

Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	March 31, 2024	December 31, 2023
(CDN 000s) (unaudited)		(\$)	(\$)
Assets			
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
Total current assets		191,961	267,881
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
Total non-current assets		393,885	219,996
Total assets		585,846	487,877
Liabilities and equity			
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
Total current liabilities		72,320	55,320
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
Total non-current liabilities		48,634	31,602
Equity			
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
Total equity attributable to equity holders of the Company		472,371	408,058
Non-controlling interest		(7,479)	(7,103)
Total equity		464,892	400,955
Total liabilities and equity		585,846	487,877

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

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(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)			
		(\$)	(\$)
Net income		69,123	35,454
Items that may be reclassified subsequently to net income:			
Foreign currency translation adjustment		4,449	(2,507)
Other comprehensive (loss) income		4,449	(2,507)
Total comprehensive income		73,572	32,947
Total comprehensive income (loss) attributed to:			
Shareholders of Pason		73,978	33,307
Non-controlling interest		(406)	(360)
Total comprehensive income		73,572	32,947

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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)		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
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		—	—	—	—	(9,745)	(9,745)	—	(9,745)
Other comprehensive (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	11	(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	11	(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
Net income (loss)		—	—	—	—	61,697	61,697	(1,324)	60,373
Dividends		—	—	—	—	(28,790)	(28,790)	—	(28,790)
Other comprehensive (loss)		—	—	(11,789)	—	—	(11,789)	100	(11,689)
Exercise of stock options		3,137	(552)	—	—	—	2,585	—	2,585
Expense related to stock options		—	1,850	—	—	—	1,850	—	1,850
Shares cancelled under NCIB	11	(2,789)	—	—	—	(15,151)	(17,940)	—	(17,940)
Liability for automatic share purchase plan commitment pursuant to NCIB	11	60	—	—	—	(560)	(500)	—	(500)
Balance at December 31, 2023		163,291	37,101	43,162	(8,375)	172,879	408,058	(7,103)	400,955
Net income (loss)		—	—	—	—	69,529	69,529	(406)	69,123
Dividends	11	—	—	—	—	(10,332)	(10,332)	—	(10,332)
Other comprehensive (loss) income		—	—	4,419	—	—	4,419	30	4,449
Exercise of stock options		616	(101)	—	—	—	515	—	515
Expense related to stock options		—	575	—	—	—	575	—	575
Shares cancelled under NCIB	11	(489)	—	—	—	(2,804)	(3,293)	—	(3,293)
Liability reversal for automatic share purchase plan commitment pursuant to NCIB		437	—	—	—	3,063	3,500	—	3,500
Liability for automatic share purchase plan commitment pursuant to NCIB	11	(79)	—	—	—	(521)	(600)	—	(600)
Balance at March 31, 2024		163,776	37,575	47,581	(8,375)	231,814	472,371	(7,479)	464,892

*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)		(\$)	(\$)
Cash from (used in) operating activities			
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)
Funds flow from operations		34,846	43,673
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)
Cash generated from operating activities		32,856	51,553
Income tax paid		(1,842)	(5,288)
Net cash from operating activities		31,014	46,265
Cash flows from (used in) financing activities			
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)	—
Net cash used in financing activities		(27,138)	(19,963)
Cash flows (used in) from investing activities			
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
Net cash used in investing activities		(106,576)	(11,995)
Effect of exchange rate on cash and cash equivalents		977	(2,009)
Net increase (decrease) in cash and cash equivalents		(101,723)	12,298
Cash and cash equivalents, beginning		171,773	132,057
Cash and cash equivalents, ending	5	70,050	144,355

*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:

Allocation of Total Consideration	
	(\$)
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
Total assets	233,417
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)
Total liabilities	(73,055)
Net assets acquired	160,362
Fair value of Total Consideration	
	(\$)
Cash paid at closing	77,787
Fair value of previously held equity interest	82,575
Fair value of Total Consideration	160,362

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
Cash and cash equivalents	70,050	171,773

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>
	(\$)	(\$)
Short-term investments	4,187	—

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	
	(\$)	(#)	(\$)	(#)
Balance, beginning	163,291	79,685,025	164,136	81,526,954
Exercise of stock options	616	47,429	3,549	308,971
Shares repurchased and cancelled under NCIB	(489)	(238,600)	(4,332)	(2,150,900)
Reversal of prior period liability for APP commitment pursuant to NCIB	437	—	375	—
Liability for automatic share purchase plan commitment pursuant to NCIB	(79)	—	(437)	—
Balance, ending	163,776	79,493,854	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
	(#)	(\$)	(#)	(\$)
Outstanding, beginning	2,324,877	13.18	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
Outstanding, ending	2,277,448	13.23	2,324,877	13.18
Exercisable, ending	960,339	11.64	1,007,768	11.60
Available for grant, ending	3,287,122		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
	(#)	(#)
RSUs, beginning	925,872	955,318
Granted	—	504,520
Vested and paid	—	(515,062)
Forfeited	(2,480)	(18,904)
RSUs, ending	923,392	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
	(#)	(#)
DSUs, beginning	443,634	352,317
Credited	42,353	91,317
DSUs, ending	485,987	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
	(#)	(#)
PSUs, beginning	3,119,089	3,019,574
Granted	—	1,081,640
Vested and paid	—	(982,125)
PSUs, ending	3,119,089	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
As at March 31, 2024					
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
Three Months Ended March 31, 2023					
	(\$)	(\$)		(\$)	(\$)
Revenue	79,775	15,590	—	2,864	98,229
Operating expenses ⁽²⁾	21,318	6,362		2,925	30,605
Depreciation and amortization	5,794	817	—	5	6,616
Segment gross profit (loss) ⁽²⁾	52,663	8,411	—	(66)	61,008
Research and development					10,172
Selling, general, and administrative ⁽²⁾					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
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

(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)
Total other income	(50,713)	(3,078)

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)
Weighted average number of common shares (basic)	79,553,408	81,279,287

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
Weighted average number of common shares (diluted)	79,822,890	81,634,770

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.