



## MANAGEMENT'S DISCUSSION AND ANALYSIS

For the three months ended March 31, 2024

**pason**

## Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") has been prepared by management as of May 2, 2024, and is a review of the financial condition and results of operations of Pason Systems Inc. ("Pason" or the "Company") based on International Financial Reporting Standards ("IFRS") and should be read in conjunction with the unaudited Condensed Consolidated Interim Financial Statements and related notes for the three months ended March 31, 2024, the Consolidated Financial Statements for the twelve months ended December 31, 2023 and 2022, and Pason's Annual Information Form dated March 13, 2024.

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.

Effective January 1, 2024, Pason purchased all remaining and outstanding shares of Intelligent Wellhead Systems Inc. ("IWS"). Through IWS, Pason also provides engineered controls, data acquisition, and software, to automate workflows and processes for oil and gas well completions operations, improving wellsite safety and efficiency.

Through 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 13, 2024.

# Highlights

	Three Months Ended March 31,		
	2024	2023	Change
(CDN 000s, except per share data)	(\$)	(\$)	(%)
Revenue	104,759	98,229	7
EBITDA <sup>(1)</sup>	91,510	51,755	77
Adjusted EBITDA <sup>(1)</sup>	42,425	52,410	(19)
As a % of revenue	40.5	53.4	(1,290) bps
Funds flow from operations	34,846	43,673	(20)
Per share – basic	0.44	0.54	(18)
Per share – diluted	0.44	0.53	(18)
Cash from operating activities	31,014	46,265	(33)
Net capital expenditures <sup>(2)</sup>	19,281	11,555	67
Free cash flow <sup>(1)</sup>	11,733	34,710	(66)
Cash dividends declared (per share)	0.13	0.12	8
Net income	69,123	35,454	95
Net income attributable to Pason	69,529	35,842	94
Per share – basic	0.87	0.44	98
Per share – diluted	0.87	0.44	98

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

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

As at	March 31, 2024	December 31, 2023	Change
(CDN 000s)	(\$)	(\$)	(%)
Cash and cash equivalents	70,050	171,773	(59)
Short-term investments	4,187	—	nmf
Total Cash <sup>(1)</sup>	74,237	171,773	(57)
Working capital	119,641	212,561	(44)
Total interest bearing debt	—	—	—
Shares outstanding end of period (#)	79,493,854	79,685,025	nmf

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

Pason generated \$104.8 million in revenue in the first quarter of 2024, representing a 7% increase from the \$98.2 million generated in the comparative period of 2023 and a result that continues to outpace the changes in underlying North American industry drilling activity. The three months ended March 31, 2024 represents the first quarter of consolidation for IWS' financial results within its own Completions segment, representing \$12.8 million of revenue contribution. Against a challenging backdrop where industry drilling activity levels in North America decreased by 15% year over year, Revenue per Industry Day grew by 8% to a new quarterly record of \$1,000. As a result, North American Drilling revenue generated in the first quarter of 2024 was \$73.6 million, only 8% lower than the \$79.8 million generated in the same period in 2023. The Company's International Drilling segment generated \$14.6 million in revenue in the first quarter of 2024, compared to \$15.6 million in the first quarter of 2023, with a weaker Argentinian Peso driving the 6% decline year over year.

Pason generated \$42.4 million in Adjusted EBITDA, or 40.5% of revenue in the first quarter of 2024, compared to \$52.4 million or 53.4% of revenue in the fourth quarter of 2023. A comparison of Adjusted EBITDA margin year over year reflects the 15% reduction in North American drilling activity on a mostly fixed cost base, along with the inclusion of IWS financial results at lower margins, reflecting the Completions segment's investments made for its current stage of growth.

The Company recorded net income attributable to Pason of \$69.5 million (\$0.87 per share) in the first quarter of 2024, compared to net income attributable to Pason of \$35.8 million (\$0.44 per share) recorded

in the corresponding period in 2023. The year over year increase is primarily driven by a \$50.8 million non-cash accounting gain realized in the first quarter on the revaluation of the Company's previously held equity investment in IWS following the acquisition of all remaining outstanding common shares not held by Pason. Partially offsetting this gain, Pason's depreciation and amortization expense increased from \$6.6 million in the first quarter of 2023 to \$11.7 million in the first quarter of 2024 as a result of increased capital expenditures in recent quarters, along with the depreciation and amortization expense recognized on IWS' recently acquired fixed and intangible assets.

Pason's balance sheet remains strong, with no interest bearing debt, and \$74.2 million in Total Cash as at March 31, 2024, compared to \$171.8 million as at December 31, 2023. The decrease in the period is the result of funding the IWS Acquisition with a total of \$88.2 million in cash and the repayment of \$13.3 million in interest bearing debt assumed through the acquisition. Pason generated cash from operating activities of \$31.0 million in the first quarter of 2024, compared to \$46.3 million in the first quarter of 2023. Similar to Adjusted EBITDA, cash from operating activities in the first quarter of 2024 reflects the earlier stage of growth in IWS' financial results, along with the 15% decline in North American industry drilling activity year over year.

Pason invested \$19.3 million in net capital expenditures during the three months ended March 31, 2024, an increase from \$11.6 million in the first quarter of 2023 as the Company executes on its 2024 capital budget. Net capital expenditures in the first quarter of 2024 includes \$4.8 million from 2023 capital expenditure plans that were delivered in early 2024. Further, net capital expenditures in the current quarter includes investments associated with supporting the continued growth of IWS' pressure automation technology offering, for which there would be no associated capital expenditures during the 2023 comparative period given the effective date of the IWS Acquisition was January 1, 2024. Finally, net capital expenditures in Q1 2024 also includes investments associated with the ongoing refresh of Pason's drilling related technology platform and growth related investments in the new Pason Mud Analyzer. Resulting Free Cash Flow in the first quarter of 2024 was \$11.7 million, compared to \$34.7 million in the same period in 2023.

In the first quarter of 2024, Pason returned \$13.6 million to shareholders through the Company's quarterly dividend of \$10.3 million and \$3.3 million in share repurchases.

## President's Message

Pason generated strong financial and operating results in the first quarter of 2024. Consolidated revenue in the first quarter totaled \$104.8 million, up 7% from the first quarter of 2023, while North American land drilling activity decreased 15% over the same period.

While Pason would benefit from growing North American land drilling activity, our ability to deliver meaningful growth and strong financial results is not dependent on higher activity levels. We have made important progress in reducing our reliance on North American land drilling activity through three important initiatives: (1) outpacing underlying industry activity through growth in North American Revenue per Industry Day; (2) growing international revenue; and (3) generating revenue from high growth markets including technology offerings in the completions market and solar and energy storage. Our new revenue segmentation, beginning with first quarter of 2024, now reflects our four operating segments - North American Drilling, International Drilling, Completions, and Solar and Energy Storage – and will allow investors to assess our progress in each of these areas.

Revenue per Industry Day in North America in the first quarter was \$1,000, marking a significant milestone in Pason's history and up 8% from the first quarter of 2023, as a result of strong product adoption and improved price realization for Pason's products and services. North American Revenue per Industry Day has increased at a compound annual growth rate of 8.4% over the 5-year period since the first quarter of 2019. We have focused a significant proportion of our investments and efforts on products and services that reinforce the reliability of our systems and the quality of the data that we provide.

We anticipate continued growth in our North American Drilling segment, even in the midst of relatively flat industry activity in the near term, with increased product adoption being driven by customers' growing

usage of data-driven automation and analytics technologies. We have experienced a very positive market response as we have begun rolling out an innovative new drilling mud analyzer to provide continuous, real-time readings of critical drilling mud parameters. We are seeing increased momentum in our automation products, including the Drilling Advisory System and Toolface Control.

Revenue from Pason's other reporting segments contributed 30% of consolidated revenue in the quarter, with International Drilling revenue representing 14% of quarterly revenue, Completions delivering 12% of revenue and Solar and Energy Storage providing 4% of revenue.

Our International Drilling segment continues to post strong results, with revenue of \$14.6 million in the first quarter. Growing adoption of more advanced technology offerings is expected to deliver further gains in our international markets.

At the start of the first quarter, Pason completed the acquisition of the remainder of Intelligent Wellhead Systems ("IWS"). This marked the largest acquisition in Pason's history and is a meaningful opportunity for Pason to deliver material revenue outside of oil and gas drilling. IWS has demonstrated impressive capabilities in the acquisition of new customers, retention of existing customers and expansion of its product and service offering. In the first quarter of 2024, IWS averaged 28 IWS Active Jobs and generated Revenue per IWS Day of \$5,026, allowing IWS to deliver the highest quarterly revenue in its history. Buoyed by its leading technology position in the industry, we expect IWS to see strong revenue growth going forward as a result of increasing adoption of automation technologies in the completions industry.

We are focused on establishing a compelling data aggregation solution in the completions space, bringing together the unique experience and expertise of both Pason and IWS. As customers continue to pursue automation and analytics efforts, including the establishment of remote operating centers, access to consistent, high-quality data from disparate sources is increasingly important. The challenges around handling complex data management requirements in remote operating environments are significant. Pason's experience over more than four decades in solving similar challenges in the oil and gas drilling market provides a natural advantage to making meaningful and rapid advancements in this increasingly important technology space.

Energy Toolbase ("ETB") grew its revenue in the first quarter of 2024 by 31% from the same period in 2023, to \$3.7 million, driven primarily by increased sales of control systems and associated revenue. Quarterly revenue in the Solar and Energy Storage segment will fluctuate significantly based on the project size and the timing of deliveries. We are expanding the functionality of our economic modeling tool to address the unique requirements of additional markets, and our pipeline of control systems opportunities has seen sizeable growth as regulatory changes provide additional incentives for solar project developers to incorporate energy storage in their proposals.

Adjusted EBITDA in the first quarter of \$42.4 million was down 19%, reflecting the 15% decrease in North American Drilling revenue as well as the lower margin profile of IWS revenue at its current stage of maturity and growth. A significant portion of our operating costs are fixed in nature and, as such, margins will fluctuate based on industry activity and IWS' revenue growth. We will make the necessary investments to support the pace of growth of IWS' automation revenues and accelerate our development efforts to deliver a compelling data aggregation solution for the completions industry.

Capital expenditures totaled \$19.3 million in the first quarter of 2024, reflecting the additional investments we are making in IWS, and free cash flow in the quarter totaled \$11.7 million. We continue to anticipate full year capital expenditures of between \$75 to \$80 million.

Net income attributable to Pason totaled \$69.5 million in the first quarter, which was significantly impacted by a \$50.8 million gain related to a non-cash remeasurement to fair value of Pason's previously held equity investment in IWS.

In the first quarter of 2024, we returned \$10.3 million to shareholders through our regular quarterly dividend and \$3.3 million in the form of share repurchases. Since the first quarter of 2019, Pason has reduced its share count by 7.4% while also completing the acquisitions of ETB in September 2019 and

IWS in January 2024 with no dilution to shareholders. We maintain flexibility in our approach to shareholder returns by evaluating share repurchases in the context of attractive organic investments to generate additional free cash flow. As at March 31, 2024, Pason had positive working capital of \$119.6 million, including \$74.2 million in Total Cash.

The US active land rig count has remained in a range between 595 and 695 rigs over the past 6 months and we anticipate that North American land activity will remain at current levels before slowly moving higher later in 2024 and into 2025. Our strong competitive position and compelling product and service offering in drilling data management, coupled with our leading positions in the completions and solar and energy storage markets, positions us well to post continued strong financial and operational results in the near term and generate meaningful growth over the medium to longer term.

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

Jon Faber  
President and Chief Executive Officer  
May 2, 2024

# Discussion of Operations

## Overall Performance

	Three Months Ended March 31,		
	2024	2023	Change
(000s)	(\$)	(\$)	(%)
<b>Revenue</b>	<b>104,759</b>	98,229	7
Operating expenses <sup>(2)</sup>	<b>39,489</b>	30,605	29
Depreciation and amortization	<b>11,730</b>	6,616	77
	<b>51,219</b>	37,221	38
<b>Gross profit <sup>(2)</sup></b>	<b>53,540</b>	61,008	(12)
<b>Other expenses</b>			
Research and development	<b>13,108</b>	10,172	29
Selling, general, and administrative <sup>(2)</sup>	<b>9,954</b>	6,168	61
Stock-based compensation expense (recovery)	<b>3,011</b>	(82)	nmf
Other (income) expense	<b>(50,713)</b>	(3,078)	nmf
	<b>(24,640)</b>	13,180	(287)
<b>Income before income taxes</b>	<b>78,180</b>	47,828	63
Income tax provision	<b>9,057</b>	12,374	(27)
<b>Net income</b>	<b>69,123</b>	35,454	95
<b>Net income (loss) attributable to:</b>			
Shareholders of Pason	<b>69,529</b>	35,842	94
Non-controlling interest	<b>(406)</b>	(388)	5
<b>Net income</b>	<b>69,123</b>	35,454	95
<b>Income per share</b>			
Basic	<b>0.87</b>	0.44	98
Diluted	<b>0.87</b>	0.44	98
<b>Adjusted EBITDA <sup>(1)</sup></b>	<b>42,425</b>	52,410	(19)

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

(2) Prior period figures have been restated to conform with current period presentation of financial information, as detailed under the heading Change in Presentation of Statements of Operations of this MD&A

## IWS Acquisition

On December 5, 2023, Pason announced the exercise of a call option to purchase the remaining and outstanding shares of Intelligent Wellhead Systems (“IWS”) not held by Pason for a total cash outflow of \$88.2 million (the “IWS Acquisition”), which was comprised of \$77.8 million paid in cash at close, and \$10.5 million paid subsequent to closing for the settlement of outstanding stock options held by IWS employees. The IWS Acquisition closed on January 1, 2024 and resulted in Pason obtaining control over IWS rendering it a wholly-owned, consolidated subsidiary. The Company previously accounted for its investment in IWS as an equity investment.

The Company's initial investment in IWS was made in 2019, and consisted of total consideration of \$25.0 million of cash consideration which was funded throughout 2019 to 2022. Further, in 2021 and 2022, Pason increased its non-controlling investment in IWS and acquired a portion of outstanding common shares for total cash consideration of \$15.0 million. 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, which were subsequently funded in 2023. The Company's initial investment in 2019 also included a call option agreement, which gave the Company the option to purchase the shares held by other shareholders, exercisable at the Company's discretion.

IWS is an oil and gas technology and service company that provides engineered controls, data acquisition and software to automate workflows and processes at live well completions operations of the oil and gas industry. IWS has over 150 employees, with offices in Calgary, Alberta, Houston, Texas, Midland, Texas and Denver, Colorado. For the twelve months ended December 31, 2023, IWS generated \$45.8 million in annual revenues, a 97% increase from the \$23.3 million in revenue generated in 2022.

Starting in the first quarter of 2024, IWS' financial results will be recorded within a newly formed Completions operating segment for the Company. The following table summarizes the consideration transferred to acquire IWS and the amounts of identified assets acquired and liabilities assumed at the acquisition date. Note the values herein are preliminary while management completes its assessment of the acquired assets and liabilities of IWS. The Company has 365 days following the close of the IWS Acquisition to finalize the purchase price allocation presented below:

<b>Allocation of Total Consideration</b>	
(CDN 000s)	(\$)
Current assets	15,491
Property, plant, and equipment	35,669
Intangible assets	52,495
Deferred tax assets	4,200
Right of use asset	3,482
Goodwill	122,080
<b>Total assets</b>	<b>233,417</b>
Current liabilities	(8,360)
Lease liability	(3,482)
Stock-based compensation liability	(10,454)
Preferred share obligation due to Pason	(25,244)
Deferred tax liability on intangibles acquired	(12,336)
Other long-term debt	(13,179)
<b>Total liabilities</b>	<b>(73,055)</b>
<b>Net assets acquired</b>	<b>160,362</b>
<b>Fair value of Total Consideration</b>	
(CDN 000s)	(\$)
Cash paid at closing	77,787
Fair value of previously held equity interest	82,575
<b>Fair value of Total Consideration</b>	<b>160,362</b>

As a result of the Company obtaining control over IWS effective January 1, 2024, the Company's previously held interest in IWS was remeasured to fair value, resulting in a gain of \$50.8 million as a result of the derecognition of the \$31.8 million carrying value of Pason's previously held equity investment associated with IWS. This gain has been recognized in the line item "Other income" on the Condensed Consolidated Interim Statements of Operations, and is also added back as a non-cash adjustment to the Company's Cash Flow from Operations for the three months ended March 31, 2024.

The fair value of the previously held equity interest of \$82.6 million in IWS was estimated by applying the per share exercise price of Pason's call option to acquire all remaining outstanding common shares of IWS to Pason's existing common share investment. The goodwill recognized as part of the IWS Transaction is attributable to the workforce of the acquired business and the growth opportunities associated with the Company's acquisition of IWS. The goodwill is not deductible for tax purposes, and all of the \$122.1 million of goodwill was assigned to Pason's new Completions segment. In connection with the IWS Acquisition, Pason incurred \$0.4 million in transaction costs, of which \$0.03 was incurred in the first quarter of 2024. These expenses are recorded within Other income on the Condensed Consolidated Interim Statements of Operations.

## Change in Presentation of Statements of Operations

Beginning in the first quarter of 2024, Pason has adjusted its Condensed Consolidated Interim Statements of Operations presentation to include operating expense and selling, general and administrative expense categories. With recent changes in the business, particularly the IWS Acquisition on January 1, 2024, management believes this change more accurately reflects costs incurred of each nature, and will result in the Company's financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. In accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, the Company's prior period Statements of Operations have been adjusted to reflect this change in presentation.

The effects on Pason's prior year Statement of Operations for the three months ended March 31, 2023 are as follows:

- Previously reported rental services of \$29.3 million for the three months ended March 31, 2023 now includes \$1.4 million of expenses deemed to be operating in nature and are now referred to as Operating expenses,
- Previously reported corporate services of \$4.1 million and local administration of \$3.4 million for the three months ended March 31, 2023, less \$1.4 in expenses deemed to be operating in nature, are now combined and referred to as Selling, general, and administrative expenses.

In addition, beginning in the first quarter of 2024, the Company is no longer reporting a disaggregation of revenue by product category, and now presents an aggregated revenue amount for each business unit. This new presentation aligns more closely with management's assessment of business unit performance and how the Company's customer contracts are structured.

## Change in Operating Segments

Starting in the first quarter of 2024 and in connection with the IWS Acquisition, the Company now reports on four strategic business units: North American Drilling (Canada and the United States), International Drilling (Latin America, including Mexico, Offshore, the Eastern Hemisphere, and the Middle East) and Completions business units, all of which offer technology services to the oil and gas industry, and the Solar and Energy Storage business unit, which provides technology services to solar and energy storage developers.

# North American Drilling

	Three Months Ended March 31,		
	2024	2023	Change
(000s)	(\$)	(\$)	(%)
<b>Revenue</b>	<b>73,604</b>	<b>79,775</b>	<b>(8)</b>
Operating expenses <sup>(1)</sup>	<b>22,910</b>	21,318	7
Depreciation and amortization	<b>6,320</b>	5,794	9
<b>Segment gross profit <sup>(1)</sup></b>	<b>44,374</b>	<b>52,663</b>	<b>(16)</b>

  

	Three Months Ended March 31,		
	2024	2023	Change
	(\$)	(\$)	(%)
Revenue per Industry Day <sup>(2)</sup>	<b>1,000</b>	922	8

(1) Prior period figures have been restated to conform with current period presentation of financial information, as detailed under the heading Change in Presentation of Statements of Operations of this MD&A

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

Pason's North American Drilling operations generated \$73.6 million in revenue in the first quarter of 2024 despite challenging industry conditions in the United States land drilling market. Industry activity in North America was 15% lower in the first quarter of 2024 compared to the first quarter of 2023, primarily driven by a reduction in US rig counts. However, during that time, Pason grew Revenue per Industry Day by 8% and generated a new quarterly record of \$1,000 in the first quarter of 2024. Revenue per Industry Day in the current quarter continues to represent strong product adoption and improved pricing for the Company's products and technologies. As a result, improvements in Revenue per Industry Day partially offset the decline in industry activity, and revenue only fell by 8% year over year, from \$79.8 million in the first quarter of 2023 to \$73.6 million in the first quarter of 2024.

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

Operating expenses for the North American drilling segment are primarily comprised of the Company's field service and support presence, supplies consumed in the field, repairs and maintenance on Pason's hardware platform, and bandwidth costs associated with connectivity and data capture at drilling rigs. Operating expenses for the segment increased by 7% in the first quarter of 2024 over the 2023 comparative period. While the business unit's cost base remains mostly fixed in nature, the first quarter of 2023 saw lower than normal levels on repairs and maintenance on the Company's hardware platform, the timing of which can fluctuate depending on timing of deliveries on repair equipment. Further, operating expenses in the first quarter of 2024 reflects the effects of the Company's annual compensation increase for its field service organization effective January 1, 2024.

With increased capital expenditures in recent quarters, depreciation and amortization increased from \$5.8 million in the first quarter of 2023 to \$6.3 million in the first quarter of 2024.

Resulting segment gross profit was \$44.4 million during the first quarter of 2024 compared to \$52.7 million in the comparative period of 2023 as a result of the aforementioned factors.

## International Drilling

	Three Months Ended March 31,		
	2024	2023	Change
(000s)	(\$)	(\$)	(%)
<b>Revenue</b>	<b>14,632</b>	15,590	(6)
Operating expenses <sup>(1)</sup>	5,876	6,362	(8)
Depreciation and amortization	963	817	18
<b>Segment gross profit <sup>(1)</sup></b>	<b>7,793</b>	8,411	(7)

(1) Prior period figures have been restated to conform with current period presentation of financial information, as detailed under the heading Change in Presentation of Statements of Operations of this MD&A

The International business unit generated \$14.6 million of revenue in the first quarter of 2024, a 6% decrease from the comparative period of 2023. While activity levels in the international end markets the Company serves remain stable and the Company's competitive position continues to be strong, Argentinian sourced revenue in the first quarter of 2024 was negatively impacted by the devaluation of the Argentinian Peso seen in December of 2023. Similarly, operating expenses fell by 8% from Q1 2023 to Q1 2024, primarily driven by Argentinian Peso sourced expenses which were translated to the Company's Canadian dollar reporting currency at a lower value.

Depreciation and amortization increased from \$0.8 million in the first quarter of 2023 to \$1.0 million in the first quarter of 2024 as a result of increased capital expenditures in recent quarters.

For the three months ended March 31, 2024, resulting segment gross profit was \$7.8 million compared to \$8.4 million in the 2023 comparative period, as a result of the factors mentioned above.

## Completions

	Three Months Ended March 31,		
	2024	2023 <sup>(1)</sup>	Change
(000s)	(\$)	(\$)	(%)
<b>Revenue</b>	<b>12,785</b>	—	nmf
Operating expenses	7,170	—	nmf
Depreciation and amortization	4,442	—	nmf
<b>Segment gross profit</b>	<b>1,173</b>	—	nmf

	Three Months Ended March 31,		
	2024	2023 <sup>(1)</sup>	Change
	(\$)	(\$)	(%)
IWS Active Jobs <sup>(2)</sup>	28	—	nmf
Revenue per IWS Day <sup>(2)</sup>	5,026	—	nmf

(1) The Completions segment includes results generated by IWS, which were not part of the Company's consolidated reporting group until January 1, 2024 following the IWS Acquisition

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

As further outlined under the heading Supplemental Financial Measures of this MD&A, Pason has included the following operating metrics for its Completions business unit:

- **IWS Active Jobs:** represents the average number of jobs per day that IWS is generating revenue on through the rental of its technology offering to customers during the reporting period. This metric provides a key measure of IWS' market penetration.
- **Revenue per IWS Day:** defined as the total revenue generated by the Completions segment over all IWS active days during the reporting period. IWS active days are calculated by using IWS

Active Jobs in the reporting period. This metric provides a key measure of IWS' ability to evaluate and manage product adoption and pricing.

In the first quarter of 2024, the Company's Completions business unit generated \$12.8 million of revenue. This revenue is primarily comprised of the rental of IWS' technologies which aid customers with pressure control automation efforts during completions operations. During the first quarter of 2024, the business unit averaged 28 IWS Active Jobs and generated Revenue per IWS day of \$5,026.

Operating expenses for the Completions segment are primarily comprised of the Company's field service and support presence, supplies consumed in the field, repairs and maintenance on IWS' hardware platform, and bandwidth costs associated with connectivity and data capture in completions operations. In the first quarter of 2024, IWS incurred operating expenses of \$7.2 million to support the rapid growth seen in the segment.

Depreciation and amortization for the Completions segment was \$4.4 million in the first quarter of 2024 and represents depreciation expense on IWS' growing hardware platform, along with \$2.2 million in amortization expense associated with technology acquired through the IWS Acquisition.

For the three months ended March 31, 2024, the resulting segment gross profit was \$1.2 million.

## Solar and Energy Storage

	Three Months Ended March 31,		
	2024	2023	Change
(000s)	(\$)	(\$)	(%)
<b>Revenue</b>	<b>3,738</b>	2,864	31
Operating expenses	3,533	2,925	21
Depreciation and amortization	5	5	—
<b>Segment gross profit (loss)</b>	<b>200</b>	(66)	nmf

The Solar and Energy Storage business unit generated \$3.7 million in revenue during the first quarter of 2024, an increase of 31% from the comparative period in 2024 driven primarily by increased control system sales. Quarterly revenue for the Solar and Energy Storage business unit will fluctuate with the timing of control system project deliveries.

Operating expenses were \$3.5 million during the first quarter of 2024, a 21% increase from \$2.9 million of the comparable period. The increase is primarily due to hardware costs associated with sold control systems in the current quarter. Segment gross profit was \$0.2 million for the first quarter of 2024 compared to a segment gross loss of \$0.1 million in the comparable period in 2023.

The Solar and Energy Storage business unit incurred the following research and development costs, which are included in research and development in the Company's Condensed Consolidated Interim 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 March 31,		
	2024	2023	Change
(000s)	(\$)	(\$)	(%)
Research and development	1,288	1,223	5

## Research and Development

	Three Months Ended March 31,		
	2024	2023	Change
(000s)	(\$)	(\$)	(%)
Research and development expenses	13,108	10,172	29

The Company's research and development costs include expenditures on research and development activities, as well as ongoing support for IT and technology platforms. First quarter research and development increased by \$2.9 million or 29% from the comparative 2023 period. The increase year over year is primarily attributable to the IWS Acquisition and the resulting incorporation of research and development costs associated with technology development for the Completions segment.

Pason continues to assess investments in research and development in the context of defending its leading competitive position in servicing the global drilling industry, growing its market presence within both the completions and the solar and energy storage end markets, and future revenue growth opportunities within each segment.

## Selling, General and Administrative Expenses

	Three Months Ended March 31,		
	2024	2023	Change
(000s)	(\$)	(\$)	(%)
Selling, general, and administrative <sup>(1)</sup>	9,954	6,168	61

(1) Prior period figures have been restated to conform with current period presentation of financial information, as detailed under the heading Change in Presentation of Statements of Operations of this MD&A

First quarter selling, general and administrative expenses increased by \$3.8 million or 61% from the comparative 2023 period. The year over year increase is primarily attributable to the IWS Acquisition and the resulting incorporation of additional selling, general and administrative expenses associated with the Company's efforts in completions operations.

## Stock-Based Compensation

	Three Months Ended March 31,		
	2024	2023	Change
(000s)	(\$)	(\$)	(%)
Stock-based compensation expense (recovery)	3,011	(82)	nmf

The Company records stock-based compensation expense (recovery) for its stock option plan, restricted share units plan ("RSU"), deferred share units plan ("DSU"), and performance share units plan ("PSU"). Pason's stock option plan qualifies employees to purchase common shares in the Company at a predetermined exercise price. Pason's RSU and DSU plans are cash settled and linked to the Company's share price performance. The Company's PSU plan is also cash settled and is linked to several performance measures, including relative share price performance. As such, the Company records a current and non-current stock-based compensation liability at the end of each reporting period reflecting the mark to market of its cash settled plans. As at March 31, 2024, the Company held \$7.1 million in current stock-based compensation liability and \$9.1 million in non-current stock-based compensation liability (as at December 31, 2023: \$5.5 million and \$8.3 million, respectively).

The Company's stock-based compensation expense (recovery) in each of the periods in the table above reflects the ongoing vesting of outstanding awards as well as the change in the Company's share price performance and the associated impact on the Company's stock-based compensation liability.

## Other Income

	Three Months Ended March 31,		
	2024	2023	Change
(000s)	(\$)	(\$)	(%)
Gain on previously held equity interest	<b>(50,830)</b>	—	nmf
Net interest income	<b>(1,411)</b>	(2,607)	(46)
Equity investment income	<b>(217)</b>	(1,126)	(81)
Other expenses	<b>1,031</b>	581	77
Foreign exchange loss	<b>714</b>	233	206
Net monetary gain	—	(159)	nmf
<b>Total other income</b>	<b>(50,713)</b>	<b>(3,078)</b>	nmf

In the first quarter of 2024, the Company recognized a non-cash gain on the revaluation of its previously held equity interest in IWS upon obtaining control of that business through the acquisition of its remaining outstanding common shares. The Company's previously held equity investment associated with IWS was remeasured to fair value, resulting in a gain of \$50.8 million on the derecognition of the \$31.7 million carrying value of this investment.

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

Equity investment income results from the Company using the equity method of accounting to account for its investment in the Pason-Rawabi joint venture, and previously its investment in IWS prior to its consolidation as a wholly-owned subsidiary in the first quarter of 2024.

Other expenses includes \$0.03 million in transaction costs incurred on the common share acquisition of IWS, as well as legal expenses incurred in connection with the Company's ongoing intellectual property litigation.

## Income Tax Provision

During the first quarter of 2024, the Company recorded an income tax expense of \$9.1 million, compared to an income tax expense of \$12.4 million during the comparative period in 2023. While Pason's income before tax increased year over year, this was primarily driven by the \$50.8 million gain on the revaluation of the Company's equity interest in IWS, which is not subject to income taxes. Excluding this gain, income before tax would have declined year over year resulting from the factors outlined in this MD&A.

## Equity Investments

As at March 31, 2024, the Company holds \$3.1 million on its Condensed Consolidated Interim Balance Sheets relating to the carrying value of investments accounted for using the equity method (December 31, 2023: \$60.3 million). Effective January 1, 2024, the Company now accounts for its investment in IWS as a fully consolidated subsidiary as a result of the IWS Acquisition. The Company's Investments balance as at December 31, 2023 included Pason's non-controlling equity investment in IWS.

Pason's equity investment balance currently includes a 50% interest in Rawabi Pason Company ("Rawabi JV").

## Put Obligation

As at March 31, 2024, the Company holds a \$6.3 million obligation under a put option on its Condensed Consolidated Interim Balance Sheets (December 31, 2023: \$6.2 million). The put obligation is a contractual obligation whereby the non-controlling shareholders of ETB have a put option to exercise for cash their 20% shareholdings of ETB starting in 2023 with reference to the fair value of ETB shares at the date the put option can be exercised. This put option gives rise to a financial liability and is calculated at each annual reporting period using a discounted cash flow model of the estimated future cash flows of the obligation.

## Summary of Quarterly Results

Three Months Ended	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	Jun 30, 2023	Sep 30, 2023	Dec 31, 2023	Mar 31, 2024
(000s, except per share data)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
North American Drilling	62,000	59,637	75,245	77,687	79,775	67,318	72,163	70,507	<b>73,604</b>
International Drilling	10,691	12,311	15,829	14,391	15,590	14,980	15,313	17,941	<b>14,632</b>
Completions <sup>(2)</sup>	—	—	—	—	—	—	—	—	<b>12,785</b>
Solar and Energy Storage	1,777	1,660	1,428	2,342	2,864	2,393	5,618	4,847	<b>3,738</b>
Revenue	74,468	73,608	92,502	94,420	98,229	84,691	93,094	93,295	<b>104,759</b>
EBITDA <sup>(1)</sup>	34,686	31,673	50,659	53,248	51,755	37,822	42,967	22,169	<b>91,510</b>
Adjusted EBITDA <sup>(1)</sup>	33,373	30,962	46,231	48,944	52,410	37,887	42,281	38,888	<b>42,425</b>
As a % of revenue	44.8	42.1	50.0	51.8	53.4	44.7	45.4	41.7	<b>40.5</b>
Funds flow from operations	25,704	27,242	35,968	45,971	43,673	33,111	40,233	37,455	<b>34,846</b>
Per share – basic	0.31	0.33	0.44	0.56	0.54	0.41	0.50	0.47	<b>0.44</b>
Per share – diluted	0.31	0.33	0.43	0.56	0.53	0.41	0.50	0.47	<b>0.44</b>
Cash from operating activities	28,050	25,679	30,743	19,942	46,265	29,658	31,698	27,412	<b>31,014</b>
Free cash flow <sup>(1)</sup>	23,582	19,135	24,047	3,709	34,710	17,988	25,016	19,317	<b>11,733</b>
Net income	18,001	17,992	33,739	35,994	35,454	24,962	27,399	8,012	<b>69,123</b>
Net income attributable to Pason	18,573	18,540	34,246	36,257	35,842	25,470	27,732	8,495	<b>69,529</b>
Per share – basic	0.23	0.23	0.42	0.44	0.44	0.32	0.35	0.11	<b>0.87</b>
Per share – diluted	0.23	0.22	0.41	0.44	0.44	0.32	0.35	0.11	<b>0.87</b>

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

(2) The Completions segment includes results generated by IWS, which were not part of the Company's consolidated reporting group until January 1, 2024 following the IWS Acquisition.

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, Completions, 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 Completions and Solar and Energy Storage business units.

## Q1 2024 vs Q4 2023

Effective January 1, 2024, Pason completed the IWS Acquisition, which results in the business segment's results now being fully consolidated through Pason's reporting. The inclusion of IWS' results in the first quarter of 2024 impacts the review of sequential performance.

Consolidated revenue was \$104.8 million in the first quarter of 2024, a 12% increase over consolidated revenue of \$93.3 million in the fourth quarter of 2023.

Revenue in the North American Drilling business unit increased from \$70.5 million in the fourth quarter of 2023 to \$73.6 million in the first quarter of 2024. While activity levels in the US remained flat from Q4 to Q1, Canadian activity levels increased sequentially through the winter drilling season. Further, the North American Drilling business unit grew Revenue per Industry Day sequentially from \$998 in Q4 2023 to \$1,000 in Q1 2024, a new quarterly record level for the Company.

The International business unit reported revenue of \$14.6 million in the first quarter of 2024 compared to \$17.9 million in the fourth quarter of 2023. Fourth quarter 2023 international revenue benefited from revenue increases associated with certain foreign exchange and inflationary contract triggers in light of the sharp devaluation seen in the Argentinian Peso in December 2023. First quarter 2024 results for the segment are impacted by Argentinian Peso sourced revenues being translated to the Company's Canadian dollar reporting currency at a lower value.

The Company's new Completions segment incorporates financial results from IWS as a result of the IWS Acquisition effective January 1, 2024. The business unit generated \$12.8 million in Q1 2024, compared to \$nil included in Pason's consolidated reporting in the fourth quarter of 2023.

The Solar and Energy Storage business unit generated \$3.7 million of revenue in the first quarter of 2024 compared to revenue of \$4.8 million in the fourth quarter of 2023. Quarterly revenue for this business unit will fluctuate with timing of delivery of control system projects.

Adjusted EBITDA was \$42.4 million in the first quarter of 2024, or 40.5% of revenue, compared to \$38.9 million in the fourth quarter of 2023, or 41.7% of revenue. The Company's Adjusted EBITDA margin in the first quarter of 2024 reflects the inclusion of IWS financial results, which are at lower margin levels than Pason's drilling segments given the earlier stage of the business and the investments being made to support rapid growth.

The Company recorded net income attributable to Pason in the first quarter of 2024 of \$69.5 million (\$0.87 per share) compared to net income attributable to Pason of \$8.5 million (\$0.11 per share) in the fourth quarter of 2023. The increase quarter over quarter is primarily driven by the \$50.8 million accounting gain recognized in the quarter on the revaluation of the Company's previously held equity interest in IWS.

With the sequential increase in Adjusted EBITDA, cash from operating activities increased from \$27.4 million in the fourth quarter of 2023 to \$31.0 million in the first quarter of 2024. Free Cash Flow in Q1 2024 was \$11.7 million compared to \$19.3 million in Q4 2023, and reflects increased capital expenditure levels in 2024 with the inclusion of IWS' financial results and \$4.8 million of capital expenditures carried over from 2023 with delayed delivery times.

# Liquidity and Capital Resources

As at	March 31, 2024	December 31, 2023	Change
(000s)	(\$)	(\$)	(%)
Cash and cash equivalents	70,050	171,773	(59)
Short-term investments	4,187	—	nmf
Total Cash <sup>(1)</sup>	74,237	171,773	(57)
Working capital	119,641	212,561	(44)
Total assets	585,846	487,877	20
Total interest bearing debt	—	—	—

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

As at March 31, 2024, Pason's balance sheet remains strong with no interest bearing debt and \$74.2 million in Total Cash (December 31, 2024: \$171.8 million). In the first quarter of 2024, the Company finalized the acquisition of outstanding IWS common shares financed with cash on hand totaling \$88.2 million. Additionally, Pason assumed \$5.1 million in cash and \$13.2 million of interest bearing debt through the IWS transaction on January 1, 2024, all of which was repaid during the first quarter of 2024.

Also in the first quarter of 2024, the Company invested \$4.2 million in USD denominated Central Bank of the Argentine Republic's Bond for the Recovery of a Free Argentina program. These bonds are included in Short-term investments on the Company's Condensed Consolidated Interim Balance Sheet.

Working capital of \$119.6 million as at March 31, 2024 compares to \$212.6 million as at December 31, 2023 and reflects the cash deployed and working capital balances assumed in connection with the IWS Acquisition. Similarly, Total Assets of \$585.8 million as at March 31, 2024 have increased by 20% from \$487.9 million as at December 31, 2023, primarily as a result of the intangible assets and goodwill recognition in connection with the IWS Acquisition.

## Credit Facilities

As at March 31, 2024, the Company doesn't have any interest bearing debt outstanding, consistent with December 31, 2023. In connection with the IWS Acquisition effective January 1, 2024, Pason assumed \$13.2 million in outstanding debt on credit facilities and term loans held by IWS. As of March 31, 2024, all assumed IWS outstanding debt balances have been repaid and only one credit facility remains in place.

As at March 31, 2024, the Company has the following undrawn credit facilities in place:

### Demand Facility

The Company has an undrawn \$5.0 million demand revolving credit facility (the "Demand Facility"), which is unchanged from December 31, 2023.

Interest on the Demand Facility 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 Demand Facility is available to the Company for working capital purposes, and amounts drawn against it are recorded as long-term debt. The Company can repay, without penalty, advances under the facility. The Demand Facility is secured by a general security agreement on the assets of the Company, Pason Systems Corp., and Pason Systems USA Corp.

### ABL Facility

The Company also has an undrawn asset based lending facility which was assumed through the IWS Acquisition (the "ABL Facility"). The ABL Facility allows the Company to borrow up to the lesser of \$10.0 million, and a calculated amount based on eligible accounts receivable and cash outstanding at each reporting period. As at March 31, 2024, the available balance on the ABL Facility is \$8.8 million based on eligible accounts receivable and cash outstanding at period end.

Interest on the ABL Facility is payable monthly on amounts drawn and is based on the lender's prime rate plus applicable margins. The ABL Facility is available to the Company for working capital purposes, and amounts drawn against it are recorded as long-term debt. The Company can repay, without penalty, advances under the facility. The ABL Facility is secured by a general security agreement on the assets of Intelligent Wellhead Systems Inc., Intelligent Wellhead Systems Corp. and IWS USA Corp.

## Cash Flow Statement Summary

	Three Months Ended March 31,		
	2024	2023	Change
(000s)	(\$)	(\$)	(%)
Funds flow from operations	<b>34,846</b>	43,673	(20)
Cash from operating activities	<b>31,014</b>	46,265	(33)
Cash used in financing activities	<b>(27,138)</b>	(19,963)	36
Cash used in investing activities	<b>(106,576)</b>	(11,995)	789
Net capital expenditures <sup>(1)</sup>	<b>19,281</b>	11,555	67
As a % of funds flow <sup>(2)</sup>	<b>55.3 %</b>	26.5 %	2,880 bps

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

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

## Cash from operating activities

Funds flow from operations decreased from \$43.7 million in the first quarter of 2023 to \$34.8 million in the current quarter. Similarly, cash from operating activities of \$31.0 million in the first quarter of 2024 compares to \$46.3 million generated in the comparative 2023 period. Both metrics are impacted by the 15% decline in North American drilling activity year over year, and the corresponding impact on the Company's Adjusted EBITDA. Further, a comparison of year over year cash from operating activities in the first quarter reflects the investments made for IWS' newly consolidated and rapidly growing business.

## Cash used in financing activities

Cash used in financing activities was \$27.1 million during the first quarter of 2024, compared to \$20.0 million during the comparative quarter of 2023, with the increase being primarily as a result of the repayment of \$13.3 million in interest bearing debt assumed through the IWS Acquisition.

## Dividend

During the three month period ended March 31, 2024, the Company paid dividends to holders of common shares totaling \$10.3 million, or \$0.13 per share, compared to \$9.8 million, or \$0.12 per share in Q1 2023.

On May 2, 2024, the Company declared a quarterly dividend of \$0.13 per share on the Company's common shares. The dividend will be paid on June 28, 2024, to shareholders of record at the close of business on June 14, 2024.

## Normal Course Issuer Bid ("NCIB")

In 2023, the Company renewed its NCIB commencing on December 20, 2023, and expiring on December 19, 2024. Under the NCIB, the Company may purchase for cancellation, as the Company considers advisable, up to a maximum of 7,949,888 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 33,781 common shares. The Company may make one block purchase per calendar week that exceeds the daily purchase restriction.

For the three-month period ended March 31, 2024, the Company repurchased 238,600 (first quarter of 2023 - 767,500) shares for cancellation for total cash consideration of \$3.3 million (first quarter of 2023 - \$10.0 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 March 31, 2024, the Company recorded a liability of \$0.6 million for share repurchases that could take place during its internal blackout period under an APP. As at December 31, 2023, the Company recorded a \$3.5 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

As further outlined above, in Q1 2024, Pason finalized its previously disclosed acquisition of remaining outstanding common shares of IWS not already held by the Company for a total cash outflow of \$88.2 million, of which \$77.8 million was paid at close and \$10.5 million was paid out to IWS stock option holders subsequent to close. Net of the \$5.1 million in cash acquired, \$83.1 million is the total amount of cash used in investing activities in the first quarter relating to the IWS Acquisition.

Also during the first quarter of 2024, the Company invested \$4.2 million in USD denominated Central Bank of the Argentine Republic's Bond for the Recovery of a Free Argentina program.

Pason invested \$19.3 million in net capital expenditures during the three months ended March 31, 2024, an increase from \$11.6 million in the first quarter of 2023 as the Company executes on its 2024 capital budget. Net capital expenditures in the first quarter of 2024 includes \$4.8 million from 2023 capital expenditure plans that were delivered in early 2024. Further, net capital expenditures in the current quarter includes investments associated with supporting the continued growth of IWS' pressure automation technology offering, for which there would be no associated capital expenditures during the 2023 comparative period given the January 1, 2024 effective date of the IWS Acquisition. Finally, net capital expenditures in Q1 2024 also includes investments associated with the ongoing refresh of Pason's drilling related technology platform and growth related investments in the new Pason Mud Analyzer.

## Commitments and Contingencies

As at March 31, 2024	Less than 1 year	1–3 years	Thereafter	Total
(000s)	(\$)	(\$)	(\$)	(\$)
Leases and other operating contracts	5,832	9,912	12,835	<b>28,579</b>
Capital commitments	20,145	772	—	<b>20,917</b>
Total contractual obligations	25,977	10,684	12,835	<b>49,496</b>

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.

The Company is involved in litigation and disputes arising in the normal course of business. Management regularly evaluates the likelihood of potential liabilities being incurred and the amounts of such liabilities after careful examination of available information and discussions with its legal advisors.

In May of 2023, a competitor filed a patent infringement lawsuit against IWS in the District of Colorado alleging IWS' infringement of two patents relating to certain aspects of continuous hydraulic fracturing. Given the stage of the lawsuit, management is not currently able to estimate the extent of potential costs and losses related to this claim, if any. Consequently, no provision has been recorded in the Company's Condensed Consolidated Interim Financial Statements related to this litigation. The Company does not currently believe the outcome of any pending or threatened proceedings related to this patent litigation is probable to result in IWS being required to pay any amounts which would have a material adverse impact on its financial position, results of operations, or liquidity.

## Disclosure of Outstanding Share and Options Data

As at March 31, 2024, there were 79,493,854 common shares and 2,277,448 options issued and outstanding. As at May 2, 2024, there were 79,584,991 common shares and 2,168,311 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 applied accounting standards IAS 21, The Effects of Changes in Foreign Exchange, and IAS 29, Financial Reporting in Hyper-Inflationary Economies in its Consolidated Financial Statements for its Argentinian operating subsidiary during periods where the functional currency of the Company's Argentinian subsidiary is the Argentinian Peso. In these periods, the Company's Consolidated Financial Statements are based on the historical cost approach in IAS 29.

During the fourth quarter of 2023, given a change in facts and circumstances, management determined that there was a change in functional currency of the Argentinian subsidiary from the Argentinian Peso to the US dollar. As a result, starting in the fourth quarter of 2023, hyperinflationary accounting rules were no longer incorporated into Pason's results.

The impact of applying IAS 21 to the operating results of the Argentina subsidiary for the comparative 2023 periods are detailed as follows:

### Impact on IFRS Measures

	Three Months Ended March 31,	
	2024	2023
(000s)	(\$)	(\$)
Increase in revenue	—	49
(Increase) in rental services and local administration expenses	—	(20)
(Increase) in depreciation expense	—	(172)
<b>Increase in segment gross profit</b>	<b>—</b>	<b>(143)</b>
Net monetary gain presented in other expenses	—	159
(Increase) in other expenses	—	(7)
(Increase) in income tax provision	—	(9)
<b>Increase in net income</b>	<b>—</b>	<b>—</b>

## Impact on Non-GAAP Measures

	Three Months Ended March 31,	
	2024	2023
(000s)	(\$)	(\$)
Increase in revenue	—	49
(Increase) in rental services and local administration expenses	—	(20)
Net monetary gain presented in other expenses	—	159
(Increase) in other expenses	—	(7)
<b>Increase in EBITDA</b>	<b>—</b>	<b>181</b>
Elimination of net monetary (gain) presented in other expenses	—	(159)
Elimination of other expenses	—	7
<b>(Decrease) in Adjusted EBITDA</b>	<b>—</b>	<b>29</b>

## Additional IFRS Measures

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

### Funds flow from operations

Management believes that funds flow from operations, as reported in the 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, gain on previously held equity interest and other items, which the Company does not consider to be in the normal course of continuing operations.

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

## Reconcile Net Income to EBITDA

Three Months Ended	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	Jun 30, 2023	Sep 30, 2023	Dec 31, 2023	Mar 31, 2024
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Net income	17,992	33,739	35,994	35,454	24,962	27,399	8,012	69,123
Add:								
Income taxes	7,189	11,482	9,405	12,374	7,906	7,356	6,710	9,057
Depreciation and amortization	4,696	4,433	5,399	6,616	5,815	6,988	7,797	11,730
Stock-based compensation	2,514	2,032	5,129	(82)	1,986	5,082	4,732	3,011
Net interest (income) expense	(718)	(1,027)	(2,679)	(2,607)	(2,847)	(3,858)	(5,082)	(1,411)
EBITDA	31,673	50,659	53,248	51,755	37,822	42,967	22,169	91,510

## Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	Jun 30, 2023	Sep 30, 2023	Dec 31, 2023	Mar 31, 2024
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
EBITDA	31,673	50,659	53,248	51,755	37,822	42,967	22,169	91,510
Add:								
Foreign exchange (gain) loss	(1,054)	(3,332)	1,959	233	1,597	681	14,247	714
Put option revaluation	—	—	(5,815)	—	—	—	(149)	—
Net monetary loss (gain)	268	(1,380)	(536)	(159)	(1,196)	(1,477)	—	—
Gain on previously held equity interest	—	—	—	—	—	—	—	(50,830)
Other	75	284	88	581	(336)	110	2,621	1,031
Adjusted EBITDA	30,962	46,231	48,944	52,410	37,887	42,281	38,888	42,425

## Free cash flow

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

## Reconcile cash from operating activities to free cash flow

Three Months Ended	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	Jun 30, 2023	Sep 30, 2023	Dec 31, 2023	Mar 31, 2024
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Cash from operating activities	25,679	30,743	19,942	46,265	29,658	31,698	27,412	31,014
Less:								
Net additions to property, plant and equipment	(6,412)	(6,590)	(16,112)	(11,404)	(11,303)	(6,474)	(7,720)	(17,834)
Deferred development costs	(132)	(106)	(121)	(151)	(367)	(208)	(375)	(1,447)
Free cash flow	19,135	24,047	3,709	34,710	17,988	25,016	19,317	11,733

## 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 total revenue generated from the North American Drilling segment over all active drilling rig days in the North American market. This metric provides a key measure of the North American Drilling segment's ability to evaluate and manage product adoption, pricing, and market share penetration. Drilling rig days are calculated by using accepted industry sources.

### IWS Active Jobs

IWS Active Jobs represents the average number of jobs per day that IWS is generating revenue on through the rental of its technology offering to customers during the reporting period. This metric provides a key measure of IWS' market penetration.

### Revenue per IWS Day

Revenue per IWS Day is defined as the total revenue generated by the Completions segment over all IWS active days during the reporting period. IWS active days are calculated by using IWS Active Jobs in the reporting period. This metric provides a key measure of IWS' ability to evaluate and manage product adoption and pricing.

### 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 US dollar bonds.

## Critical Accounting Estimates

The preparation of the Company's Condensed Consolidated Interim Financial Statements requires that certain estimates and judgements be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and management's judgements based on information available as at the financial statement date, and, as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired. As such, actual results may differ significantly from estimates made within the Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2024. Significant estimates made by the Company have most recently been set out in the Company's MD&A for the year ended December 31, 2023, and its consolidated financial statements and note disclosures for the year ended December 31, 2023, and within Note 2 of the Company's Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2024.

## Significant Accounting Policies

The Company's significant accounting policies have been disclosed within the Consolidated Financial Statements for the year ended December 31, 2023.

## Internal Control over Financial Reporting

There were no changes in the design of the Company's internal controls over financial reporting during the three months ended March 31, 2024, that have materially affected, or are reasonably likely to materially affect, the Company's internal controls over financial reporting.

### Limitations on Scope of Design

In our assessment of the scope of disclosure controls and procedures and internal control over financial reporting, we have excluded the controls, policies and procedures of IWS, which was acquired on January 1, 2024. This scope limitation is in accordance with National Instrument 52-109 *Certification of Disclosure in Issuers'* Annual and Interim Filings, which allows an issuer to limit its design of internal controls over financial reporting and disclosure controls and procedures to exclude the controls, policies and procedures of a company acquired not more than 365 days before the end of the financial period to which the certificate relates.

From January 1, 2024 (the acquisition date) to March 31, 2024, IWS contributed revenues of \$12.8 million and generated gross profit of \$1.2 million, such amounts as measured at the end of the period based on information in source systems for the consolidated legal entity. As at March 31, 2024, IWS' current assets and current liabilities represented approximately 9% and 12% of the Company's consolidated current assets and current liabilities, respectively, while IWS' non-current assets and non-current liabilities represented approximately 56% and 32% of the Company's consolidated non-current assets and non-current liabilities, respectively. The amounts recognized for the assets acquired and liabilities assumed as at the acquisition date are described in Note 4 of the March 31, 2024 Condensed Consolidated Interim Financial Statements.

## 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.sedarplus.ca](http://www.sedarplus.ca). 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 and completions activities. 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. Since 2022, global macroeconomic conditions have proved challenging with central banks aggressively increasing interest rates to address high prevailing levels of inflation and concerns around economic recession. Operators and Contractors also grappled with global supply chain bottlenecks and faced equipment availability challenges. Further, there has been significant geopolitical instability with ongoing conflict with Russia and the Ukraine, and recent developments in the Middle East. These factors have driven commodity price volatility.

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, the Ukraine or Israel. However, ongoing conflict may negatively impact commodity price volatility and global financial conditions, which could have an indirect adverse effect on Pason's business and financial condition.

## **Seasonal Factors**

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

## **Business Transactions**

Pason acquired Intelligent Wellhead Systems Inc. on January 1, 2024. Achieving the benefits of acquisitions depends in part on having the acquired business perform as expected, successfully consolidating functions, retaining key employees and customer relationships, and integrating operations and procedures in a timely and efficient manner. Business transactions may expose Pason to additional risks, including: difficulties in integrating administrative, financial reporting, operational and information systems and managing newly-acquired operations; difficulties in maintaining uniform standards, controls, procedures and policies through all of the Company's operations; entry into markets in which Pason has little or no direct prior experience; difficulties in retaining key employees of the acquired operations; disruptions to Pason's ongoing business; and diversion of management time and resources. Any of the foregoing could adversely affect the Corporation's financial condition and results of operations.

## **Credit and Liquidity**

Pason is exposed to credit risk to the extent that its customers, operating primarily in the oil and natural gas industry, may experience financial difficulty and be unable to meet their obligations. During times of depressed oil and gas markets or wider economic uncertainty, customers may experience financial constraints. Further, many of our customers require reasonable access to credit facilities and debt capital markets to finance their oil and natural gas drilling activity. If the availability of credit to our customers is reduced, they may reduce their drilling expenditures, reducing the demand for the Company's products and services. While Pason monitors its exposure to credit risk and has a large customer base, which

minimizes Pason's risk exposure to the financial concerns of any single customer, lack of payment from multiple clients may have a material adverse effect on the Company's financial condition.

## **Customers**

Pason has a large customer base, consisting of both operators and contractors, and no single customer accounted for more than 10% of the consolidated revenues of the Company this fiscal period. Notwithstanding, the loss of one or more major customers, further consolidation in the industry, or a reduction in the amount of business Pason conducts with any of its major customers, could have a significant impact on Pason's revenue if not offset by obtaining new customers or increasing the amount of business it conducts with existing customers.

## **Competition**

Pason's main source of competition in the North American Operations and International Operations segments remains the instrumentation divisions of large US service companies. Potential actions taken by competitors such as pricing changes and new products and technologies could affect the Company's leading market share or competitive position.

In addition, while the Company continues to make investments in R&D and capital expenditures 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.

## **Technology**

Pason's ability to meet customer demands may be influenced by advances and changes in technology. To the extent that Pason is not reasonably able keep up with changes in technology, demand for its services may be hindered. In addition, while the Company continues to make investments in R&D and capital expenditures 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.

## **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 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, the Ukraine or Israel. The Company's Argentinian subsidiary is operating in a highly inflationary economy and its operating results

are being impacted by a weakening Argentina peso relative to the Canadian dollar, the details of which are outlined in the Company's consolidated financial statements for the year ended December 31, 2023.

## **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.

## **Safety Performance**

Pason has programs in place to address compliance with prevailing safety and regulatory standards. The Company's safety managers oversee policy development, maintenance, and operational monitoring. Poor safety performance may result in lower demand for Pason's services. Standards for accident prevention in the oil and natural gas industry are governed by company safety policies and procedures, accepted industry safety practices, customer specific safety requirements, and health and safety legislation. Safety is a key factor for customers when selecting an oilfield service provider. Any decline in Pason's safety performance could result in lower demand for services, thereby adversely affecting revenues, cash flows, and earnings. Pason is subject to various health and safety laws, regulations, legislation, and guidelines, which can impose material liability, increase costs or lead to lower demand for services.

## **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.

### **Public Health Crises**

As seen in recent years, the occurrence of a future global pandemic could expose the Company to a number of risks, 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.

### **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](http://www.pason.com) and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR+") at [www.sedarplus.ca](http://www.sedarplus.ca).

## 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 and completions 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, 2023 under the heading, "Risk and Uncertainty," in our management's discussion and analysis for the year ended December 31, 2023, 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.sedarplus.ca](http://www.sedarplus.ca)) or through Pason's website ([www.pason.com](http://www.pason.com)).

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

# Condensed Consolidated Interim Financial Statements and Notes

## Condensed Consolidated Interim Balance Sheets

As at	Note*	March 31, 2024	December 31, 2023
(CDN 000s) (unaudited)		(\$)	(\$)
<b>Assets</b>			
Current			
Cash and cash equivalents	5	70,050	171,773
Short-term investments	6	4,187	—
Trade and other receivables		86,019	66,001
Prepaid expenses		14,767	11,587
Inventory		16,824	17,866
Income taxes recoverable		114	654
<b>Total current assets</b>		<b>191,961</b>	<b>267,881</b>
Non-current			
Property, plant and equipment	4	173,690	121,123
Investments	8	3,147	60,332
Intangible assets and goodwill	4	217,048	38,541
<b>Total non-current assets</b>		<b>393,885</b>	<b>219,996</b>
<b>Total assets</b>		<b>585,846</b>	<b>487,877</b>
<b>Liabilities and equity</b>			
Current			
Trade payables and accruals		50,638	41,648
Income taxes payable		6,187	861
Stock-based compensation liability	12	7,146	5,488
Lease liability		2,023	1,148
Obligation under put option	9	6,326	6,175
<b>Total current liabilities</b>		<b>72,320</b>	<b>55,320</b>
Non-current			
Deferred tax liability	4	25,573	11,462
Lease liability		13,972	11,843
Stock-based compensation liability	12	9,089	8,297
<b>Total non-current liabilities</b>		<b>48,634</b>	<b>31,602</b>
<b>Equity</b>			
Share capital	11	163,776	163,291
Share-based benefits reserve		37,575	37,101
Foreign currency translation reserve		47,581	43,162
Equity reserve		(8,375)	(8,375)
Retained earnings		231,814	172,879
<b>Total equity attributable to equity holders of the Company</b>		<b>472,371</b>	<b>408,058</b>
Non-controlling interest		(7,479)	(7,103)
<b>Total equity</b>		<b>464,892</b>	<b>400,955</b>
<b>Total liabilities and equity</b>		<b>585,846</b>	<b>487,877</b>

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

## Condensed Consolidated Interim Statements of Operations

Three Months Ended March 31,	Note*	2024	2023
(CDN 000s, except per share data) (unaudited)			
		(\$)	(\$)
<b>Revenue</b>		<b>104,759</b>	98,229
Operating expenses <sup>(1)</sup>		39,489	30,605
Depreciation and amortization		11,730	6,616
		<b>51,219</b>	37,221
<b>Gross profit <sup>(1)</sup></b>		<b>53,540</b>	61,008
<b>Other expenses</b>			
Research and development		13,108	10,172
Selling, general, and administrative <sup>(1)</sup>		9,954	6,168
Stock-based compensation expense (recovery)	12	3,011	(82)
Other (income) expenses	14	(50,713)	(3,078)
		<b>(24,640)</b>	13,180
<b>Income before income taxes</b>		<b>78,180</b>	47,828
Income tax provision		9,057	12,374
<b>Net income</b>		<b>69,123</b>	35,454
<b>Net income (loss) attributable to:</b>			
Shareholders of Pason		69,529	35,842
Non-controlling interest		(406)	(388)
<b>Net income</b>		<b>69,123</b>	35,454
<b>Income per share</b>	15		
Basic		0.87	0.44
Diluted		0.87	0.44

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

(1) Prior period figures have been restated to conform with current period presentation of financial information, as detailed in Note 2 of these Condensed Consolidated Interim Financial Statements

## Condensed Consolidated Interim Statements of Other Comprehensive Income

Three Months Ended March 31,	Note*	2024	2023
(CDN 000s) (unaudited)			
		(\$)	(\$)
<b>Net income</b>		<b>69,123</b>	35,454
Items that may be reclassified subsequently to net income:			
Foreign currency translation adjustment		4,449	(2,507)
<b>Other comprehensive (loss) income</b>		<b>4,449</b>	(2,507)
<b>Total comprehensive income</b>		<b>73,572</b>	32,947
<b>Total comprehensive income (loss) attributed to:</b>			
<b>Shareholders of Pason</b>		<b>73,978</b>	33,307
<b>Non-controlling interest</b>		<b>(406)</b>	(360)
<b>Total comprehensive income</b>		<b>73,572</b>	32,947

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

## Condensed Consolidated Interim Statements of Changes in Equity

	Note*	Share Capital	Share- Based Benefits Reserve	Foreign Currency Translation Reserve	Equity Reserve	Retained Earnings	Total Equity Attributable to Pason	Non- Controlling Interest	Total Equity
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
<b>Balance at December 31, 2022</b>		164,136	35,314	57,486	(8,375)	137,920	<b>386,481</b>	(5,519)	<b>380,962</b>
Net income (loss)		—	—	—	—	35,842	<b>35,842</b>	(388)	<b>35,454</b>
Dividends		—	—	—	—	(9,745)	<b>(9,745)</b>	—	<b>(9,745)</b>
Other comprehensive (loss)		—	—	(2,535)	—	—	<b>(2,535)</b>	28	<b>(2,507)</b>
Exercise of stock options		412	(70)	—	—	—	<b>342</b>	—	<b>342</b>
Expense related to stock options		—	559	—	—	—	<b>559</b>	—	<b>559</b>
Shares cancelled under NCIB	11	(1,543)	—	—	—	(8,456)	<b>(9,999)</b>	—	<b>(9,999)</b>
Liability reversal for automatic share purchase plan commitment pursuant to NCIB		375	—	—	—	2,625	<b>3,000</b>	—	<b>3,000</b>
Liability for automatic share purchase plan commitment pursuant to NCIB	11	(497)	—	—	—	(2,503)	<b>(3,000)</b>	—	<b>(3,000)</b>
<b>Balance at March 31, 2023</b>		162,883	35,803	54,951	(8,375)	155,683	<b>400,945</b>	(5,879)	<b>395,066</b>
Net income (loss)		—	—	—	—	61,697	<b>61,697</b>	(1,324)	<b>60,373</b>
Dividends		—	—	—	—	(28,790)	<b>(28,790)</b>	—	<b>(28,790)</b>
Other comprehensive (loss)		—	—	(11,789)	—	—	<b>(11,789)</b>	100	<b>(11,689)</b>
Exercise of stock options		3,137	(552)	—	—	—	<b>2,585</b>	—	<b>2,585</b>
Expense related to stock options		—	1,850	—	—	—	<b>1,850</b>	—	<b>1,850</b>
Shares cancelled under NCIB	11	(2,789)	—	—	—	(15,151)	<b>(17,940)</b>	—	<b>(17,940)</b>
Liability for automatic share purchase plan commitment pursuant to NCIB	11	60	—	—	—	(560)	<b>(500)</b>	—	<b>(500)</b>
<b>Balance at December 31, 2023</b>		163,291	37,101	43,162	(8,375)	172,879	<b>408,058</b>	(7,103)	<b>400,955</b>
Net income (loss)		—	—	—	—	69,529	<b>69,529</b>	(406)	<b>69,123</b>
Dividends	11	—	—	—	—	(10,332)	<b>(10,332)</b>	—	<b>(10,332)</b>
Other comprehensive (loss) income		—	—	4,419	—	—	<b>4,419</b>	30	<b>4,449</b>
Exercise of stock options		616	(101)	—	—	—	<b>515</b>	—	<b>515</b>
Expense related to stock options		—	575	—	—	—	<b>575</b>	—	<b>575</b>
Shares cancelled under NCIB	11	(489)	—	—	—	(2,804)	<b>(3,293)</b>	—	<b>(3,293)</b>
Liability reversal for automatic share purchase plan commitment pursuant to NCIB		437	—	—	—	3,063	<b>3,500</b>	—	<b>3,500</b>
Liability for automatic share purchase plan commitment pursuant to NCIB	11	(79)	—	—	—	(521)	<b>(600)</b>	—	<b>(600)</b>
<b>Balance at March 31, 2024</b>		<b>163,776</b>	<b>37,575</b>	<b>47,581</b>	<b>(8,375)</b>	<b>231,814</b>	<b>472,371</b>	<b>(7,479)</b>	<b>464,892</b>

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

# Condensed Consolidated Interim Statements of Cash Flows

Three Months Ended March 31,	Note*	2024	2023
(CDN 000s) (unaudited)		(\$)	(\$)
<b>Cash from (used in) operating activities</b>			
Net income		69,123	35,454
Adjustment for non-cash items:			
Depreciation and amortization		11,730	6,616
Stock-based compensation expense (recovery)	12	3,011	(82)
Deferred income taxes		1,539	3,353
Net monetary gain		—	(789)
Gain on revaluation of previously held equity interest	14	(50,830)	—
Unrealized foreign exchange loss and other		273	(879)
<b>Funds flow from operations</b>		<b>34,846</b>	<b>43,673</b>
Movements in non-cash working capital items:			
(Increase) decrease in trade and other receivables		(13,419)	4,011
(Increase) decrease in prepaid expenses		(2,611)	581
Increase in income taxes payable / recoverable		7,708	7,299
Increase (decrease) in trade payables, accruals and stock-based compensation liability		1,443	(1,499)
Decrease (increase) in inventory		1,042	(2,134)
Effects of exchange rate changes		3,847	(378)
<b>Cash generated from operating activities</b>		<b>32,856</b>	<b>51,553</b>
Income tax paid		(1,842)	(5,288)
<b>Net cash from operating activities</b>		<b>31,014</b>	<b>46,265</b>
<b>Cash flows from (used in) financing activities</b>			
Proceeds from exercise of stock options	11	515	342
Payment of dividends	11	(10,332)	(9,745)
Repurchase and cancellation of shares under NCIB	11	(3,293)	(9,999)
Repayment of lease liability		(767)	(561)
Repayment of IWS external debt	10	(13,261)	—
<b>Net cash used in financing activities</b>		<b>(27,138)</b>	<b>(19,963)</b>
<b>Cash flows (used in) from investing activities</b>			
Equity investments		—	(440)
Acquisition of IWS, net of cash acquired	4	(72,654)	—
Settlement of stock-based compensation liability related to acquisition of IWS	4	(10,454)	—
Purchase of short-term investments	6	(4,187)	—
Additions to property, plant and equipment		(18,629)	(11,518)
Development costs, net of ITCs		(1,447)	(151)
Proceeds on disposal of property, plant and equipment		732	36
Changes in non-cash working capital		63	78
<b>Net cash used in investing activities</b>		<b>(106,576)</b>	<b>(11,995)</b>
Effect of exchange rate on cash and cash equivalents		977	(2,009)
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>(101,723)</b>	<b>12,298</b>
<b>Cash and cash equivalents, beginning</b>		<b>171,773</b>	<b>132,057</b>
<b>Cash and cash equivalents, ending</b>	<b>5</b>	<b>70,050</b>	<b>144,355</b>

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

# Notes to Condensed Consolidated Interim Financial Statements

(CDN 000s, except per share data)

## 1. Description of Business

Pason Systems Inc. ("Pason" or the "Company") is a leading global provider of instrumentation and data management systems for oil and gas drilling. Through Intelligent Wellhead Systems ("IWS"), Pason also provides engineered controls, data acquisition, and software solutions for oil and gas completions operations. Through Energy Toolbase ("ETB"), the Company also provides products and services for the solar power and energy storage industry.

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 Condensed Consolidated Interim Financial Statements of the Company are comprised of the Company and its subsidiaries (together referred to as the "Group" and individually as "Group entities"). The accompanying Condensed Consolidated Interim Financial Statements include the accounts of Pason Systems Inc., its wholly owned subsidiaries, and ETB.

## 2. Basis of Preparation

### Statement of compliance

These unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with the requirements of International Accounting Standard ("IAS") 34, Interim Financial Reporting and include the accounts of Pason and its wholly owned subsidiaries. All significant intercompany balances and transactions including revenue and expenses have been eliminated. These unaudited Condensed Consolidated Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2023.

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

### Change in Presentation for Statements of Operations

Beginning in the first quarter of 2024, Pason has adjusted its Condensed Consolidated Interim Statements of Operations presentation to include operating expense and selling, general and administrative expense categories. With recent changes in the business, particularly the IWS Acquisition on January 1, 2024, management believes this change more accurately reflects costs incurred of each nature, and will result in the Company's financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the entity's financial position, financial performance or cash flows. In accordance with IAS 8: Accounting Policies, Changes in Accounting Estimates and Errors, the Company's prior period Statements of Operations have been adjusted to reflect this change in presentation.

The effects on Pason's prior year Statement of Operations for the three months ended March 31, 2023 are as follows:

- Previously reported rental services of \$29,255 for the three months ended March 31, 2023 now includes \$1,350 of expenses deemed to be operating in nature and are now referred to as Operating expenses,
- Previously reported corporate services of \$4,147 and local administration of \$3,371 for the three months ended March 31, 2023, less \$1,350 in expenses deemed to be operating in nature, are now combined and referred to as Selling, general, and administrative expenses.

In addition, beginning in the first quarter of 2024, the Company is no longer reporting a disaggregation of revenue by product category, and now presents an aggregated revenue amount for each business unit. This new presentation aligns more closely with management's assessment of business unit performance and how the Company's customer contracts are structured.

### 3. Accounting Policies

The selection and application of accounting policies have been deemed appropriate. The Company's accounting policies and their method of application have been applied on a basis consistent with that of the audited financial statements as at and for the year ended December 31, 2023.

#### **Adoption of new amended accounting standards:**

The Company has adopted the amendments to IAS 1, Presentation of Financial Statements, related to the classification of liabilities as current and non-current, as of January 1, 2024. These amendments have been deemed to have no impact on the Company's financial statements or disclosures.

The Company has identified all new or amended accounting standards applicable in the current period and has adopted the new or amended standards in accordance with the applicable transitional guidance.

### 4. Business Combination

On December 5, 2023, Pason announced the exercise of a call option to purchase the remaining and outstanding shares of IWS not held by Pason for a total cash outflow of \$88,241 (the "IWS Acquisition"), which was comprised of \$77,787 paid in cash at close, and \$10,454 paid subsequent to closing for the settlement of outstanding stock options held by IWS employees. The IWS Acquisition closed on January 1, 2024 and resulted in Pason obtaining control over IWS, rendering it a wholly-owned, consolidated subsidiary. The Company previously accounted for its investment in IWS as an equity investment.

IWS is an oil and gas technology and service company that provides engineered controls, data acquisition and software to automate workflows and processes at live well completions operations of the oil and gas industry. IWS has over 150 employees, with offices in Calgary, Alberta, Houston, Texas, Midland, Texas and Denver, Colorado.

IWS' financial results will be presented within a newly formed Completions operating segment for the Company. From January 1, 2024 to March 31, 2024, IWS contributed revenues of \$12,785 and gross profit of \$1,173 to the Company. For further details, see note 13 of these Condensed Consolidated Interim Financial Statements.

The following table summarizes the consideration transferred to acquire IWS and the amounts of identified assets acquired and liabilities assumed at the acquisition date. Note the values herein are preliminary while management completes its assessment of the acquired assets and liabilities of IWS. The Company has 365 days following the close of the IWS Acquisition to finalize the purchase price allocation presented below:

<b>Allocation of Total Consideration</b>	
	(\$)
Current assets	15,491
Property, plant, and equipment	35,669
Intangible assets	52,495
Deferred tax assets	4,200
Right of use asset	3,482
Goodwill	122,080
<b>Total assets</b>	<b>233,417</b>
Current liabilities	(8,360)
Lease liability	(3,482)
Stock-based compensation liability	(10,454)
Preferred share obligation due to Pason	(25,244)
Deferred tax liability on intangibles acquired	(12,336)
Other long-term debt	(13,179)
<b>Total liabilities</b>	<b>(73,055)</b>
<b>Net assets acquired</b>	<b>160,362</b>
<b>Fair value of Total Consideration</b>	
	(\$)
Cash paid at closing	77,787
Fair value of previously held equity interest	82,575
<b>Fair value of Total Consideration</b>	<b>160,362</b>

As a result of the Company obtaining control over IWS effective January 1, 2024, the Company's previously held interest in IWS was remeasured to fair value, resulting in a gain of \$50,830 as a result of the derecognition of the \$31,745 carrying value of Pason's previously held equity investment associated with IWS. This gain has been recognized in the line item "Other income" on the Condensed Consolidated Interim Statements of Operations, and is also added back as a non-cash adjustment to the Company's Cash Flow from Operations for the three months ended March 31, 2024.

The fair value of the previously held equity interest of \$82,575 in IWS was estimated by applying the per share exercise price of Pason's call option to acquire all remaining outstanding common shares of IWS to Pason's existing common share investment.

The goodwill recognized as part of the IWS Acquisition is attributable to the workforce of the acquired business and the growth opportunities associated with the Company's acquisition of IWS. The goodwill is not deductible for tax purposes, and all of the \$122,080 of goodwill was assigned to Pason's Completions segment. In connection with the IWS Acquisition, Pason incurred \$400 in transaction costs, of which \$31 was incurred in the period ended March 31, 2024. These costs are recorded within Other (income) expenses on the Condensed Consolidated Interim Statements of Operations.

## 5. Cash and Cash Equivalents

<u>As at</u>	<u>March 31, 2024</u>	<u>December 31, 2023</u>
	(\$)	(\$)
Cash	54,281	74,949
Cash equivalents	15,769	96,824
<b>Cash and cash equivalents</b>	<b>70,050</b>	<b>171,773</b>

As at March 31, 2024, the Company's cash and cash equivalents are invested in 1-25 day money market funds with interest rates averaging 4.4%. At December 31, 2023, \$77,787 of cash was held in trust by legal intermediaries for the purposes of closing on the IWS Acquisition on January 1, 2024.

## 6. Short-Term Investments

<u>As at</u>	<u>March 31, 2024</u>	<u>December 31, 2023</u>
	(\$)	(\$)
<b>Short-term investments</b>	<b>4,187</b>	<b>—</b>

In the first quarter of 2024, the Company invested \$4,187 in US Dollar denominated Central Bank of the Argentine Republic's (BCRA) Bond for the Recovery of a Free Argentina (BOPREAL) program.

## 7. Seasonality

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

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

## 8. Investments

As at March 31, 2024, the Company's Investments balance pertains to the Company's 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. As at December 31, 2023, the Company's Investments balance also included the Company's non-controlling interest in IWS.

During the first quarter of 2024, Pason completed its previously disclosed acquisition of the remaining outstanding common shares of IWS not previously held by Pason. As such, effective January 1, 2024, the Company no longer equity accounts for its investment in IWS and now fully consolidates it as a wholly-owned subsidiary. Refer to note 4 for further details.

## 9. 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.

## 10. Credit Facilities

As at March 31, 2024, the Company does not have any interest bearing debt outstanding, consistent with December 31, 2023. In connection with the IWS Acquisition effective January 1, 2024, Pason assumed \$13,261 in outstanding debt on credit facilities and term loans held by IWS. As of March 31, 2024, all assumed IWS outstanding debt balances have been repaid and only one credit facility remains in place.

As at March 31, 2024, the Company has the following undrawn credit facilities in place:

### **Demand Facility**

The Company has an undrawn \$5,000 million demand revolving credit facility (the "Demand Facility"), which is unchanged from December 31, 2023.

Interest on the Demand Facility 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 Demand Facility is available to the Company for working capital purposes, and amounts drawn against it are recorded as long-term debt. The Company can repay, without penalty, advances under the facility. The Demand Facility is secured by a general security agreement on the assets of the Company, Pason Systems Corp., and Pason Systems USA Corp.

### **ABL Facility**

The Company also has an undrawn asset based lending facility which was assumed through the IWS Acquisition (the "ABL Facility"). The ABL Facility allows the Company to borrow up to the lesser of \$10,000, and a calculated amount based on eligible accounts receivable and cash outstanding at each reporting period. As at March 31, 2024, the available balance on the ABL Facility is \$8,789 based on eligible accounts receivable and cash outstanding at period end.

Interest on the ABL Facility is payable monthly on amounts drawn and is based on the lender's prime rate plus applicable margins. The ABL Facility is available to the Company for working capital purposes, and amounts drawn against it are recorded as long-term debt. The Company can repay, without penalty, advances under the facility. The ABL facility is secured by a general security agreement on the assets of Intelligent Wellhead Systems Inc., Intelligent Wellhead Systems Corp and IWS USA Corp.

# 11. Share Capital

## Common shares

	Three Months Ended March 31, 2024		Year Ended December 31, 2023	
	(\$)	(#)	(\$)	(#)
<b>Balance, beginning</b>	<b>163,291</b>	<b>79,685,025</b>	164,136	81,526,954
Exercise of stock options	<b>616</b>	<b>47,429</b>	3,549	308,971
Shares repurchased and cancelled under NCIB	<b>(489)</b>	<b>(238,600)</b>	(4,332)	(2,150,900)
Reversal of prior period liability for APP commitment pursuant to NCIB	<b>437</b>	—	375	—
Liability for automatic share purchase plan commitment pursuant to NCIB	<b>(79)</b>	—	(437)	—
<b>Balance, ending</b>	<b>163,776</b>	<b>79,493,854</b>	163,291	79,685,025

At March 31, 2024, the Company was authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

The holders of common shares are entitled to receive dividends, as declared at the discretion of the Board of Directors, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

### Common share dividends

For the three month period ended March 31, 2024, the Company declared and paid dividends of \$10,332 (first quarter of 2023: \$9,745) or \$0.13 per common share (first quarter of 2023: \$0.12).

### Normal Course Issuer Bid ("NCIB")

On December 18, 2023, the Company announced the renewal of its NCIB commencing on December 20, 2023, and expiring on December 19, 2024. Under the renewed NCIB, the Company may purchase for cancellation, as the Company considers advisable, up to a maximum of 7,949,888 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 33,781 common shares. The Company may make one block purchase per calendar week which exceeds the daily purchase restriction.

For the three-month period ended March 31, 2024, the Company repurchased 238,600 (first quarter of 2023 - 767,500) shares for cancellation for total cash consideration of \$3,293 (first quarter of 2023 - \$9,999). The total consideration is allocated between share capital and retained earnings.

## 12. Stock-Based Compensation

### Stock option plan

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

	Three Months Ended March 31, 2024		Twelve Months Ended December 31, 2023	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
<b>Outstanding, beginning</b>	<b>2,324,877</b>	<b>13.18</b>	2,665,121	14.31
Granted	—	—	698,977	14.40
Exercised	(47,429)	10.84	(308,971)	9.47
Expired or forfeited	—	—	(730,250)	19.40
<b>Outstanding, ending</b>	<b>2,277,448</b>	<b>13.23</b>	2,324,877	13.18
<b>Exercisable, ending</b>	<b>960,339</b>	<b>11.64</b>	1,007,768	11.60
<b>Available for grant, ending</b>	<b>3,287,122</b>		3,253,075	

### 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:

	Three Months Ended	Twelve Months Ended
	March 31, 2024	December 31, 2023
	(#)	(#)
<b>RSUs, beginning</b>	<b>925,872</b>	955,318
Granted	—	504,520
Vested and paid	—	(515,062)
Forfeited	(2,480)	(18,904)
<b>RSUs, ending</b>	<b>923,392</b>	925,872

### 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:

	Three Months Ended	Twelve Months Ended
	March 31, 2024	December 31, 2023
	(#)	(#)
<b>DSUs, beginning</b>	<b>443,634</b>	352,317
Credited	42,353	91,317
<b>DSUs, ending</b>	<b>485,987</b>	443,634

### Performance share units plan

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

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

	Three Months Ended March 31, 2024	Twelve Months Ended December 31, 2023
	(#)	(#)
<b>PSUs, beginning</b>	<b>3,119,089</b>	3,019,574
Granted	—	1,081,640
Vested and paid	—	(982,125)
<b>PSUs, ending</b>	<b>3,119,089</b>	3,119,089

### Stock-based compensation expense and liability

For the quarter ended March 31, 2024, the Company recorded \$3,011 of stock-based compensation expense for its equity and cash settled plans (2023: recovery of \$82). As at March 31, 2024, the Company held \$7,146 in current stock-based compensation liability and \$9,089 in non-current stock-based compensation liability for its cash settled plans (as at December 31, 2023: \$5,488 and \$8,297 respectively).

### 13. Operating Segments

Starting in the first quarter of 2024, the Company reports on four strategic business units: North American Drilling (Canada and the United States), International Drilling (Latin America, including Mexico, Offshore, the Eastern Hemisphere, and the Middle East) and Completions 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.

Three Months Ended March 31, 2024	North American Drilling	International Drilling	Completions	Solar and Energy Storage	Total
	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue	73,604	14,632	12,785	3,738	104,759
Operating expenses	22,910	5,876	7,170	3,533	39,489
Depreciation and amortization	6,320	963	4,442	5	11,730
Segment gross profit	44,374	7,793	1,173	200	53,540
Research and development					13,108
Selling, general, and administrative					9,954
Stock-based compensation					3,011
Other income					(50,713)
Income tax provision					9,057
Net income					69,123
Net income attributable to Pason					69,529
Capital expenditures	13,103	690	6,283	—	18,629
<b>As at March 31, 2024</b>					
Property plant and equipment	109,694	18,539	44,235	1,222	173,690
Intangible assets	9,469	—	50,949	1,231	61,649
Goodwill	7,732	2,600	122,080	22,987	155,399
Segment assets	279,029	76,573	199,208	31,036	585,846
Segment liabilities	93,230	6,540	12,048	9,136	120,954
<b>Three Months Ended March 31, 2023</b>					
	(\$)	(\$)		(\$)	(\$)
Revenue	79,775	15,590	—	2,864	98,229
Operating expenses <sup>(2)</sup>	21,318	6,362		2,925	30,605
Depreciation and amortization	5,794	817	—	5	6,616
Segment gross profit (loss) <sup>(2)</sup>	52,663	8,411	—	(66)	61,008
Research and development					10,172
Selling, general, and administrative <sup>(2)</sup>					6,168
Stock-based compensation					(82)
Other income					(3,078)
Income tax provision					12,374
Net income					35,454
Net income attributable to Pason					35,842
Capital expenditures	10,987	531	—	—	11,518
<b>As at March 31, 2023</b>					
Property plant and equipment	98,521	12,681	—	157	111,359
Intangible assets	4,394	—	—	2,022	6,416
Goodwill	7,723	2,600	—	22,958	33,281
Segment assets	388,698	72,128	—	33,624	494,450
Segment liabilities	81,822	6,230	—	11,332	99,384

(1) The Completions segment includes results generated by IWS, which were not part of the Company's consolidated reporting group until January 1, 2024 following the IWS Acquisition, as detailed in Note 4 of these Condensed Consolidated Interim Financial Statements

(2) Prior period figures have been restated to conform with current period presentation of financial information, as detailed in Note 2 of these Condensed Consolidated Interim Financial Statements

## 14. Other Income

Three Months Ended March 31,	2024	2023
	(\$)	(\$)
Gain on previously held equity interest	(50,830)	—
Net interest income	(1,411)	(2,607)
Equity investment income	(217)	(1,126)
Other expenses	1,031	581
Foreign exchange loss	714	233
Net monetary gain	—	(159)
<b>Total other income</b>	<b>(50,713)</b>	<b>(3,078)</b>

Gain on previously held equity interest results from the Company obtaining control over IWS effective January 1, 2024 where the Company's previously held equity investment associated with IWS was remeasured to fair value, resulting in a gain of \$50,830 on the derecognition of the \$31,745 carrying value of this investment. Further information is outlined in Note 4 of these Condensed Consolidated Interim Financial Statements.

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

Other expenses include transaction costs incurred on the common share acquisition of IWS, as well as legal expenses incurred in connection with the Company's ongoing intellectual property litigation as disclosed in Note 16 of these Condensed Consolidated Interim Financial Statements.

The equity investment income results from the Company using the equity method of accounting to account for its investment in the Pason-Rawabi joint venture, and previously Intelligent Wellhead Systems prior to its consolidation as a wholly-owned subsidiary in the first quarter of 2024.

## 15. Income Per Share

### Basic income per share

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

Three Months Ended March 31,	2024	2023
	(#)	(#)
Issued common shares outstanding, beginning	79,685,025	81,526,954
Effect of NCIB and exercised options	(131,617)	(247,667)
<b>Weighted average number of common shares (basic)</b>	<b>79,553,408</b>	<b>81,279,287</b>

### Diluted income per share

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

Three Months Ended March 31,	2024	2023
	(#)	(#)
Weighted average number of common shares (basic)	79,553,408	81,279,287
Effect of share options	269,482	355,483
<b>Weighted average number of common shares (diluted)</b>	<b>79,822,890</b>	<b>81,634,770</b>

For the three month period ended March 31, 2024, 636,191 (first quarter of 2023 - 1,361,549) 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.

## **16. Commitments & Contingencies**

The Company is involved in litigation and disputes arising in the normal course of business. Management regularly evaluates the likelihood of potential liabilities being incurred and the amounts of such liabilities after careful examination of available information and discussions with its legal advisors.

In May of 2023, a competitor filed a patent infringement lawsuit against IWS in the District of Colorado alleging IWS' infringement of two patents relating to certain aspects of continuous hydraulic fracturing. Given the stage of the lawsuit, management is not currently able to estimate the extent of potential costs and losses related to this claim, if any. Consequently, no provision has been recorded in the Company's Condensed Consolidated Interim Financial Statements related to this litigation. The Company does not currently believe the outcome of any pending or threatened proceedings related to this patent litigation is probable to result in IWS being required to pay any amounts which would have a material adverse impact on its financial position, results of operations, or liquidity.

## **17. Approval of Financial Statements**

These unaudited Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on May 2, 2024.

## **18. Events After the Reporting Period**

On May 2, 2024, the Company declared a quarterly dividend of \$0.13 per share on the Company's common shares. The dividend will be paid on June 28, 2024 to shareholders of record at the close of business on June 14, 2024.

# Corporate Information

## Directors

### Marcel Kessler<sup>(1)</sup>

Independent Business Advisor  
Victoria, British Columbia

### T. Jay Collins<sup>(3)(4)</sup>

Independent Business Advisor  
Houston, Texas

### Jon Faber

President & CEO  
Pason Systems Inc.  
Calgary, Alberta

### Judi Hess<sup>(3)(5)(7)</sup>

Vice Chair & Chief Strategist  
Copperleaf Technologies Inc.  
Vancouver, British Columbia

### Laura Schwinn<sup>(5)(6)(8)</sup>

Independent Business Advisor  
Fulton, Maryland

### Ken Mullen<sup>(2)(7)</sup>

Director  
Melamaken Adventures Inc.  
Calgary, Alberta

## Officers & Key Personnel

### Jon Faber

President  
& Chief Executive Officer

### Celine Boston

Chief Financial Officer

### Kevin Boston

Vice President, Commercial

### Craig Bye

Vice President, R&D - Cloud Platforms  
and Applications

### Natalie Fenez

Vice President, Legal & Corporate  
Secretary

### Heather Hantos

Vice President, Human Resources

### Bryce McLean

Vice President, Operations

### Lars Olesen

Vice President, Product & Technology

### Russell Smith

Vice President, International

### Ryan Van Beurden

Vice President, Rig-site Research &  
Development

## Corporate Head Office

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

## Auditors

### Deloitte LLP

Calgary, Alberta

## Banker

### Royal Bank of Canada

Calgary, Alberta

## Registrar and Transfer Agent

### Computershare Trust Company of Canada

Calgary, Alberta

## Stock Trading

### Toronto Stock Exchange

Trading Symbol: PSI.TO

## Eligible Dividend Designation

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

(1) Chair 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