



MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2023



pason

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") has been prepared by management as of May 4, 2023, 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 months ended March 31, 2023, the Consolidated Financial Statements for the twelve months ended December 31, 2022 and 2021, accompanying notes, and Pason's Annual Information Form dated March 15, 2023.

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, Brazil, Colombia, 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 project developers to model, control, and monitor 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 dated March 15, 2023.

Highlights

Three Months Ended March 31,

	2023	2022	Change
(CDN 000s, except per share data)	(\$)	(\$)	(%)
Revenue	98,229	74,468	32
EBITDA ⁽¹⁾	51,755	34,686	49
Adjusted EBITDA ⁽¹⁾	52,410	33,373	57
As a % of revenue	53.4	44.8	860 bps
Funds flow from operations	43,673	25,704	70
Per share – basic	0.54	0.31	74
Per share – diluted	0.53	0.31	71
Cash from operating activities	46,265	28,050	65
Net capital expenditures ⁽²⁾	11,555	4,468	159
Free cash flow ⁽¹⁾	34,710	23,582	47
Cash dividends declared (per share)	0.12	0.08	50
Net income	35,454	18,001	97
Net income attributable to Pason	35,842	18,573	93
Per share – basic	0.44	0.23	95
Per share – diluted	0.44	0.23	95

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

(2) Includes additions to property, plant, and equipment and development costs, net of proceeds on disposal from Pason's Condensed Consolidated Interim Statement of Cash Flows

As at	March 31, 2023	December 31, 2022	Change
(CDN 000s)	(\$)	(\$)	(%)
Cash and cash equivalents	144,355	132,057	9
Short-term investments	40,229	40,377	nmf
Total Cash ⁽¹⁾	184,584	172,434	7
Working capital	224,546	213,899	5
Total interest bearing debt	—	—	—
Shares outstanding end of period (#)	80,793,793	81,526,954	(1)

(1) Total Cash is defined as total cash and cash equivalents and short-term investments from Pason's Condensed Consolidated Interim Balance Sheets

Pason's financial results for the three months ended March 31, 2023, reflect improved industry conditions, the Company's strong competitive positioning, prudent balance sheet, and significant operating leverage.

Pason generated \$98.2 million in revenue in the first quarter of 2023, representing a 32% increase from the \$74.5 million generated in the first quarter of 2022 as drilling activity improved across Pason's operating regions. Additionally, the Company generated a new quarterly record for Revenue per Industry Day in the North American business unit of \$922 in Q1 2023, an increase of 10% from the comparative period in 2022, resulting in improvements in revenue that outpaced underlying industry activity. With this increase in revenue, Pason generated \$52.4 million in Adjusted EBITDA, or 53.4% of revenue in the first quarter of 2023, compared to \$33.4 million in the first quarter of 2022, or 44.8% of revenue. While the Company incurred certain incremental expenses to support increased activity levels, such as equipment repairs, research and development costs and compensation expenses, first quarter results continue to demonstrate the Company's mostly fixed cost base and strong operating leverage through improved industry conditions.

Pason's balance sheet remains strong, with no interest bearing debt and \$184.6 million in Total Cash as at March 31, 2023, compared to \$172.4 million at December 31, 2022. During the first quarter of 2023, Pason generated \$46.3 million in net cash from operating activities (Q1 2022: \$28.1 million) as the

Company's operating results improved and while the Company managed required investments in working capital on higher levels of revenue generated.

During the first quarter of 2023, Pason incurred \$11.6 million of net capital expenditures which represents rental equipment additions to meet activity levels, as well as investments associated with ongoing refresh of the Company's fleet and technology platform. Resulting Free Cash Flow generated in Q1 2023 was \$34.7 million compared to \$23.6 million generated in the first quarter of 2022.

The Company recorded net income attributable to Pason of \$35.8 million (\$0.44 per share) in the first quarter of 2023, a significant increase compared to net income attributable to Pason of \$18.6 million (\$0.23 per share) recorded in the corresponding period in 2022 due to the improving industry conditions outlined above, and also benefiting from lower stock based compensation expense year over year.

President's Message

The first quarter of 2023 represented the continuation of strong financial and operational performance for Pason. Consolidated revenue in the quarter of \$98.2 million was 32% higher than the prior year period, significantly outpacing an 18% increase in North American land drilling activity over the same period. We delivered an additional \$0.80 of Adjusted EBITDA for each incremental dollar of revenue compared to the first quarter of 2022, even while navigating challenging inflationary pressures on our costs throughout 2022. Adjusted EBITDA in the first quarter of 2023 totaled \$52.4 million, representing an Adjusted EBITDA margin of 53.4%.

Our competitive position remains exceptionally strong. Our North American business unit generated Revenue per Industry Day of \$922 in the quarter, a 10% increase compared to the prior year period and the first time this metric has surpassed the \$900 level in the Company's history. North American Revenue per Industry Day has increased at a compound annual growth rate of 8.7% over the 5-year period since the first quarter of 2018, a period which included drastic industry downturns and the effects of the COVID-19 pandemic. Over that time period, US market share, product adoption, and realized pricing have all improved.

Our international business also continues to deliver exceptional results, with first quarter revenue of \$15.6 million representing a 46% year-over-year increase. Segment gross profit increased by 70% to \$7.8 million in the quarter.

We are confident that our proven ability to generate revenue growth in excess of underlying industry activity, coupled with high operating leverage, will deliver continually improving financial results at higher levels of industry activity. While US land drilling activity softened in the later part of the first quarter, and Canada began to experience its seasonal declines due to winter breakup, our outlook for a return of steady growth in industry activity in the second half of 2023 is unchanged.

Basic economic principles around supply and demand are instructive in establishing the prevailing direction of industry activity. Our outlook for continued growth in land drilling activity remains positive. Significant draws from oil storage inventories, and an inventory of Drilled but Uncompleted wells ("DUCs") below what industry analysts consider to be sustainable levels, cannot persist in perpetuity while global oil demand continues to surpass pre-pandemic levels.

We will continue to make the necessary investments in our business to ensure we best capitalize on higher levels of industry activity. We currently expect approximately \$45 million in capital expenditures in 2023. This includes amounts to refresh and renew our rental assets to ensure we are able to address changing customer data requirements, and spending on operational equipment which was delayed over the past two years by acute supply chain shortages. We continue to evaluate our capital program with a focus on supporting increasing revenue, generating free cash flow and creating value for shareholders over time, rather than simply in response to prevailing near-term industry conditions.

We are making growth-related investments outside of our drilling-related business. We purchased an additional \$0.4 million of outstanding common shares of Intelligent Wellhead Systems (IWS) during the first quarter. Subsequent to quarter-end, we funded an additional \$5 million tranche under the preferred

share financing arrangement announced in December 2022 to meet the capital expenditure and working capital investments required to capitalize on the significant growth in IWS' business. We are making investments to advance the economic modeling platform and control systems of Energy Toolbase (ETB) in the solar and energy storage markets. ETB delivered revenue of \$2.9 million in the first quarter, which was positively impacted by the timing of commissioning of control system projects in the quarter.

Returning capital to shareholders represents an important part of our approach to capital allocation. During the first quarter, we returned \$19.8 million to shareholders in the form of regular dividends and share repurchases and we are maintaining our quarterly dividend at \$0.12 per share.

Our balance sheet remains strong with \$184.6 million in cash, cash equivalents and short-term investments and \$224.6 million in positive working capital.

Pason is well positioned for growth. We expect land drilling activity to increase through the second half of 2023 and beyond. We have demonstrated our ability to outpace underlying growth in industry activity through improved Revenue per Industry Day across industry cycles and our high operating leverage results in significant increases in Adjusted EBITDA as revenue grows. Our capital spending remains much lower than the company has historically witnessed during periods of industry growth. Outside of our drilling-related business, we are encouraged by the growth we are seeing in both Energy Toolbase and Intelligent Wellhead Systems.

Most importantly, we continue to attract and retain an exceptionally talented and highly motivated group of employees who work hard to earn the continued trust and confidence of our customers and shareholders.

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

Jon Faber
President and Chief Executive Officer
May 4, 2023

Discussion of Operations

Overall Performance

	Three Months Ended March 31,		
	2023	2022	Change
(000s)	(\$)	(\$)	(%)
Revenue			
Drilling Data	53,108	39,613	34
Mud Management and Safety	27,442	20,207	36
Communications	5,165	4,480	15
Drilling Intelligence	6,611	6,002	10
Analytics and Other	5,903	4,166	42
Total revenue	98,229	74,468	32
Operating expenses			
Rental services	29,255	25,172	16
Local administration	3,371	3,118	8
Depreciation and amortization	6,616	6,314	5
	39,242	34,604	13
Gross profit	58,987	39,864	48
Other expenses			
Research and development	10,172	8,844	15
Corporate services	4,147	3,488	19
Stock-based compensation expense (recovery)	(82)	5,555	nmf
Other income	(3,078)	(1,353)	127
	11,159	16,534	(33)
Income before income taxes	47,828	23,330	105
Income tax provision	12,374	5,329	132
Net income	35,454	18,001	97
Adjusted EBITDA ⁽¹⁾	52,410	33,373	57

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

The Company 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.

North American Operations

	Three Months Ended March 31,		
	2023	2022	Change
(000s)	(\$)	(\$)	(%)
Revenue			
Drilling Data	44,073	33,026	33
Mud Management and Safety	24,051	17,877	35
Communications	4,361	4,001	9
Drilling Intelligence	6,161	5,695	8
Analytics and Other	1,129	1,401	(19)
Total revenue	79,775	62,000	29
Rental services and local administration	22,683	20,311	12
Depreciation and amortization	5,794	5,849	(1)
Segment gross profit	51,298	35,840	43
	Three Months Ended March 31,		
	2023	2022	Change
	(\$)	(\$)	(%)
Revenue per Industry Day	922	835	10

Drilling activity in North America remained strong in the first quarter of 2023, with an 18% increase in industry activity compared to the comparative prior year period. The North American business unit outpaced the improvement in industry activity, generating \$79.8 million of revenue in the first quarter of 2023, a 29% increase from \$62.0 million in the comparative period of 2022. Revenue per Industry Day was \$922 in Q1 2023, an increase of 10% from the comparable period in 2022 and a new record level for the Company. The year over year increase is due to a combination of factors including increased adoption of certain products, and improvement in pricing conditions. Furthermore, Revenue per Industry Day in the first quarter of 2023 benefited from a strong Canadian winter drilling season, a region that has historically generated comparatively higher levels of Revenue per Industry Day for the Company.

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 12% in the first quarter of 2023 over the 2022 comparative period. The increase in operating costs is primarily attributable to variable expenses incurred to service higher levels of revenue, along with increased headcount to meet increased activity levels.

Segment gross profit was \$51.3 million during the first quarter of 2023 compared to \$35.8 million in the 2022 comparative period, representing a significant increase due to the factors outlined above, and demonstrating the Company's strong operating leverage with improved activity levels.

International Operations

	Three Months Ended March 31,		
	2023	2022	Change
(000s)	(\$)	(\$)	(%)
Revenue			
Drilling Data	9,035	6,587	37
Mud Management and Safety	3,391	2,330	46
Communications	804	479	68
Drilling Intelligence	450	307	47
Analytics and Other	1,910	988	93
Total revenue	15,590	10,691	46
Rental services and local administration	7,018	5,663	24
Depreciation and amortization	817	460	78
Segment gross profit	7,755	4,568	70

The International business unit generated \$15.6 million of revenue in the first quarter of 2023, a 46% increase from the \$10.7 million generated in the comparative period of 2022. The year over year increase is due to increased industry activity in the international markets that the company serves and higher levels of revenue generated per drilling day with improved product adoption and pricing.

Rental services and local administration expense was \$7.0 million in the first quarter of 2023, an increase of 24% compared to \$5.7 million in the comparative period of 2022. As activity levels improve, certain variable costs such as repair costs and growth in field related headcount are incurred to support higher levels of revenue generated.

Depreciation and amortization increased by 78% in the first quarter of 2023 over the 2022 comparative period. The increase is due to a combination of higher capital expenditures in recent quarters and the impact of hyperinflationary accounting in the Company's Argentinian subsidiary.

Resulting segment gross profit was \$7.8 million during the first quarter of 2023, a 70% increase from the \$4.6 million in the comparative period of 2022 due to the factors outlined above, and demonstrating the Company's strong operating leverage with improved activity levels.

Solar and Energy Storage Operations

	Three Months Ended March 31,		
	2023	2022	Change
(000s)	(\$)	(\$)	(%)
Revenue			
Analytics and Other	2,864	1,777	61
Total revenue	2,864	1,777	61
Operating expenses and local administration ⁽¹⁾	2,925	2,316	26
Depreciation and amortization	5	5	—
Segment gross loss	(66)	(544)	nmf

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

Revenue generated by the Solar and Energy Storage business unit was \$2.9 million, an increase of 61% from the comparative period in 2022, and represented the highest quarterly revenue level generated for the reporting segment. The increase in revenue is primarily due to the commissioning of control systems and sales of related hardware. Quarterly revenue for the Solar and Energy Storage business unit will continue to fluctuate with the timing of the commissioning of control system projects.

Operating expenses and local administration were \$2.9 million during the first quarter of 2023, a 26% increase from \$2.3 million during the comparable period. The increase is due primarily to input costs associated with the commissioning of the control systems. Segment gross loss was \$0.1 million for the first quarter of 2023, a decrease of \$0.5 million from the comparable period in 2022.

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 Consolidated 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 March 31,		
	2023	2022	Change
(000s)	(\$)	(\$)	(%)
Research and development	1,223	1,252	(2)

Corporate Expenses

	Three Months Ended March 31,		
	2023	2022	Change
(000s)	(\$)	(\$)	(%)
Research and development	10,172	8,844	15
Corporate services	4,147	3,488	19
Stock-based compensation expense (recovery)	(82)	5,555	nmf
Total corporate expenses	14,237	17,887	(20)

Research and development and corporate service expenses increased by 15% and 19%, respectively, from the comparative period in 2022. Throughout 2022, Pason made additional investments in research and development, further improving the Company's ability to support increasing activity levels and product enhancements. Also throughout 2022, the Company made investments in building out its 24/7 help desk support function to service higher levels of drilling activity. These investments are reflected within corporate services.

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 March 31,		
	2023	2022	Change
(000s)	(\$)	(\$)	(%)
Net interest income	(2,607)	(513)	408
Equity (income) loss	(1,126)	472	nmf
Net monetary gain	(159)	(201)	(21)
Foreign exchange loss	233	403	(42)
Other expenses (income)	581	(1,514)	nmf
Total other income	(3,078)	(1,353)	127

Net interest income is primarily comprised of interest generated from the Company's invested cash and cash equivalents and will fluctuate as available yields fluctuate.

The equity (income) loss results from 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 investments.

Net monetary gain included in other income results from applying hyperinflation accounting to the Company's Argentinian subsidiary.

Income Tax Provision

During the first quarter of 2023, the Company recorded an income tax expense of \$12.4 million, compared to an income tax expense of \$5.3 million during the comparative period in 2022. The increase is attributable to the improvement in income before income taxes, in light of improved operating performance year over year, as further outlined herein.

Investments

As at March 31, 2023, the Company holds \$49.4 million on its Condensed Consolidated Interim Balance Sheets relating to the carrying value of investments accounted for using the equity method (December 31, 2022: \$47.8 million). This balance is comprised of investments in Intelligent Wellhead Systems Inc. (IWS) and a 50% interest in Rawabi Pason Company (Rawabi JV). Rawabi JV is a provider of specialized data management systems for drilling rigs in the Kingdom of Saudi Arabia. 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 in IWS was made in 2019, and consisted of consideration of \$25.0 million, with initial cash consideration of \$10.0 million and \$15.0 million payable in three separate \$5.0 million put options, which were exercised throughout 2021 and 2022.

During the fourth quarter of 2022, Pason further increased its non-controlling investment in IWS and acquired a portion of outstanding common shares for total cash consideration of \$7.9 million. Also in the fourth quarter of 2022, the Company entered into a preferred share subscription agreement with IWS with an initial subscription of \$10.0 million, and up to \$15.0 million in additional subscriptions exercisable by IWS, but subject to the Company's approval. No additional voting rights were granted as part of this preferred share subscription.

During the first quarter of 2023, Pason increased its non-controlling investment in IWS and acquired a portion of outstanding common shares for total cash consideration of \$0.4 million. Further, subsequent to March 31, 2023, the Company approved and funded \$5.0 million of the \$15.0 million in available preferred share subscriptions.

Put Obligation

As at March 31, 2023, the Company holds a \$6.5 million obligation under put option on its Condensed Consolidated Interim Balance Sheets (December 31, 2022: \$6.5 million). The put obligation is a contractual obligation whereby the non-controlling shareholders of ETB have a put option to exercise for cash their 20% shareholdings of ETB starting in 2023 with reference to the fair value of ETB shares at the date the put option can be exercised. This put option gives rise to a financial liability and is calculated at each annual reporting period using a discounted cash flow model of the estimated future cash flows of the obligation.

Summary of Quarterly Results

Three Months Ended	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023
(000s, except per share data)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue	42,555	43,593	57,705	62,833	74,468	73,608	92,502	94,420	98,229
EBITDA ⁽¹⁾	15,673	14,984	24,870	26,874	34,686	31,673	50,659	53,248	51,755
Adjusted EBITDA ⁽¹⁾	13,170	12,786	22,356	24,208	33,373	30,962	46,231	48,944	52,410
As a % of revenue	30.9	29.3	38.7	38.5	44.8	42.1	50.0	51.8	53.4
Funds flow from operations	13,730	14,662	19,983	19,353	25,704	27,242	35,968	45,971	43,673
Per share – basic	0.17	0.18	0.24	0.23	0.31	0.33	0.44	0.56	0.54
Per share – diluted	0.17	0.18	0.24	0.23	0.31	0.33	0.43	0.56	0.53
Cash from operating activities	11,085	9,841	17,074	27,061	28,050	25,679	30,743	19,942	46,265
Free cash flow ⁽¹⁾	9,176	5,684	16,261	23,990	23,582	19,135	24,047	3,709	34,710
Net income (loss)	3,991	4,880	12,775	10,279	18,001	17,992	33,739	35,994	35,454
Net income (loss) attributable to Pason	4,315	5,307	13,074	11,149	18,573	18,540	34,246	36,257	35,842
Per share – basic	0.05	0.06	0.16	0.14	0.23	0.23	0.42	0.44	0.44
Per share – diluted	0.05	0.06	0.16	0.14	0.23	0.22	0.41	0.44	0.44

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

Q1 2023 vs Q4 2022

Consolidated revenue was \$98.2 million in the first quarter of 2023, a 4% increase compared to consolidated revenue of \$94.4 million in the fourth quarter of 2022.

Revenue in the North American business unit was \$79.8 million in the first quarter of 2023, a 3% increase compared to revenue of \$77.7 million in the fourth quarter of 2022. Industry days remained relatively flat

sequentially as the growth in Canadian drilling activity with a strong winter drilling season throughout Q1 2023 was mostly offset by a slight reduction in drilling activity in the US. The sequential increase in revenue was primarily driven by a 10% increase in Revenue per Industry Day, which reflected improved pricing and strong levels of product adoption for the Company's technology offering. Revenue per Industry Day in Q1 2023 benefited from strong Canadian winter drilling activity throughout the first quarter, a region which has historically generated higher levels of revenue per day.

The International business unit reported revenue of \$15.6 million in the first quarter of 2023, an 8% increase compared to \$14.4 million in the fourth quarter of 2022. Revenue generated by the International business unit in the fourth quarter of 2022 was negatively affected by the impacts of hyperinflationary accounting for the Company's Argentinian subsidiary. Excluding this impact for both periods, Q1 2023 revenue for the International business unit would have increased by 3%, reflecting improved drilling activity within international end markets coupled with improved pricing and adoption.

The Company's gross profit was \$59.0 million in the first quarter of 2023, a 5% increase compared to gross profit of \$56.4 million in the fourth quarter of 2022. Similarly, Adjusted EBITDA was \$52.4 million in the first quarter of 2023, a 7% increase from \$48.9 million in the fourth quarter of 2022. Sequential gross profit and Adjusted EBITDA increases reflect the Company's primarily fixed cost structure and strong operating leverage.

The Company recorded net income attributable to Pason in the first quarter of 2023 of \$35.8 million (\$0.44 per share) compared to net income attributable to Pason of \$36.3 million (\$0.44 per share) in the fourth quarter of 2022. Fourth quarter 2022 net income benefited from other income recognized from the revaluation of the Company's put obligation. Further, current quarter net income reflects an increased provision for income taxes as taxable income increased sequentially.

Cash from operating activities was \$46.3 million in the first quarter of 2023, compared to \$19.9 million in the fourth quarter of 2022. Fourth quarter cash from operations reflected investments made in respect of the 2022 year, including increased levels of tax installments and the annual settlement of the Company's cash settled stock-based compensation plans. First quarter 2023 cash from operations reflects improved operating results and lower levels of working capital investments as compared to the fourth quarter.

Free Cash Flow generated by the Company in Q1 2023 was \$34.7 million compared to \$3.7 million in Q4 2022, reflecting higher levels of cash from operating activities as outlined above coupled with lower levels of net capital expenditures sequentially. Quarterly capital expenditures for the Company will fluctuate with timing on deliveries.

Liquidity and Capital Resources

As at	March 31, 2023	December 31, 2022	Change
(000s)	(\$)	(\$)	(%)
Cash and cash equivalents	144,355	132,057	9
Short-term investments	40,229	40,377	—
Total Cash ⁽¹⁾	184,584	172,434	7
Working capital	224,546	213,899	5
Total assets	494,450	469,928	5
Total interest bearing debt	—	—	—

(1) Total Cash is defined as total cash and cash equivalents and short-term investments from Pason's Condensed Consolidated Interim Balance Sheets

Pason's balance sheet remains strong with no interest bearing debt and as at March 31, 2023, \$184.6 million in Total Cash, and \$224.5 million in working capital. During the fourth quarter of 2022, the Company invested in twelve-month term deposits, locking in interest rates ranging from 5.16% to 5.55%. As at March 31, 2023 the Company's remaining cash and cash equivalents of \$144.4 million are invested in 1-25 day money market funds earning interest at an average rate of 4.1%.

The Company has an undrawn \$5.0 million demand revolving credit facility available as at March 31, 2023, consistent with December 31, 2022.

Cash Flow Statement Summary

Three Months Ended March 31,	2023	2022	Change
(000s)	(\$)	(\$)	(%)
Funds flow from operations	43,673	25,704	70
Cash from operating activities	46,265	28,050	65
Cash used in financing activities	(19,963)	(7,371)	171
Cash used in investing activities	(11,995)	(4,468)	168
Net capital expenditures ⁽¹⁾	11,555	4,468	159
As a % of funds flow ⁽²⁾	26.5 %	17.4 %	910 bps

(1) Includes additions to property, plant, and equipment, proceeds on disposals, changes in non-cash working capital, and development costs from Pason's Condensed Consolidated Interim Statement of Cash Flows.

(2) Defined within Supplementary Financial Measures under Non-GAAP Financial Measures

Cash from operating activities

Funds flow from operations increased by 70% in the first quarter of 2023 from Q1 2022 primarily due to the improvement in gross profit year over year. Similarly, cash generated from operating activities increased by 65% and was \$46.3 million in the first quarter of 2023 compared to \$28.1 million in the comparative period of 2022.

Cash used in financing activities

Cash used in financing activities was \$20.0 million during the first quarter of 2023, compared to \$7.4 million during the first quarter of 2022, for which the increase reflects increased shareholder returns.

Dividend

During the three-month period ended March 31, 2023, the Company paid dividends to holders of common shares totaling \$9.8 million, or \$0.12 per share, compared to \$6.6 million, or \$0.08 per share in Q1 2022.

On May 4, 2023, the Company declared a quarterly dividend of \$0.12 per share on the Company's common shares. The dividend will be paid on June 30, 2023, to shareholders of record at the close of business on June 15, 2023.

Normal Course Issuer Bid ("NCIB")

In 2022, the Company renewed its NCIB commencing on December 20, 2022, and expiring on December 19, 2023. Under the current NCIB, the Company may purchase for cancellation, as the Company considers advisable, up to a maximum of 8,105,236 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 54,996 common shares. The Company may make one block purchase per calendar week which exceeds the daily purchase restriction.

For the three-month period ended March 31, 2023, the Company repurchased 767,500 (Q1 2022 - 113,900) shares for cancellation for total cash consideration of \$10.0 million (Q1 2022 - \$1.4 million). The total consideration is allocated between share capital and retained earnings.

Cash used in investing activities

During the first quarter, Pason used \$12.0 million for investing activities compared to \$7.4 million in the comparative period in 2022. Investing activities in the current quarter were primarily comprised of \$11.5 million in net additions to rental equipment to meet activity levels as well as investments associated with ongoing refresh of the Company's fleet and technology platform.

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.

Contractual Obligations

As at March 31, 2023	Less than 1 year	1–3 years	Thereafter	Total
(000s)	(\$)	(\$)	(\$)	(\$)
Leases and other operating contracts	6,870	8,689	15,464	31,023
Capital commitments	16,079	—	—	16,079
Total contractual obligations	22,949	8,689	15,464	47,102

Leases and other operating contracts relate to minimum future lease payments for facility leases, commitments associated with ongoing repair costs of the Company's equipment and technology, and commitments to purchase hardware associated with ETB's control system sales offering. A portion of these commitments have been recognized on the balance sheet as a leased asset with a corresponding liability, in accordance with IFRS 16, Leases.

During the first quarter of 2023, the Company extended the Canadian head office lease to 2032. This extension resulted in a \$7.7 million increase in the Company's right of use asset balance recorded within Property, Plant and Equipment as well as a corresponding increase in lease liability on the Company's Condensed Consolidated Interim Balance Sheets as at March 31, 2023.

Capital commitments relate to contracts to purchase property, plant and equipment in the normal course of business.

Disclosure of Outstanding Share and Options Data

As at March 31, 2023, there were 80,793,793 common shares and 2,630,782 options issued and outstanding. As at May 4, 2023, there were 80,546,093 common shares and 2,570,362 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 in 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 months ended March 31, 2023, are detailed as follows:

Impact on IFRS Measures

	Three Months Ended March 31,	
	2023	2022
(000s)	(\$)	(\$)
Increase (decrease) in revenue	49	(111)
(Increase) decrease in rental services and local administration expenses	(20)	48
(Increase) in depreciation expense	(172)	(108)
(Decrease) in segment gross profit	(143)	(171)
Net monetary gain presented in other expenses	159	201
(Increase) decrease in other expenses	(7)	13
(Increase) decrease in income tax provision	(9)	22
Increase in net income	—	65

Impact on Non-GAAP Measures

	Three Months Ended March 31,	
	2023	2022
(000s)	(\$)	(\$)
Increase (decrease) in revenue	49	(111)
(Increase) decrease in rental services and local administration expenses	(20)	48
Net monetary gain presented in other expenses	159	201
(Increase) decrease in other expenses	(7)	13
Increase in EBITDA	181	151
Elimination of net monetary gain presented in other expenses	(159)	(201)
Elimination of other expenses	7	(13)
(Decrease) increase in Adjusted EBITDA	29	(63)

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

A non-GAAP financial measure has the definition set out in National Instrument 52-112 "Non-GAAP and Other Financial Measures Disclosure".

The following non-GAAP measures 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.

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	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Net (loss) income	4,880	12,775	10,279	18,001	17,992	33,739	35,994	35,454
Add:								
Income taxes	2,002	5,239	3,240	5,329	7,189	11,482	9,405	12,374
Depreciation and amortization	6,156	5,530	6,172	6,314	4,696	4,433	5,399	6,616
Stock-based compensation	2,216	1,611	5,094	5,555	2,514	2,032	5,129	(82)
Net interest income	(270)	(285)	2,089	(513)	(718)	(1,027)	(2,679)	(2,607)
EBITDA	14,984	24,870	26,874	34,686	31,673	50,659	53,248	51,755

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
EBITDA	14,984	24,870	26,874	34,686	31,673	50,659	53,248	51,755
Add:								
Foreign exchange loss (gain)	725	(204)	(2,980)	403	(1,054)	(3,332)	1,959	233
Government wage assistance	(2,966)	(2,190)	(128)	—	—	—	—	—
Put option revaluation	—	—	381	—	—	—	(5,815)	—
Net monetary (gain) loss	(11)	(190)	(246)	(202)	268	(1,380)	(536)	(159)
Other	54	70	307	(1,514)	75	284	88	581
Adjusted EBITDA	12,786	22,356	24,208	33,373	30,962	46,231	48,944	52,410

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	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Cash from operating activities	9,841	17,074	27,061	28,050	25,679	30,743	19,942	46,265
Less:								
Net additions to property, plant and equipment	(3,696)	(1,258)	(2,803)	(4,334)	(6,412)	(6,590)	(16,112)	(11,404)
Deferred development costs	(461)	445	(268)	(134)	(132)	(106)	(121)	(151)
Free cash flow	5,684	16,261	23,990	23,582	19,135	24,047	3,709	34,710

Supplementary Financial Measures

A supplementary financial measure: (a) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of the Company; (b) is not presented in the financial statements of the Company; (c) is not a non-GAAP financial measure; and (d) is not a non-GAAP ratio. Supplementary financial measures found within this MD&A are as follows:

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.

Adjusted EBITDA as a percentage of revenue

Calculated as adjusted EBITDA divided by revenue.

Net capital expenditures as a percentage of funds flow from operations

Calculated as net capital expenditures divided by funds flow from operations.

Total Cash

Calculated as the sum of cash and cash equivalents, and short-term investments from the Company's Condensed Consolidated Interim Balance Sheets. The Company's short term-investments are comprised of twelve-month term deposits.

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. As such, actual results may differ significantly from estimates made within the Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2023. Significant estimates made by the Company have most recently been set out in the Company's MD&A for the year ended December 31, 2022, and its consolidated financial statements and note disclosures for the year ended December 31, 2022, and within Note 2 of the Company's Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2023.

Significant Accounting Policies

The Company's significant accounting policies have been disclosed within the Consolidated Financial Statements for the year ended December 31, 2022.

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 months ended March 31, 2023, that would materially affect, or is reasonably likely to materially affect, the Company's controls and processes over financial reporting.

Risks and Uncertainties

The following information is a summary of certain risk factors relating to Pason. This section does not describe all risks applicable to the Company, its industry or its business, and is intended only as a summary of certain material risks. Investors should also consider the other risks described throughout the Company's public disclosure documents on file with the Canadian securities regulatory authorities available on SEDAR at www.sedar.com. Additional risks and uncertainties not currently known to Pason, or that Pason currently considers remote or immaterial, may also impair the operations of the Company. Should any such risks actually occur, Pason's business, financial condition, operating results or price and liquidity of Pason's securities could be materially harmed.

Commodity Prices and Drilling Activity Levels

Pason derives most of its revenue from the rental of instrumentation and data services to Operators and Contractors in Canada, the US, Australia, Latin America and the Middle East during drilling activity. The success of the Company's business depends on the level of industry activity for oil and natural gas exploration and development in the markets in which Pason operates. The level of oil and natural gas industry activity has seen significant volatility in recent years and is influenced by numerous factors over which the Company has no control. One of the primary factors is prevailing oil and natural gas commodity prices, which fluctuate in response to factors beyond Pason's control. Such factors could include, but may not be limited to: global supply and demand for crude oil and natural gas; the cost of exploring for, producing and delivering oil and natural gas; pipeline availability and the capacity of other oil and natural gas transportation and processing systems; the actions of the Organization of Petroleum Exporting Countries and other major petroleum exporting countries; global political, military, regulatory, economic

and social conditions; government regulation; political stability in the Middle East and elsewhere; the price of foreign imports; the availability of alternate fuel sources; and prevailing weather conditions.

From 2014 to 2020, global commodity prices were negatively affected by a combination of factors including increased production, decisions of OPEC and Russia, and the impact of the COVID-19 pandemic on overall demand for oil and gas. These headwinds drove significant pressure on commodity prices, and adversely impacted the level of capital spending by our customers on exploration and production activities and could continue to do so. Concurrently, Operators navigated ongoing pressure from the investment community to constrain spending within cash flows and further allocate a significant portion of cash flow generation to returns to shareholders, impacting the amount of drilling-related capital expenditures.

Throughout 2021, commodity prices and global drilling activity began to recover from the lows experienced in 2020, as the demand for oil and gas neared pre-pandemic levels, while supply lagged significantly. Throughout 2022 and into 2023, global macroeconomic conditions proved challenging with central banks aggressively increasing interest rates to address high prevailing levels of inflation, certain bank failures, and growing concerns around economic recession. Further, Operators and Contractors grappled with global supply chain bottlenecks and faced equipment availability challenges. These factors, coupled with geopolitical instability with ongoing conflict between Russia and Ukraine, have driven commodity price volatility. Despite these headwinds, global drilling activity remains strong as the sizeable gap between global energy supply and demand remains and there is an increasing emphasis on global energy security as many countries face energy shortages.

These aforementioned factors could continue to put pressure on commodity prices, adversely impacting the level of drilling activity in the regions in which Pason operates, which could have a materially adverse effect on Pason's business, financial condition, results of operations and cash flows. Pason does not have any operations or revenue generated in Russia or the Ukraine, however, ongoing conflict may negatively impact commodity price volatility and global financial conditions, which could have an indirect adverse effect on Pason's business and financial condition.

Seasonal Factors

Drilling activity in Canada is seasonal due to weather that limits access to well sites 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 drilling activity is less seasonal.

Credit and Liquidity

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. During times of depressed oil and gas markets or wider economic uncertainty, customers may experience financial constraints. Further, many of our customers require reasonable access to credit facilities and debt capital markets to finance their oil and natural gas drilling activity. If the availability of credit to our customers is reduced, they may reduce their drilling expenditures, reducing the demand for the Company's products and services. While Pason monitors its exposure to credit risk and has a large customer base, which minimizes Pason's risk exposure to the financial concerns of any single customer, lack of payment from multiple clients may have a material adverse effect on the Company's financial condition.

Customers

Pason has a large customer base, consisting of both operators and contractors, and no single customer accounted for more than 10% of the consolidated revenues of the Company this fiscal period. Notwithstanding, the loss of one or more major customers, further consolidation in the industry, or a reduction in the amount of business Pason conducts with any of its major customers, could have a

significant impact on Pason's revenue if not offset by obtaining new customers or increasing the amount of business it conducts with existing customers.

Competition

Pason's main source of competition in the North American Operations and International Operations segments remains the instrumentation divisions of large US service companies. Potential actions taken by competitors such as pricing changes and new products and technologies could affect the Company's leading market share or competitive position. In addition, while the Company continues to make investments in R&D to provide innovative technologies for customers, management cannot reasonably predict whether these investments will result in increased levels of product adoption, market share or pricing. These factors could materially affect our business, financial condition, results of operations and cash flows.

Qualified Personnel and Access to Talent

Due to the specialized and technical nature of Pason's business, Pason is highly dependent on attracting and retaining qualified, key employees, which involves compensating them appropriately. The shift to remote work in some roles, particularly since the start of the COVID-19 pandemic, has expanded the job market beyond traditional geographic boundaries. Employers must now compete for talent not only locally, but within a greater global market. Due to high levels of competition for qualified personnel, there can be no assurance that qualified personnel will be attracted or retained to meet the growth needs of the business. Further, Pason does not carry "key person" insurance on any of its key employees. In addition, Pason's ability to meet activity levels and customer demand for the Company's products and services will depend on the ability to attract qualified personnel as needed, which may be more difficult in periods of rapidly accelerated growth in activity levels.

The inability to recruit or retain skilled personnel or their inability to perform their duties could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. To mitigate these risks, Pason has a dedicated HR department in each significant business unit that is focused on proactive recruiting and retention initiatives.

Intellectual Property

Pason relies on innovative technologies and products to maintain its competitive position in the market. Pason employs trademarks, patents, contracts, and other measures to protect the Company's intellectual property, trade secrets and confidential information. Pason also believes that 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, provides protection in maintaining a competitive position.

Despite these precautions, it may be possible for third parties to attempt to infringe the Company's intellectual property and Pason could incur substantial costs to protect and enforce its intellectual property rights. Moreover, from time to time third parties may assert patent, trademark, copyright and other intellectual property rights to technologies that are important to the Company. In such an event, the Company may be required to incur significant costs in litigating a resolution to the asserted claim. There can be no assurance that such a resolution would not require that the Company pay damages or obtain a license of a third party's proprietary rights in order to continue to provide its products as currently offered, or, if such a license is required, that it will be available on terms acceptable to the Company.

Cyber Security

The Company takes measures and makes meaningful investments to protect the security and integrity of its IT infrastructure 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. Natural disasters, energy blackouts, operating malfunction, viruses or malware, cyber security attacks, theft, computer or telecommunication errors, human error, internal or external misconduct or other unknown disruptive events could result in the temporary or permanent loss of any or all parts of the

IT infrastructure or data. There is a risk the data and other electronic information stored in Pason's IT infrastructure could be accessed, publicly disclosed, lost, or stolen. Such occurrences could negatively affect Pason's business and financial performance in the form of loss of revenue, increased operational costs, reputational damage or litigation.

Availability of Raw Materials, Parts, or Finished Products

Pason purchases many materials, components and finished products in connection with its operations. Some of the components and finished products are obtained from a single source or a limited group of suppliers. While Pason makes it a priority to maintain and enhance these strategic relationships, there can be no assurance that these relationships will continue and reliance on these suppliers involves risks, including price increases, inferior component quality, unilateral termination, and a potential inability to obtain an adequate supply of required components or finished products in a timely manner. While Pason has long standing relationships with recognized and reputable suppliers, it does not have long-term contracts with all of its suppliers, and the partial or complete loss of certain of these sources could have a negative impact on the Company's operations and could damage customer relationships. Further, a significant increase in the price of one or more of these components could have a negative impact on Pason's cost structure.

The Company's ability to provide services to its customers is also dependent upon the ongoing refresh of existing hardware within its technology offering, which requires purchases of materials, components and finished products. While Pason has a dedicated procurement team that proactively manages required equipment and hardware needs, the availability and supply of these items may be impacted in periods of high or recovering activity levels, such as those seen recently. Supply chain disruptions, including those caused as a result of COVID-19, may result in timing delays on expected deliveries for certain components of the Company's product offering and may impact the Company's cost structure and ability to meet rising activity levels.

Geopolitical Risk

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 Pason's control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and warranted. Most of Pason's revenues are generated in Canada and the US, which limits exposure to risks and uncertainties in foreign countries. Pason does not have any operations or revenue generated in Russia or the Ukraine. 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 this MD&A under the title Impact of Hyperinflation.

Foreign Exchange Risk

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 financial statements. 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 financial statements as unrealized foreign currency translation adjustments. The Company does not employ any financial instruments to manage foreign exchange risk at this time. Most 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.

Climate Change Risks

Regulatory and Policy Risks

There is an increasing trend in public and government support of climate change initiatives across the regions in which Pason operates. Governmental authorities are strengthening existing environmental regulations and introducing new climate change measures, such as emission caps, reduction targets, taxes and penalties, efficiency standards, and alternative energy incentives and mandates. In addition, concerns about climate change have resulted in many environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Pason is not a large-scale emitter of greenhouse gases or other emissions and does not anticipate the impact of these regulations to be material to its operations; however, present and future environmental regulations and other developments could have a material impact on Pason's client base, which is primarily comprised of operators and contractors. While it is not possible at this time to predict how such regulations or developments would impact the Company's business, any future environmental requirements could result in reduced demand for hydrocarbons, as well as increased capital expenditures, operating costs and project delays for our customers, which in turn could have a material adverse effect on the business, financial condition, results of operations, and prospects for the Company.

Physical Risks

There is growing evidence that climate change is causing the increased frequency and severity of extreme weather events as well as longer-term changes in climate patterns. As a result, the physical impacts of such increasingly volatile weather conditions may have an adverse effect on the operations of the Company. These include more frequent and extreme weather events, natural disasters such as flooding and forest fires, shifts in temperature and precipitation, and changing sea levels, which could cause damage to key corporate assets. Climate change may have similar impacts on the Company's major customers, reducing demand for Pason's products and services, and may also impact suppliers, which could result in shortages in certain consumables and the supply of products that are required to maintain the Company's operations. While the Company takes such risks into consideration and implements mitigation strategies to address, where possible, the risks associated with the impacts of extreme weather events, the frequency and severity of such events can vary widely and cannot be predicted. This uncertainty, in turn, could have a material adverse effect on the Company's ability to operate in certain jurisdictions and its projections, business operations and financial condition. Pason maintains a corporate insurance program consistent with industry practice that protects the Company from liabilities due to environmental accidents and disruptions and has operational and emergency response procedures and safety and environmental programs in place to reduce potential loss exposure.

Alternative Energies Risk

The focus of governments, businesses and consumers on transitioning to a low-carbon economy was accelerated by the COVID-19 pandemic, resulting in increased policies and initiatives designed to shift resources and investment away from fossil fuels towards low carbon energy sources. This shift, combined with technological advances and cost declines in alternative energy sources, could reduce consumer demand for, and result in a reduction in the global economy's reliance on, oil and natural gas; which in turn could decrease demand for the Company's drilling oriented products and services. While Pason believes energy supply and demand fundamentals continue to support hydrocarbon resources forming a meaningful component of ongoing energy supply, the Company considers opportunities to diversify its business to mitigate this risk. This includes exploring new opportunities to apply the Company's expertise in instrumentation and data services to markets beyond of oil and gas drilling, such as recent investments made in supporting ETB in the solar energy and storage market. However, there is no guarantee that Pason would be successful in these ventures should there be a significant reduction in global demand for oil and gas.

Investor Sentiment

Investor sentiment towards the oil and natural gas industry has evolved in recent years and some institutional investors have announced that they are no longer willing to fund or invest in companies in the oil and natural gas industry, or are reducing such investment over time. While Pason believes it operates its business sustainably, the Company's ability to access capital and the price and liquidity of its securities may be adversely impacted by investors' perceptions of the sector in which it generates the majority of its revenue.

Insurance

Pason's operations are subject to risks inherent in the oil and natural gas services industry, such as hardware or software defects, malfunctions and failures, human error, and natural disasters. These risks could expose Pason to substantial liability for personal injury, loss of life, business interruption, property damage, pollution, and other liabilities. Pason carries prudent levels of insurance to protect the Company against these unforeseen events, subject to appropriate deductibles and the availability of coverage. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives.

Extreme weather conditions, natural occurrences, and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage. It is anticipated that the Company will continue to maintain appropriate insurance coverage, but there can be no assurance that such insurance coverage will be available on commercially reasonable terms or on terms as favourable as Pason's current arrangements. The occurrence of a significant event outside of the scope of coverage of Pason's insurance policies could also have a material adverse effect on the results of the organization.

Payment of Future Cash Dividends

The decision to pay dividends and the amount paid is at the discretion of the Board, which regularly reviews the Company's financial position, operating results, and industry outlook, all of which could impact Pason's dividend policy. The amount of cash available for future dividends will be dependent on a number of factors including, but not limited to, the Company's ability to generate cash flow in excess of its operating and investment needs, its overall financial position, and its capital allocation priorities.

Taxation

Pason and its subsidiaries are subject to income and other forms of taxation in the various jurisdictions in which they operate. Pason structures its operations in a tax efficient manner in compliance with all 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 its business, operating results, or financial condition. The management of Pason believes that the Company's provision for income taxes is adequate and in accordance with both generally accepted accounting principles and appropriate regulations. However, the tax filing positions of the Company are subject to review and audit by tax authorities who may challenge, and possibly succeed in challenging, management's interpretation of the applicable tax legislation.

Litigation and Legal Claims

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

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 for the year ended December 31, 2022 under the heading, "Risk and Uncertainty," in our management's discussion and analysis for the year ended December 31, 2022, 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*	March 31, 2023	December 31, 2022
(CDN 000s) (unaudited)		(\$)	(\$)
Assets			
Current			
Cash and cash equivalents	4	144,355	132,057
Short-term investments	5	40,229	40,377
Trade and other receivables		80,808	84,819
Prepaid expenses		10,339	10,920
Inventory		17,775	15,641
Income taxes recoverable		489	962
Total current assets		293,995	284,776
Non-current			
Property, plant and equipment		111,359	97,695
Investments	7	49,399	47,839
Intangible assets and goodwill		39,697	39,618
Total non-current assets		200,455	185,152
Total assets		494,450	469,928
Liabilities and equity			
Current			
Trade payables and accruals		52,278	53,699
Income taxes payable		4,397	2,859
Stock-based compensation liability	10	5,066	6,028
Lease liability		1,239	1,817
Obligation under put option	8	6,469	6,474
Total current liabilities		69,449	70,877
Non-current			
Deferred tax liabilities		9,820	6,508
Lease liability		11,930	3,712
Stock-based compensation liability	10	8,185	7,869
Total non-current liabilities		29,935	18,089
Equity			
Share capital	9	162,883	164,136
Share-based benefits reserve		35,803	35,314
Foreign currency translation reserve		54,951	57,486
Equity reserve		(8,375)	(8,375)
Retained earnings		155,683	137,920
Total equity attributable to equity holders of the Company		400,945	386,481
Non-controlling interest		(5,879)	(5,519)
Total equity		395,066	380,962
Total liabilities and equity		494,450	469,928

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

Condensed Consolidated Interim Statements of Operations

Three Months Ended March 31,	Note*	2023	2022
(CDN 000s, except per share data) (unaudited)		(\$)	(\$)
Revenue		98,229	74,468
Operating expenses			
Rental services		29,255	25,172
Local administration		3,371	3,118
Depreciation and amortization		6,616	6,314
		39,242	34,604
Gross profit		58,987	39,864
Other expenses			
Research and development		10,172	8,844
Corporate services		4,147	3,488
Stock-based compensation expense (recovery)	10	(82)	5,555
Other income	12	(3,078)	(1,353)
		11,159	16,534
Income before income taxes		47,828	23,330
Income tax provision		12,374	5,329
Net income		35,454	18,001
Net income (loss) attributable to:			
Shareholders of Pason		35,842	18,573
Non-controlling interest		(388)	(572)
Net income		35,454	18,001
Income per share	13		
Basic		0.44	0.23
Diluted		0.44	0.23

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

Condensed Consolidated Interim Statements of Other Comprehensive Income

Three Months Ended March 31,	2023	2022
(CDN 000s) (unaudited)		(\$)
Net income	35,454	18,001
Items that may be reclassified subsequently to net income:		
Foreign currency translation adjustment	(2,507)	(3,704)
Other comprehensive (loss)	(2,507)	(3,704)
Total comprehensive income	32,947	14,297
Total comprehensive income (loss) attributed to:		
Shareholders of Pason	33,307	14,861
Non-controlling interest	(360)	(564)
Total comprehensive income	32,947	14,297

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 December 31, 2021		162,567	34,383	50,298	(8,375)	72,602	311,475	(3,694)	307,781
Net income (loss)		—	—	—	—	18,573	18,573	(572)	18,001
Dividends		—	—	—	—	(6,570)	(6,570)	—	(6,570)
Other comprehensive income (loss)		—	—	(3,712)	—	—	(3,712)	8	(3,704)
Exercise of stock options		1,259	(188)	—	—	—	1,071	—	1,071
Expense related to stock options		—	311	—	—	—	311	—	311
Shares cancelled under NCIB	9	(226)	—	—	—	(1,138)	(1,364)	—	(1,364)
Liability reversal for automatic share purchase plan commitment pursuant to NCIB		343	—	—	—	1,657	2,000	—	2,000
Liability for automatic share purchase plan commitment pursuant to NCIB	9	(97)	—	—	—	(653)	(750)	—	(750)
Balance at March 31, 2022		163,846	34,506	46,586	(8,375)	84,471	321,034	(4,258)	316,776
Net income (loss)		—	—	—	—	89,043	89,043	(1,318)	87,725
Dividends		—	—	—	—	(22,903)	(22,903)	—	(22,903)
Other comprehensive income (loss)		—	—	10,900	—	—	10,900	57	10,957
Exercise of stock options		2,271	(323)	—	—	—	1,948	—	1,948
Expense related to stock options		—	1,131	—	—	—	1,131	—	1,131
Shares cancelled under NCIB	9	(1,703)	—	—	—	(10,719)	(12,422)	—	(12,422)
Liability for automatic share purchase plan commitment pursuant to NCIB	9	(278)	—	—	—	(1,972)	(2,250)	—	(2,250)
Balance at December 31, 2022		164,136	35,314	57,486	(8,375)	137,920	386,481	(5,519)	380,962
Net income (loss)		—	—	—	—	35,842	35,842	(388)	35,454
Dividends	9	—	—	—	—	(9,745)	(9,745)	—	(9,745)
Other comprehensive income (loss)		—	—	(2,535)	—	—	(2,535)	28	(2,507)
Exercise of stock options		412	(70)	—	—	—	342	—	342
Expense related to stock options		—	559	—	—	—	559	—	559
Shares cancelled under NCIB	9	(1,543)	—	—	—	(8,456)	(9,999)	—	(9,999)
Liability reversal for automatic share purchase plan commitment pursuant to NCIB		375	—	—	—	2,625	3,000	—	3,000
Liability for automatic share purchase plan commitment pursuant to NCIB	9	(497)	—	—	—	(2,503)	(3,000)	—	(3,000)
Balance at March 31, 2023		162,883	35,803	54,951	(8,375)	155,683	400,945	(5,879)	395,066

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

Condensed Consolidated Interim Statements of Cash Flows

Three Months Ended March 31,	Note*	2023	2022
(CDN 000s) (unaudited)		(\$)	(\$)
Cash from (used in) operating activities			
Net income		35,454	18,001
Adjustment for non-cash items:			
Depreciation and amortization		6,616	6,314
Stock-based compensation expense (recovery)	10	(82)	5,555
Deferred income taxes		3,353	(5,010)
Net monetary loss (gain)		(789)	48
Unrealized foreign exchange (gain) loss and other		(879)	796
Funds flow from operations		43,673	25,704
Movements in non-cash working capital items:			
Decrease (increase) in trade and other receivables		4,011	(10,191)
Decrease in prepaid expenses		581	563
Increase in income taxes payable / recoverable		7,299	22,719
Decrease in trade payables, accruals and stock-based compensation liability		(1,499)	(5,709)
Increase in inventory		(2,134)	—
Effects of exchange rate changes		(378)	(10)
Cash generated from operating activities		51,553	33,076
Income tax paid		(5,288)	(5,026)
Net cash from operating activities		46,265	28,050
Cash flows from (used in) financing activities			
Proceeds from exercise of stock options	9	342	1,071
Payment of dividends	9	(9,745)	(6,570)
Repurchase and cancellation of shares under NCIB	9	(9,999)	(1,364)
Repayment of lease liability		(561)	(508)
Net cash used in financing activities		(19,963)	(7,371)
Cash flows (used in) from investing activities			
Equity investments		(440)	—
Additions to property, plant and equipment		(11,518)	(4,330)
Development costs, net of ITCs		(151)	(134)
Proceeds on disposal of property, plant and equipment		36	152
Changes in non-cash working capital		78	(156)
Net cash used in investing activities		(11,995)	(4,468)
Effect of exchange rate on cash and cash equivalents		(2,009)	(2,437)
Net increase in cash and cash equivalents		12,298	13,774
Cash and cash equivalents, beginning		132,057	158,283
Cash and cash equivalents, ending	4	144,355	172,057

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

Notes to Condensed Consolidated Interim Financial Statements

(CDN 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 Consolidated Financial Statements include the accounts of Pason Systems Inc., its wholly owned subsidiaries, and Energy Toolbase Software Inc ("ETB").

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, 2022.

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.

3. Changes in Accounting Standards

Adoption of new standard January 1, 2023:

IAS 1, Presentation of Financial Statements

The narrow-scope amendment to IAS 1 require entities to disclose their material accounting policy information, instead of significant accounting policies. The impact to the Company has been deemed immaterial.

IAS 1, Presentation of Financial Statements

4. Cash and Cash Equivalents

As at	March 31, 2023	December 31, 2022
	(\$)	(\$)
Cash	95,345	77,568
Cash equivalents	49,010	54,489
Cash and cash equivalents	144,355	132,057

As at March 31, 2023, the Company's cash and cash equivalents are invested in 1-25 day money market funds with interest rates averaging 4.1%.

5. Short-Term Investments

As at	March 31, 2023	December 31, 2022
	(\$)	(\$)
Short-term investments	40,229	40,377

As at March 31, 2023, the Company's short-term investments are twelve-month term deposits with interest rates ranging between 5.16% and 5.55%.

6. Seasonality

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

By the fourth quarter, access to most areas in Canada becomes available when the ground freezes. Consequently, the performance of the Company may not be comparable quarter to consecutive quarter, but should be considered on the basis of results for the whole year, or by comparing results in a quarter with results in the corresponding quarter for the previous year.

7. Investments

Investments are comprised of the Company's investments in Intelligent Wellhead Systems Inc. (IWS) and a 50% interest in Rawabi Pason Company (Rawabi JV). Rawabi JV is a provider of specialized data management systems for drilling rigs in the Kingdom of Saudi Arabia. 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.

During the fourth quarter of 2022, Pason increased its non-controlling investment in IWS by acquiring a portion of outstanding common shares and also entered into a preferred share financing agreement. The preferred share agreement had an initial subscription of \$10,000 in the fourth quarter of 2022, and up to \$15,000 in additional subscriptions exercisable at IWS' request, subject to the Company's approval. No additional voting rights were granted as part of this preferred share subscription. Given that the funding of additional subscriptions are subject to the Company's approval at the time of request, no associated obligation has been recognized on the Condensed Consolidated Interim Balance Sheets as at March 31, 2023.

As noted in Note 15 of these Condensed Consolidated Interim Financial Statements, subsequent to March 31, 2023, the Company approved and funded \$5,000 of the \$15,000 in available preferred share subscriptions.

8. Obligation Under Put Option

The put obligation is a contractual obligation whereby the non-controlling shareholders of ETB have a put option to exercise for cash their 20% shareholdings of ETB starting in 2023 with reference to the fair value of ETB shares at the date the put option can be exercised. This put option gives rise to a financial liability and is calculated at each annual reporting period using a discounted cash flow model of the estimated future cash flows of the obligation.

9. Share Capital

Common shares

	Three Months Ended March 31, 2023		Year Ended December 31, 2022	
	(\$)	(#)	(\$)	(#)
Balance, beginning	164,136	81,526,954	162,567	82,194,051
Shares repurchased and cancelled under NCIB	(1,543)	(767,500)	(1,929)	(970,650)
Exercise of stock options	412	34,339	3,530	303,553
Reversal of prior period liability for APP commitment pursuant to NCIB	375	—	343	—
Liability for automatic share purchase plan ("APP") commitment pursuant to NCIB	(497)	—	(375)	—
Balance, ending	162,883	80,793,793	164,136	81,526,954

At March 31, 2023, 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 three month period ended March 31, 2023, the Company declared and paid dividends of \$9,745 (first quarter of 2022: \$6,570) or \$0.12 per common share (first quarter of 2022: \$0.08).

Normal Course Issuer Bid ("NCIB")

In 2022, the Company renewed its NCIB commencing on December 20, 2022, and expiring on December 19, 2023. Under the current NCIB, the Company may purchase for cancellation, as the Company considers advisable, up to a maximum of 8,105,236 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 54,996 common shares. The Company may make one block purchase per calendar week which exceeds the daily purchase restriction.

For the three-month period ended March 31, 2023, the Company repurchased 767,500 (first quarter of 2022 - 113,900) shares for cancellation for total cash consideration of \$9,999 (first quarter of 2022 - \$1,364). The total consideration is allocated between share capital and retained earnings.

10. 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 Company's outstanding stock options can be summarized as follows:

	Three Months Ended March 31, 2023		Twelve Months Ended December 31, 2022	
	Share Options (#)	Weighted Average Exercise Price (\$)	Share Options (#)	Weighted Average Exercise Price (\$)
Outstanding, beginning	2,665,121	14.31	3,324,759	14.67
Granted	—	—	642,190	16.07
Exercised	(34,339)	9.95	(303,553)	9.95
Expired or forfeited	—	—	(998,275)	17.90
Outstanding, ending	2,630,782	14.36	2,665,121	14.31
Exercisable, ending	1,419,862	15.51	1,454,201	15.38
Available for grant, ending	3,024,784		3,041,466	

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:

	Three Months Ended March 31, 2023	Twelve Months Ended December 31, 2022
	(#)	(#)
RSUs, beginning	955,318	1,144,628
Granted	—	394,855
Vested and paid	—	(500,302)
Forfeited	—	(83,863)
RSUs, ending	955,318	955,318

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. Directors who are also members of management can elect to receive all or part of their short-term incentive payments in the form of DSUs. 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:

	Three Months Ended March 31, 2023	Twelve Months Ended December 31, 2022
	(#)	(#)
DSUs, beginning	352,317	264,231
Credited	42,567	88,086
DSUs, ending	394,884	352,317

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. Starting in 2021, PSUs awarded vest at the end of 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:

	Three Months Ended March 31, 2023	Twelve Months Ended December 31, 2022
	(#)	(#)
PSUs, beginning	3,019,574	2,385,124
Granted	—	1,041,506
Vested and paid	—	(407,056)
PSUs, ending	3,019,574	3,019,574

Stock-based compensation expense and liability

For the three-month period ended March 31, 2023, the Company recorded a stock-based compensation recovery of \$82 for its equity and cash settled plans (first quarter of 2022 expense of: \$5,555). As at March 31, 2023, the Company held \$5,066 in current stock-based compensation liability and \$8,185 in non-current stock-based compensation liability for its cash settled plans (as at December 31, 2022: \$6,028 and \$7,869, respectively).

11. Operating Segments

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

Three Months Ended March 31, 2023	North America	International	Solar and Energy Storage	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	44,073	9,035	—	53,108
Mud Management and Safety	24,051	3,391	—	27,442
Communications	4,361	804	—	5,165
Drilling Intelligence	6,161	450	—	6,611
Analytics and Other	1,129	1,910	2,864	5,903
Total Revenue	79,775	15,590	2,864	98,229
Rental services and local administration	22,683	7,018	2,925	32,626
Depreciation and amortization	5,794	817	5	6,616
Segment gross profit (loss)	51,298	7,755	(66)	58,987
Research and development				10,172
Corporate services				4,147
Stock-based compensation				(82)
Other income				(3,078)
Income tax provision				12,374
Net income				35,454
Net income attributable to Pason				35,842
Capital expenditures	10,987	531	—	11,518
As at March 31, 2023				
Property plant and equipment	98,521	12,681	157	111,359
Intangible assets	4,394	—	2,022	6,416
Goodwill	7,723	2,600	22,958	33,281
Segment assets	388,698	72,128	33,624	494,450
Segment liabilities	81,822	6,230	11,332	99,384

Three Months Ended March 31, 2022	North America	International	Solar and Energy Storage	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	33,026	6,587	—	39,613
Mud Management and Safety	17,877	2,330	—	20,207
Communications	4,001	479	—	4,480
Drilling Intelligence	5,695	307	—	6,002
Analytics and Other	1,401	988	1,777	4,166
Total Revenue	62,000	10,691	1,777	74,468
Rental services and local administration	20,311	5,663	2,316	28,290
Depreciation and amortization	5,849	460	5	6,314
Segment gross profit (loss)	35,840	4,568	(544)	39,864
Research and development				8,844
Corporate services				3,488
Stock-based compensation				5,555
Other income				(1,353)
Income tax provision				5,329
Net income				18,001
Net income attributable to Pason				18,573
Capital expenditures	3,757	707	—	4,464
As at March 31, 2022				
Property plant and equipment	71,359	9,223	217	80,799
Intangible assets	4,294	—	2,561	6,855
Goodwill	7,131	2,600	21,199	30,930
Segment assets	306,678	53,691	26,675	387,044
Segment liabilities	59,358	4,826	6,084	70,268

12. Other Income

Three Months Ended March 31,	2023	2022
	(\$)	(\$)
Net interest income	(2,607)	(513)
Equity (income) loss	(1,126)	472
Net monetary gain	(159)	(201)
Foreign exchange loss	233	403
Other expenses (income)	581	(1,514)
Total other income	(3,078)	(1,353)

Net interest income is primarily comprised of interest generated from the Company's invested cash and cash equivalents.

The equity (income) loss results from 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 investments.

Net monetary gain included in other income results from applying hyperinflation accounting to the Company's Argentinian subsidiary.

13. 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 March 31,	2023	2022
	(#)	(#)
Issued common shares outstanding, beginning	81,526,954	82,194,051
Effect of NCIB and exercised options	(247,667)	(53,202)
Weighted average number of common shares (basic)	81,279,287	82,140,849

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 March 31,	2023	2022
	(#)	(#)
Weighted average number of common shares (basic)	81,279,287	82,140,849
Effect of share options	355,483	340,886
Weighted average number of common shares (diluted)	81,634,770	82,481,735

For the three month period ended March 31, 2023, 1,361,549 (first quarter of 2022 - 1,551,093) 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.

14. Approval of Financial Statements

These unaudited Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on May 4, 2023.

15. Events After the Reporting Period

Dividend

On May 4, 2023, the Company declared a quarterly dividend of \$0.12 per share on the Company's common shares. The dividend will be paid on June 30, 2023, to shareholders of record at the close of business on June 15, 2023.

Investment in Intelligent Wellhead Systems

During the fourth quarter of 2022, Pason entered into a preferred share subscription agreement with IWS that included up to \$15,000 in additional subscriptions exercisable at IWS' request, subject to the Company's approval.

Subsequent to March 31, 2023, the Company approved and funded \$5,000 of the \$15,000 in available preferred share subscriptions.

Corporate Information

Directors

Marcel Kessler⁽¹⁾
President & CEO
GrafTech International Ltd.
Cochrane, Alberta

T. Jay Collins⁽³⁾⁽⁴⁾
Director
Oceanering International Inc.
Houston, Texas

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

Judi Hess⁽³⁾⁽⁵⁾⁽⁷⁾
Vice Chair & Chief Strategist
Copperleaf Technologies Inc.
Vancouver, British Columbia

James B. Howe⁽²⁾⁽⁷⁾⁽⁸⁾
President
Bragg Creek Financial
Consultants Ltd.
Calgary, Alberta

Laura Schwinn⁽⁵⁾⁽⁶⁾
President, Specialty Catalysts
W. R. Grace & Co.
Columbia, Maryland

Ken Mullen
Dealing Representative
Barometer Capital Management Inc.
Calgary, Alberta

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

Officers & Key Personnel

Jon Faber
President
& Chief Executive Officer

Celine Boston
Chief Financial Officer

Kevin Boston
Vice President, Commercial

Craig Bye
Vice President, R&D - Cloud Platforms
and Applications

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

Corporate Head Office

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

Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

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

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI.TO

Eligible Dividend Designation

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