



WORK COMMUNITY PLAY



PASON SYSTEMS INC.

2022 ANNUAL REPORT



TABLE OF CONTENTS

| | |
|---|----|
| Quick Facts | 4 |
| Mission Statement | 5 |
| President's Message | 6 |
| Financial Highlights | 8 |
| Work | 10 |
| Community | 12 |
| Play | 14 |
| Management's Discussion & Analysis | 17 |
| Consolidated Financial Statements & Notes | 44 |
| Historical Financial Review | 87 |
| Corporate Information | 88 |

QUICK FACTS

- Headquartered in **Calgary, Canada.**
- US office in **Houston, Texas.**
- International offices in **Argentina, Australia, Brazil, Colombia, Dubai, Ecuador, Mexico, Peru & Saudi Arabia.**
- Listed on the Toronto Stock Exchange under the symbol **PSI.**

MISSION STATEMENT

Pason provides technologies and services that improve the effectiveness, efficiency, and safety of drilling operations in challenging operating environments worldwide.

Our simple-to-use, innovative, and rig-tough technologies enable effective collaboration between the field and the office and are supported by our unrivalled service organization.

Written, designed, and produced by Pason employees.

PRESIDENT'S MESSAGE

In this year's annual report, we are highlighting our people and giving a glimpse into elements of Pason's culture. Over the past three years, we have been called to adapt to frequent and notable changes in our operating environment. Our people and culture remained a constant throughout this time, even while adjusting to new ways of working as the world emerged from the COVID-19 pandemic.

Our people again rose to meet new challenges in 2022. The year began with rapid rates of COVID-19 transmission as the Omicron variant spread around the globe. While case counts declined significantly by the end of the first quarter, new challenges were top of mind in the form of the military conflict in Ukraine, high prevailing levels of inflation and rapidly increasing interest rates. Global supply chain shortages required companies, including Pason, to continually adapt to ensure adequate equipment availability to support operations.

Managing through these difficulties required the capabilities and passion of our people. At the same time, emerging from the restrictions of the pandemic allowed us to spend more time together engaging in cultural activities and supporting the community. Our culture looks to bring out the best in our people at work, in the community and at play.

We are focused on delivering outstanding results in the work we do. We continue to strengthen our leading competitive position around the management of drilling data. Our financial performance was exceptional in 2022, as we posted our highest consolidated Revenue and Adjusted EBITDA since 2014 despite industry activity remaining well below activity levels in that year. We achieved record Revenue per Industry Day in North America, and our International Business Unit generated record gross profit. Advancements we have made in our technology offering supported both higher price realization and greater adoption of products that ensure the seamless delivery of data to systems used by customers in their growing use of automation and analytics. Energy Toolbase saw increased traction in sales of its intelligent controls for energy storage systems while maintaining an industry-leading position with its economic modelling and proposal generation platform.

We look to make a difference in the communities in which we live and work. By being generous with our time, talents, and financial resources, we actively contributed to community-building initiatives. Working on meaningful community projects also provides opportunities for colleagues from across the company to spend time together outside of their normal working routines. We have highlighted several examples of ways in which we contribute to our surrounding communities within this annual report, as well as in our inaugural Sustainability Report which was released in 2022.

We enjoy spending time together at work, celebrating successes and participating in social activities. Through these events which allow us to pursue shared interests and socialize, we foster greater collaboration and trust, and build meaningful relationships with other Pasonites. These connections form the foundation of teamwork and support that enable our people to generate the success we have enjoyed for many years.

Over the past year, we have witnessed the global conversation around responsible energy development take a more balanced tone. "Either/or" ways of thinking around meeting the world's energy needs have given way to "both/and" discussions. A transition to additional, renewable energy sources will involve a continued, vital role for oil and gas use alongside increased production of other forms of energy. Increasingly, the conversation is focused on the energy trilemma, seeking to ensure a supply of energy that is secure, affordable, and sustainable.

Our outlook for North American land drilling activity, the most significant factor impacting our financial performance, continues to be positive. Factors impacting global supply and demand for oil and natural gas remain constructive. The US Energy Information

Administration (EIA) is calling for increases in global oil demand of 1.5 million barrels per day in 2023 and an additional 1.8 million barrels per day in 2024. Long-term forecasts for global oil demand continue to call for growth over the next few decades. While beginning to move higher in recent months, oil and petroleum product storage, the inventory of drilled but uncompleted wells (DUCs), and US oil production remain below pre-pandemic levels. Meeting continued growth in global oil demand against a backdrop of tightened sources of supply will require increases in drilling activity. At the same time, the availability of labour and high specification rigs will continue to moderate growth rates within manageable levels. As a result, we expect land drilling activity will be less volatile than witnessed in previous cycles with an upward bias in activity levels over the medium to longer term.

Within that context we continue to pursue a growth strategy that includes organic and inorganic opportunities within (1) our existing drilling-related business; (2) adjacent oil and gas sectors outside of drilling; and (3) other markets beyond oil and gas. We are making investments in renewing our hardware platform to ensure we have the required capabilities and capacity to meet increased data volumes, throughput, and protocols at the rigsite while enhancing the ways in which office-based users interact with the data we deliver. In 2022, we invested an additional \$17.9 million to increase our equity ownership and fund the growth of Intelligent Wellhead Systems, a provider of wellsite

instrumentation, engineering controls and digital solutions in the oil and gas completions industry, and we are committed to providing additional growth capital to meet their rapidly expanding market presence. Regulatory conditions and accelerated development of renewable energy to address energy shortages have created tailwinds for increased demand for energy storage solutions, providing opportunities for Energy Toolbase to deploy additional energy storage control systems.

"Over the past three years, we have been called to adapt to frequent and notable changes in our operating environment. Our people and culture remained a constant throughout this time..."

We are committed to returning meaningful capital to shareholders through our regular dividend and share repurchases. We maintain flexibility in our capital allocation program to ensure we retain the ability to make additional organic and inorganic growth-related investments as attractive opportunities arise.

Pason is an innovative, profitable, and responsible company. We have the people, technologies, and service capabilities to play a meaningful and important role in helping the world meet its energy needs. On behalf of our Board of Directors, I thank our employees, customers, suppliers, and shareholders for their continued support.



Jon Faber
March 15, 2023

2022 OPERATIONAL & FINANCIAL HIGHLIGHTS

All dollar amounts are in \$CDN unless otherwise indicated.

\$335
MILLION
IN REVENUE

RECORD
REVENUE
PER INDUSTRY
DAY

\$160
MILLION
ADJUSTED
EBITDA

\$70
MILLION
FREE
CASH FLOW

\$43
MILLION
SHAREHOLDER
RETURNS

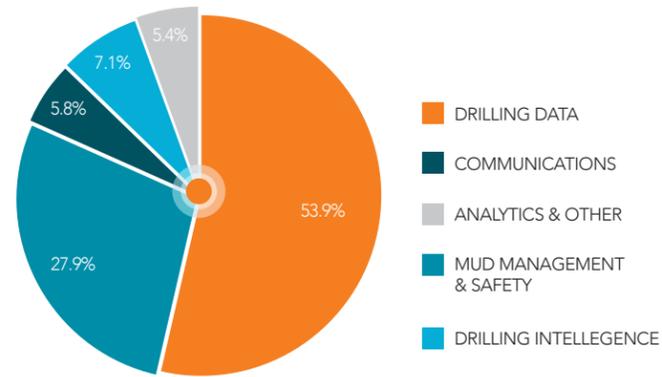
\$172
MILLION
TOTAL CASH*
WITH NO DEBT

*Total Cash is defined as total cash and cash equivalents and short-term investments from Pason's Consolidated Balance Sheets.

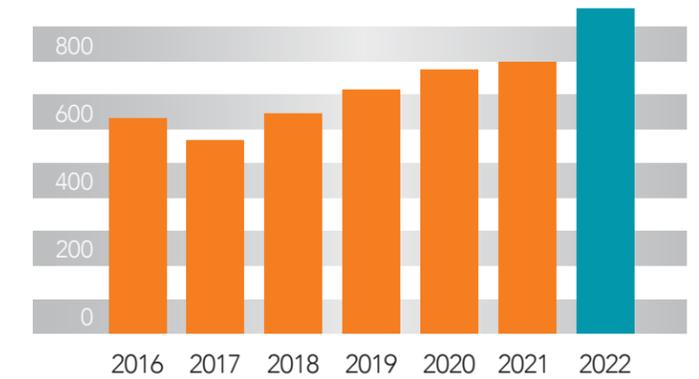
OVER
\$550
MILLION

RETURNED TO
SHAREHOLDERS
OVER THE PAST
10 YEARS

REVENUE BY CATEGORY



RECORD NORTH AMERICAN REVENUE PER INDUSTRY DAY IN 2022



IN 2022...

1600
UNIQUE RIGS SERVICED

~9000
DATAHUB USERS

\$38
MILLION
R&D SPEND

EMPLOYEE HEADCOUNT

TOTAL PASON



FIELD TECHNICIANS



R&D AND IT



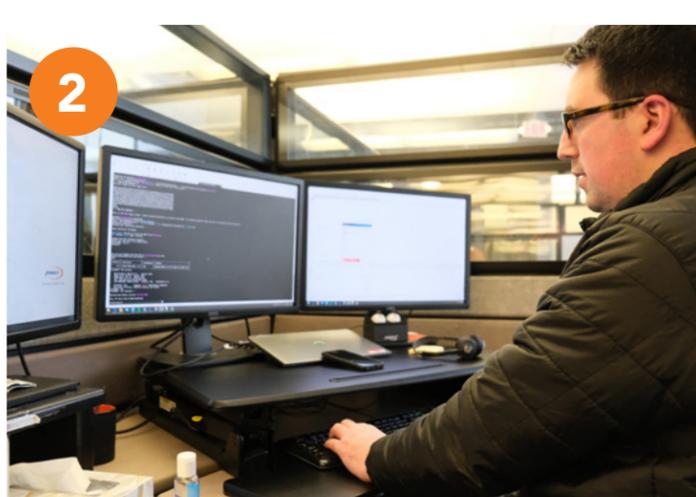
1



WORK

Our people drive our success: Pasonites are curious, creative, and challenge the norm. These qualities allow us to continue creating, building, and supporting drilling data solutions that revolutionize the energy industry and transform the way our customers work through Pason's Technology Deployed Simply.

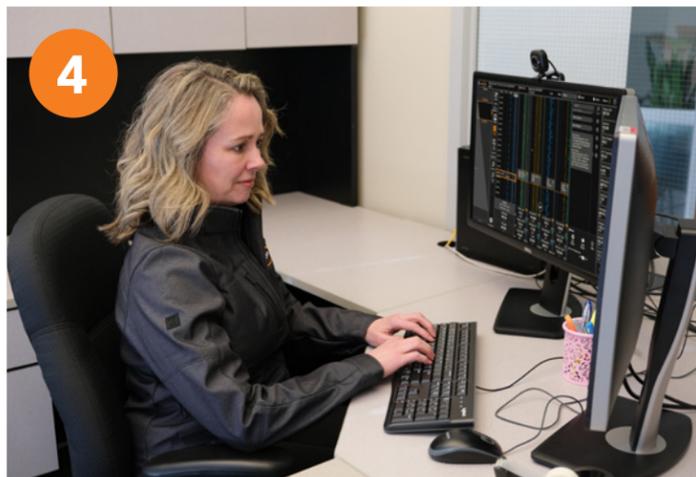
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1. Field Operations - Focused on safety, field technicians provide best-in-class service to Pason's customers. Our clients receive prompt, hands-on assistance from locally based, highly trained, and fully equipped field professionals.

2. Technical Support - Dedicated 24/7 Technical Support team members use a proactive approach to help resolve issues before our customers even notice a problem, and they also offer live support for any questions /concerns. Our integrated service approach enables customers to receive the most immediate, preferred, and direct assistance.

3. Internships - Pason's interns have an opportunity to apply their technical knowledge to important projects within our Research & Development departments. Interns are able to grow in their discipline, receive training from experienced mentors and work with Pason's cutting-edge technology.

4. Software - Software developers continue to improve our products, which help our customers improve their safety and efficiency in an increasingly complex drilling environment. Our developers solve problems, focusing on the delivery of live drilling data, alarm monitoring, and improving drilling automation. They provide real-time information and insights to our customers, allowing them to make critical and informed decisions.

5. Hardware - Pason's Hardware team values intelligence, quality, and curiosity. The team designs and integrates a combination of mechanical, electrical, and embedded software elements, to create and sustain our wide range of products, which are built to withstand extended use in harsh rig environments.

6. Corporate - As Pason develops and deploys drilling data solutions, our corporate employees support our business operations to ensure our front-line employees have all the tools required to provide industry-leading support to our customers.

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COMMUNITY

At Pason, we encourage our employees to participate and engage in the communities they live. Whether through company-sponsored or employee-led volunteer initiatives, or participating in our donation-matching program, Pasonites worldwide can get involved and support the causes they believe in.

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1. Pason Playground Builds - Participating in building playgrounds is a longstanding tradition at Pason. In 2022, we participated in two playground builds at St. John Henry Newman Catholic School and Clearwater Academy in Calgary, Alberta.

2. United Way - Employees organize and fundraise for the United Way of Calgary and Area every year. This past year alone, we raised \$30,000 from our events, activities, and pledges! In addition, Pason matched the donation up to \$10,000.

3. Breast Cancer Awareness - Pasonites from our Argentina office volunteered with Liga Argentina de Lucha Contra El Cáncer (Argentine League for the Fight against Cancer or "LALCEC.") Pason employees volunteered for LALCEC's mobile unit, which sends technical personnel and specialized equipment to different areas of the country where mammograms are performed in low-income communities.

4. Adopt-A-Family - Our Houston office provided an unforgettable holiday for a family in need. In partnership with the Houston Children's Charity, Pasonites donated gifts and made monetary donations to make sure the family's festive season was one for the books, through the Adopt-A-Family program.

5. Reforestation Campaign - Pason Colombia has been committed to raising awareness of the importance to conserve and rebuild our forests. Our organization donates trees on behalf of each employee in Colombia, and Pasonites can plant the trees with their families in areas with significant deforestation.

6. IT Electronics Sale for the Food Bank - We participate annually in recycling electronic equipment. Gently used electronic items are offered to Pasonites for sale, and the proceeds are donated to non-profit organizations. This year, we donated \$7,450 to the Calgary Food Bank.

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PLAY

Our second-to-none culture fosters an atmosphere where employees are empowered to perform to their fullest potential in an open and friendly environment. The fun we have at work can range from lunch-time fitness activities, company-wide barbecues, a day out at a Houston Astros' Game, tapping into our competitive side at the Calgary Corporate Challenge or celebrating Argentina's World Cup win.

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1. Hockey - Every Wednesday in Calgary, Pasonites of all skill levels hit the ice and play a friendly game of hockey over the lunch hour. Once a month, we host "pond hockey," where those with no hockey experience at all can try it out in a judgement-free environment.

2. Argentina Celebrates World Cup Win - Argentina won the 2022 FIFA World Cup in December. This was cause for celebration for our Argentinian Pasonites. Employees gathered to watch some of the football matches throughout the tournament and celebrated this victory together at Pason's office in Argentina.

3. Wine Tour - Three of Pason's Senior Leaders visited our Australian office. The trip was a whirlwind, but the team had some fun at the Barossa Valley Estates Winery.

4. Barbecues - Our organization hosts regular barbecues and food truck days for employees to enjoy some good eats and great company!

5. Houston Astros - Employees in our Houston office visited Minute Maid Park to watch the Houston Astros take on the New York Mets. Some of our Pasonites brought their kids to the ballpark for their very first baseball game! It was a great game with back-to-back home runs!

6. Calgary Corporate Challenge ("CCC") - We participate annually in the CCC! Our Pasonites competed in several events throughout the different challenges, such as bocce ball, laser tag, volleyball, running and mini golf – and we medalled in Trivia and Soccer! Being able to experience the camaraderie and spending time with our fellow coworkers is enough for us to keep coming back annually.



MANAGEMENT DISCUSSION & ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS & NOTES

| | | | |
|--|----|-----------------------------------|----|
| Management's Discussion & Analysis..... | 17 | Historical Financial Review | 87 |
| Consolidated Financial Statements & Notes... | 44 | Corporate Information | 88 |

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") has been prepared by management as of March 2, 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 Consolidated Financial Statements for the twelve months ended December 31, 2022 and 2021, and accompanying notes, and Pason's Annual Information Form dated March 16, 2022.

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 16, 2022.

Highlights

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---------------------------------|--------|-----------|----------------------------------|---------|-----------|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| (CDN 000s, except per share data) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Revenue | 94,420 | 62,833 | 50 | 334,998 | 206,686 | 62 |
| EBITDA ⁽¹⁾ | 53,248 | 26,874 | 98 | 170,266 | 82,401 | 107 |
| Adjusted EBITDA ⁽¹⁾ | 48,944 | 24,208 | 102 | 159,510 | 72,520 | 120 |
| As a % of revenue | 51.8 | 38.5 | 1,330 bps | 47.6 | 35.1 | 1,250 bps |
| Funds flow from operations | 45,971 | 19,353 | 138 | 134,885 | 67,728 | 99 |
| Per share – basic | 0.56 | 0.23 | 145 | 1.65 | 0.82 | 101 |
| Per share – diluted | 0.56 | 0.23 | 145 | 1.63 | 0.82 | 99 |
| Cash from operating activities | 19,942 | 27,061 | (26) | 104,414 | 65,061 | 60 |
| Net capital expenditures ⁽²⁾ | 16,233 | 3,071 | 429 | 33,941 | 9,950 | 241 |
| Free cash flow ⁽¹⁾ | 3,709 | 23,990 | (85) | 70,473 | 55,111 | 28 |
| Cash dividends declared (per share) | 0.12 | 0.05 | 140 | 0.36 | 0.20 | 80 |
| Net income | 35,994 | 10,279 | 250 | 105,726 | 31,925 | 231 |
| Net income attributable to Pason | 36,257 | 11,149 | 225 | 107,616 | 33,845 | 218 |
| Per share – basic | 0.44 | 0.14 | 228 | 1.31 | 0.41 | 221 |
| Per share – diluted | 0.44 | 0.14 | 226 | 1.30 | 0.41 | 219 |

(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 Consolidated Statements of Cash Flows

| As at | December 31, 2022 | December 31, 2021 | Change |
|--------------------------------------|-------------------|-------------------|--------|
| (CDN 000s) | (\$) | (\$) | (%) |
| Cash and cash equivalents | 132,057 | 158,283 | (17) |
| Short-term investments | 40,377 | — | nmf |
| Total Cash ⁽¹⁾ | 172,434 | 158,283 | 9 |
| Working capital | 213,899 | 184,083 | 16 |
| Total interest bearing debt | — | — | — |
| Shares outstanding end of period (#) | 81,526,954 | 82,194,051 | (1) |

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

Pason's financial results for the three and twelve months ended December 31, 2022, reflect improved industry conditions, increasing demand for the Company's products and technologies, strong competitive positioning and operating leverage.

Pason generated \$94.4 million in revenue in the fourth quarter of 2022, representing a 50% increase from the \$62.8 million generated in the comparative period of 2021, as drilling activity remained strong across Pason's operating regions. Revenue per Industry Day in the North American business unit was \$890 in Q4 2022, which represented a new quarterly record level for the Company and an increase of 16% from the comparative period in 2021. With this increase in revenue, Pason generated \$48.9 million in Adjusted EBITDA, or 51.8% of revenue in the fourth quarter of 2022, compared to \$24.2 million in the fourth quarter of 2021, or 38.5% of revenue. A comparison of fourth quarter results demonstrates the Company's strong operating leverage through improved industry conditions. Fourth quarter results also benefited from a stronger average US dollar relative to the Company's Canadian dollar reporting currency.

Pason's balance sheet remains strong, with no interest bearing debt, and \$172.4 million in Total Cash as at December 31, 2022, compared to \$158.3 million as at December 31, 2021. Cash flow from operations in the fourth quarter of 2022 reflects investments made in respect of the 2022 year, including increased levels of tax installments and annual settlement of the Company's cash settled stock-based compensation plans. Further, the Company continued to make proactive investments in inventory levels in the fourth quarter of 2022. Resulting cash from operating activities was \$19.9 million in the fourth quarter of 2022 compared to \$27.1 million in the fourth quarter of 2021.

During the fourth quarter of 2022, Pason invested \$16.2 million in net capital expenditures, an increase from \$3.1 million in the fourth quarter of 2021. Capital expenditures throughout 2022 reflect net additions to rental equipment to meet activity levels, investments associated with the ongoing refresh of the Company's fleet and technology platform, and also an element of catch up from lower capital expenditure levels throughout 2020 and 2021. Fourth quarter 2022 capital expenditure levels also represent the easing of supply chain challenges which impacted the timing around Pason's quarterly capital expenditures throughout 2022. Pason continues to make necessary capital investments in its equipment and technology in order to service the increasing demand for its products.

Resulting Free Cash Flow generated in Q4 2022 was \$3.7 million compared to \$24.0 million generated in the fourth quarter of 2021.

The Company recorded net income attributable to Pason of \$36.3 million (\$0.44 per share) in the fourth quarter of 2022, a significant increase compared to net income attributable to Pason of \$11.1 million (\$0.14 per share) recorded in the corresponding period in 2021, due to the improving operating results as outlined above.

International Operations

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---------------------------------|---------------|-----------|----------------------------------|---------------|------------|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Revenue | | | | | | |
| Drilling Data | 8,574 | 6,919 | 24 | 31,914 | 21,885 | 46 |
| Mud Management and Safety | 3,224 | 2,417 | 33 | 11,489 | 7,767 | 48 |
| Communications | 807 | 447 | 81 | 2,656 | 1,504 | 77 |
| Drilling Intelligence | 458 | 330 | 39 | 1,644 | 1,072 | 53 |
| Analytics and Other | 1,328 | 1,069 | 24 | 5,519 | 4,261 | 30 |
| Total revenue | 14,391 | 11,182 | 29 | 53,222 | 36,489 | 46 |
| Rental services and local administration | 7,338 | 6,577 | 12 | 26,742 | 19,432 | 38 |
| Depreciation and amortization | 1,168 | 991 | 18 | 2,879 | 3,100 | (7) |
| Segment gross profit | 5,885 | 3,614 | 63 | 23,601 | 13,957 | 69 |

The International business unit generated \$14.4 million of reported revenue in the fourth quarter of 2022, a 29% increase over the comparative period of 2021. The increase is due to increased industry activity in the Company's international markets and higher levels of revenue generated per drilling day with improved pricing and rig mix. The year over year quarterly increase in revenue is partially offset by the impacts of the Company applying hyperinflation accounting rules to the Company's Argentinian subsidiary as is required by IFRS and further outlined under the Impact of Hyperinflation heading of this MD&A. Excluding the impact of hyperinflation accounting entries in each respective period, International business unit revenue would have been \$15.2 million in the fourth quarter of 2022, a 54% increase from \$9.8 million in the fourth quarter of 2021.

Rental services and local administration expense was \$7.3 million in the fourth quarter of 2022, an increase of 12% compared to \$6.6 million in the comparative period of 2021. As activity levels improve, the International business unit incurs certain variable costs, including repair costs and growth in field related headcount, to support the additional deployment of equipment. Similar to the North American business unit, the International business unit also experienced certain inflationary effects on operating costs in the fourth quarter of 2022.

Depreciation and amortization increased by 18% in the fourth quarter of 2022 over the 2021 comparative period. The increase is primarily due to increased capital expenditures and the impacts of hyperinflation accounting for the Company's Argentinian subsidiary.

For the three months ended December 31, 2022, the resulting segment gross profit was \$5.9 million during the fourth quarter of 2022 compared to \$3.6 million in the 2021 comparative period due to the factors outlined above.

On a year to date basis, revenue of \$53.2 million and segment gross profit of \$23.6 million represent significant improvements from the prior year comparative results and reflect the growing activity level environment seen in 2022 coupled with strong operating leverage.

Solar and Energy Storage Operations

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|--|---------------------------------|--------------|-------------|----------------------------------|----------------|-----------|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Revenue | | | | | | |
| Analytics and Other | 2,342 | 1,174 | 99 | 7,207 | 4,107 | 75 |
| Total revenue | 2,342 | 1,174 | 99 | 7,207 | 4,107 | 75 |
| Operating expenses and local administration⁽¹⁾ | 2,889 | 2,106 | 37 | 10,067 | 6,277 | 60 |
| Depreciation and amortization | 5 | 5 | — | 20 | 20 | — |
| Segment gross loss | (552) | (937) | (41) | (2,880) | (2,190) | 32 |

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

The Solar and Energy Storage business unit generated \$2.3 million in revenue in the fourth quarter of 2022, an increase of 99% from the comparative period in 2021. The increase in revenue is due to increased sales of the Company's subscription based software licenses along with revenue recognition associated with the commissioning of control system projects. 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 fourth quarter of 2022, a 37% increase from \$2.1 million during the comparable period. The increase is primarily due to hardware costs associated with sold control systems, along with ongoing investments in sales and marketing efforts and the year-to-date impact of compensation accruals. Segment gross loss was \$0.6 million for the fourth quarter of 2022 compared to a segment gross loss of \$0.9 million in the comparable period in 2021.

Year to date, revenue generated by the segment totaled \$7.2 million, a 75% increase over the comparative period in 2021, demonstrating increased sales in both the Company's economic modeling software platform and control system product offering. Segment gross loss increased from \$2.2 million during the twelve months ended December 31, 2021, to \$2.9 million in the 2022 comparative period as the business unit made investments in future growth.

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 Consolidated Statements 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 December 31, | | | Twelve Months Ended December 31, | | |
|--------------------------|---------------------------------|-------|--------|----------------------------------|-------|--------|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Research and development | 983 | 1,355 | (27) | 4,936 | 4,661 | 6 |

Corporate Expenses

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---------------------------------|---------------------------------|---------------|-----------|----------------------------------|---------------|-----------|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Research and development | 9,556 | 8,304 | 15 | 37,573 | 32,220 | 17 |
| Corporate services | 3,842 | 3,374 | 14 | 15,192 | 13,175 | 15 |
| Stock-based compensation | 5,129 | 5,094 | 1 | 15,230 | 11,523 | 32 |
| Total corporate expenses | 18,527 | 16,772 | 10 | 67,995 | 56,918 | 19 |

Fourth quarter research and development and corporate service expenses increased 15% and 14%, respectively, from the comparative quarterly period in 2021. Beginning in 2021 and continuing in 2022, Pason made additional investments in research and development, further improving the Company's ability to support increasing activity levels and product enhancements. Furthermore, the change in corporate services and research and development expenses year over year reflects recognition of performance based elements of the Company's compensation plan.

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 December 31, | | | Twelve Months Ended December 31, | | |
|-------------------------------|---------------------------------|------------|------------|----------------------------------|----------------|------------|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Put option revaluation | (5,815) | 381 | nmf | (5,815) | 381 | nmf |
| Net interest (income) expense | (2,679) | 2,089 | nmf | (4,937) | 1,526 | nmf |
| Net monetary (gain) | (536) | (246) | 118 | (1,849) | (496) | 273 |
| Foreign exchange loss (gain) | 1,959 | (2,980) | nmf | (2,024) | (2,011) | 1 |
| Other expenses (income) | 88 | 307 | (71) | (1,068) | 453 | nmf |
| Equity (gain) loss | (533) | 765 | nmf | 290 | 1,103 | (74) |
| Government wage assistance | — | (128) | nmf | — | (8,208) | nmf |
| Total other income | (7,516) | 188 | nmf | (15,403) | (7,252) | 112 |

In the fourth quarter of 2022, the Company recorded a \$5.8 million recovery on the obligation under put option associated with the purchase of ETB to reflect the change in the fair value of the outstanding obligation. Refer to the Put Obligation heading of this MD&A for further information.

Net interest (income) expense is primarily comprised of interest generated from the Company's invested cash and cash equivalents and will fluctuate as available yields fluctuate. During the fourth quarter of 2022, the Company invested \$40.4 million of its cash in twelve-month term deposits, locking in interest rates ranging from 5.16% to 5.55%. Further, the Company's remaining cash and cash equivalents of \$132.1 million as at December 31, 2022 are invested in 1-25 day money market funds earning interest at an average rate of 4.5%. The year over year increase for both the three and twelve month periods reflects the increasing interest rate environment along with higher levels of cash invested.

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

Other expenses (income) for the twelve months ended December 31, 2022 is primarily comprised of proceeds received on a bankruptcy settlement of a former lessee.

Equity (gain) 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.

The Company did not recognize any government wage assistance in 2022 as the program was terminated in October 2021. During the three and twelve months ended December 31, 2021, Pason participated in the Canada Emergency Wage Subsidy ("CEWS") program.

Income Tax Provision

During the fourth quarter of 2022, the Company recorded an income tax expense of \$9.4 million, compared to an income tax expense of \$3.2 million during the comparative period in 2021. For the twelve months ended December 31, 2022, the Company recorded an income tax expense of \$33.4 million, compared to \$11.7 million for the twelve months ended December 31, 2021. 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.

During the first quarter of 2019, the Company paid withholding tax owing to the Canada Revenue Agency (CRA) of \$15.3 million as part of a Bilateral Advanced Pricing Arrangement (APA) entered into with the CRA and the IRS. As such, the Company recorded an amount under Income Tax Recoverable, which represents a corresponding amount owing from the IRS. During the first quarter of 2022, the Company received final settlement on all principal amounts owing from the IRS in relation to the APA, in the amount of \$12.5 million.

Equity Investments

As at December 31, 2022, the Company holds \$47.8 million on its Consolidated Balance Sheets relating to the carrying value of investments accounted for using the equity method. 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, exercisable at IWS' discretion. The first \$5.0 million put option was exercised in 2020, and the second and third were exercised during 2021. Further in 2021, the Company increased its investment in IWS and acquired a portion of outstanding common shares for total cash consideration of \$7.1 million.

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.

As a result of the aforementioned transactions, total cash outflows associated with the Company's non-controlling investment in IWS is \$17.2 million for the year ended December 31, 2022, consistent with \$17.1 million invested in 2021.

Put Obligation

As at December 31, 2022, the Company holds a \$6.5 million obligation under put option on its Consolidated Balance Sheets (December 31, 2021: \$11.5 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.

For the year ended December 31, 2022, the put obligation valuation was affected by the increase in policy interest rates as they relate to the discount rate applied in the fair value of the obligation under put option. As a result, Pason recorded a \$5.8 million recovery within Other Income for the year ended December 31, 2022, compared to a \$0.4 million expense during the year ended December 31, 2021.

Summary of Quarterly Results

| Three Months Ended | Dec 31, 2020 | Mar 31, 2021 | Jun 30, 2021 | Sep 30, 2021 | Dec 31, 2021 | Mar 31, 2022 | Jun 30, 2022 | Sep 30, 2022 | Dec 31, 2022 |
|---|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|---------------|
| (000s, except per share data) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Revenue | 32,758 | 42,555 | 43,593 | 57,705 | 62,833 | 74,468 | 73,608 | 92,502 | 94,420 |
| EBITDA ⁽¹⁾ | 8,300 | 15,673 | 14,984 | 24,870 | 26,874 | 34,686 | 31,673 | 50,659 | 53,248 |
| Adjusted EBITDA ⁽¹⁾ | 8,201 | 13,170 | 12,786 | 22,356 | 24,208 | 33,373 | 30,962 | 46,231 | 48,944 |
| As a % of revenue | 25.0 | 30.9 | 29.3 | 38.7 | 38.5 | 44.8 | 42.1 | 50.0 | 51.8 |
| Funds flow from operations | 8,939 | 13,730 | 14,662 | 19,983 | 19,353 | 25,704 | 27,242 | 35,968 | 45,971 |
| Per share – basic | 0.11 | 0.17 | 0.18 | 0.24 | 0.23 | 0.31 | 0.33 | 0.44 | 0.56 |
| Per share – diluted | 0.11 | 0.17 | 0.18 | 0.24 | 0.23 | 0.31 | 0.33 | 0.43 | 0.56 |
| Cash from operating activities | (2,717) | 11,085 | 9,841 | 17,074 | 27,061 | 28,050 | 25,679 | 30,743 | 19,942 |
| Free cash flow ⁽¹⁾ | (3,100) | 9,176 | 5,684 | 16,261 | 23,990 | 23,582 | 19,135 | 24,047 | 3,709 |
| Net income (loss) | (2,662) | 3,991 | 4,880 | 12,775 | 10,279 | 18,001 | 17,992 | 33,739 | 35,994 |
| Net income (loss) attributable to Pason | (2,166) | 4,315 | 5,307 | 13,074 | 11,149 | 18,573 | 18,540 | 34,246 | 36,257 |
| Per share – basic | (0.03) | 0.05 | 0.06 | 0.16 | 0.14 | 0.23 | 0.23 | 0.42 | 0.44 |
| Per share – diluted | (0.03) | 0.05 | 0.06 | 0.16 | 0.14 | 0.23 | 0.22 | 0.41 | 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.

Q4 2022 vs Q3 2022

Consolidated revenue was \$94.4 million in the fourth quarter of 2022, a 2% increase compared to consolidated revenue of \$92.5 million in the third quarter of 2022.

Revenue in the North American business unit was \$77.7 million in the fourth quarter of 2022 compared to revenue of \$75.2 million in the third quarter of 2022. While drilling activity remained relatively flat quarter over quarter, the North American business unit increased Revenue per Industry Day sequentially from \$871 in Q3 2022 to \$890 in Q4 2022. Revenue per Industry Day in the fourth quarter benefited from a stronger US dollar relative to the Canadian dollar.

The International business unit reported revenue of \$14.4 million in the fourth quarter of 2022, a 9% decrease compared to \$15.8 million in the third quarter of 2022. The decrease in revenue was attributable

to the impacts of hyperinflationary accounting for the Company's Argentinian subsidiary. Excluding this impact for both periods, Q4 2022 revenue for the International business unit would have been \$15.2 million, a 11% increase from the \$13.7 million generated in Q3 2022.

The Company's gross profit was \$56.4 million in the fourth quarter of 2022 compared to gross profit of \$55.7 million in the third quarter of 2022. Similarly, Adjusted EBITDA was \$48.9 million in the fourth quarter of 2022, up from \$46.2 million in the third quarter of 2022. Sequential gross profit and Adjusted EBITDA increases reflect the Company's primarily fixed cost structure.

The Company recorded net income attributable to Pason in the fourth quarter of 2022 of \$36.3 million (\$0.44 per share) compared to net income attributable to Pason of \$34.2 million (\$0.42 per share) in the third quarter of 2022. The increase in net income attributable to Pason year over year is driven by the improvement in operating results as described above, as well as the put option revaluation recovery of \$5.8 million recorded in the fourth quarter of 2022.

Cash from operating activities was \$19.9 million in the fourth quarter of 2022, compared to \$30.7 million in the third quarter of 2022, for which the decrease is primarily driven by investments in working capital, additional tax installments paid, and the annual settlement on the Company's cash based stock based compensation plans which occurred in Q4 2022. Further, in the fourth quarter, Pason was able to transact on the remainder of its 2022 capex plans with supply chain challenges beginning to ease. As such, net capital expenditures in the fourth quarter were \$16.2 million in Q4 2022 compared to \$6.7 million in Q3 2022. Resulting Free Cash Flow in Q4 2022 was \$3.7 million compared to \$24.1 million in Q3 2022.

Liquidity and Capital Resources

| As at | December 31, 2022 | December 31, 2021 | Change |
|-----------------------------|-------------------|-------------------|--------|
| (000s) | (\$) | (\$) | (%) |
| Cash and cash equivalents | 132,057 | 158,283 | (17) |
| Short-term investments | 40,377 | — | n/m |
| Total Cash ⁽¹⁾ | 172,434 | 158,283 | 9 |
| Working capital | 213,899 | 184,083 | 16 |
| Total assets | 469,928 | 379,941 | 24 |
| Total interest bearing debt | — | — | — |

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

Pason's balance sheet remains strong with no interest bearing debt and as at December 31, 2022, \$172.4 million in Total Cash, and \$213.9 million in working capital. During the fourth quarter of 2022, the Company invested \$40.4 million of its cash in twelve-month term deposits, locking in interest rates ranging from 5.16% to 5.55%. Further, the Company's remaining cash and cash equivalents of \$132.1 million as at December 31, 2022 are invested in 1-25 day money market funds earning interest at an average rate of 4.5%.

Working capital, excluding cash and cash equivalents and short-term investments was \$41.5 million as at December 31, 2022, an increase from \$25.8 million as at December 31, 2021. The increase in the year is primarily driven by investments made in inventory levels to service higher levels of activity, along with increased accounts receivable reflecting increased revenue levels.

Pason remains focused on disciplined and proactive management of required investments in working capital. The Company has an undrawn \$5.0 million demand revolving credit facility available as at December 31, 2022, consistent with December 31, 2021.

Cash Flow Statement Summary

| | Three Months Ended December 31, | | | Twelve Months Ended December 31, | | |
|---|---------------------------------|---------|-----------|----------------------------------|----------|-----------|
| | 2022 | 2021 | Change | 2022 | 2021 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Funds flow from operations | 45,971 | 19,353 | 138 | 134,885 | 67,728 | 99 |
| Cash from operating activities | 19,942 | 27,061 | (26) | 104,414 | 65,061 | 60 |
| Cash used in financing activities | (14,242) | (6,887) | 107 | (42,065) | (27,046) | 56 |
| Cash used in investing activities | (74,525) | (8,071) | 823 | (92,233) | (27,077) | 241 |
| Net capital expenditures ⁽¹⁾ | 16,233 | 3,071 | 429 | 33,941 | 9,950 | 241 |
| As a % of funds flow ⁽²⁾ | 35.3 % | 15.9 % | 1,940 bps | 25.2 % | 14.7 % | 1,050 bps |

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

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

Cash from operating activities

Funds flow from operations increased significantly in the fourth quarter of 2022 from the comparative quarter in 2021 due to the improvement in gross profit experienced by the Company in a growing activity environment. Cash generated from operating activities was \$19.9 million in the fourth quarter of 2022 compared to \$27.1 million in the fourth quarter of 2021. In the fourth quarter of 2022, the Company made \$14.2 million in tax installments in respect of the 2022 fiscal year, which represented a significant increase from the fourth quarter of 2021 given the higher levels of annual taxable income.

To proactively manage supply chain challenges, starting in the second quarter of 2022, Pason began making incremental investments in inventory levels for field supplies and components used in equipment repairs. In the fourth quarter of 2022, Pason invested \$5.4 million in additional inventory levels, versus \$nil in the fourth quarter of 2021.

Further, the fourth quarter of 2022 reflects an increased annual settlement on the Company's cash settled stock-based compensation plans with improved Company share price performance.

Pason will continue to manage required working capital investments to support existing and projected revenue levels.

Cash used in financing activities

Cash used in financing activities was \$14.2 million during the fourth quarter of 2022, compared to \$6.9 million during the comparative quarter of 2021, for which the increase reflects increased shareholder returns.

Dividend

The Company declared the following quarterly dividends in 2022, resulting in total dividends paid to shareholders in the amount of \$29.5 million compared to \$16.6 million in 2021:

| | Dividend Record Date | Dividend Payment Date | Per Common Share | Total |
|-------------------------------|----------------------|-----------------------|------------------|---------------|
| (000s, except per share data) | | | (\$) | (\$) |
| March | March 15 | March 31 | 0.08 | 6,570 |
| June | June 15 | June 30 | 0.08 | 6,580 |
| September | September 15 | September 29 | 0.08 | 6,558 |
| December | December 15 | December 30 | 0.12 | 9,765 |
| Total dividends declared | | | 0.36 | 29,473 |

On March 2, 2023, the Company declared a quarterly dividend of \$0.12 per share on the Company's common shares. The dividend will be paid on March 31, 2023, to shareholders of record at the close of business on March 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 NCIB, the Company may purchase for cancellation, as the Company considers advisable, up to a maximum of 8,105,263 common shares, which represents approximately 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 that exceeds the daily purchase restriction.

For the three month period ended December 31, 2022, the Company repurchased 385,300 (Q4 2021 - 237,200) shares for cancellation for total cash consideration of \$5.8 million (Q4 2021 - \$2.5 million). The total consideration is allocated between share capital and retained earnings.

For the twelve month period ended December 31, 2022, the Company repurchased 970,650 shares for cancellation for a total cash consideration of \$13.8 million. For the twelve month period ended December 31 2021, the Company repurchased 910,979 common shares for cancellation for a total cash consideration of \$8.4 million. The total consideration is allocated between share capital and retained earnings.

Periodically, the Company will enter into an automatic purchase plan (APP) with an independent broker. As at December 31, 2022, the Company recorded a liability of \$3.0 million for share repurchases that could take place during its internal blackout period under an APP. As at December 31, 2021, the Company recorded a \$2.0 million liability for an APP.

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

Cash used in investing activities

During the fourth quarter of 2022, Pason invested \$16.2 million in net capital expenditures, an increase from \$3.1 million in the fourth quarter of 2021. Capital expenditures in the current quarter reflect net additions to rental equipment to meet activity levels, investments associated with the ongoing refresh of the Company's fleet and technology platform, and also an element of catch up from lower capital expenditure levels throughout 2020 and 2021. Fourth quarter 2022 capital expenditure levels also represent the easing of supply chain challenges which impacted the timing around Pason's quarterly capital expenditures throughout 2022. Pason continues to make necessary capital investments in its equipment and technology in order to service the increasing demand for its products.

Also during the fourth quarter of 2022, Pason purchased \$40.4 million of short-term investments with maturities of less than one year (Q4 2021: \$nil), locking in interest rates on term deposits ranging from 5.16% to 5.55%.

Further, as further outlined under the heading Equity Investments of this MD&A, Pason made \$17.9 million of investments in its non-controlling investment in IWS in the fourth quarter of 2022 (Q4 2021: \$17.1 million).

Contractual Obligations

| As at December 31, 2022 | Less than 1 year | 1–3 years | Thereafter | Total |
|--------------------------------------|------------------|-----------|------------|---------------|
| (000s) | (\$) | (\$) | (\$) | (\$) |
| Leases and other operating contracts | 9,378 | 3,490 | 1,616 | 14,484 |
| Capital commitments | 19,887 | — | — | 19,887 |
| Total contractual obligations | 29,265 | 3,490 | 1,616 | 34,371 |

Leases and other operating contracts relate primarily 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.

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 December 31, 2022, there were 81,526,954 common shares and 2,665,121 options issued and outstanding. As at March 2, 2023, there were 81,365,984 common shares and 2,633,391 options issued and outstanding.

Impact of Hyperinflation

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

The impact of applying IAS 21 to the operating results of the Argentina subsidiary for the three and twelve months ended December 31, 2022, are detailed as follows:

Impact on IFRS Measures

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|--|---------------------------------|--------------|----------------------------------|----------------|
| | 2022 | 2021 | 2022 | 2021 |
| (000s) | (\$) | (\$) | (\$) | (\$) |
| (Decrease) increase in revenue | (769) | 1,340 | 1,486 | 2,136 |
| Decrease (increase) in rental services and local administration expenses | 420 | (699) | (691) | (1,039) |
| (Increase) in depreciation expense | (86) | (489) | (481) | (1,167) |
| Increase (decrease) in segment gross profit | (435) | 152 | 314 | (70) |
| Net monetary gain (loss) presented in other expenses | 536 | (246) | 1,849 | (496) |
| (Increase) in other expenses | (55) | (175) | (551) | (242) |
| Decrease (increase) in income tax provision | 167 | (217) | (227) | (393) |
| Increase (decrease) in net income | 213 | (486) | 1,385 | (1,201) |

Impact on Non-GAAP Measures

| | Three Months Ended December 31, | | Twelve Months Ended December 31, | |
|--|---------------------------------|-------|----------------------------------|---------|
| | 2022 | 2021 | 2022 | 2021 |
| (000s) | (\$) | (\$) | (\$) | (\$) |
| (Decrease) increase in revenue | (769) | 1,340 | 1,486 | 2,136 |
| Decrease (increase) in rental services and local administration expenses | 420 | (699) | (691) | (1,039) |
| Net monetary gain (loss) presented in other expenses | 536 | (246) | 1,849 | (496) |
| Decrease (increase) in other expenses | (55) | (175) | (551) | (242) |
| Increase in EBITDA | 132 | 220 | 2,093 | 359 |
| Elimination of net monetary (gain) loss presented in other expenses | (536) | 246 | (1,849) | 496 |
| Elimination of other expenses | 55 | 175 | 551 | 242 |
| Increase (decrease) in Adjusted EBITDA | (349) | 641 | 795 | 1,097 |

Additional IFRS Measures

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

Funds flow from operations

Management believes that funds flow from operations, as reported in the Consolidated Statements of Cash Flows, is a useful additional measure as it represents the cash generated during the period, regardless of the timing of collection of receivables and payment of payables. Funds flow from operations represents the cash flow from continuing operations, excluding non-cash items. Funds flow from operations is defined as net income adjusted for depreciation and amortization expense, 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 | Mar 31, 2021 | Jun 30, 2021 | Sep 30, 2021 | Dec 31, 2021 | Mar 31, 2022 | Jun 30, 2022 | Sep 30, 2022 | Dec 31, 2022 |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|
| (000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Net income | 3,991 | 4,880 | 12,775 | 10,279 | 18,001 | 17,992 | 33,739 | 35,994 |
| Add: | | | | | | | | |
| Income taxes | 1,257 | 2,002 | 5,239 | 3,240 | 5,329 | 7,189 | 11,482 | 9,405 |
| Depreciation and amortization | 7,831 | 6,156 | 5,530 | 6,172 | 6,314 | 4,696 | 4,433 | 5,399 |
| Stock-based compensation | 2,602 | 2,216 | 1,611 | 5,094 | 5,555 | 2,514 | 2,032 | 5,129 |
| Net interest (income) expense | (8) | (270) | (285) | 2,089 | (513) | (718) | (1,027) | (2,679) |
| EBITDA | 15,673 | 14,984 | 24,870 | 26,874 | 34,686 | 31,673 | 50,659 | 53,248 |

Reconcile EBITDA to Adjusted EBITDA

| 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 |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|----------------|
| (000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| EBITDA | 15,673 | 14,984 | 24,870 | 26,874 | 34,686 | 31,673 | 50,659 | 53,248 |
| Add: | | | | | | | | |
| Foreign exchange loss (gain) | 448 | 725 | (204) | (2,980) | 403 | (1,054) | (3,332) | 1,959 |
| Government wage assistance | (2,924) | (2,966) | (2,190) | (128) | — | — | — | — |
| Put option revaluation | — | — | — | 381 | — | — | — | (5,815) |
| Net monetary (gain) loss | (49) | (11) | (190) | (246) | (202) | 268 | (1,380) | (536) |
| Other | 22 | 54 | 70 | 307 | (1,514) | 75 | 284 | 88 |
| Adjusted EBITDA | 13,170 | 12,786 | 22,356 | 24,208 | 33,373 | 30,962 | 46,231 | 48,944 |

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 | Mar 31, 2021 | Jun 30, 2021 | Sep 30, 2021 | Dec 31, 2021 | Mar 31, 2022 | Jun 30, 2022 | Sep 30, 2022 | Dec 31, 2022 |
|--|--------------|--------------|--------------|--------------|--------------|--------------|--------------|-----------------|
| (000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Cash from operating activities | 11,085 | 9,841 | 17,074 | 27,061 | 28,050 | 25,679 | 30,743 | 19,942 |
| Less: | | | | | | | | |
| Net additions to property, plant and equipment | (1,510) | (3,696) | (1,258) | (2,803) | (4,334) | (6,412) | (6,590) | (16,112) |
| Deferred development costs | (399) | (461) | 445 | (268) | (134) | (132) | (106) | (121) |
| Free cash flow | 9,176 | 5,684 | 16,261 | 23,990 | 23,582 | 19,135 | 24,047 | 3,709 |

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 Consolidated Balance Sheets. The Company's short term-investments are comprised of twelve-month term deposits.

Critical Accounting Estimates

The preparation of the Company's Consolidated 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 Consolidated Financial Statements for the year ended December 31, 2022.

Allowance for Doubtful Accounts

Amounts included in allowance for doubtful accounts reflect the expected credit losses for the Company's trade receivables. The Company determines the allowance amount based on management's best estimate of expected losses, considering actual loss history as well as current and projected economic and industry activity. Significant or unexpected changes in economic conditions could significantly impact the Company's future expected credit losses.

Depreciation & Amortization

When calculating depreciation of property, plant and equipment, and amortization of intangible assets, the Company estimates the useful lives and residual values of the related assets. The estimates made by management regarding the useful lives and residual values affect the carrying amounts of the property and equipment and intangible assets on the balance sheet and the related depreciation and amortization expenses recognized in the statement of operations. Assessing the reasonableness of the estimated useful lives of property and equipment and intangible assets requires judgment and is based on available information. The Company periodically, and at least annually, evaluates its depreciation and amortization methods and rates for consistency against those methods and rates used by its peers, or may revise initial estimates for changes in circumstances, such as technological advancements. A change in the estimated remaining useful life or the residual value will affect the depreciation or amortization expense prospectively.

Carrying Value of Assets

For purposes of reviewing whether goodwill impairment exists, the Group has determined that the assets of each of its operating segments are an appropriate basis for its cash generating units (CGUs). The Company uses judgment in the determination of the CGUs.

At each reporting period, management assesses whether there are indicators of impairment of the Company's property and equipment, intangible assets, and goodwill. If an indication of impairment exists, the property and equipment, intangible assets, and goodwill are tested for impairment. If not, goodwill is tested for impairment at least annually. In order to determine if impairment exists and to measure the potential impairment charge, the carrying amounts of the Company's CGUs are compared to their recoverable amounts, which is the greater of fair value less costs to sell and value in use (VIU). An impairment charge is recognized to the extent the carrying amount exceeds the recoverable amount. VIU is calculated as the present value of the expected future cash flows specific to each CGU. In calculating VIU, significant judgments are required in making assumptions with respect to discount rates, the market outlook, and future cash flows associated with the CGU. Any changes in these assumptions will have an impact on the measurement of the recoverable amount and could result in adjustments to impairment charges already recorded.

At December 31, 2022, the Company performed an impairment test on its goodwill and concluded that there was no impairment.

Inventories

The Company evaluates its inventory to ensure it is carried at the lower of cost and net realizable value. Provisions are made against obsolete and damaged inventories and are charged to rental services. These provisions are assessed at each reporting date for adequacy. Any reversal of a write-down of inventory arising from an increase in net realizable value will be recognized as a reduction in rental services in the period in which the reversal occurred.

Provisions and Contingencies

The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated.

The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter. This determines whether a provision or disclosure in the financial statements is needed.

Development Costs

New product development projects that meet the capitalization criteria are capitalized, and include the cost of materials and direct labour costs that are directly attributable to preparing the asset for its intended use. Subsequent changes in facts or circumstances could result in the balance of the related deferred costs being expensed in profit or loss. Results could differ due to changes in technology or if actual future economic benefit differs materially from what was expected.

Stock-Based Compensation

The fair value of stock options is calculated using a Black-Scholes option pricing model. There are a number of estimates used in the calculation, such as the estimated forfeiture rate, expected option life,

and the future price volatility of the underlying security, which can vary from actual future events. The factors applied in the calculation are management's best estimates based on historical information and future forecasts.

The fair value of Performance Share Units is calculated using management's best estimate of the Company's ability to achieve certain performance measures and objectives as set out by the Board of Directors, considering historical and expected performance. Changes in these estimates and future events could alter the calculation of the provision for such compensation.

Income Taxes

The Company operates in multiple jurisdictions with complex legal and tax regulatory environments. In certain of these jurisdictions, the Company has taken income tax positions that management believes are supportable and are intended to withstand challenge by tax authorities. Some of these positions are inherently uncertain and include those relating to transfer pricing matters and the interpretation of income tax laws applied to complex transactions as the tax positions taken by the Company rely on the exercise of judgment and it is frequently possible for there to be a range of legitimate and reasonable views.

The Company has adopted certain transfer pricing (TP) policies and methodologies to value inter-company transactions that occur in the normal course of business. The value placed on such transactions must meet certain guidelines that have been established by the tax authorities in the jurisdictions in which the Company operates. The Company believes that its TP methodologies are in accordance with such guidelines. The Company entered into a Bilateral Advanced Pricing Arrangement (APA) with the Canada Revenue Agency (CRA) and the Internal Revenue Service (IRS) (collectively, the Parties) covering the taxation years ended December 31, 2013, through to December 31, 2021. The purpose of this APA was for the Company to obtain agreement among the Parties on the TP methodology applied to the material inter-company transactions between Pason Systems Corp. (Pason Canada) and Pason Systems USA and Petron (collectively Pason USA) (the covered transactions). A new APA agreement effective January 1, 2022 is under review with the above tax regulatory authorities. Consistent with the prior agreement, the purpose of this APA is for the Company to obtain agreement among the Parties on the TP methodology applied to the material inter-company transactions of the Company.

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

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

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

Significant Accounting Policies

The Company's significant accounting policies have been disclosed within Note 3 of Pason's Consolidated Financial Statements for the year ended December 31, 2022.

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, global macroeconomic conditions proved challenging with central banks aggressively increasing interest rates to address high prevailing levels of inflation, 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 recent commodity price volatility. Despite these headwinds, global drilling activity continued to recover in 2022 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, the situation is evolving and 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.

Public Health Crises, Including COVID-19

Starting in March of 2020, the COVID-19 pandemic had a significant impact on the demand for oil and gas and this, combined with an over-supply, led to a significant decline in commodity prices. While most have lifted restrictions relating to COVID-19, certain countries face ongoing challenges with varying forms of restrictions. Although global demand for oil and gas has returned to pre-pandemic levels and commodity prices have recovered from the lows experienced in 2020, the ultimate impact of COVID-19 on

future oil demand is unknown at the present time. It is, therefore, not possible to predict the long-term effects of COVID-19 on the Company's operating results. The ongoing pandemic has had, or may have, significant adverse impacts on Pason, including but not limited to: material declines in revenue and cash flows due to reduced drilling and demand for associated products and services, increased risk of non-payment of accounts receivable, potential for impairment charges on long-term assets, and additional reorganization costs, if deemed required in the context of Pason's ongoing efforts to manage its cost structure. The Company would be further exposed to the aforementioned risks in the occurrence of any future public health crises and/or pandemics unrelated to COVID-19.

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, 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, 2021 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.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The preparation and presentation of the Company's Consolidated Financial Statements and the overall reasonableness of the Company's financial reporting are the responsibility of management. The Board of Directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility with the assistance of the Audit Committee of the Board of Directors.

Management's Report on Disclosure Controls and Procedures (DC&P)

Disclosure controls and procedures within the Company have been designed to provide reasonable assurance that all relevant information is identified to the President and Chief Executive Officer (CEO), Chief Financial Officer (CFO), and Board of Directors to ensure appropriate and timely decisions are made regarding public disclosure.

For the year ended December 31, 2022, an evaluation of the Company's Disclosure Controls and Procedures was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that our DC&P, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was effective to ensure that the information required by Canadian Securities regulatory authorities will be recorded, processed, and reported within the prescribed timelines.

Management's Report on Internal Control over Financial Reporting (ICFR)

Management, under the supervision and participation of the Company's CEO and CFO, is responsible for establishing and maintaining a system of internal controls over financial reporting to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements in accordance with International Financial Reporting Standards. The assessment has been based on criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the Company's ICFR was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2022, our ICFR, as defined in NI 52-109, was effective. There were no changes in our ICFR during the year ended December 31, 2022, that have materially affected, or are reasonably likely to affect, our ICFR.

Consolidated Financial Statements and Notes

Management's Report to Shareholders

To the Shareholders of Pason Systems Inc.,

The Consolidated Financial Statements are the responsibility of management and are prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Financial statements will, by necessity, include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis so that the Consolidated Financial Statements are presented fairly in all material respects. Management has ensured that financial information contained elsewhere in this Annual Report is consistent with the Consolidated Financial Statements.

Management has also prepared the Management's Discussion and Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2022 and 2021.

The Audit Committee of the Board of Directors, which is comprised of three independent directors, has reviewed the Consolidated Financial Statements, including the notes thereto, with management and the external auditors. The Audit Committee meets regularly with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the Consolidated Financial Statements, and to recommend approval of the financial statements to the Board. The Board of Directors has approved the Consolidated Financial Statements on the recommendation of the Audit Committee.

Deloitte LLP, the independent auditors appointed by the shareholders at the last annual general meeting, have audited the Consolidated Financial Statements of Pason Systems Inc. in accordance with Canadian Generally Accepted Auditing Standards. The independent auditors have full and unrestricted access to the Audit Committee to discuss the audit and their related findings as to the integrity of the financial reporting process. The independent auditor's report outlines the scope of their examination and sets forth their opinion.



Jon Faber
President & Chief Executive Officer
Calgary, Alberta
March 2, 2023



Celine Boston
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Pason Systems Inc.

Opinion

We have audited the consolidated financial statements of Pason Systems Inc., (the "Company"), which comprise the consolidated balance sheets as at December 31, 2022 and 2021, and the consolidated statements of operations, other comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2022 and 2021, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards ("Canadian GAAS"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statement for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue — Refer to Note 3 to the financial statements

Key Audit Matter Description

The Company's derives the majority of its revenue from the rental of instrumentation and data services to oil and gas companies and drilling contractors. This revenue consists of transaction-based fees made up of a significant volume of low-dollar transactions, sourced from multiple systems, databases, and other tools. The processing and recording of revenue is highly automated and is based on contractual terms with customers.

Given the Company's revenue transactions are highly automated, there are potential risks arising from the capture, processing and transfer of data accurately and completely between the various information technology (IT) systems. As such, auditing the Company's systems to process revenue transactions resulted in an increased extent of audit effort, which included the need to involve professionals with expertise in IT.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company's systems to process revenue transactions included the following, among others:

- With the assistance of IT specialists:
 - Evaluated the significant systems used to process revenue transactions and tested the effectiveness of general IT controls over each of these systems, including user access controls, change management controls, and IT operations controls;

- o Evaluated the effectiveness of controls of the interfaces and automated controls in relation to the completeness and accuracy of transactions recorded and transferred across systems, from their initial capturing to their recording into the general ledger;
 - o Performed testing of system interfaces and automation within the relevant revenue streams and;
 - o Assessed service auditor reports at those service providers, on which the Company relies.
- Tested the reconciliation of revenues per the general ledger to revenues earned per the various revenue system applications to assess the completeness of the IT systems.
 - Performed detail transaction testing by agreeing the amounts in the IT systems to recognized to source documents such as invoices and charge records.

Obligation under put option - Refer to Notes 2, 3 and 17 to the Financial Statements

Key Audit Matter Description

As a result of a 2019 agreement which included various put and call provisions which provide a certain amount of liquidity to both parties, the Company recorded an obligation under put option (“obligation”) that was initially recognized at the present value of the estimated redemption amount. The Company performs a re-evaluation of the obligation at each reporting period to determine the present value using a discounted cash flow model. This model is based upon certain assumptions and estimates.

While there are several assumptions and estimates that management makes to determine the obligation’s present value, the assumptions and estimates with the highest degree of subjectivity and impact on the present value are the revenue growth rates and discount rate. As such, auditing these assumptions and estimates resulted in an increased extent of audit effort, which included the need to involve professionals with expertise in valuation.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the revenue growth rates and the discount rate used to determine the present value of the obligation included the following, among others:

- Evaluated management’s ability to accurately forecast revenue growth rates by comparing actual results to management’s historical forecasts;
- Evaluated the reasonableness of management’s forecasted revenue growth rates by comparing the forecasts to:
 - o Analyst and industry reports for the industry, comparison of actual results to peers, and other relevant publicly available information,
 - o Known changes in Energy Toolbase LLC’s operations or the industry in which they operate, which are expected to impact future operating performance,
 - o Internal discussions by management and the Board of Directors;
- With the assistance of fair value specialists, evaluated the reasonableness of the discount rate by testing the source information underlying the determination of the discount rate and developing a range of independent estimates and comparing those to the discount rate selected by management.

Other Information

Management is responsible for the other information. The other information comprises:

- Management’s Discussion and Analysis
- The information, other than the financial statements and our auditor’s report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor’s report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor’s report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Kyle Hawkins.

/s/ Deloitte LLP

Chartered Professional Accountants

Calgary, Alberta

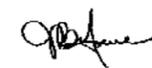
March 2, 2023

Consolidated Balance Sheets

| As at | Note* | December 31, 2022 | December 31, 2021 |
|---|-------|-------------------|-------------------|
| (CDN 000s) | | (\$) | (\$) |
| Assets | | | |
| Current | | | |
| Cash and cash equivalents | 5 | 132,057 | 158,283 |
| Short-term investments | 6 | 40,377 | — |
| Trade and other receivables | 7 | 84,819 | 49,453 |
| Prepaid expenses | | 10,920 | 5,197 |
| Inventory | 2, 8 | 15,641 | — |
| Income taxes recoverable | 18 | 962 | 13,632 |
| Total current assets | | 284,776 | 226,565 |
| Non-current | | | |
| Property, plant and equipment | 9 | 97,695 | 82,265 |
| Investments | 10 | 47,839 | 30,046 |
| Intangible assets and goodwill | 11 | 39,618 | 41,065 |
| Total non-current assets | | 185,152 | 153,376 |
| Total assets | | 469,928 | 379,941 |
| Liabilities and equity | | | |
| Current | | | |
| Trade payables and accruals | 12 | 53,699 | 31,475 |
| Income taxes payable | 18 | 2,859 | 6,568 |
| Stock-based compensation liability | 14 | 6,028 | 2,647 |
| Lease liability | | 1,817 | 1,792 |
| Obligation under put option | 17 | 6,474 | — |
| Total current liabilities | | 70,877 | 42,482 |
| Non-current | | | |
| Deferred tax liability | 18 | 6,508 | 5,836 |
| Lease liability | | 3,712 | 5,537 |
| Stock-based compensation liability | 14 | 7,869 | 6,821 |
| Obligation under put option | 17 | — | 11,484 |
| Total non-current liabilities | | 18,089 | 29,678 |
| Equity | | | |
| Share capital | 13 | 164,136 | 162,567 |
| Share-based benefits reserve | | 35,314 | 34,383 |
| Foreign currency translation reserve | | 57,486 | 50,298 |
| Equity reserve | | (8,375) | (8,375) |
| Retained earnings | | 137,920 | 72,602 |
| Total equity attributable to equity holders of the Company | | 386,481 | 311,475 |
| Non-controlling interest | | (5,519) | (3,694) |
| Total equity | | 380,962 | 307,781 |
| Total liabilities and equity | | 469,928 | 379,941 |

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

Approved by the Board of Directors



James B. Howe
Director



Judi Hess
Director

Consolidated Statements of Operations

| Years Ended December 31, | Note* | 2022 | 2021 |
|---|-------|----------------|---------|
| (CDN 000s, except per share data) | | (\$) | (\$) |
| Revenue | | 334,998 | 206,686 |
| Operating expenses | | | |
| Rental services | | 109,879 | 76,662 |
| Local administration | | 12,554 | 11,006 |
| Depreciation and amortization | 9, 11 | 20,842 | 25,689 |
| | | 143,275 | 113,357 |
| Gross profit | | 191,723 | 93,329 |
| Other expenses | | | |
| Research and development | | 37,573 | 32,220 |
| Corporate services | | 15,192 | 13,175 |
| Stock-based compensation expense | 14 | 15,230 | 11,523 |
| Other income | 16 | (15,403) | (7,252) |
| | | 52,592 | 49,666 |
| Income before income taxes | | 139,131 | 43,663 |
| Income tax provision | 18 | 33,405 | 11,738 |
| Net income | | 105,726 | 31,925 |
| Net income (loss) attributable to: | | | |
| Shareholders of Pason | | 107,616 | 33,845 |
| Non-controlling interest | | (1,890) | (1,920) |
| Net income | | 105,726 | 31,925 |
| Income per share | 19 | | |
| Basic | | 1.31 | 0.41 |
| Diluted | | 1.30 | 0.41 |

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

Consolidated Statements of Other Comprehensive Income

| Years Ended December 31, | Note* | 2022 | 2021 |
|--|-------|----------------|---------|
| (CDN 000s) | | (\$) | (\$) |
| Net income | | 105,726 | 31,925 |
| Items that may be reclassified subsequently to net income: | | | |
| Foreign currency translation adjustment | 3 | 7,253 | (3,787) |
| Other comprehensive income (loss) | | 7,253 | (3,787) |
| Total comprehensive income | | 112,979 | 28,138 |
| Total comprehensive income (loss) attributed to: | | | |
| Shareholders of Pason | | 114,804 | 30,053 |
| Non-controlling interest | | (1,825) | (1,915) |
| Total comprehensive income | | 112,979 | 28,138 |

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

Consolidated Statements of Changes in Equity

| | Note* | Share-Based Benefits Reserve | Foreign Currency Translation Reserve | Equity Reserve | Retained Earnings | Total Equity Attributable to Pason | Non-Controlling Interest | Total Equity | |
|--|-------|------------------------------|--------------------------------------|----------------|-------------------|------------------------------------|--------------------------|----------------|----------------|
| (CDN 000s) | | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | |
| Balance at January 1, 2021 | | 164,568 | 33,170 | 54,090 | (8,375) | 63,609 | 307,062 | (1,779) | 305,283 |
| Net income (loss) | | — | — | — | 33,845 | 33,845 | (1,920) | 31,925 | |
| Dividends | 13 | — | — | — | (16,567) | (16,567) | — | (16,567) | |
| Other comprehensive (loss) income | | — | — | (3,792) | — | (3,792) | 5 | (3,787) | |
| Exercise of stock options | 13 | 146 | (21) | — | — | 125 | — | 125 | |
| Expense related to stock options | | — | 1,234 | — | — | 1,234 | — | 1,234 | |
| Shares cancelled under NCIB | 13 | (1,804) | — | — | (6,628) | (8,432) | — | (8,432) | |
| Liability for automatic share purchase plan commitment pursuant to NCIB | 13 | (343) | — | — | (1,657) | (2,000) | — | (2,000) | |
| Balance at December 31, 2021 | | 162,567 | 34,383 | 50,298 | (8,375) | 72,602 | 311,475 | (3,694) | 307,781 |
| Net income (loss) | | — | — | — | 107,616 | 107,616 | (1,890) | 105,726 | |
| Dividends | 13 | — | — | — | (29,473) | (29,473) | — | (29,473) | |
| Other comprehensive income | | — | — | 7,188 | — | 7,188 | 65 | 7,253 | |
| Exercise of stock options | 13 | 3,530 | (511) | — | — | 3,019 | — | 3,019 | |
| Expense related to stock options | | — | 1,442 | — | — | 1,442 | — | 1,442 | |
| Shares cancelled under NCIB | 13 | (1,929) | — | — | (11,857) | (13,786) | — | (13,786) | |
| Liability reversal for automatic share purchase plan commitment pursuant to NCIB | 13 | 343 | — | — | 1,657 | 2,000 | — | 2,000 | |
| Liability for automatic share purchase plan commitment pursuant to NCIB | 13 | (375) | — | — | (2,625) | (3,000) | — | (3,000) | |
| Balance at December 31, 2022 | | 164,136 | 35,314 | 57,486 | (8,375) | 137,920 | 386,481 | (5,519) | 380,962 |

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

Consolidated Statements of Cash Flows

| Years Ended December 31, | Note* | 2022 | 2021 |
|---|-------|-----------------|-----------------|
| (CDN 000s) | | (\$) | (\$) |
| Cash from (used in) operating activities | | | |
| Net income | | 105,726 | 31,925 |
| Adjustment for non-cash items: | | | |
| Depreciation and amortization | 9, 11 | 20,842 | 25,689 |
| Stock-based compensation expense | 14 | 15,230 | 11,523 |
| Deferred income taxes | 18 | 896 | (2,138) |
| Put option revaluation | 17 | (5,815) | 381 |
| Net monetary gain | | (2,416) | 601 |
| Unrealized foreign exchange loss (gain) and other | | 422 | (253) |
| Funds flow from operations | | 134,885 | 67,728 |
| Movements in non-cash working capital items: | | | |
| Increase in trade and other receivables | | (35,366) | (22,656) |
| Increase in prepaid expenses | | (5,723) | (2,196) |
| Increase in income taxes payable / recoverable | 18 | 41,103 | 16,692 |
| Increase in trade payables, accruals and stock-based compensation liability | | 11,735 | 11,219 |
| Increase in inventory | 8 | (10,922) | — |
| Effects of exchange rate changes | | 844 | 1,286 |
| Cash generated from operating activities | | 136,556 | 72,073 |
| Income tax paid | | (32,142) | (7,012) |
| Net cash from operating activities | | 104,414 | 65,061 |
| Cash flows from (used in) financing activities | | | |
| Proceeds from exercise of stock options | 13 | 3,019 | 146 |
| Payment of dividends | 13 | (29,473) | (16,567) |
| Repurchase and cancellation of shares under NCIB | 13 | (13,786) | (8,432) |
| Repayment of lease liability | | (1,825) | (2,193) |
| Net cash used in financing activities | | (42,065) | (27,046) |
| Cash flows (used in) from investing activities | | | |
| Equity investments | 10 | (17,915) | (17,127) |
| Purchase of short-term investments | 6 | (40,377) | — |
| Additions to property, plant and equipment | 9 | (34,010) | (10,237) |
| Development costs | 11 | (493) | (683) |
| Proceeds on disposal of property, plant and equipment | | 874 | 1,132 |
| Changes in non-cash working capital | | (312) | (162) |
| Net cash used in investing activities | | (92,233) | (27,077) |
| Effect of exchange rate on cash and cash equivalents | | 3,658 | (1,937) |
| Net increase (decrease) in cash and cash equivalents | | (26,226) | 9,001 |
| Cash and cash equivalents, beginning | | 158,283 | 149,282 |
| Cash and cash equivalents, ending | 5 | 132,057 | 158,283 |

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

Notes to Consolidated Financial Statements

(CDN 000s, except per share data)

1. Description of Business

Pason Systems Inc. ("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

The Consolidated Financial Statements have been prepared in compliance with International Financial Reporting Standards (IFRS).

The Consolidated Financial Statements were authorized for issue by the Board of Directors on March 2, 2023.

Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis except for certain assets, including financial instruments, that are measured at revalued amounts or fair values, as explained in the accounting policies below.

Inventory

During the second quarter of 2022, a change to the Company's operational strategy saw increased purchases of consumable inventory and resulted in the inclusion of consumable supplies and components as part of Inventory within these Consolidated Financial Statements.

In accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, the application of the Company's inventory policy to new transactions is treated prospectively with no comparative period adjustments.

Functional and presentation currency

These Consolidated Financial Statements are presented in Canadian dollars, which is the Company's functional currency. Financial statements of the Company's US and International subsidiaries have a functional currency different from Canadian dollars and are translated to Canadian dollars using the exchange rate in effect at the period end date for all assets and liabilities, and at average monthly year to date rates of exchange during the period for revenues and expenses. The functional currency of the Company's US operations is the US dollar, while the local currency in each country is considered to be the functional currency of each respective International subsidiary.

All changes resulting from these translation adjustments are recognized in other comprehensive income. All financial information presented in Canadian dollars has been rounded to the nearest thousand except for per share amounts.

Key Sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated

assumptions are based upon historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Allowance for Doubtful Accounts

Amounts included in allowance for doubtful accounts reflect the expected credit losses for the Company's trade receivables. The Company determines the allowance amount based on management's best estimate of expected losses, considering actual loss history as well as current and projected economic and industry activity. Significant or unexpected changes in economic conditions could significantly impact the Company's future expected credit losses.

Depreciation of property, plant, and equipment, and amortization of intangible assets

When calculating depreciation of property, plant and equipment, and amortization of intangible assets, the Company estimates the useful lives and residual values of the related assets. The estimates made by management regarding the useful lives and residual values affect the carrying amounts of the property and equipment and intangible assets on the balance sheet and the related depreciation and amortization expenses recognized in the statement of operations. Assessing the reasonableness of the estimated useful lives of property and equipment and intangible assets requires judgment and is based on available information. The Company periodically, and at least annually, evaluates its depreciation and amortization methods and rates for consistency against those methods and rates used by its peers, or may revise initial estimates for changes in circumstances, such as technological advancements. A change in the estimated remaining useful life or the residual value will affect the depreciation or amortization expense prospectively.

Cash generating units (CGU)

For purposes of reviewing whether goodwill impairment exists, the Group has determined that the assets of each of its operating segments are an appropriate basis for its CGUs. The Company uses judgment in the determination of its CGUs.

Inventories

The Company evaluates its inventory to ensure it is carried at the lower of cost and net realizable value. Provisions are made against obsolete and damaged inventories and are charged to rental services. These provisions are assessed at each reporting date for adequacy. Any reversal of a write-down of inventory arising from an increase in net realizable value will be recognized as a reduction in rental services in the period in which the reversal occurred.

Recoverable amounts of property and equipment, intangible assets, and goodwill

At each reporting period, management assesses whether there are indicators of impairment of the Company's property and equipment, intangible assets, and goodwill. If an indication of impairment exists, the property and equipment, intangible assets, and goodwill are tested for impairment. If not, goodwill is tested for impairment at least annually. In order to determine if impairment exists and to measure the potential impairment charge, the carrying amounts of the Company's CGUs are compared to their recoverable amounts, which is the greater of fair value less costs to sell and value in use (VIU). An impairment charge is recognized to the extent the carrying amount exceeds the recoverable amount. VIU is calculated as the present value of the expected future cash flows specific to each CGU. In calculating VIU, significant judgments are required in making assumptions with respect to discount rates, the market outlook, and future cash flows associated with the CGU. Any changes in these assumptions will have an impact on the measurement of the recoverable amount and could result in adjustments to impairment charges already recorded.

Intangible assets and goodwill acquired in business combinations, and obligations under put option

Accounting for business combinations involves the allocation of the cost of an acquisition to the underlying net assets acquired based on estimated fair values. As part of this allocation process, the

Company identifies and attributes values and estimated lives to identifiable intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk, and the weighted average cost of capital used by a market participant. These estimates and assumptions determine the amount allocated to identifiable separable intangible assets and goodwill, as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges. In conjunction with the ETB Inc. acquisition, the Company determines the obligation under the put option based upon certain assumptions and estimates which could differ significantly from actual results (Note 17).

Provisions and contingencies

The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated.

The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter, all of which could differ significantly from actual results. This determines whether a provision or disclosure in the financial statements is needed.

Viability of new product development projects

New product development projects that meet the capitalization criteria are capitalized, and include the cost of materials and direct labour costs that are directly attributable to preparing the asset for its intended use. Subsequent changes in facts or circumstances could result in the balance of the related deferred costs being expensed in profit or loss. Results could differ due to changes in technology or if actual future economic benefit differs materially from what was expected.

Stock-based compensation

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

The fair value of Performance Share Units ("PSUs") is calculated using management's best estimate of the Company's ability to achieve certain performance measures and objectives as set out by the Board of Directors, considering historical and expected performance. Changes in these estimates and future events could alter the calculation of the provision, and ultimate payout for such compensation.

Income taxes

The Company operates in multiple jurisdictions with complex legal and tax regulatory environments. In certain of these jurisdictions, the Company has taken income tax positions that management believes are supportable and are intended to withstand challenge by tax authorities. Some of these positions are inherently uncertain and include those relating to transfer pricing matters and the interpretation of income tax laws applied to complex transactions as the tax positions taken by the Company rely on the exercise of judgment and it is frequently possible for there to be a range of legitimate and reasonable views.

The Company has adopted certain transfer pricing (TP) policies and methodologies to value inter-company transactions that occur in the normal course of business. The value placed on such transactions must meet certain guidelines that have been established by the tax authorities in the jurisdictions in which the Company operates. The Company believes that its TP methodologies are

in accordance with such guidelines. The Company entered into a Bilateral Advanced Pricing Arrangement (APA) with the Canada Revenue Agency (CRA) and the Internal Revenue Service (IRS) (collectively, the Parties) covering the taxation years ended December 31, 2013, through to December 31, 2021. A new APA agreement effective January 1, 2022 is under review with the Parties. Consistent with the prior agreement, the purpose of this APA is for the Company to obtain agreement among the Parties on the TP methodology applied to the material inter-company transactions of the Company.

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

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

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

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these Consolidated Financial Statements.

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

Basis of consolidation

(a) Business combinations

For acquisitions, the Group measures goodwill as the fair value of the consideration transferred less the net recognized amount, at fair value, of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Contingent consideration is measured at fair value at the acquisition date. Subsequent adjustments to the consideration are recognized against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or liability are recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(b) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company. Intercompany balances and transactions are eliminated in preparing the Consolidated Financial Statements.

Investments in Associates and Joint Ventures

The Company uses the equity method to account for its 50% interest in Rawabi Pason Company (Limited LCC) (Rawabi JV) and its investment in Intelligent Wellhead Systems Inc. (IWS). Under the equity method, the investment is carried at cost and adjusted for post acquisition changes in the Company's share of net assets of the associate or joint venture.

Goodwill and other intangible assets that arose on the initial acquisition are included as part of the carrying amount and not recognized separately. The equity pick-up recognized is reduced by the amortization of such intangible assets.

Distributions received from an associate or joint venture reduce the carrying cost.

Non-controlling interest

Non-controlling interest arises from business combinations in which the Company acquires less than 100% interest and is measured at either fair value or at the minority interest's proportionate share of the acquiree's identifiable assets. This decision is made on an acquisition-by-acquisition basis.

In 2019, the Company acquired 80% of Energy Toolbase Software Inc. (ETS Inc). As such, non-controlling interest representing 20% interest was valued using the minority interest's proportionate share of the acquiree's identifiable assets.

Non-controlling interest in the net income of the Company's non-wholly subsidiaries are included in net income, with minority interests presented as equity on the Consolidated Balance Sheets. The carrying amount of non-controlling interest is increased or decreased by the minority interest's share of subsequent changes in net income and comprehensive loss, as well as dividends or cash disbursements made to the minority interest even if the result is that non-controlling interest becomes a debit balance.

Government wage subsidies

The Company recognizes government wage subsidies when there is reasonable assurance that the relevant conditions are met and that the subsidy will be received. The benefits are recorded within other income/expenses in the income statement.

Foreign currency

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from business combinations, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at average exchange rates.

Gains and losses arising from the translation of the financial statements of foreign operations are included in the Consolidated Statements of Other Comprehensive Income in the period they relate to, and such differences have been accumulated in Foreign Currency Translation Reserve on the Consolidated Balance Sheets. Advances made to subsidiaries for which the settlement is not planned or anticipated in the foreseeable future are considered part of the net investment. Accordingly, unrealized gains and losses from these advances are recorded in the Consolidated Statements of Other Comprehensive Income.

Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in profit or loss for the period.

Hyperinflation Accounting

Due to various qualitative and quantitative factors, Argentina was designated a hyper-inflationary economy in the second quarter of 2018 for accounting purposes. As such, the Company has applied IAS 29, *Financial Reporting in Hyper-Inflationary Economies* to these Consolidated Financial Statements for its Argentinian operating subsidiary. These Consolidated Financial Statements are based on the historical cost approach in IAS 29.

The application of hyperinflation accounting requires restatement of the Argentina subsidiary's non monetary assets and liabilities, shareholders' equity and other comprehensive income items from the transaction date when they were first recognized into the current purchasing power, which reflects a price index current at the end of the reporting period before being included in the Consolidated Financial Statements. To measure the impact of inflation on its financial position and results, the Company has elected to use the Retail Price Index (indice de precios al consumidor con cobertura nacional or "IPC") as recommended by the Government Board of the Argentine Federation of Professional Councils of Economic Sciences (FACPCE).

As a result of the change in the IPC for the year ended December 31, 2022, the Company recognized a net monetary gain within the Argentina subsidiary of \$1,849 (2021 - \$496). The level of the IPC at December 31, 2022, was 1,134.6 (2021 - 582.5), which represents an annual increase of 95% (2021 - 51%).

Financial instruments

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as a "financial asset or financial liability at fair value through profit or loss", "available-for-sale financial assets", "held-to-maturity investments", "loans and receivables", or "other financial liabilities". The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expires, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired. Financial assets and liabilities are offset and the net amount presented in the balance sheet when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

(a) Financial assets as fair value through profit or loss:

Cash and cash equivalents and short-term investments are held for trading within the fair value through profit or loss category. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income.

(b) Loans and receivables:

Trade and other receivables are held within the loans and receivables category (Note 7). Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs less any impairment losses. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Company has the following non-derivative financial liabilities:

(a) Non-derivative financial liabilities

Trade payables, accruals, provisions, and obligation under put option are held within the non-derivative financial liabilities category. Such financial liabilities are recognized initially at

fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Cash and cash equivalents

Cash is comprised of cash on deposit, cash held in trust, bank indebtedness, and investments with maturities of 90 days or less at the date of investment. Bank overdrafts that are repayable on demand are included as a component of cash for the purpose of the statement of cash flows.

Short-term investments

Short-term investments are comprised of investments with maturities greater than 90 days and less than one year at the date of investment.

Share capital

Common shares are classified as equity.

Property, plant, and equipment

(a) Recognition and measurement

Items of property, plant, and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Property, plant, and equipment include parts and raw materials awaiting assembly. These assets are recorded at cost and no depreciation is taken.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and any other costs directly attributable to bringing the assets to a working condition for their intended use and the costs of dismantling and removing the items.

When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items of property, plant, and equipment.

Proprietary software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of an item of property, plant, and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within depreciation and amortization.

(b) Subsequent costs

The cost of replacing a part of an item of property, plant, and equipment is recognized in the carrying amount of the item only when it is probable that the future economic benefits will flow to the Company, the economic life is greater than one year, and its cost can be measured reliably. All other replacement costs, as well as the repair and maintenance of property, plant, and equipment, are recognized in profit or loss as incurred.

(c) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less residual value which the Company has determined to be nominal.

Depreciation is recognized in profit or loss either on a straight-line or declining balance basis over the estimated useful lives of each part of an item of property, plant, and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative year are as follows:

| | Straight-Line | Declining Balance Rate |
|------------------|---------------|------------------------|
| Rental equipment | — | 20% |
| Other | 3 years | — |

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

Inventory

Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined on a standard cost basis and includes expenditures incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. Any inventory valuation write-downs are included in rental services on the Consolidated Statements of Operations in the period in which the write-down occurred.

Intangible assets

(a) Goodwill

Goodwill represents the excess of purchase price for business combinations over the fair value of the acquired net assets. Goodwill is allocated as of the date of the business combination. Goodwill is measured at cost less accumulated impairment losses.

(b) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use the asset. The expenditure capitalized includes the cost of materials and direct labour costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Capitalized development expenditures are amortized in the year in which the new products begin generating revenue. However, if at any time a product is deemed no longer commercially viable, the balance of the related deferred costs is expensed in profit or loss.

Investment tax credits are recorded only when received, as the timing and amounts are dependent upon the acceptance of the claim by the respective tax authorities, and are netted against the related development costs.

(c) Other intangible assets

Other intangible assets that are acquired by the Company have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized when they are available for use on a straight-line basis over their estimated economic lives.

(d) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(e) Amortization

Amortization is calculated over the cost of the asset less residual value which the Company has determined to be nominal.

The estimated useful lives for intangible assets are as follows:

| | |
|--|---------|
| Customer relationships and technology | 6 years |
| Non-compete agreements | 5 years |
| Trademarks and software | 3 years |
| Patents and research and development costs | 3 years |

Amortization methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

Impairment

(a) Financial assets (including trade and other receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(b) Non-financial assets

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

Assets that cannot be tested for impairment individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, referred to as the CGU. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss as incurred. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill cannot be reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Share based compensation

Equity-settled share based compensation

(a) Stock option plan

The fair value of stock options granted is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, estimated forfeitures, estimated volatility of the Company's shares and anticipated dividends.

Compensation expense associated with the option plan is recognized on a graded basis as stock-based compensation expense over the vesting period of the stock options with a corresponding increase in share based benefits reserve. Any consideration received on the exercise of stock options for common shares is credited to share capital.

Cash-settled share based compensation

(b) Restricted share unit (RSU) plan and Phantom stock full value (PSFV) plan

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

Compensation expense for the plans is accrued on a graded basis over the respective three-year vesting period. Any changes in the fair value of the liability are recognized in profit or loss.

(c) Deferred share unit (DSU) plan

The Company has a DSU plan for directors of the Company. The DSUs are granted annually and represent rights to share values based on the number of DSUs issued. When a DSU holder ceases to be a member of the Board, the holder is entitled to receive a cash settlement based upon the number of outstanding DSUs multiplied by the prevailing market price of the Company's common shares on the redemption date. A DSU liability is accrued and adjusted each quarter on outstanding DSUs based upon the current market price of the Company's common shares.

Compensation expense for the DSU plan is accrued evenly over a one year period following grant. Any changes in the fair value of the liability are recognized in profit or loss.

(d) Performance share unit (PSU) plan

The Company has a PSU plan for Executive Officers of the Company. PSUs are a notional unit that entitle the holder to receive payment in cash upon vesting based upon the number of vested PSUs and a multiplier calculated based upon the achievement of certain performance measures and objectives specified by the Board of Directors. A PSU liability is accrued and adjusted each reporting period on vested PSUs based upon the expected fair value of the future obligation, with changes in fair value recognized in profit or loss.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Revenue

The Company applies the five-step model to arrangements that meet the definition of a contract, including when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it provides to the customer.

- (a) identifies the contract(s) with a customer,
- (b) identifies the performance obligations in the contract,
- (c) determines the transaction price,
- (d) allocate the transaction price to the performance obligations in the contract, and
- (e) recognizes revenue when (or as) the entity satisfies a performance obligation.

Products and services for the Company are primarily comprised of specialized data management systems provided on a rental basis. The Company satisfies its performance obligations and recognizes rental revenue during the reporting period based on completion of each rental day.

Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract. The company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture, and telephones). For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability are comprised of:

- (a) Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- (c) The amount expected to be payable by the lessee under residual value guarantees; The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- (d) Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Both the current and non-current portion of the lease liability is presented as a separate line in the Consolidated Balance Sheets. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- (a) The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- (b) The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- (c) A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the Consolidated Balance Sheets. The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Property, Plant, and Equipment" policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the segment and category with which the expense arises.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Finance income, finance costs, and foreign exchange

Finance income comprises interest income on excess funds invested. Interest income is recognized as it accrues in profit or loss.

Finance costs include interest expense on bank borrowing, lease obligations, and changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets.

Foreign currency gains and losses are reported on a net basis.

Income tax

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available to use unused tax losses and unused tax credits. Deferred tax assets are reviewed at each reporting date and the valuation allowance is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Dividends

Dividends on common shares are recognized in the Company's Consolidated Financial Statements in the period in which the Board of Directors approves the dividend.

Income per share

The Company presents basic and diluted income per share data for its common shares. Basic income per share is calculated by dividing the net income or loss available to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted income per share is determined by adjusting the net income or loss available to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise stock options outstanding.

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' results are reviewed regularly by the Company's senior management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, costs that benefit more than one operating unit which cannot be reasonably allocated, and amounts relating to current and deferred taxes as these amounts can be impacted by tax strategies implemented at the corporate level that benefit the Group as a whole.

Segment capital expenditures are the total costs incurred during the period to acquire property, plant, and equipment and intangible assets other than goodwill.

4. Changes in Accounting Standards

Standards and interpretations adopted in the year ended December 31, 2022

The Company has adopted the following amendments to IFRS effective January 1, 2022, and except as otherwise noted, none of which have had a material impact on the Company's Consolidated Financial Statements:

IAS 37, Provisions, Contingent Liabilities and Contingent Assets. The amendment clarified that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts existing at the date when the amendments are first applied. There is no impact to the Company for the year ended December 31, 2022 as a result of this amendment.

Future Accounting Policy Changes

The following amendments have been issued and are effective for financial years beginning on or after January 1, 2023. Amendments that are not applicable to the Company have been excluded. The Company does not anticipate that the adoption of any of these amendments will have a material impact on its financial statements.

IAS 1, Presentation of Financial Statements (effective January 1, 2023)

Clarifies the presentation of liabilities in the statement of financial position. The classification of liabilities as current or non-current is based on contractual rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty.

IAS 12, Income Taxes - Deferred Tax arising from a Single Transaction (effective January 1, 2023)

The amendment clarifies the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences. An entity is now required to recognize the related deferred tax asset and liability with the recognition of any deferred tax asset being subject to the recoverability criteria in IAS 12.

5. Cash and Cash Equivalents

| As at December 31, | 2022 | 2021 |
|----------------------------------|----------------|----------------|
| | (\$) | (\$) |
| Cash | 77,568 | 120,714 |
| Cash equivalents | 54,489 | 37,569 |
| Cash and cash equivalents | 132,057 | 158,283 |

As at December 31, 2022, the Company's cash and cash equivalents are invested in 1-25 day money market funds with interest rates averaging 4.5%. In the fourth quarter of 2022, the Company invested \$40.3 million of its cash in short-term investments as outlined in Note 6 of these Consolidated Financial Statements.

6. Short-Term Investments

| As at December 31, | 2022 | 2021 |
|-------------------------------|---------------|----------|
| | (\$) | (\$) |
| Short-term investments | 40,377 | — |

As at December 31, 2022, the Company's short-term investments are twelve-month term deposits with interest rates ranging between 5.16% and 5.55%.

7. Trade and Other Receivables

| As at December 31, | 2022 | 2021 |
|--|---------------|---------------|
| | (\$) | (\$) |
| Trade receivables, net of allowances for doubtful accounts | 77,721 | 48,279 |
| Other receivables | 7,098 | 1,174 |
| Trade and other receivables | 84,819 | 49,453 |

8. Inventory

Inventory is comprised of products and components which will be consumed through the Company's field service presence or through equipment repairs. For the year ended December 31, 2022, the cost of inventory expensed in rental services was \$20,199 (2021: \$11,877).

9. Property, Plant, and Equipment

| | Materials and supplies | Rental equipment | Right of use assets | Other | Total |
|--------------------------------------|------------------------|------------------|---------------------|---------------|----------------|
| | (\$) | (\$) | (\$) | (\$) | (\$) |
| Property, plant and equipment | | | | | |
| Balance at January 1, 2021 | 7,330 | 434,210 | 10,481 | 56,130 | 508,151 |
| Additions | 4,667 | 4,067 | 3,008 | 1,503 | 13,245 |
| Derecognition and disposals | — | (40,965) | (2,509) | (20,070) | (63,544) |
| Parts consumed | (3,785) | 3,785 | — | — | — |
| Hyperinflation | — | (954) | — | — | (954) |
| Effects of exchange rate changes | — | 5,234 | 42 | 80 | 5,356 |
| Balance at December 31, 2021 | 8,212 | 405,377 | 11,022 | 37,643 | 462,254 |
| Additions | 4,918 | 28,821 | — | 416 | 34,155 |
| Derecognition and disposals | — | (23,320) | (249) | (19,400) | (42,969) |
| Reclassified to inventory | (4,719) | — | — | — | (4,719) |
| Parts consumed | (2,913) | 2,913 | — | — | — |
| Hyperinflation | — | 6,491 | — | — | 6,491 |
| Effects of exchange rate changes | 469 | 15,975 | 76 | 868 | 17,388 |
| Balance at December 31, 2022 | 5,967 | 436,257 | 10,849 | 19,527 | 472,600 |
| Accumulated Depreciation | | | | | |
| Balance at January 1, 2021 | — | 360,546 | 4,522 | 48,097 | 413,165 |
| Depreciation | — | 16,783 | 2,194 | 2,246 | 21,223 |
| Derecognition of assets | — | (39,465) | (2,509) | (15,712) | (57,686) |
| Hyperinflation | — | 744 | — | — | 744 |
| Effects of exchange rate changes | — | 2,461 | 24 | 58 | 2,543 |
| Balance at December 31, 2021 | — | 341,069 | 4,231 | 34,689 | 379,989 |
| Depreciation | — | 14,604 | 1,867 | 768 | 17,239 |
| Derecognition and disposals | — | (23,320) | (249) | (19,400) | (42,969) |
| Hyperinflation | — | 5,117 | — | — | 5,117 |
| Effects of exchange rate changes | — | 15,151 | 8 | 370 | 15,529 |
| Balance at December 31, 2022 | — | 352,621 | 5,857 | 16,427 | 374,905 |
| Carrying Amounts | | | | | |
| At December 31, 2021 | 8,212 | 64,308 | 6,791 | 2,954 | 82,265 |
| At December 31, 2022 | 5,967 | 83,636 | 4,992 | 3,100 | 97,695 |

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

Derecognition of Assets

Included in the amounts recorded as derecognition and disposals in the above table are the costs and accumulated depreciation of fully depreciated assets that have been removed from the Company's books. In 2022, these amounts were \$42,969 (2021: \$57,686).

10. 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.

A summary of the Company's equity investments is as follows:

| Years Ended December 31, | 2022 | 2021 |
|--|---------------|--------|
| | (\$) | (\$) |
| Equity Investments, beginning | 30,046 | 24,719 |
| Share of after tax income in associates and joint ventures | 482 | (444) |
| Amortization of intangibles | (772) | (659) |
| Additional investment | 17,915 | 7,127 |
| Dividends | (549) | (697) |
| Other | 717 | — |
| Equity Investments, ending | 47,839 | 30,046 |

Investment in IWS

The Company's initial minority investment in IWS was made in 2019, and consisted of total consideration of \$25,000. The investment consisted of initial cash consideration of \$10,000 and \$15,000 payable in three separate \$5,000 put options, exercisable at IWS' discretion for a period of up to three years. The first \$5,000 put obligation was exercised in the first quarter of 2020, while the second and third were exercised during the second and fourth quarters of 2021.

During the fourth quarter of 2022, Pason increased its non-controlling investment in IWS and acquired a portion of outstanding common shares for total cash consideration of \$7,915 (2021: \$7,127), in addition to subscribing to preferred shares for total cash consideration of \$10,000 (2021: \$nil).

The preferred share subscription 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 Consolidated Balance Sheets as at December 31, 2022.

Including the amount relating to the common share acquisition in 2022 as outlined above, total cash outflows associated with the Company's non-controlling investment in IWS is \$17,915 for the year ended December 31, 2022 (2021: \$17,127).

11. Intangible Assets and Goodwill

| | Goodwill | Research & Development | Technology | Customer Relationships | Other | Total |
|-------------------------------------|---------------|------------------------|--------------|------------------------|--------------|---------------|
| | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Intangible assets | | | | | | |
| Balance at January 1, 2021 | 33,330 | 25,390 | 5,238 | 12,147 | 3,982 | 80,087 |
| Internally developed | — | 1,414 | — | — | — | 1,414 |
| Investment tax credits received | — | (732) | — | — | — | (732) |
| Derecognition of assets | — | (15,755) | — | (6,140) | (1,440) | (23,335) |
| Effects of exchange rate | 122 | — | (9) | 159 | 96 | 368 |
| Balance at December 31, 2021 | 33,452 | 10,317 | 5,229 | 6,166 | 2,638 | 57,802 |
| Internally developed | — | 823 | — | — | 451 | 1,274 |
| Derecognition of assets | (1,259) | — | (2,842) | (4,726) | (1,370) | (10,197) |
| Effects of exchange rate | 2,021 | — | 163 | 99 | 85 | 2,368 |
| Balance at December 31, 2022 | 34,214 | 11,140 | 2,550 | 1,539 | 1,804 | 51,247 |
| Amortization | | | | | | |
| Balance at January 1, 2021 | 607 | 19,558 | 2,427 | 9,447 | 3,132 | 35,171 |
| Amortization | — | 1,968 | 922 | 1,164 | 412 | 4,466 |
| Derecognition of assets | — | (15,755) | — | (6,290) | (1,290) | (23,335) |
| Effects of exchange rate | 226 | — | (53) | 177 | 85 | 435 |
| Balance at December 31, 2021 | 833 | 5,771 | 3,296 | 4,498 | 2,339 | 16,737 |
| Amortization | — | 1,351 | 832 | 1,037 | 383 | 3,603 |
| Derecognition of assets | — | — | (2,842) | (4,726) | (1,370) | (8,938) |
| Effects of exchange rate | 57 | — | 75 | 12 | 83 | 227 |
| Balance at December 31, 2022 | 890 | 7,122 | 1,361 | 821 | 1,435 | 11,629 |
| Carrying amounts | | | | | | |
| At December 31, 2021 | 32,619 | 4,546 | 1,933 | 1,668 | 299 | 41,065 |
| At December 31, 2022 | 33,324 | 4,018 | 1,189 | 718 | 369 | 39,618 |

Derecognition of assets

Included in the amounts recorded as derecognition of assets are the costs and accumulated amortization of fully amortized assets that have been removed from the Company's books.

Impairment assessment

The Company assessed goodwill for impairment at December 31, 2022 as part of its annual reporting process. In doing so, the Company compared the aggregate recoverable amount of the assets included in the respective CGUs to their carrying amounts. The Company completed its annual assessment for goodwill impairment and determined that the recoverable amount for the Company's CGUs exceeded the carrying amounts, respectively.

For the December 31, 2022 goodwill impairment assessment, the Company's goodwill was allocated to the North America, International and Solar and Energy Storage CGUs.

The recoverable amount has been determined based on the value in use of the CGUs using cash flow budgets approved by management. There is a degree of uncertainty with respect to the estimates of the recoverable amounts of the CGUs' assets due in part to the necessity of making key assumptions about the future economic environment that the Company will operate in. The value in use calculations use discounted cash flow projections, which require key assumptions, including future cash flows, projected growth, and pre-tax discount rates. The Company considers a range of reasonable possibilities to use for these key assumptions and decides upon the amounts to use that represent management's best estimates.

Key assumptions are as follows:

| | North America | International | Solar and Energy Storage |
|------------------------------|---------------|---------------|--------------------------|
| | (%) | (%) | (%) |
| Weighted average growth rate | 3 | 7 | nmf |
| Terminal growth rate | 2.0 | 2.0 | 3.0 |
| Pre-tax discount rate | 15 | 15 | 25 |

The weighted average growth rate for the Solar and Energy Storage CGU is not meaningful given the early stages of associated cash flows.

For all operating segments, reasonable possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value. If future events cause a significant change in the operating environment of these business units, resulting in key operating metrics differing from management's estimates, the Company could potentially experience future material impairment charges against goodwill.

12. Trade Payables and Accruals

| As at December 31, | Note | 2022 | 2021 |
|---|------|---------------|---------------|
| | | (\$) | (\$) |
| Trade payables | | 20,724 | 8,606 |
| Non-trade payables and accrued expenses | | 29,975 | 20,869 |
| Liability for automatic purchase plan (APP) commitment pursuant to NCIB | 13 | 3,000 | 2,000 |
| Trade payables and accruals | | 53,699 | 31,475 |

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 22.

13. Share Capital

Common shares

| Years Ended December 31, | 2022 | | 2021 | |
|---|----------------|-------------------|---------|------------|
| | (\$) | (#) | (\$) | (#) |
| Balance, beginning | 162,567 | 82,194,051 | 164,568 | 83,088,941 |
| Exercise of stock options | 3,530 | 303,553 | 146 | 16,089 |
| Shares repurchased and cancelled under NCIB | (1,929) | (970,650) | (1,804) | (910,979) |
| Reversal of prior period liability for APP commitment pursuant to NCIB | 343 | — | — | — |
| Liability for automatic share purchase plan commitment pursuant to NCIB | (375) | — | (343) | — |
| Balance, ending | 164,136 | 81,526,954 | 162,567 | 82,194,051 |

At December 31, 2022, 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

During 2022, the Company declared and paid quarterly dividends of \$29,473 (2021: \$16,567) or \$0.36 per common share (2021: \$0.20) as follows:

| | Dividend Record Date | Dividend Payment Date | Per Common Share | Total |
|---------------------------------|----------------------|-----------------------|------------------|---------------|
| | | | (\$) | (\$) |
| March | March 15 | March 31 | 0.08 | 6,570 |
| June | June 15 | June 30 | 0.08 | 6,580 |
| September | September 15 | September 29 | 0.08 | 6,558 |
| December | December 15 | December 30 | 0.12 | 9,765 |
| Total dividends declared | | | 0.36 | 29,473 |

Normal Course Issuer Bid (NCIB)

On December 15, 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 8,105,263 common shares, which represents approximately 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 year ended December 31, 2022, the Company repurchased 970,650 (2021 - 910,979) shares for cancellation for total cash consideration of \$13,786 (2021 - \$8,432). The total consideration is allocated between share capital and retained earnings.

At December 31, 2022, the Company entered into an automatic purchase plan (APP) with an independent broker. As such, as at December 31, 2022, the Company recorded a liability of \$3,000 (2021: \$2,000) for share repurchases that could take place during its internal blackout period. The total accrual was included in the Consolidated Balance Sheets under trade payables and accruals.

| As at December 31, | 2022 | 2021 |
|---|--------------|--------------|
| | (\$) | (\$) |
| Amounts charged to | | |
| Share capital | 375 | 343 |
| Retained earnings | 2,625 | 1,657 |
| Liability for automatic share purchase plan commitment | 3,000 | 2,000 |

14. 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:

| Years Ended December 31, | 2022 | | 2021 | |
|------------------------------------|------------------|---------------------------------|---------------|---------------------------------|
| | Share Options | Weighted Average Exercise Price | Share Options | Weighted Average Exercise Price |
| | (#) | (\$) | (#) | (\$) |
| Outstanding, beginning | 3,324,759 | 14.67 | 4,277,601 | 15.96 |
| Granted | 642,190 | 16.07 | 599,373 | 10.63 |
| Exercised | (303,553) | 9.95 | (16,089) | 7.33 |
| Expired or forfeited | (998,275) | 17.90 | (1,536,126) | 17.34 |
| Outstanding, ending | 2,665,121 | 14.31 | 3,324,759 | 14.67 |
| Exercisable, ending | 1,454,201 | 15.38 | 2,147,030 | 17.28 |
| Available for grant, ending | 3,041,766 | | 2,428,825 | |

The following table summarizes information about the stock options outstanding at December 31, 2022:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|--------------------------|---------------------|---|---------------------------------|----------------------|---------------------------------|
| | Options Outstanding | Weighted Average Remaining Contractual Life | Weighted Average Exercise Price | Exercisable (Vested) | Weighted Average Exercise Price |
| (\$) | (#) | (Years) | (\$) | (#) | (\$) |
| 7.33 - 8.98 | 396,188 | 2.92 | 7.33 | 214,571 | 7.33 |
| 8.99 - 12.91 | 907,384 | 3.17 | 11.48 | 520,271 | 12.11 |
| 12.92 - 20.22 | 1,361,549 | 2.82 | 18.22 | 719,359 | 20.14 |
| | 2,665,121 | 2.97 | 14.31 | 1,454,201 | 15.38 |

All stock options are valued using the Black-Scholes option pricing model. Weighted average assumptions for options granted in the year are as follows:

| Years Ended December 31, | 2022 | 2021 |
|---|-------|-------|
| Fair value of stock options (\$) | 4.85 | 3.06 |
| Forfeiture rate (%) | 11.28 | 11.34 |
| Risk-free interest rate (%) | 3.54 | 1.11 |
| Expected option life (years) | 3.28 | 3.26 |
| Expected volatility (%) | 46.55 | 44.93 |
| Expected annual dividends per share (%) | 2.99 | 1.90 |

Restricted share units plan

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 Company's outstanding RSUs can be summarized as follows:

| Years Ended December 31, | 2022 | 2021 |
|--------------------------|------------------|-----------|
| | (#) | (#) |
| RSUs, beginning | 1,144,628 | 1,111,190 |
| Granted | 394,855 | 535,113 |
| Vested and paid | (500,302) | (411,915) |
| Forfeited | (83,863) | (89,760) |
| RSUs, ending | 955,318 | 1,144,628 |

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 outstanding. 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:

| Years Ended December 31, | 2022 | 2021 |
|--------------------------|----------------|----------|
| | (#) | (#) |
| DSUs, beginning | 264,231 | 252,363 |
| Credited | 88,086 | 81,498 |
| Redeemed and paid | — | (69,630) |
| DSUs, ending | 352,317 | 264,231 |

Performance share units plan

The Company has a PSU plan for Executive Officers of the Company. PSUs are awarded annually and the number of PSUs awarded shall be equal to one PSU for each \$1.00 of grant value determined by the Board of Directors on such date. PSUs granted before 2021 vest equally over three years while PSUs awarded in and after 2021 vest at the end the third anniversary of the grant 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:

| Years Ended December 31, | 2022 | 2021 |
|--------------------------|------------------|-----------|
| | (#) | (#) |
| PSUs, beginning | 2,385,124 | 2,332,028 |
| Granted | 1,041,506 | 995,943 |
| Vested and paid | (407,056) | (942,847) |
| PSUs, ending | 3,019,574 | 2,385,124 |

Stock-based compensation expense and liability

For the year ended December 31, 2022, the Company recorded \$15,230 of stock-based compensation expense for its equity and cash settled plans (2021: \$11,523). As at December 31, 2022, the Company held \$6,028 in current stock-based compensation liability and \$7,869 in non-current stock-based compensation liability for its cash settled plans (as at December 31, 2021: \$2,647 and \$6,821 respectively).

15. 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:

| Year Ended December 31, 2022 | North America | International | Solar and Energy Storage | Total |
|--|----------------|---------------|--------------------------|----------------|
| | (\$) | (\$) | (\$) | (\$) |
| Revenue | | | | |
| Drilling Data | 148,516 | 31,914 | — | 180,430 |
| Mud Management and Safety | 81,823 | 11,489 | — | 93,312 |
| Communications | 16,703 | 2,656 | — | 19,359 |
| Drilling Intelligence | 22,271 | 1,644 | — | 23,915 |
| Analytics and Other | 5,256 | 5,519 | 7,207 | 17,982 |
| Total Revenue | 274,569 | 53,222 | 7,207 | 334,998 |
| Rental services and local administration | 85,624 | 26,742 | 10,067 | 122,433 |
| Depreciation and amortization | 17,943 | 2,879 | 20 | 20,842 |
| Segment gross profit (loss) | 171,002 | 23,601 | (2,880) | 191,723 |
| Research and development | | | | 37,573 |
| Corporate services | | | | 15,192 |
| Stock-based compensation | | | | 15,230 |
| Other income | | | | (15,403) |
| Income tax provision | | | | 33,405 |
| Net income | | | | 105,726 |
| Net income attributable to Pason | | | | 107,616 |
| Capital expenditures | 33,024 | 1,479 | — | 34,503 |
| As at December 31, 2022 | | | | |
| Property plant and equipment | 85,050 | 12,488 | 157 | 97,695 |
| Intangible assets | 4,213 | — | 2,081 | 6,294 |
| Goodwill | 7,729 | 2,600 | 22,995 | 33,324 |
| Segment assets | 371,197 | 63,513 | 35,218 | 469,928 |
| Segment liabilities | 69,560 | 6,534 | 12,872 | 88,966 |

| Year Ended December 31, 2021 | North America | International | Solar and Energy Storage | Total |
|--|----------------|---------------|--------------------------|----------------|
| | (\$) | (\$) | (\$) | (\$) |
| Revenue | | | | |
| Drilling Data | 88,907 | 21,885 | — | 110,792 |
| Mud Management and Safety | 47,631 | 7,767 | — | 55,398 |
| Communications | 10,434 | 1,504 | — | 11,938 |
| Drilling Intelligence | 13,734 | 1,072 | — | 14,806 |
| Analytics and Other | 5,384 | 4,261 | 4,107 | 13,752 |
| Total Revenue | 166,090 | 36,489 | 4,107 | 206,686 |
| Rental services and local administration | 61,959 | 19,432 | 6,277 | 87,668 |
| Depreciation and amortization | 22,569 | 3,100 | 20 | 25,689 |
| Segment gross profit (loss) | 81,562 | 13,957 | (2,190) | 93,329 |
| Research and development | | | | 32,220 |
| Corporate services | | | | 13,175 |
| Stock-based compensation | | | | 11,523 |
| Other income | | | | (7,252) |
| Income tax provision | | | | 11,738 |
| Net income | | | | 31,925 |
| Net income attributable to Pason | | | | 33,845 |
| Capital expenditures | 10,279 | 520 | 121 | 10,920 |
| As at December 31, 2021 | | | | |
| Property plant and equipment | 73,177 | 8,837 | 251 | 82,265 |
| Intangible assets | 5,602 | — | 2,844 | 8,446 |
| Goodwill | 8,512 | 2,600 | 21,507 | 32,619 |
| Segment assets | 300,936 | 51,716 | 27,289 | 379,941 |
| Segment liabilities | 61,533 | 4,953 | 5,674 | 72,160 |

16. Other Income

| Years Ended December 31, | 2022 | 2021 |
|----------------------------------|-----------------|----------------|
| | (\$) | (\$) |
| Put option revaluation (Note 17) | (5,815) | 381 |
| Net interest (income) expense | (4,937) | 1,526 |
| Net monetary gain | (1,849) | (496) |
| Foreign exchange gain | (2,024) | (2,011) |
| Other (income) expenses | (1,068) | 453 |
| Equity loss (Note 10) | 290 | 1,103 |
| Government wage assistance | — | (8,208) |
| Total other income | (15,403) | (7,252) |

Net interest expense (income) is primarily comprised of interest generated from the Company's invested cash and cash equivalents and short-term investments.

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

Other (income) expenses for the year ended December 31, 2022 is primarily comprised of proceeds received on a bankruptcy settlement of a former lessee.

The Company did not recognize any government wage assistance in 2022 as the program was terminated in October 2021. During the year ended December 31, 2021, Pason participated in the Canada Emergency Wage Subsidy ("CEWS") program.

17. 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.

The significant unobservable inputs to determine the fair value of the obligation under put option as at December 31, 2022, include the weighted average growth rate, terminal value, and pre-tax discount rate used in the Company's impairment assessment, and are further disclosed in Note 11. As at December 31, 2022, the put option valuation was affected by the increase in policy interest rates as it relates to the discount rate applied in the fair value assessment of the obligation under put option.

A summary of the obligation under put option is as follows:

| As at December 31, | 2022 | 2021 |
|------------------------|--------------|---------------|
| | (\$) | (\$) |
| Balance, beginning | 11,484 | 11,153 |
| Put option revaluation | (5,815) | 381 |
| Foreign exchange | 805 | (50) |
| Balance, ending | 6,474 | 11,484 |

18. Income Tax

The Company's income tax provision is comprised of the following:

| Years Ended December 31, | 2022 | 2021 |
|---------------------------------|---------------|---------------|
| | (\$) | (\$) |
| Current tax expense | 32,509 | 13,876 |
| Deferred tax expense (recovery) | 896 | (2,138) |
| Income tax provision | 33,405 | 11,738 |

The provision for income taxes, including deferred taxes, reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 23% for 2022 and 23% for 2021.

The Company's US subsidiaries (US Consolidated Group) were subject to federal and state statutory tax rates of approximately 25% for both 2022 and 2021.

A summary of these differences is as follows:

| Years Ended December 31, | 2022 | 2021 |
|--|---------------|---------------|
| | (\$) | (\$) |
| Income before income taxes | 139,131 | 43,663 |
| Expected income tax at statutory rate | 32,000 | 10,042 |
| Increase (decrease) resulting from: | | |
| Impact of not recognizing deferred tax assets on previous net operating losses | 9 | (152) |
| Non-deductible portion of stock-based compensation | 242 | 286 |
| Withholding and other taxes | 1,527 | 1,196 |
| Put option revaluation | (1,366) | 88 |
| Foreign and other tax rate differences | 1,062 | 864 |
| Prior years reassessments and adjustments | 113 | 15 |
| Equity pickup of non controlling entities | (376) | 254 |
| Hyperinflation | (347) | 296 |
| Non-taxable permanent differences of foreign exchange | (622) | (1,020) |
| Other items | 1,163 | (131) |
| Income tax provision | 33,405 | 11,738 |

Certain prior period amounts have been reclassified for consistency with the current year presentation.

Deferred tax assets and liabilities are comprised of the following:

| As at December 31, | 2022 | 2021 |
|-------------------------------|----------------|----------------|
| | (\$) | (\$) |
| Inter-company transactions | 6,408 | 4,157 |
| Share-based payments | 3,009 | 1,622 |
| Property, plant and equipment | (12,768) | (8,387) |
| Intangible assets | (4,142) | (4,316) |
| Other | 985 | 1,088 |
| Deferred tax liability | (6,508) | (5,836) |
| Deferred tax asset | — | — |
| Deferred tax liability | 6,508 | 5,836 |
| Deferred tax liability | 6,508 | 5,836 |

Inter-company transactions represent amounts owing to the Company's Canadian subsidiary from the Company's US consolidated group that are not deductible for US tax purposes until paid.

The movement in deferred tax assets and liabilities is as follows:

| As at | Inter-company transactions | Share-based payments | Other | Property, plant and equipment | Intangible assets | Total |
|------------------------------|----------------------------|----------------------|------------|-------------------------------|-------------------|----------------|
| | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| January 1, 2021 | 5,015 | 916 | 597 | (9,697) | (4,758) | (7,927) |
| Recognized in income | (829) | 707 | 499 | 1,317 | 444 | 2,138 |
| Foreign exchange differences | (29) | (1) | (8) | (7) | (2) | (47) |
| December 31, 2021 | 4,157 | 1,622 | 1,088 | (8,387) | (4,316) | (5,836) |
| Recognized in income | 2,612 | 1,387 | (28) | (5,008) | 141 | (896) |
| Foreign exchange differences | (361) | — | (75) | 627 | 33 | 224 |
| December 31, 2022 | 6,408 | 3,009 | 985 | (12,768) | (4,142) | (6,508) |

Foreign exchange differences are recognized through foreign currency translation adjustment in the Statement of Other Comprehensive Income.

All deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. In addition, deferred tax assets and liabilities have been offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Tax loss carry-forwards

The Company has net-operating losses in its International business segment for which no deferred tax asset has been recognized. Deferred tax assets are only recognized to the extent that it is probable that future taxable profits will be available to use unused tax losses.

Income Taxes Recoverable

During the first quarter of 2019, the Company paid withholding tax owing to the Canada Revenue Agency (CRA) of \$15,304 as part of a Bilateral Advanced Pricing Arrangement (APA) entered into with the CRA and the IRS. As such, the Company recorded an amount under Income Tax Recoverable, which represented a corresponding amount owing from the IRS. During the first quarter of 2022, the Company received final settlement on all principal amounts owing from the IRS in relation to the APA, in the amount of \$12.5 million.

19. 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:

| Years Ended December 31, | 2022 | 2021 |
|---|-------------------|-------------------|
| | (#) | (#) |
| Issued common shares outstanding, beginning | 82,194,051 | 83,088,941 |
| Effect of NCIB and exercised options | (233,462) | (296,764) |
| Weighted average number of common shares (basic) | 81,960,589 | 82,792,177 |

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:

| Years Ended December 31, | 2022 | 2021 |
|---|-------------------|-------------------|
| | (#) | (#) |
| Weighted average number of common shares (basic) | 81,960,589 | 82,792,177 |
| Effect of share options | 656,497 | 121,734 |
| Weighted average number of common shares (diluted) | 82,617,086 | 82,913,911 |

For the year ended December 31, 2022, 1,361,549 (2021 - 2,732,805) 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.

20. Financial Instruments

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

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data.

| Financial Assets and Liabilities at Fair Value | | | | |
|--|---------|---------|---------|---------|
| As at December 31, 2022 | Level 1 | Level 2 | Level 3 | Total |
| | (\$) | (\$) | (\$) | (\$) |
| Cash and cash equivalents | 132,057 | — | — | 132,057 |
| Short-term investments | 40,377 | — | — | 40,377 |

21. Credit Facility

The Company has an undrawn \$5,000 demand revolving credit facility. Interest is payable monthly on amounts drawn and is based on either the lender's prime rate, US base rate loans, Bankers' Acceptance rates, plus applicable margins.

The credit facility is used by the Company for working capital purposes, and accordingly, amounts drawn against it are recorded as bank indebtedness offset by any excess cash balances. The Company can repay, without penalty, advances under the facility. The facility is secured by a general security agreement on all of the assets of the Company, Pason Systems Corp. and Pason Systems USA Corp.

Throughout the year and as at December 31, 2022, no amounts were drawn on this facility.

The Company is subject to the following financial covenants:

- To maintain, on a consolidated basis, to be measured as at the end of each fiscal quarter, a ratio of debt to income before interest, taxes, depreciation and amortization, and impairment losses (EBITDA), calculated on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 1.50:1.
- To maintain an EBITDA for Pason Systems Corp. plus Pason Systems USA of not less than 80% of consolidated EBITDA.

Both covenants have been met throughout the reporting periods.

22. Financial Risk Management and Financial Instruments Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market and foreign exchange risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's approach to managing capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

(a) Trade and other receivables

Credit risk refers to the possibility that a customer will fail to meet its contractual obligations. Credit risk arises from the Company's accounts receivable balances, which are predominantly with customers who explore for and develop oil and natural gas reserves. The Company has a process in place which assesses the creditworthiness of its customers as well as monitoring the age and balances outstanding on an ongoing basis. Payment terms with customers are 30 days from invoice date; however, industry practice can extend these terms.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for doubtful accounts that represents its estimate of expected losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective doubtful accounts allowance is determined based on historical data of payment statistics for similar financial assets.

(b) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

| As at December 31, | 2022 | 2021 |
|---|--------|--------|
| | (\$) | (\$) |
| Trade and other receivables, net of allowance for doubtful accounts | 84,819 | 49,453 |

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

| As at December 31, | 2022 | 2021 |
|--------------------------|---------------|---------------|
| | (\$) | (\$) |
| North America | 65,050 | 34,061 |
| International | 18,966 | 14,083 |
| Solar and Energy Storage | 803 | 1,309 |
| | 84,819 | 49,453 |

During the year ended December 31, 2022 and 2021, the Company did not have any customers that comprised greater than 10% of total revenue.

(c) Allowance for doubtful accounts

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

| As at December 31, | 2022 | | 2021 | |
|----------------------|---------------|----------------|---------------|----------------|
| | Gross | Allowance | Gross | Allowance |
| | (\$) | (\$) | (\$) | (\$) |
| Current | 66,795 | — | 36,558 | — |
| 31–60 days | 11,822 | — | 9,169 | — |
| 61–90 days | 3,686 | — | 2,165 | — |
| Greater than 90 days | 4,177 | (1,661) | 3,111 | (1,550) |
| | 86,480 | (1,661) | 51,003 | (1,550) |

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

| As at December 31, | 2022 | 2021 |
|--|--------------|--------------|
| | (\$) | (\$) |
| Opening balance | 1,550 | 1,913 |
| Additional expected credit losses | 273 | 444 |
| Accounts collected, previously allowed for | (148) | 87 |
| Write-off of uncollectible accounts | — | (881) |
| Effects of exchange rate changes | (14) | (13) |
| Ending balance | 1,661 | 1,550 |

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due. This is achieved through strong cash and working capital management.

Cash flow forecasting is performed in the operating entities of the Company and aggregated in head office, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Company's capital allocation plans and compliance with internal balance sheet ratio targets.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

| | As at December 31, | | | | | | |
|---------------------------------------|--------------------|------------------------|------------------|--------------|--------------|--------------|-------------------|
| | Carrying amount | Contractual cash flows | 6 months or less | 6–12 months | 1–2 years | 3–5 years | More than 5 years |
| | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Non-derivative liabilities: | | | | | | | |
| Trade payables and accruals | 53,699 | 53,699 | 53,699 | — | — | — | — |
| Cash settled stock-based compensation | 13,897 | 13,897 | — | 6,028 | 2,178 | 5,691 | — |
| Obligations under put option | 6,474 | 6,474 | 6,474 | — | — | — | — |
| | 74,070 | 74,070 | 60,173 | 6,028 | 2,178 | 5,691 | — |

For cash settled stock-based compensation liabilities, the timing and amounts could differ significantly as a result of changes in the Company's share price and other performance metrics for the PSU plan as determined by the Board of Directors.

Market and foreign exchange risk

The Company did not enter into any hedging arrangements during the years ended December 31, 2022 and 2021.

(a) Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency risk as it relates to working capital balances denominated in foreign currencies and on the translation of its foreign operations into the Canadian dollar reporting currency. The Company also has intercompany loans that are considered part of the net investment in foreign subsidiaries and foreign exchange gains and losses are recorded within the foreign currency translation reserve.

A strengthening of the Canadian dollar against the US dollar by 1% at December 31, 2022, would have decreased net income and equity for the year by \$284 and \$7,026, respectively. A weakening of the Canadian dollar at December 31, 2022 would have had the equal but opposite effect.

(b) Interest rate risk

The Company is exposed to changes in interest rates with respect to its credit facility. Management believes this risk to be minor given the small amounts historically drawn on the facility.

(c) Fair values versus carrying amounts

The carrying values of financial assets and liabilities approximate their fair value due to the short-term nature of these items.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data.

| Financial Assets at Fair Value | | | | |
|--------------------------------------|---------|---------|---------|-------------------|
| | Level 1 | Level 2 | Level 3 | December 31, 2022 |
| | (\$) | (\$) | (\$) | (\$) |
| Cash and cash equivalents | 132,057 | — | — | 132,057 |
| Short-term investments | 40,377 | — | — | 40,377 |
| Total financial assets at fair value | 172,434 | — | — | 172,434 |

(d) Capital risk

The Company's strategy is to carry a flexible capital base to maintain investor, market, and creditor confidence and to sustain future business development opportunities. The Company manages its capital structure based on ongoing changes in economic conditions and related risk characteristics of its underlying assets.

The Company considers its capital structure to include equity and working capital. To maintain or adjust the capital structure, the Company may, from time to time, issue or repurchase shares, adjust its dividend, or adjust its capital spending to manage its cash.

The Company's share capital is not subject to external restrictions; however, the Company's committed revolving credit facility includes financial covenants, with which the Company is compliant.

There were no changes in the Company's approach to capital management during the year. The Company continues to maintain a conservative balance sheet with no interest bearing debt.

(e) Industry and seasonality risk

The most significant area of uncertainty for the Company is that the demand for the majority of its services is directly related to the strength of its customers' capital expenditure programs. The level of capital programs is strongly affected by the level and stability of commodity prices, which can be extremely difficult to predict and beyond the control of the Company and its customers. During periods of uncertainty, oil and gas companies tend to bias their capital decisions on conservative outlooks for commodity prices.

In addition to the cyclical nature of its business, the Company is also subject to risks and uncertainties associated with weather and seasonality. The Company continues to react to unfavourable weather conditions and spring breakup, which limit well access in Canada, through diversification into geographic regions such as the United States and internationally, where these factors are less likely to influence activity.

(f) Commodity risk

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

23. Operating Commitments

Non-cancellable operating lease rentals and committed services are payable as follows:

| As at December 31, | 2022 | 2021 |
|-----------------------------|--------|--------|
| | (\$) | (\$) |
| Less than one year | 9,378 | 11,906 |
| Between one and three years | 3,490 | 5,716 |
| More than three years | 1,616 | 1,863 |
| Operating Commitments | 14,484 | 19,485 |

Contractual obligations relate to minimum future payments required primarily for leases of certain facilities, along with commitments associated with ongoing repair costs of the company's equipment and technology. A portion of these future obligations have been recognized on the balance sheet as a leased asset and a corresponding liability, in accordance with IFRS 16, Leases.

24. Capital Commitments

At December 31, 2022, the Group has entered into contracts to purchase property, plant, and equipment for \$19,887 (2021: \$5,189), the majority of which relates to the purchase of rental assets in the normal course of business.

25. Related Party Transactions and Key Management Compensation

Transactions with key management personnel and directors

In addition to salaries and director fees, as applicable, the Group also provides compensation to executive officers and directors under the Group's long-term incentive plans (Note 14).

Executive management personnel and director compensation is comprised of:

| Years Ended December 31, | 2022 | 2021 |
|--------------------------|--------|-------|
| | (\$) | (\$) |
| Compensation | 3,922 | 3,477 |
| Share-based payments | 6,132 | 3,886 |
| | 10,054 | 7,363 |

The majority of these costs are included either in corporate services or stock-based compensation expense in the Consolidated Statements of Operations.

Key management and directors of the Company control less than 1% of the voting shares of the Company. No balances are owing from any employees or directors as at December 31, 2022 or 2021.

26. Contingencies

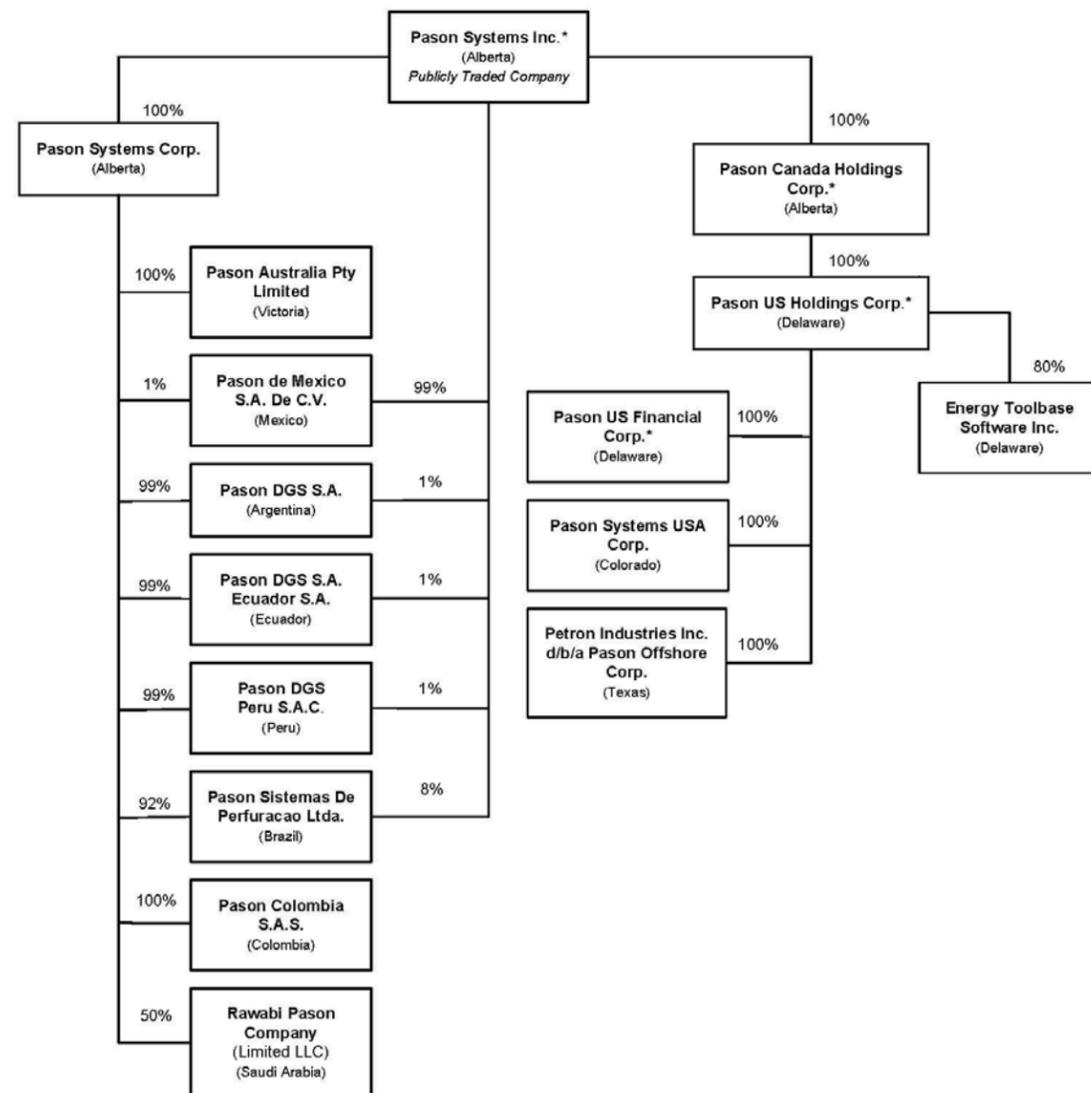
The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in Pason's favour, the Company does not currently believe that the outcome of any pending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

27. Events After the Reporting Period

On March 2, 2023, the Company declared a quarterly dividend of \$0.12 per share on the Company's common shares. The dividend will be paid on March 31, 2023 to shareholders of record at the close of business on March 15, 2023.

28. Organizational Structure

PASON SYSTEMS INC. - GLOBAL ORGANIZATIONAL CHART
(Majority owned entities and Joint Venture)



*Non-operating entity

Historical Review

Selected Financial Data

Years Ended December 31,

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 | 2014 | 2013 |
|---|---------|---------|---------|---------|---------|---------|----------|---------|---------|---------|
| (CDN 000s, except per share data) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Operating Results | | | | | | | | | | |
| Revenue | 334,998 | 206,686 | 156,636 | 295,642 | 306,393 | 245,643 | 160,446 | 285,148 | 499,272 | 403,088 |
| Expenses | | | | | | | | | | |
| Rental services | 109,879 | 76,662 | 66,695 | 105,496 | 104,398 | 95,912 | 80,115 | 120,445 | 153,151 | 134,874 |
| Local administration | 12,554 | 11,006 | 11,121 | 13,106 | 14,496 | 11,147 | 9,720 | 16,470 | 18,753 | 18,641 |
| Corporate services | 15,192 | 13,175 | 11,275 | 15,653 | 15,905 | 15,141 | 16,758 | 20,040 | 22,243 | 17,373 |
| Research and development | 37,573 | 32,220 | 26,977 | 30,439 | 26,997 | 25,219 | 22,848 | 31,733 | 35,427 | 27,252 |
| Stock-based compensation | 15,230 | 11,523 | 4,840 | 10,840 | 12,313 | 11,762 | 6,195 | 7,398 | 19,471 | 32,511 |
| Depreciation and amortization | 20,842 | 25,689 | 34,417 | 40,830 | 34,588 | 45,681 | 55,384 | 81,381 | 69,201 | 62,171 |
| Adjusted EBITDA ⁽¹⁾⁽²⁾ | 159,510 | 72,520 | 39,540 | 129,644 | 146,004 | 98,224 | 31,005 | 96,460 | 251,623 | 136,647 |
| As a % of revenue | 47.6 | 35.1 | 25.2 | 43.9 | 48.1 | 40.0 | 19.3 | 33.8 | 50.4 | 33.9 |
| Funds flow from operations | 134,885 | 67,728 | 40,560 | 111,718 | 128,544 | 87,121 | 26,815 | 94,263 | 224,204 | 134,930 |
| Per share – basic | 1.65 | 0.82 | 0.48 | 1.31 | 1.51 | 1.03 | 0.32 | 1.13 | 2.71 | 1.64 |
| Net income (loss) attributable to Pason | 107,616 | 33,845 | 6,568 | 54,112 | 62,944 | 25,190 | (41,792) | (7,917) | 114,637 | 25,458 |
| Per share – basic | 1.31 | 0.41 | 0.08 | 0.63 | 0.74 | 0.30 | (0.49) | (0.09) | 1.39 | 0.31 |
| Net capital expenditures | 33,941 | 9,950 | 4,719 | 22,593 | 21,655 | 19,966 | 13,711 | 53,454 | 114,740 | 71,071 |
| Financial Position | | | | | | | | | | |
| Total assets | 469,928 | 379,941 | 361,416 | 437,841 | 461,716 | 398,446 | 435,251 | 529,625 | 570,066 | 445,876 |
| Working capital | 213,899 | 184,083 | 167,366 | 183,769 | 256,153 | 193,692 | 198,419 | 244,972 | 206,571 | 127,933 |
| Total equity | 380,962 | 307,781 | 305,283 | 346,454 | 386,077 | 347,486 | 386,651 | 489,448 | 483,523 | 366,469 |
| Common Share Data | | | | | | | | | | |
| Common shares outstanding (#) | | | | | | | | | | |
| At December 31 | 81,527 | 82,194 | 83,089 | 84,538 | 85,783 | 85,158 | 84,628 | 84,063 | 83,363 | 82,158 |
| Weighted average | 81,961 | 82,792 | 83,956 | 85,409 | 85,357 | 84,821 | 84,365 | 83,675 | 82,647 | 82,098 |
| Dividends (\$) | 0.36 | 0.20 | 0.48 | 0.74 | 0.70 | 0.68 | 0.68 | 0.68 | 0.64 | 0.53 |

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

(2) Prior to 2015, Adjusted EBITDA was defined as EBITDA.

Corporate Information

Directors

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

T. Jay Collins⁽³⁾⁽⁴⁾
Director
Oceaneering 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

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

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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.



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