

Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	March 31, 2022	December 31, 2021
(CDN 000s) (unaudited)		(\$)	(\$)
Assets			
Current			
Cash and cash equivalents	4	172,057	158,283
Trade and other receivables		60,260	49,453
Prepaid expenses		4,639	5,197
Income taxes recoverable	10	1,378	13,632
Total current assets		238,334	226,565
Non-current			
Property, plant and equipment		80,799	82,265
Investments	6	30,126	30,046
Intangible assets and goodwill		37,785	41,065
Total non-current assets		148,710	153,376
Total assets		387,044	379,941
Liabilities and equity			
Current			
Trade payables and accruals		24,288	31,475
Income taxes payable		12,087	6,568
Stock-based compensation liability	9	6,408	2,647
Lease liability		1,879	1,792
Obligation under put option	7	11,319	—
Total current liabilities		55,981	42,482
Non-current			
Deferred tax liabilities		836	5,836
Lease liability		4,958	5,537
Stock-based compensation liability	9	8,493	6,821
Obligation under put option	7	—	11,484
Total non-current liabilities		14,287	29,678
Equity			
Share capital	8	163,846	162,567
Share-based benefits reserve		34,506	34,383
Foreign currency translation reserve		46,586	50,298
Equity reserve		(8,375)	(8,375)
Retained earnings		84,471	72,602
Total equity attributable to equity holders of the Company		321,034	311,475
Non-controlling interest		(4,258)	(3,694)
Total equity		316,776	307,781
Total liabilities and equity		387,044	379,941

*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*	2022	2021
(CDN 000s, except per share data) (unaudited)			
		(\$)	(\$)
Revenue		74,468	42,555
Operating expenses			
Rental services		25,172	16,457
Local administration		3,118	2,451
Depreciation and amortization		6,314	7,831
		34,604	26,739
Gross profit		39,864	15,816
Other expenses			
Research and development		8,844	7,116
Corporate services		3,488	3,032
Stock-based compensation expense	9	5,555	2,602
Other income	12	(1,353)	(2,182)
		16,534	10,568
Income before income taxes		23,330	5,248
Income tax provision		5,329	1,257
Net income		18,001	3,991
Net income (loss) attributable to:			
Shareholders of Pason		18,573	4,315
Non-controlling interest		(572)	(324)
Net income		18,001	3,991
Income per share	13		
Basic		0.23	0.05
Diluted		0.23	0.05

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

Condensed Consolidated Interim Statements of Other Comprehensive Income

Three Months Ended March 31,	Note*	2022	2021
(CDN 000s) (unaudited)			
		(\$)	(\$)
Net income		18,001	3,991
Items that may be reclassified subsequently to net income:			
Foreign currency translation adjustment		(3,704)	(3,683)
Other comprehensive (loss)		(3,704)	(3,683)
Total comprehensive income		14,297	308
Total comprehensive income (loss) attributed to:			
Shareholders of Pason		14,861	628
Non-controlling interest		(564)	(320)
Total comprehensive income		14,297	308

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

Condensed Consolidated Interim Statements of Changes in Equity

	Note*	Share Capital	Share- Based Benefits Reserve	Foreign Currency Translation Reserve	Equity Reserve	Retained Earnings	Total Equity Attributable to Pason	Non- Controlling Interest	Total Equity
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Balance at December 31, 2020		164,568	33,170	54,090	(8,375)	63,609	307,062	(1,779)	305,283
Net income (loss)		—	—	—	—	4,315	4,315	(324)	3,991
Dividends		—	—	—	—	(4,158)	(4,158)	—	(4,158)
Other comprehensive income (loss)		—	—	(3,687)	—	—	(3,687)	4	(3,683)
Expense related to stock options		—	271	—	—	—	271	—	271
Balance at March 31, 2021		164,568	33,441	50,403	(8,375)	63,766	303,803	(2,099)	301,704
Net income (loss)		—	—	—	—	29,530	29,530	(1,596)	27,934
Dividends		—	—	—	—	(12,409)	(12,409)	—	(12,409)
Other comprehensive income (loss)		—	—	(105)	—	—	(105)	1	(104)
Expense related to stock options		146	942	—	—	—	1,088	—	1,088
Liability for automatic share purchase plan commitment pursuant to NCIB	8	(343)	—	—	—	(1,657)	(2,000)	—	(2,000)
Shares cancelled under NCIB	8	(1,804)	—	—	—	(6,628)	(8,432)	—	(8,432)
Balance at December 31, 2021		162,567	34,383	50,298	(8,375)	72,602	311,475	(3,694)	307,781
Net income (loss)		—	—	—	—	18,573	18,573	(572)	18,001
Dividends		—	—	—	—	(6,570)	(6,570)	—	(6,570)
Other comprehensive income (loss)		—	—	(3,712)	—	—	(3,712)	8	(3,704)
Exercise of stock options		1,259	(188)	—	—	—	1,071	—	1,071
Expense related to stock options		—	311	—	—	—	311	—	311
Liability reversal for automatic share purchase plan commitment pursuant to NCIB		343	—	—	—	1,657	2,000	—	2,000
Liability for automatic share purchase plan commitment pursuant to NCIB	8	(97)	—	—	—	(653)	(750)	—	(750)
Shares cancelled under NCIB	8	(226)	—	—	—	(1,138)	(1,364)	—	(1,364)
Balance at March 31, 2022		163,846	34,506	46,586	(8,375)	84,471	321,034	(4,258)	316,776

*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*	2022	2021
(CDN 000s) (unaudited)		(\$)	(\$)
Cash from (used in) operating activities			
Net income		18,001	3,991
Adjustment for non-cash items:			
Depreciation and amortization		6,314	7,831
Stock-based compensation expense	9	5,555	2,602
Deferred income taxes		(5,010)	(1,045)
Net monetary loss (gain)		48	(200)
Unrealized foreign exchange (gain) loss and other		796	551
Funds flow from operations		25,704	13,730
Movements in non-cash working capital items:			
(Increase) in trade and other receivables		(10,191)	(6,627)
Decrease in prepaid expenses		563	34
Increase (decrease) in income taxes payable/recoverable	10	22,719	4,085
Increase (decrease) in trade payables, accruals and stock-based compensation liability		(5,709)	2,649
Effects of exchange rate changes		(10)	(428)
Cash generated from operating activities		33,076	13,443
Income tax paid		(5,026)	(2,358)
Net cash from operating activities		28,050	11,085
Cash flows from (used in) financing activities			
Proceeds from exercise of stock options	8	1,071	—
Payment of dividends	8	(6,570)	(4,158)
Repurchase and cancellation of shares under NCIB	8	(1,364)	—
Repayment of lease liability		(508)	(623)
Net cash used in financing activities		(7,371)	(4,781)
Cash flows (used in) from investing activities			
Additions to property, plant and equipment		(4,330)	(1,450)
Development costs, net of ITCs		(134)	(399)
Proceeds on disposal of property, plant and equipment		152	152
Changes in non-cash working capital		(156)	(212)
Net cash used in investing activities		(4,468)	(1,909)
Effect of exchange rate on cash and cash equivalents		(2,437)	(2,250)
Net increase in cash and cash equivalents		13,774	2,145
Cash and cash equivalents, beginning		158,283	149,282
Cash and cash equivalents, ending	4	172,057	151,427

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

Notes to Condensed Consolidated Interim Financial Statements

(CDN 000s, except per share data)

1. Description of Business

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

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

2. Basis of Preparation

Statement of compliance

These unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with the requirements of International Accounting Standard ("IAS") 34, Interim Financial Reporting and include the accounts of Pason and its wholly owned subsidiaries. All significant intercompany balances and transactions including revenue and expenses have been eliminated. These unaudited Condensed Consolidated Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2021.

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

3. Changes in Accounting Standards

Adoption of new standard January 1, 2022:

IAS 37, Provisions, Contingent Liabilities and Contingent Assets

Clarifies that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts existing at the date when the amendments are first applied. The impact to the Company has been deemed immaterial.

4. Cash and Cash Equivalents

As at	As at March 31, 2022	December 31, 2021
	(\$)	(\$)
Cash	47,568	120,714
Cash equivalents	124,489	37,569
Cash and cash equivalents	172,057	158,283

Cash equivalents are made up of cash invested in money market funds with interest rates of approximately 0.25% and maturities ranging from 1–90 days.

5. Seasonality

Pason's quarterly financial results vary quarter to quarter due in part to the seasonality of the oil and gas service industry in Canada, which is somewhat offset by the less seasonal nature of US and International operations. The 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.

6. Investments

Investments are comprised of the Company's investments in Intelligent Wellhead Systems Inc. ("IWS") and Rawabi Pason Company ("Rawabi JV"). Rawabi JV is a provider of specialized data management systems for drilling rigs in the Kingdom of Saudi Arabia. IWS is a privately-owned oil and gas technology and service company that provides engineered controls, data acquisition and software to automate workflows and processes at live well operations in the completions segment of the oil and gas industry.

7. 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.

8. Share Capital

Common shares

	Three Months Ended March 31, 2022		Year Ended December 31, 2021	
	(\$)	(#)	(\$)	(#)
Balance, beginning	162,567	82,194,051	164,568	83,088,941
Shares repurchased and cancelled under NCIB	(226)	(113,900)	(1,804)	(910,979)
Exercise of stock options	1,259	114,990	146	16,089
Liability for automatic share purchase plan ("APP") commitment pursuant to NCIB	(97)	—	(343)	—
Reversal of prior period liability for APP commitment pursuant to NCIB	343	—	—	—
Balance, ending	163,846	82,195,141	162,567	82,194,051

At March 31, 2022, the Company was authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

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

Common share dividends

For the three month period ended March 31, 2022, the Company declared and paid dividends of \$6,570 (first quarter of 2021: \$4,158) or \$0.08 per common share (first quarter of 2021: \$0.05).

Normal Course Issuer Bid ("NCIB")

In 2021, the Company renewed its NCIB commencing on December 20, 2021, and expiring on December 19, 2022. Under the current NCIB, the Company may purchase for cancellation, as the Company considers advisable, up to a maximum of 7,131,543 common shares, which represents 10% of the applicable public float at the time of renewal.

The actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 52,510 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, 2022, the Company repurchased 113,900 (first quarter of 2021 - nil) shares for cancellation for total cash consideration of \$1,364 (first quarter of 2021 - nil). The total consideration is allocated between share capital and retained earnings.

9. Stock-Based Compensation

Stock option plan

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

	Three Months Ended March 31, 2022		Twelve Months Ended December 31, 2021	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
Outstanding, beginning	3,324,759	14.67	4,277,601	15.96
Granted	—	—	599,373	10.63
Exercised	(114,990)	9.31	(16,089)	7.33
Expired or forfeited	(137,952)	17.37	(1,536,126)	17.34
Outstanding, ending	3,071,817	14.81	3,324,759	14.67
Exercisable, ending	2,199,871	17.67	2,147,030	17.28
Available for grant, ending	2,681,843		2,428,825	

Restricted share units plan

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

The outstanding RSUs can be summarized as follows:

	Three Months Ended	Twelve Months Ended
	March 31, 2022	December 31, 2021
	(#)	(#)
RSUs, beginning	1,144,628	1,111,190
Granted	—	535,113
Vested and paid	—	(411,915)
Forfeited	(47,186)	(89,760)
RSUs, ending	1,097,442	1,144,628

Deferred share units plan

DSUs are awarded annually to members of the Board of Directors and represent cash settled rights to share values based on the number of DSUs issued. Directors who are also members of management can elect to receive all or part of their short-term incentive payments in the form of DSUs. DSUs are credited evenly following the year in which they are awarded. DSUs vest and are paid upon the retirement of the Director.

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

	Three Months Ended March 31, 2022	Twelve Months Ended December 31, 2021
	(#)	(#)
DSUs, beginning	264,231	252,363
Credited	39,117	81,498
Redeemed and paid	—	(69,630)
DSUs, ending	303,348	264,231

Performance share units plan

The Company has a PSU plan for Executive Officers of the Company. PSUs are awarded annually and the number of PSUs awarded shall be equal to one PSU for each \$1.00 of grant value determined by the Board of Directors on such date. 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, 2022	Twelve Months Ended December 31, 2021
	(#)	(#)
PSUs, beginning	2,385,124	2,332,028
Granted	—	995,943
Vested and paid	—	(942,847)
PSUs, ending	2,385,124	2,385,124

Stock-based compensation expense and liability

For the three-month period ended March 31, 2022, the Company recorded \$5,555 of stock-based compensation expense for its equity and cash settled plans (first quarter of 2021: \$2,602). As at March 31, 2022, the Company held \$6,408 in current stock-based compensation liability and \$8,493 in non-current stock-based compensation liability for its cash settled plans (as at December 31, 2021: \$2,647 and \$6,821, respectively).

10. Income Taxes

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

11. Operating Segments

The Company reports on three strategic business units: The North American (Canada and the United States) and International (Latin America, including Mexico, Offshore, the Eastern Hemisphere, and the Middle East) business units, all of which offer technology services to the oil and gas industry, and the Solar and Energy Storage business unit, which provides technology services to solar and energy storage developers. The following tables represent a disaggregation of revenue from contracts with customers along with the reportable segment for each category:

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

Three Months Ended March 31, 2021	North America	International	Solar and Energy Storage	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	18,384	4,349	—	22,733
Mud Management and Safety	9,996	1,515	—	11,511
Communications	2,249	266	—	2,515
Drilling Intelligence	2,809	208	—	3,017
Analytics and Other	1,141	726	912	2,779
Total Revenue	34,579	7,064	912	42,555
Rental services and local administration	13,920	3,640	1,348	18,908
Depreciation and amortization	6,990	836	5	7,831
Segment gross profit (loss)	13,669	2,588	(441)	15,816
Research and development				7,116
Corporate services				3,032
Stock-based compensation				2,602
Other income				(2,182)
Income tax provision				1,257
Net income				3,991
Net income attributable to Pason				4,315
Capital expenditures	1,849	—	—	1,849
As at March 31, 2021				
Property plant and equipment	78,701	10,224	100	89,025
Intangible assets	7,661	—	3,621	11,282
Goodwill	8,434	2,600	21,333	32,367
Segment assets	287,824	47,037	25,620	360,481
Segment liabilities	53,125	4,454	1,198	58,777

12. Other Income

Three Months Ended March 31,	2022	2021
	(\$)	(\$)
Government wage assistance	—	(2,924)
Net interest income	(513)	(8)
Net monetary gain	(201)	(49)
Foreign exchange loss	403	448
Equity loss	472	329
Other (income) expenses	(1,514)	22
Total other income	(1,353)	(2,182)

During the first quarter of 2022, the Company did not recognize any government wage assistance. During the first quarter of 2021, Pason participated in the Canada Emergency Wage Subsidy ("CEWS") program, which was terminated in October 2021.

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

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

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

Other (income) expenses for the first quarter of 2022 is primarily comprised of proceeds received on a bankruptcy settlement of a former lessee.

13. Income Per Share

Basic income per share

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

Three Months Ended March 31,	2022	2021
	(#)	(#)
Issued common shares outstanding, beginning	82,194,051	83,088,941
Effect of NCIB and exercised options	(53,202)	—
Weighted average number of common shares (basic)	82,140,849	83,088,941

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,	2022	2021
	(#)	(#)
Weighted average number of common shares (basic)	82,140,849	83,088,941
Effect of share options	340,886	—
Weighted average number of common shares (diluted)	82,481,735	83,088,941

For the three month period ended March 31, 2022, 1,551,093 (first quarter of 2021 - 2,945,261) options are excluded from the above calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices during the period.

14. Approval of Financial Statements

These unaudited Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on April 28, 2022.

15. Events After the Reporting Period

On April 28, 2022, the Company declared a quarterly dividend of \$0.08 per share on the Company's common shares. The dividend will be paid on June 30, 2022, to shareholders of record at the close of business on June 15, 2022.