

Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

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

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

Condensed Consolidated Interim Statements of Operations

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

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Condensed Consolidated Interim Statements of Other Comprehensive Income

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

Condensed Consolidated Interim Statements of Changes in Equity

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

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Condensed Consolidated Interim Statements of Cash Flows

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

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

Notes to Condensed Consolidated Interim Financial Statements

(CDN 000s, except per share data)

1. Description of Business

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

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

2. Basis of Preparation

Statement of compliance

These unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with the requirements of International Accounting Standard ("IAS") 34, Interim Financial Reporting and include the accounts of Pason and its wholly owned subsidiaries. All significant intercompany balances and transactions including revenue and expenses have been eliminated. These unaudited Condensed Consolidated Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2022.

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

3. Changes in Accounting Standards

Adoption of new standard January 1, 2023:

IAS 1, Presentation of Financial Statements

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

IAS 1, Presentation of Financial Statements

4. Cash and Cash Equivalents

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

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

5. Short-Term Investments

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

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

6. Seasonality

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

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

7. Investments

Investments are comprised of the Company's investments in Intelligent Wellhead Systems Inc. (IWS) and a 50% interest in Rawabi Pason Company (Rawabi JV). Rawabi JV is a provider of specialized data management systems for drilling rigs in the Kingdom of Saudi Arabia. IWS is a privately-owned oil and gas technology and service company that provides engineered controls, data acquisition and software to automate workflows and processes at live well operations in the completions segment of the oil and gas industry.

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

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

8. Obligation Under Put Option

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

9. Share Capital

Common shares

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

At March 31, 2023, the Company was authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

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

Common share dividends

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

Normal Course Issuer Bid ("NCIB")

In 2022, the Company renewed its NCIB commencing on December 20, 2022, and expiring on December 19, 2023. Under the current NCIB, the Company may purchase for cancellation, as the Company considers advisable, up to a maximum of 8,105,236 common shares, which represents 10% of the applicable public float at the time of renewal.

The actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 54,996 common shares. The Company may make one block purchase per calendar week which exceeds the daily purchase restriction.

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

10. Stock-Based Compensation

Stock option plan

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

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

Restricted share units plan

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

The outstanding RSUs can be summarized as follows:

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

Deferred share units plan

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

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

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

Performance share units plan

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

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

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

Stock-based compensation expense and liability

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

11. Operating Segments

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

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

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

12. Other Income

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

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

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

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

13. Income Per Share

Basic income per share

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

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

Diluted income per share

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

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

For the three month period ended March 31, 2023, 1,361,549 (first quarter of 2022 - 1,551,093) options are excluded from the above calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices during the period.

14. Approval of Financial Statements

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

15. Events After the Reporting Period

Dividend

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

Investment in Intelligent Wellhead Systems

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

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