

# Condensed Consolidated Interim Financial Statements and Notes

## Condensed Consolidated Interim Balance Sheets

As at	Note*	September 30, 2020	December 31, 2019
(CDN 000s) (unaudited)		(\$)	(\$)
<b>Assets</b>			
Current			
Cash and cash equivalents	5,11	169,254	161,016
Trade and other receivables		20,098	59,716
Income taxes recoverable - other	6	15,304	15,304
Prepaid expenses		2,318	3,621
Income taxes recoverable		5,302	2,382
<b>Total current assets</b>		<b>212,276</b>	<b>242,039</b>
Non-current			
Property, plant and equipment		103,722	118,522
Investments		25,824	26,265
Intangible assets and goodwill		47,481	51,015
<b>Total non-current assets</b>		<b>177,027</b>	<b>195,802</b>
<b>Total assets</b>		<b>389,303</b>	<b>437,841</b>
<b>Liabilities and equity</b>			
Current			
Trade payables and accruals		28,023	34,420
Income taxes payable		2,461	3,133
Stock-based compensation liability	7	2,332	2,442
Lease liability	8	2,471	3,275
Investment - put option		10,000	15,000
<b>Total current liabilities</b>		<b>45,287</b>	<b>58,270</b>
Non-current			
Deferred tax liabilities		9,651	8,566
Lease liability	8	4,513	11,532
Stock-based compensation liability	7	3,921	3,479
Obligation under put option		9,797	9,540
<b>Total non-current liabilities</b>		<b>27,882</b>	<b>33,117</b>
<b>Equity</b>			
Share capital	7	162,798	166,701
Share-based benefits reserve		32,536	30,863
Foreign currency translation reserve		63,575	57,830
Equity reserve		(8,375)	(8,375)
Retained earnings		66,902	99,806
<b>Total equity attributable to equity holders of the Company</b>		<b>317,436</b>	<b>346,825</b>
Non-controlling interest		(1,302)	(371)
<b>Total equity</b>		<b>316,134</b>	<b>346,454</b>
<b>Total liabilities and equity</b>		<b>389,303</b>	<b>437,841</b>

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

# Condensed Consolidated Interim Statements of Operations

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note*	2020	2019	2020	2019
(CDN 000s, except per share data) (unaudited)		(\$)	(\$)	(\$)	(\$)
<b>Revenue</b>		<b>23,068</b>	72,195	<b>123,878</b>	227,232
<b>Operating expenses</b>					
Rental services		12,956	25,779	53,291	79,837
Local administration		2,167	3,430	8,795	10,140
Depreciation and amortization		7,503	9,917	26,529	30,117
		<b>22,626</b>	39,126	<b>88,615</b>	120,094
<b>Gross profit</b>		<b>442</b>	33,069	<b>35,263</b>	107,138
<b>Other expenses</b>					
Research and development		6,237	7,564	21,036	22,969
Corporate services		2,469	3,865	8,981	11,413
Stock-based compensation expense	7	276	2,446	2,022	9,359
Other (income) expenses	8	(3,214)	(1,709)	(9,154)	3,343
		<b>5,768</b>	12,166	<b>22,885</b>	47,084
<b>(Loss) income before income taxes</b>		<b>(5,326)</b>	20,903	<b>12,378</b>	60,054
Income tax provision		(1,369)	5,485	4,582	16,347
<b>Net (loss) income</b>		<b>(3,957)</b>	15,418	<b>7,796</b>	43,707
<b>Net (loss) income attributable to:</b>					
Shareholders of Pason		(3,698)	15,418	8,734	43,707
Non-controlling interest		(259)	—	(938)	—
<b>Net (loss) income</b>		<b>(3,957)</b>	15,418	<b>7,796</b>	43,707
<b>(Loss) income per share</b>	9				
Basic		(0.04)	0.18	0.10	0.51
Diluted		(0.04)	0.18	0.10	0.51

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# Condensed Consolidated Interim Statements of Other Comprehensive Income

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note*	2020	2019	2020	2019
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
<b>Net (loss) income</b>		<b>(3,957)</b>	15,418	<b>7,796</b>	43,707
Items that may be reclassified subsequently to net income:					
Tax recovery on net investment in foreign operations related to an inter-company financing		—	—	—	10,481
Foreign currency translation adjustment		<b>(6,476)</b>	819	<b>5,752</b>	(12,274)
<b>Other comprehensive (loss) gain</b>		<b>(6,476)</b>	819	<b>5,752</b>	(1,793)
<b>Total comprehensive (loss) income</b>		<b>(10,433)</b>	16,237	<b>13,548</b>	41,914
<b>Total comprehensive (loss) income attributed to:</b>					
<b>Shareholders of Pason</b>		<b>(10,190)</b>	16,237	<b>14,479</b>	41,914
<b>Non-controlling interest</b>		<b>(243)</b>	—	<b>(931)</b>	—
<b>Total comprehensive (loss) income</b>		<b>(10,433)</b>	16,237	<b>13,548</b>	41,914

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## 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 January 1, 2019</b>		164,723	27,287	63,574	—	130,493	386,077	—	386,077
Net income		—	—	—	—	43,707	43,707	—	43,707
Dividends	7	—	—	—	—	(47,055)	(47,055)	—	(47,055)
Acquisition		—	—	—	(9,079)	—	(9,079)	1,244	(7,835)
Other comprehensive loss		—	—	(1,793)	—	—	(1,793)	—	(1,793)
Exercise of stock options	7	3,990	(623)	—	—	—	3,367	—	3,367
Expense related to vesting of options		—	3,258	—	—	—	3,258	—	3,258
Shares cancelled under NCIB	7	(1,309)	—	—	—	(11,754)	(13,063)	—	(13,063)
Liability reversal for automatic share purchase plan commitment pursuant to NCIB	7	423	—	—	—	3,656	4,079	—	4,079
<b>Balance at September 30, 2019</b>		167,827	29,922	61,781	(9,079)	119,047	369,498	1,244	370,742
Net income (loss)		—	—	—	—	10,405	10,405	(309)	10,096
Dividends		—	—	—	—	(16,045)	(16,045)	—	(16,045)
Prior years business acquisition		1,250	—	—	—	—	1,250	—	1,250
Acquisition		—	—	—	704	—	704	(1,306)	(602)
Other comprehensive income		—	—	(3,951)	—	—	(3,951)	—	(3,951)
Exercise of stock options		—	(1)	—	—	—	(1)	—	(1)
Expense relating to vesting of options		—	942	—	—	—	942	—	942
Shares cancelled under NCIB		(1,644)	—	—	—	(9,333)	(10,977)	—	(10,977)
Liability for automatic share purchase plan commitment pursuant to NCIB	7	(732)	—	—	—	(4,268)	(5,000)	—	(5,000)
<b>Balance at December 31, 2019</b>		166,701	30,863	57,830	(8,375)	99,806	346,825	(371)	346,454
Net income (loss)		—	—	—	—	8,734	8,734	(938)	7,796
Dividends	7	—	—	—	—	(36,265)	(36,265)	—	(36,265)
Other comprehensive income		—	—	5,745	—	—	5,745	7	5,752
Expense related to vesting of options		—	1,673	—	—	—	1,673	—	1,673
Shares cancelled under NCIB	7	(1,675)	—	—	—	(4,601)	(6,276)	—	(6,276)
Liability reversal for automatic share purchase plan commitment pursuant to NCIB	7	732	—	—	—	4,268	5,000	—	5,000
Liability for automatic share purchase plan commitment pursuant to NCIB	7	(2,960)	—	—	—	(5,040)	(8,000)	—	(8,000)
<b>Balance at September 30, 2020</b>		162,798	32,536	63,575	(8,375)	66,902	317,436	(1,302)	316,134

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# Condensed Consolidated Interim Statements of Cash Flows

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note*	2020	2019	2020	2019
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
<b>Cash from (used in) operating activities</b>					
Net (loss) income		(3,957)	15,418	7,796	43,707
Adjustment for non-cash items:					
Depreciation and amortization		7,503	9,917	26,529	30,117
Stock-based compensation	7	276	2,446	2,022	9,359
Deferred income taxes		1,253	2,101	975	3,520
Derecognition of onerous lease	8	—	—	(5,757)	—
Derecognition of lease receivable	8	—	—	—	4,289
Hyperinflationary adjustment		(451)	(1,506)	(1,182)	(1,506)
Unrealized foreign exchange loss and other		141	1,523	1,238	106
<b>Funds flow from operations</b>		<b>4,765</b>	<b>29,899</b>	<b>31,621</b>	<b>89,592</b>
Movements in non-cash working capital items:					
Decrease in trade and other receivables		3,955	4,922	39,896	9,021
(Increase) decrease in prepaid expenses		(561)	(1,066)	1,308	(45)
(Decrease) increase in income taxes		(3,063)	3,476	1,360	4,699
Increase (decrease) in trade payables, accruals and stock-based compensation liability		3,063	2,270	(8,079)	(3,894)
Effects of exchange rate changes		82	(1,850)	(61)	(262)
<b>Cash generated from operating activities</b>		<b>8,241</b>	<b>37,651</b>	<b>66,045</b>	<b>99,111</b>
Income tax paid	6	(2,487)	(198)	(4,745)	(15,278)
<b>Net cash from operating activities</b>		<b>5,754</b>	<b>37,453</b>	<b>61,300</b>	<b>83,833</b>
<b>Cash flows from (used in) financing activities</b>					
Proceeds from issuance of common shares	7	—	239	—	3,366
Payment of dividends	7	(4,201)	(16,199)	(36,265)	(47,055)
Repurchase and cancellation of shares under NCIB	7	(2,193)	(1,944)	(6,276)	(13,063)
Repayment of lease liability		(667)	(840)	(1,910)	(1,893)
<b>Net cash used in financing activities</b>		<b>(7,061)</b>	<b>(18,744)</b>	<b>(44,451)</b>	<b>(58,645)</b>
<b>Cash flows (used in) from investing activities</b>					
Payment on investment - put option		—	—	(5,000)	—
Acquisition		—	(23,830)	—	(23,830)
Additions to property, plant and equipment		(476)	(3,398)	(4,520)	(17,482)
Development costs		(331)	(660)	(174)	(1,109)
Proceeds on disposal of investment and property, plant and equipment		81	188	888	806
Changes in non-cash working capital		(887)	(516)	(530)	(49)
<b>Net cash used in investing activities</b>		<b>(1,613)</b>	<b>(28,216)</b>	<b>(9,336)</b>	<b>(41,664)</b>
Effect of exchange rate on cash and cash equivalents		(4,312)	1,239	725	(6,497)
<b>Net (decrease) increase in cash and cash equivalents</b>		<b>(7,232)</b>	<b>(8,268)</b>	<b>8,238</b>	<b>(22,973)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>176,486</b>	<b>189,133</b>	<b>161,016</b>	<b>203,838</b>
<b>Cash and cash equivalents, end of period</b>	5	<b>169,254</b>	<b>180,865</b>	<b>169,254</b>	<b>180,865</b>

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# Notes to Condensed Consolidated Interim Financial Statements

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

## 1. Description of Business

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

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

## 2. Basis of Preparation

### Statement of compliance

These unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with the requirements of International Accounting Standard ("IAS") 34, Interim Financial Reporting and include the accounts of Pason and its wholly owned subsidiaries. All significant intercompany balances and transactions including revenue and expenses have been eliminated. These unaudited Condensed Consolidated Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the Consolidated Financial Statements of the Company as at and for the year ended December 31, 2019.

### Key Sources of Estimation Uncertainty

At each reporting period, management assesses whether there are indicators of impairment of the Company's property and equipment, intangible assets, and goodwill. If an indication of impairment exists, the property and equipment, intangible assets, and goodwill are tested for impairment. Goodwill is tested for impairment at least annually. In order to determine if impairment exists and to measure the potential impairment charge, the carrying amounts of the Company's cash generating units (CGU) are compared to their recoverable amounts, which is the greater of fair value less costs to sell and value in use (VIU). An impairment charge is recognized to the extent the carrying amount exceeds the recoverable amount. VIU is calculated as the present value of the expected future cash flows specific to each CGU. In calculating VIU, significant judgment is required in making assumptions with respect to discount rates, the market outlook, and future net cash flows associated with the CGU. Any changes in these assumptions will have an impact on the measurement of the recoverable amount and could result in adjustments to impairment charges already recorded.

The COVID-19 pandemic has had a significant negative impact on the demand for fossil fuels and this combined with an over-supply of oil has led to a decline in oil prices. As a result, the Company's customers have reduced their capital expenditure programs which has led to a precipitous fall in the active rig count in all major markets the Company operates in, which has had a significant impact on the Company's revenue.

At June 30, 2020, management calculated the recoverable amount determined based on the value in use in each of the CGUs using cash flow budgets approved by management. There is a degree of uncertainty with respect to the estimates of the recoverable amounts of the CGU's assets due in part to the necessity of making key assumptions about the future economic environment that the Company will operate in. The value in use calculations use discounted cash flow projections, which require key assumptions, including future cash flows, projected growth, and pre-tax discount rates.

The Company considers a range of reasonable possibilities to use for these key assumptions and decides upon the amounts to use that represent management's best estimates. Management believes there was no significant change to the recoverable amounts calculated at June 30, 2020 and accordingly did not perform an impairment test as at September 30, 2020.

### **3. Significant Accounting Policies**

#### **Government Subsidies**

The Company adopted the following accounting policy as a result of qualifying for the Canada Emergency Wage Subsidy (CEWS) program. CEWS subsidies are recognized when there is reasonable assurance that the Company will comply with the relevant conditions and that the subsidy will be received. The CEWS benefits are recorded as other income.

#### **Adoption of new standard**

##### **IFRS 3, Business combinations**

Amendments to IFRS 3, Business Combinations, assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. It amends the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will be applied prospectively to new transactions.

##### **IAS 28, Investments in associates and joint ventures**

Indicates that long-term interests in an associate or joint venture, such as long-term loans, should be accounted for using IFRS 9, Financial instruments.

##### **IAS 12/IFRIC 23, Income taxes**

Clarified that IAS 12 applies to accounting for uncertain tax positions. The IFRIC includes guidance to deal with uncertainty of tax treatments.

### **4. Seasonality**

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

## 5. Cash and Cash Equivalents

As at	September 30, 2020	December 31, 2019
(unaudited)	(\$)	(\$)
Cash	47,823	56,539
Cash equivalents	121,431	104,477
Cash and cash equivalents	169,254	161,016

Cash equivalents are made up of cash invested in money market funds with interest rates of approximately 0.50% and maturities from 1–30 days.

## 6. Income Tax

During the first quarter of 2019, the Company paid withholding tax owing to the Canada Revenue Agency (CRA) of \$15,304 as part of the Bilateral Advanced Pricing Arrangement entered into with the CRA and the Internal Revenue Service (IRS). The Company has recorded an amount under current income taxes recoverable - other on the Condensed Consolidated Interim Balance Sheets which represents a corresponding amount owing from the IRS. During the third quarter of 2020, the IRS informed the Company that the withholding tax refund had been selected for audit.

## 7. Share Capital

### Common shares

	Nine Months Ended September 30, 2020		Year Ended December 31, 2019	
(unaudited)	(\$)	(#)	(\$)	(#)
<b>Balance, beginning of period</b>	<b>166,701</b>	<b>84,538</b>	164,723	85,783
Exercise of stock options	—	—	3,990	198
Previous business acquisition	—	—	1,250	95
Shares repurchased and cancelled under NCIB	(1,675)	(848)	(2,953)	(1,538)
Prior period liability for automatic share purchase plan commitment pursuant to NCIB	732	—	423	—
Liability for automatic share purchase plan commitment pursuant to NCIB	(2,960)	—	(732)	—
<b>Balance, end of period</b>	<b>162,798</b>	<b>83,690</b>	166,701	84,538

At September 30, 2020, the Company was authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

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

### Stock option plan

The Group has a stock option plan that entitles qualified employees to purchase shares in the Company. Options, which are issued at market price, vest over three years and expire after five years.

At September 30, 2020, 4,546 (2019: 5,135) stock options were outstanding for common shares at exercise prices ranging from \$12.90 to \$20.62 per share, expiring between 2020 and 2024 as follows:



	Nine Months Ended September 30, 2020		Nine Months Ended September 30, 2019	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
(unaudited)	(#)	(\$)	(#)	(\$)
<b>Outstanding, beginning of period</b>	<b>5,111</b>	<b>17.87</b>	5,534	20.00
Granted	—	—	40	18.85
Equity settled	—	—	(198)	16.98
Expired or forfeited	(565)	18.32	(241)	22.55
<b>Outstanding, end of period</b>	<b>4,546</b>	<b>17.84</b>	5,135	19.99
<b>Exercisable, end of period</b>	<b>2,652</b>	<b>18.46</b>	2,492	21.17
<b>Available for grant, end of period</b>	<b>1,312</b>		836	

### Stock-based compensation expense and liability

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

#### Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(unaudited)	(\$)	(\$)	(\$)	(\$)
Stock options	667	1,177	1,673	3,259
RSUs	43	194	849	1,794
DSUs (recovery) expense	(327)	(234)	(979)	180
PSUs (recovery) expense	(107)	1,236	479	3,907
Deferred compensation expense	—	73	—	219
Stock-based compensation	276	2,446	2,022	9,359

#### Liability

As at	September 30, 2020	December 31, 2019
(unaudited)	(\$)	(\$)
RSUs	405	739
PSUs	1,927	1,703
Current portion of stock-based compensation liability	2,332	2,442
RSUs	1,875	710
DSUs	1,249	2,228
PSUs	797	541
Non-current portion of stock-based compensation liability	3,921	3,479
Total stock-based compensation liability	6,253	5,921

#### Common share dividends

During the third quarter of 2020, the Company declared and paid dividends of \$4,201 (2019: \$16,199) or \$0.05 per common share (2019: \$0.19).

#### Normal Course Issuer Bid (NCIB)

In 2019, the Company renewed the expiring NCIB, which commenced on December 18, 2019 and expires on December 17, 2020. Under the new NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 6,777 common shares, which represent 10% of the public float.

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

of 44 common shares. The Company may make one block purchase per calendar week which exceeds the daily purchase restriction.

During the third quarter of 2020, the Company purchased 406 common shares for cancellation (2019: 109), for a total cash consideration of \$2,193 (2019: \$1,944). On a year to date basis, the Company purchased 848 (2019: 682), for total consideration of \$6,276 (2019: \$13,063). The total consideration is allocated between share capital and retained earnings.

Under an automatic purchase plan (APP) with an independent broker, the Company recorded a liability of \$8,000 at September 30, 2020 for share repurchases that could take place during its internal blackout period. The total accrual is included in the Consolidated Balance Sheets under trade payables and accruals.

As at	September 30, 2020	December 31, 2019
(unaudited)	(\$)	(\$)
Amounts charged to:		
Share capital	2,960	732
Retained earnings	5,040	4,268
Liability for automatic share purchase plan commitment	8,000	5,000

## 8. Other (Income) Expenses

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(unaudited)	(\$)	(\$)	(\$)	(\$)
Derecognition of onerous lease	—	—	(5,757)	—
Government wage assistance	(3,334)	—	(7,697)	—
Reorganization costs	—	—	5,554	—
Derecognition of lease receivable	—	—	—	4,289
Foreign exchange loss	113	615	145	1,269
Net interest expense - lease liabilities	33	159	279	404
Interest income - short term investments	(138)	(258)	(1,120)	(726)
Net monetary gain	(465)	(2,376)	(1,280)	(2,376)
Equity loss (income)	357	68	436	(156)
Other	220	83	286	639
Other (income) expenses	(3,214)	(1,709)	(9,154)	3,343

During the third quarter of 2020, due to the decline in revenue, the Company was eligible for the Canada Emergency Wage Subsidy (CEWS) program. As a result, a CEWS benefit of \$3,334 was recorded as government wage assistance. On a year to date basis, \$7,697 of CEWS benefit was recorded as government wage assistance.

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

During the second quarter of 2020, the Company initiated staff reduction initiatives to address the anticipated prolonged downturn in oil and gas drilling activity in all of its markets. Accordingly, the Company recorded reorganization expense of \$5,554, which is comprised of termination and other staff related costs. This reorganization led to a decline in research and development and corporate service expenses compared to 2019.

During the second quarter of 2019, the Company was notified that the tenant leasing the Company's previous office space in Colorado, USA filed for Chapter 7 bankruptcy. As a result, the Company derecognized the lease receivable and reported \$4,289 in other expenses.

Net monetary gain is as a result of applying hyperinflation accounting to the Company's Argentinian subsidiary.

## 9. 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(unaudited)	(#)	(#)	(#)	(#)
Issued common shares outstanding, beginning of period	<b>84,096</b>	85,393	<b>84,538</b>	85,783
Effect of NCIB and exercised options	<b>(102)</b>	(61)	<b>(363)</b>	(60)
Weighted average number of common shares (basic)	<b>83,994</b>	85,332	<b>84,175</b>	85,723

### 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 September 30,		Nine Months Ended September 30,	
	2020	2019	2020	2019
(unaudited)	(#)	(#)	(#)	(#)
Weighted average number of common shares (basic)	<b>83,994</b>	85,332	<b>84,175</b>	85,723
Effect of share options	—	67	—	88
Weighted average number of common shares (diluted)	<b>83,994</b>	85,399	<b>84,175</b>	85,811

All of the Company's 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.

## 10. Operating Segments

The Company operates three strategic business units: The North American (Canada and the United States) and International (Latin America, including Mexico, Offshore, the Eastern Hemisphere, and the Middle East) business units, all of which offer services to the oil and gas industry, but are managed separately. The Solar and energy storage business unit offer services to solar and storage developers. For each of the strategic business units, the Group's senior management reviews internal management reports on a monthly basis.

Previously, the Company's operating segments were oil and gas centric and reported by geographic segment: Canada, the United States, and International (Latin America, Offshore, the Eastern Hemisphere, and the Middle East). The solar and energy storage business was previously reported under the United States business unit.

All comparative figures have been reclassified to conform to the new presentation.

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

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

Three Months Ended September 30, 2020	North America	International	Solar and Energy Storage	Total
(unaudited)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	10,100	2,118	—	12,218
Mud Management and Safety	5,291	1,224	—	6,515
Communications	887	78	—	965
Drilling Intelligence	1,011	41	—	1,052
Analytics and Other	991	417	910	2,318
Total Revenue	18,280	3,878	910	23,068
Rental services and local administration	10,948	2,812	1,363	15,123
Depreciation and amortization	6,554	944	5	7,503
Segment gross profit (loss)	778	122	(458)	442
Research and development				6,237
Corporate services				2,469
Stock-based compensation				276
Other (income)				(3,214)
Income tax provision				(1,369)
Net loss				(3,957)
Net loss attributable to Pason				(3,698)
Capital expenditures	807	—	—	807
<b>As at September 30, 2020</b>				
Property plant and equipment	91,781	11,822	119	103,722
Intangible assets	8,986	—	4,395	13,381
Goodwill	8,871	2,600	22,629	34,100
Segment assets	362,464	26,273	566	389,303
Segment liabilities	68,032	4,183	954	73,169

<b>Three Months Ended September 30, 2019</b> (restated)	<b>North America</b>	<b>International</b>	<b>Solar and Energy Storage</b>	<b>Total</b>
(unaudited)	(\$)	(\$)	(\$)	(\$)
<b>Revenue</b>				
Drilling Data	32,561	5,210	—	37,771
Mud Management and Safety	19,416	1,827	—	21,243
Communications	4,464	319	—	4,783
Drilling Intelligence	4,785	356	—	5,141
Analytics and Other	2,294	837	126	3,257
<b>Total Revenue</b>	<b>63,520</b>	<b>8,549</b>	<b>126</b>	<b>72,195</b>
Rental services and local administration	24,239	4,525	445	29,209
Depreciation and amortization	8,813	1,097	7	9,917
<b>Segment gross profit (loss)</b>	<b>30,468</b>	<b>2,927</b>	<b>(326)</b>	<b>33,069</b>
Research and development				7,564
Corporate services				3,865
Stock-based compensation				2,446
Other (income)				(1,709)
Income tax provision				5,485
<b>Net income</b>				<b>15,418</b>
<b>Net income attributable to Pason</b>				<b>15,418</b>
Capital expenditures	3,167	891	—	4,058
<b>As at September 30, 2019</b>				
Property plant and equipment	107,025	15,316	130	122,471
Intangible assets	44,453	—	—	44,453
Goodwill	8,816	2,600	—	11,416
<b>Segment assets</b>	<b>390,233</b>	<b>54,572</b>	<b>1,357</b>	<b>446,162</b>
<b>Segment liabilities</b>	<b>69,293</b>	<b>6,066</b>	<b>61</b>	<b>75,420</b>

<b>Nine Months Ended September 30, 2020</b>	<b>North America</b>	<b>International</b>	<b>Solar and Energy Storage</b>	<b>Total</b>
(unaudited)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	55,921	9,061	—	64,982
Mud Management and Safety	31,388	4,744	—	36,132
Communications	6,406	574	—	6,980
Drilling Intelligence	7,241	416	—	7,657
Analytics and Other	4,105	1,370	2,652	8,127
<b>Total Revenue</b>	<b>105,061</b>	<b>16,165</b>	<b>2,652</b>	<b>123,878</b>
Rental services and local administration	46,033	11,466	4,587	62,086
Depreciation and amortization	23,528	2,983	18	26,529
Segment gross profit (loss)	35,500	1,716	(1,953)	35,263
Research and development				21,036
Corporate services				8,981
Stock-based compensation				2,022
Other (income)				(9,154)
Income tax provision				4,582
Net income				7,796
Net income attributable to Pason				8,734
Capital expenditures	4,694	—	—	4,694
<b>As at September 30, 2020</b>				
Property plant and equipment	91,781	11,822	119	103,722
Intangible assets	8,986	—	4,395	13,381
Goodwill	8,871	2,600	22,629	34,100
Segment assets	362,464	26,273	566	389,303
Segment liabilities	68,032	4,183	954	73,169

<b>Nine Months Ended September 30, 2019</b> (restated)	<b>North America</b>	<b>International</b>	<b>Solar and Energy Storage</b>	<b>Total</b>
(unaudited)	(\$)	(\$)	(\$)	(\$)
<b>Revenue</b>				
Drilling Data	102,713	17,580	—	120,293
Mud Management and Safety	60,650	5,409	—	66,059
Communications	14,146	1,176	—	15,322
Drilling Intelligence	14,734	968	—	15,702
Analytics and Other	7,017	2,629	210	9,856
<b>Total Revenue</b>	<b>199,260</b>	<b>27,762</b>	<b>210</b>	<b>227,232</b>
Rental services and local administration	73,405	15,371	1,201	89,977
Depreciation and amortization	27,015	3,082	20	30,117
<b>Segment gross profit (loss)</b>	<b>98,840</b>	<b>9,309</b>	<b>(1,011)</b>	<b>107,138</b>
Research and development				22,969
Corporate services				11,413
Stock-based compensation				9,359
Other expenses				3,343
Income tax provision				16,347
<b>Net income</b>				<b>43,707</b>
<b>Net income attributable to Pason</b>				<b>43,707</b>
Capital expenditures	15,835	2,756	—	18,591
<b>As at September 30, 2019</b>				
Property plant and equipment	107,025	15,316	130	122,471
Intangible assets	44,453	—	—	44,453
Goodwill	8,816	2,600	—	11,416
<b>Segment assets</b>	<b>390,233</b>	<b>54,572</b>	<b>1,357</b>	<b>446,162</b>
<b>Segment liabilities</b>	<b>69,293</b>	<b>6,066</b>	<b>61</b>	<b>75,420</b>

## 11. Financial Instruments

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

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

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

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

<b>Financial Assets and Liabilities at Fair Value</b>				
<b>As at September 30, 2020</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
(unaudited)	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	169,254	—	—	<b>169,254</b>

## 12. Approval of Financial Statements

The unaudited Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on November 4, 2020.

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

On November 4, 2020, the Company announced a quarterly dividend of \$0.05 per share on the Company's common shares. The dividend will be paid on December 30, 2020 to shareholders of record at the close of business on December 16, 2020.