	135,033	149,282

Cash equivalents are made up of cash invested in money market funds with interest rates of approximately 0.2% and maturities ranging from 1–90 days.

5. 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 second 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 corresponding quarter for the previous year.

6. Income Taxes Recoverable - 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 a Bilateral Advanced Pricing Arrangement (APA) entered into with the CRA and the Internal Revenue Service (IRS). As such, the Company recorded an amount under current income tax recoverable - other, which represents a corresponding amount owing from the IRS. During the first quarter of 2021, the Company collected \$142 from the IRS for one of the three years for which the withholding tax amount related to. The IRS has completed their audit on the remaining \$15,162 with no proposed adjustments, and the company currently awaits final processing of the refund amount owing.

7. Investments

Investments are comprised of the Company's investment in Intelligent Wellhead Systems Inc. (IWS) and Rawabi Pason Company.

During the second quarter, Pason increased its minority investment in IWS and acquired a portion of outstanding common shares for total cash consideration of \$7,127. IWS is a privately-owned oil and gas technology and service company that provides engineered controls, data acquisition and software to automate workflows and processes at live well operations in the completions segment of the oil and gas industry. The Company's initial minority investment was made in 2019, and consisted of total consideration of \$25,000. The investment consisted of initial cash consideration of \$10,000 and \$15,000 payable in three separate \$5,000 put options, exercisable at IWS' discretion for a period of up to three years. The first \$5,000 put obligation was exercised in the third quarter of 2020, while the second was exercised during the second quarter of 2021 to fund IWS' recent growth.

As such, total cash outflow associated with the Company's minority investment in IWS during the second quarter of 2021 was \$12,127 million (Q2 2020 - \$nil).

8. Share Capital

Common shares

	Six Months Ended June 30, 2021		Year ended December 31, 2020	
	(\$)	(#)	(\$)	(#)
Balance, beginning	164,568	83,088,941	166,701	84,538,241
Shares repurchased and cancelled under NCIB	(622)	(313,900)	(2,865)	(1,449,300)
Reversal of prior period liability for APP commitment pursuant to NCIB	—	—	732	—
Balance, ending	163,946	82,775,041	164,568	83,088,941

At June 30, 2021, 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 at the discretion of the Board of Directors, 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.

Common share dividends

For the six month period ended June 30, 2021, the Company declared and paid dividends of \$8,322 (2020: \$32,064) or \$0.10 per common share (2020: \$0.38).

Normal Course Issuer Bid (NCIB)

In 2020, the Company renewed its NCIB commencing on December 18, 2020, and expiring on December 17, 2021. Under the current NCIB, the Company may purchase for cancellation, as the Company considers advisable, up to a maximum of 4,149,047 common shares, which represents 10% of the applicable public float at the time of renewal.

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 83,393 common shares. The Company may make one block purchase per calendar week which exceeds the daily purchase restriction.

For the six month period ended June 30, 2021, the Company repurchased 313,900 shares for cancellation for a total cash consideration of \$2,991. For the six month period ended June 2020, the Company repurchased 442,600 common shares for cancellation for a total cash consideration of \$4,083. The total consideration is allocated between share capital and retained earnings.

9. Stock-Based Compensation

Stock option plan

The Group has a stock option plan that entitles qualified employees to purchase common shares in the Company. Options, which are issued at market price, vest over three years and expire after five years. The outstanding stock options can be summarized as follows:

	Six Months Ended June 30, 2021		Twelve Months Ended December 31, 2020	
	Share Options (#)	Weighted Average Exercise Price (\$)	Share Options (#)	Weighted Average Exercise Price (\$)
Outstanding, beginning	4,277,601	15.96	5,111,355	17.87
Granted	—	—	635,910	7.33
Expired or forfeited	(836,796)	17.35	(1,469,664)	18.88
Outstanding, ending	3,440,805	15.62	4,277,601	15.96
Exercisable, ending	2,229,367	17.76	2,990,012	17.74
Available for grant, ending	2,353,448		1,537,897	

Restricted share units plan

All RSUs vest over three years and upon vesting will entitle the holder to a cash payment based upon the corresponding market value of the Company's common shares.

The outstanding RSUs can be summarized as follows:

	Six Months Ended June 30, 2021	Twelve Months Ended December 31, 2020
	(#)	(#)
RSUs, beginning	1,111,190	650,055
Granted	—	806,548
Vested and paid	(1,500)	(219,800)
Forfeited	(53,198)	(125,613)
RSUs, ending	1,056,492	1,111,190

Deferred share units plan

DSUs are awarded annually to members of the Board of Directors and represent cash settled rights to share values based on the number of DSUs issued. DSUs are credited evenly following the year in which they are awarded. DSUs vest and are paid upon the retirement of the Director.

The Company's outstanding DSUs can be summarized as follows:

	Six Months Ended June 30, 2021	Twelve Months Ended December 31, 2020
	(#)	(#)
DSUs, beginning	252,363	169,938
Credited	40,977	82,425
DSUs, ending	293,340	252,363

Performance share units plan

The Company has a PSU plan for Executive Officers of the Company. PSUs are awarded annually and the number of PSUs awarded shall be equal to one PSU for each \$1.00 of grant value determined by the Board of Directors on such date. PSUs granted before 2021 vest equally over three years while PSUs awarded in 2021 vest at the end the third anniversary date. Upon vesting, PSUs entitle the holder to receive a cash payment calculated based upon the number of PSUs vested and a multiplier which is based on the achievement of certain performance measures and objectives specified by the Board of Directors. The applicable multiplier can range from zero percent to 200 percent.

The Company's outstanding PSUs can be summarized as follows:

	Six Months Ended June 30, 2021	Twelve Months Ended December 31, 2020
	(#)	(#)
PSUs, beginning	2,332,028	4,561,167
Granted	—	1,085,250
Vested and paid	—	(2,236,834)
Forfeited	—	(1,077,555)
PSUs, ending	2,332,028	2,332,028

Stock-based compensation expense and liability

For the three month period ended June 30, 2021, the Company recorded \$2,216 of stock-based compensation expense for its equity and cash settled plans (second quarter of 2020: \$1,868). For the six month period ended June 30, 2021, the Company recorded \$4,818 of stock-based compensation expense for its equity and cash settled plans (first half of 2020: \$1,746). As at June 30, 2021, the Company held \$3,687 in current stock-based compensation liability and \$5,346 in non-current stock-based compensation liability for its cash settled plans (as at December 31, 2020: \$1,426 and \$3,384 respectively).

10. Operating Segments

Prior to the third quarter of 2020, the Company presented three operating segments, based upon the geographic segments of the Company's core business servicing the oil and gas industry, consisting of Canada, the United States, and International. The United States segment included Energy Toolbase Software Inc., which is the operating entity of the Company's solar and energy storage business.

In 2020, the Company streamlined its structure and operations by consolidating its core US and Canadian operations. Furthermore, the Solar and Energy Storage business is distinct from the Company's core business and anticipated future operating results are expected to be significant, warranting a distinct segment. Given these factors, management realigned the Company's operating segments to better reflect how management makes decisions for the Company.

As a result of the change in reportable segments the Company now reports on three strategic business units: The North American (Canada and the United States) and International (Latin America, including Mexico, Offshore, the Eastern Hemisphere, and the Middle East) business units, all of which offer technology services to the oil and gas industry, and the Solar and Energy Storage business unit, which provides technology services to solar and energy storage developers. All comparative figures have been reclassified to conform to the new presentation.

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

Three Months Ended June 30, 2021	North America	International	Solar and Energy Storage	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	18,957	4,742	—	23,699
Mud Management and Safety	10,428	1,724	—	12,152
Communications	1,939	355	—	2,294
Drilling Intelligence	2,342	247	—	2,589
Analytics and Other	1,262	741	856	2,859
Total Revenue	34,928	7,809	856	43,593
Rental services and local administration	14,036	4,512	1,303	19,851
Depreciation and amortization	5,640	511	5	6,156
Segment gross profit (loss)	15,252	2,786	(452)	17,586
Research and development				7,849
Corporate services				2,913
Stock-based compensation				2,216
Other income				(2,274)
Income tax provision				2,002
Net income				4,880
Net income attributable to Pason				5,307
Capital expenditures	3,952	568	—	4,520
As at June 30, 2021				
Property plant and equipment	77,787	9,779	95	87,661
Intangible assets	6,413	—	3,312	9,725
Goodwill	8,332	2,600	21,026	31,958
Segment assets	279,112	49,732	25,212	354,106
Segment liabilities	51,208	5,346	1,468	58,022

Three Months Ended June 30, 2020 (restated)	North America	International	Solar and Energy Storage	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	12,654	1,439	—	14,093
Mud Management and Safety	6,933	1,287	—	8,220
Communications	890	47	—	937
Drilling Intelligence	1,136	74	—	1,210
Analytics and Other	1,346	191	851	2,388
Total Revenue	22,959	3,038	851	26,848
Rental services and local administration	13,049	3,371	1,389	17,809
Depreciation and amortization	7,605	1,000	7	8,612
Segment gross profit (loss)	2,305	(1,333)	(545)	427
Research and development				6,737
Corporate services				2,827
Stock-based compensation				1,868
Other income				(5,134)
Income tax provision (recovery)				(1,072)
Net loss				(4,799)
Net loss attributable to Pason				(4,487)
Capital expenditures	452	347	—	799
As at June 30, 2020				
Property plant and equipment	37,684	59,673	13,684	111,041
Intangible assets	12,011	1,928	—	13,939
Goodwill	1,259	30,896	2,600	34,755
Segment assets	99,927	255,897	51,563	407,387
Segment liabilities	36,374	26,240	4,479	67,093

Six Months Ended June 30, 2021	North America	International	Solar and Energy Storage	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	37,341	9,091	—	46,432
Mud Management and Safety	20,424	3,239	—	23,663
Communications	4,188	621	—	4,809
Drilling Intelligence	5,151	455	—	5,606
Analytics and Other	2,403	1,467	1,768	5,638
Total Revenue	69,507	14,873	1,768	86,148
Rental services and local administration	27,956	8,152	2,651	38,759
Depreciation and amortization	12,630	1,347	10	13,987
Segment gross profit (loss)	28,921	5,374	(893)	33,402
Research and development				14,965
Corporate services				5,945
Stock-based compensation				4,818
Other income				(4,456)
Income tax provision				3,259
Net income				8,871
Net income attributable to Pason				9,622
Capital expenditures	5,801	568	—	6,369

Six months ended June 30, 2020 (restated)	North America	International	Solar and Energy Storage	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	45,821	6,943	—	52,764
Mud Management and Safety	26,097	3,520	—	29,617
Communications	5,519	496	—	6,015
Drilling Intelligence	6,230	375	—	6,605
Analytics and Other	3,114	953	1,742	5,809
Total Revenue	86,781	12,287	1,742	100,810
Rental services and local administration	35,085	8,654	3,224	46,963
Depreciation and amortization	16,974	2,039	13	19,026
Segment gross profit (loss)	34,722	1,594	(1,495)	34,821
Research and development				14,799
Corporate services				6,512
Stock-based compensation				1,746
Other income				(5,940)
Income tax provision				5,951
Net income				11,753
Net income attributable to Pason				12,432
Capital expenditures	2,506	1,031	350	3,887

11. Other Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(\$)	(\$)		
Government wage assistance	(2,966)	(4,363)	(5,890)	(4,363)
Derecognition of onerous lease	—	(5,757)	—	(5,757)
Reorganization costs	—	5,554	—	5,554
Net monetary gain	(11)	(396)	(60)	(815)
Net interest income	(270)	(338)	(278)	(736)
Equity loss	194	323	523	79
Foreign exchange loss	725	79	1,173	32
Other	54	(236)	76	66
Other (income)	(2,274)	(5,134)	(4,456)	(5,940)

During the second quarter of 2021, the Company was eligible to participate in the Canada Emergency Wage Subsidy (CEWS) program, which was started by the Government of Canada in April 2020. As a result, a CEWS benefit of \$2,966 (2020 - \$4,363) was recorded as government wage assistance.

During the second quarter of 2020, the Company entered into an agreement to terminate the lease at its previous US head office in Golden, Colorado. As a result, a recovery of \$5,757 was recorded, which is comprised of the derecognition of the previous recorded onerous lease liability, offset by a termination payment.

During the second quarter of 2020, the Company initiated staff reduction initiatives to address the anticipated prolonged downturn in oil and gas drilling activity in all of its markets. Accordingly, the Company recorded reorganization expenses of \$5,554, which is comprised of termination and other staff related costs.

Net monetary gain included in other income is a result of applying hyperinflation accounting to the Company's Argentinian subsidiary.

The equity loss is a result of the Company using the equity method of accounting to account for its investments in Intelligent Wellhead Systems Inc. and the Pason Rawabi joint venture and reflects the current period change in the value of the Company's equity investment.

12. 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,	
	2021	2020	2021	2020
			(#)	(#)
Issued common shares outstanding, beginning	83,088,941	84,095,641	83,088,941	84,538,241
Effect of NCIB and exercised options	(78,475)	—	(44,843)	(271,514)
Weighted average number of common shares (basic)	83,010,466	84,095,641	83,044,098	84,266,727

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,	
	2021	2020	2021	2020
Weighted average number of common shares (basic)	83,010,466	84,095,641	83,044,098	84,266,727
Effect of share options	123,554	—	121,132	—
Weighted average number of common shares (diluted)	83,134,020	84,095,641	83,165,230	84,266,727

For the three month period ended June 30, 2021, 2,827,695 (second quarter of 2020 - 4,767,460) options 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.

13. Approval of Financial Statements

These unaudited Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on August 10, 2021.

14. Events After the Reporting Period

On August 10, 2021, the Company declared a quarterly dividend of \$0.05 per share on the Company's common shares. The dividend will be paid on September 29, 2021, to shareholders of record at the close of business on September 15, 2021.

Corporate Information

Directors

Marcel Kessler
Chairman of the Board
Pason Systems Inc.
Calgary, Alberta

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

Jon Faber
President & CEO
Pason Systems Inc.
Calgary, Alberta

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

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

Laura Schwinn⁽²⁾⁽⁴⁾⁽⁶⁾
President Specialty Catalysts
W. R. Grace & Co.
Columbia, Maryland

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

Officers & Key Personnel

Jon Faber
President
& Chief Executive Officer

Celine Boston
Chief Financial Officer

Kevin Boston
Vice President, Commercial

Natalie Fenez
Vice President, Legal & Corporate
Secretary

Heather Hantos
Vice President, Human Resources

Bryce McLean
Vice President, Operations

Lars Olesen
Vice President, Product & Technology

Russell Smith
Vice President, International

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

Reid Wuntke
President, Energy Toolbase Software Inc.

Corporate Head Office

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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.