Management's Discussion and Analysis

The following management's discussion and analysis (MD&A) has been prepared by management as of February 22, 2022, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the Consolidated Financial Statements for the twelve months ended December 31, 2021 and 2020, and accompanying notes, and Pason's Annual Information Form dated March 17, 2021.

The Company uses certain non-GAAP measures to provide readers with additional information regarding the Company's operating performance, ability to generate funds to finance its operations, fund its research and development, capital expenditure program, and pay dividends. These non-GAAP measures are defined under Non-GAAP Financial Measures.

Certain information regarding the Company contained herein may constitute forward-looking statements under applicable securities laws. Such statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking statements. For further information, please refer to Forward Looking Information.

All financial measures presented in this report are expressed in Canadian dollars unless otherwise indicated.

Company Profile

Pason is a leading global provider of specialized data management systems for oil and gas drilling. Pason's solutions, which include data acquisition, wellsite reporting, automation, remote communications, web-based information management, and data analytics enable collaboration between the drilling rig and the office. Pason services major oil and gas basins with a local presence in the following countries: United States, Canada, Argentina, Australia, Brazil, Columbia, Dubai, Ecuador, Mexico, Peru and Saudi Arabia. The Company has an over 40 year track record of distinctive technology and service capabilities offering end-to-end data management solutions enabling secure access to critical drilling operations information and decision making in real time.

Through Pason's subsidiary, Energy Toolbase (ETB), the Company also provides products and services for the solar power and energy storage industry. ETB's solutions enable solar and energy storage developers to model, control and measure economics and performance of solar energy and storage projects.

For a complete description of services provided by the Company, please refer to the headings 'General Development of the Business' and 'General Description of Business' in Pason's Annual Information Form dated March 17, 2021.

Highlights

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2021	2020	Change	**2021**	2020	Change
(CDN 000s, except per share data)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**62,833**	32,758	92	**206,686**	156,636	32
EBITDA (1)	**26,874**	8,300	224	**82,401**	48,388	70
Adjusted EBITDA (1)	**24,208**	8,201	195	**72,520**	39,540	83
As a % of revenue	**38.5**	25.0	1,350 bps	**35.1**	25.2	990 bps
Funds flow from operations	**19,353**	8,939	117	**67,728**	40,560	67
Per share – basic	**0.23**	0.11	120	**0.82**	0.48	71
Per share – diluted	**0.23**	0.11	120	**0.82**	0.48	71
Cash from operating activities	**27,061**	(2,717)	nmf	**65,061**	58,583	11
Capital expenditures (2)	**3,346**	465	620	**10,920**	5,159	112
Free cash flow (1)	**23,990**	(3,100)	nmf	**55,111**	53,864	2
Cash dividends declared (per share)	**0.05**	0.05	—	**0.20**	0.48	(58)
Net income (loss)	**10,279**	(2,662)	nmf	**31,925**	5,134	522
Net income (loss) attributable to Pason	**11,149**	(2,166)	nmf	**33,845**	6,568	415
Per share – basic	**0.14**	(0.03)	nmf	**0.41**	0.08	423
Per share – diluted	**0.14**	(0.03)	nmf	**0.41**	0.08	423

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

(2) Includes additions to property, plant, and equipment and development costs from Pason's Consolidated Statement of Cash Flows.

As at	**December 31, 2021**	December 31, 2020	Change
(CDN 000s)	**($)**	($)	(%)
Cash and cash equivalents	**158,283**	149,282	6
Working capital	**184,083**	167,366	10
Total interest bearing debt	**—**	—	—
Shares outstanding end of period	**82,194,051**	83,088,941	(1)

Pason’s financial results for the three and twelve months ended December 31, 2021 reflect the Company’s strong competitive positioning, prudent balance sheet, and operating leverage as industry conditions improved from the lows experienced in 2020.

During the fourth quarter of 2021, the Company generated record quarterly Revenue per Industry day in the North American business unit of $767, an increase of 6% from the comparative period in 2020. Resulting Revenue per Industry day for 2021 was $748, a level well above the $738 generated in the first quarter of 2020 with pre-pandemic industry activity. Throughout 2021, Pason's North American business unit has continued to grow market share to record levels and has benefited from strong product adoption and an improved pricing environment.

The increase in Revenue per Industry day, coupled with the increase in industry activity in all regions in which Pason operates, resulted in $62.8 million in revenue in the fourth quarter of 2021, a 92% increase from the $32.8 million generated in the fourth quarter of 2020. For the twelve months ended December 31, 2021, Pason generated $206.7 million in revenue, a 32% increase from the comparative 2020 period.

With this increase in revenue, Pason generated $24.2 million in Adjusted EBITDA, or 38.5% of revenue in the fourth quarter of 2021, a significant improvement from the $8.2 million of Adjusted EBITDA, or 25.0% of revenue, earned in the fourth quarter of 2020. For the year ended December 31, 2021, Pason generated $72.5 million in Adjusted EBITDA, which represents a 83% increase from $39.5 million generated in 2020. While 2021 results demonstrate the Company's strong operating leverage, the Company incurred certain incremental expenses, including equipment repairs and compensation expenses, which gradually increased throughout the year to support rising industry activity and an improving outlook.

Pason's balance sheet remains strong with no interest bearing debt and $158.3 million in cash and cash equivalents as at December 31, 2021, compared to $147.1 million as at September 30, 2021, and $149.3 million as at December 31, 2020. During the fourth quarter of 2021, Pason generated $27.1 million in net cash from operating activities (Q4 2020: a use of $2.7 million) as the Company's operating results improved and while the Company managed investments in working capital required to meet increased levels of revenue.

Pason remains disciplined on capital spending and, during the fourth quarter of 2021, incurred $3.3 million of capital expenditures on updated and additional rental equipment to meet activity levels. Resulting Free Cash Flow generated in Q4 2021 was $24.0 million compared to a loss of $3.1 million in the fourth quarter of 2020.

The Company recorded net income attributable to Pason of $11.1 million ($0.14 per share) in the fourth quarter of 2021 compared to a net loss attributable to Pason of $2.2 million ($0.03 per share) recorded in the corresponding period in 2020 due to the improving industry conditions outlined above, offset by an increase in stock based compensation expense given the appreciation in the Company's share price. Comparably, for the twelve months ended December 31, 2021, Pason generated $33.8 million ($0.41 per share) in net income attributable to Pason, a significant increase from $6.6 million ($0.08 per share) generated in the comparative 2020 period.

Pason's results in 2021 continue to reinforce the decision to retain critical technology and service capabilities through the downturn, putting the Company in a position of strength with a prudent balance sheet and significant operating leverage as activity levels recover.

President’s Message

The fourth quarter of 2021 showed a continuation of the recovery in oil and gas land drilling that has been under way since the industry bottomed in the third quarter of 2020. Throughout the pandemic, Pason has been steadfast in our conviction that our competitive position would be strengthened by maintaining and building on our service and technology advantages. Pason’s fourth quarter results again reflected our strengthened competitive position and improved industry conditions.

Consolidated revenue of $62.8 million was 92% higher than the fourth quarter of 2020, outpacing an 83% increase in North American land drilling activity. North American Revenue per Industry Day of $767 in the fourth quarter marked the highest level in Pason’s history, with market share holding strong above pre-pandemic levels while pricing and product adoption continue to recover. Our International business showed strength again in the fourth quarter, with revenue increasing 95% over the prior year, and our Solar and Energy Storage segment saw a 67% year-over-year increase.

Fourth quarter Adjusted EBITDA was up 195% from the same quarter of 2020, to $24.2 million. We continue to make the necessary investments to scale our operations in anticipation of further industry growth, most notably in the areas of product repairs and staffing, which will put pressure on incremental margins in the short term while positioning Pason to outperform in the medium to longer term.

Capital expenditures in the fourth quarter totaled $3.3 million as global supply chain shortages and disruption continued to impact delivery schedules. As a result, free cash flow came in at $24.0 million for the quarter, compared to negative free cash flow of $3.1 million in the fourth quarter of 2020. Pason generated net income of $0.14 per share in the fourth quarter, compared to a net loss of $0.03 per share in the prior year period.

For the full year, consolidated revenue of $206.7 million was 32% higher than 2020, while Adjusted EBITDA grew 83% to $72.5 million and net income increased 415% to $33.8 million. Capital expenditures for the year came in at $10.9 million, with the timing of certain planned equipment purchases being pushed to 2022 due to ongoing supply chain shortages and delays. As a result, we now expect to spend approximately $30 million in capital expenditures in 2022, which includes $5.2 million of planned expenditures carried forward from 2021. We will continue to evaluate our capital programs in the context of further opportunities to evolve our product and service offering, while navigating continued supply chain challenges.

Our capital allocation priorities remain unchanged. Investments in our drilling-related business are focused on sustained growth. We are pursuing additional revenue growth not directly tied to North American land drilling through Energy Toolbase (ETB), which focuses on the solar and energy storage market, and our minority investment in Intelligent Wellhead Systems (IWS), which participates in the oil and gas completions market. We remain committed to returning capital shareholders through our regular dividend and share repurchases. As our cash flow generation and outlook improves, we are able to increase shareholder returns and, as such, we are increasing our quarterly dividend from $0.05 per share to $0.08 per share.

Our balance sheet allows us to withstand the inevitable volatility of North American land drilling and make growth-related investments. At the end of the fourth quarter, we had $158.3 million in cash and cash equivalents and $184.1 million of positive working capital.

Our outlook remains positive for continued growth in land-based drilling in North America and across our international markets. Global demand for oil has remained resilient even in the face of additional COVID-19 variants and is now forecast to exceed pre-pandemic levels in 2022. At the same time, all signs point to further tightening of supply. US storage levels of crude oil and petroleum products are the lowest they have been in more than five years and the US government has approved releases from the Strategic Petroleum Reserve to combat elevated oil prices. As OPEC+ countries unwind production cuts, estimates of spare capacity shrink in tandem. US land production remains approximately 10% below 2019 levels. The inventory of drilled but uncompleted wells (DUCs) in the US has decreased for each of the last 18 months, and the current level is the lowest it has been in eight years and below the minimum sustainable level in the view of industry observers. Underinvestment in long-term development projects over the past five years is likely to create further supply gaps in the future.

WTI oil prices are trading above US$90 per barrel for the first time in seven years and industry analysts expect prices to push beyond $100 per barrel this year. Oil and gas producers appear to be able to increase spending, while operating within cash flow and returning capital to shareholders. We expect the growth in activity to continue its steady climb through 2022, moderated by ongoing challenges with availability of labour and equipment.

Pason is well equipped to participate in continued industry growth. We have demonstrated our ability to adapt to the challenges of the pandemic and supply chain disruptions, and we will continue to ensure we are able to deliver the leading technologies and unmatched service quality that our customers rely on as they look to utilize technology to increase their operational performance.

Jon Faber

President and Chief Executive Officer
February 22, 2022

Discussion of Operations

Overall Performance

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2021	2020	Change	**2021**	2020	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**33,856**	17,099	98	**110,792**	82,081	35
Mud Management and Safety	**16,776**	8,893	89	**55,398**	45,025	23
Communications	**3,634**	1,859	95	**11,938**	8,839	35
Drilling Intelligence	**4,852**	2,108	130	**14,806**	9,765	52
Analytics and Other	**3,715**	2,799	33	**13,752**	10,926	26
Total revenue	**62,833**	32,758	92	**206,686**	156,636	32
Operating expenses						
Rental services	**23,038**	13,404	72	**76,662**	66,695	15
Local administration	**3,144**	2,326	35	**11,006**	11,121	(1)
Depreciation and amortization	**6,172**	7,888	(22)	**25,689**	34,417	(25)
	32,354	23,618	37	**113,357**	112,233	1
Gross profit	**30,479**	9,140	233	**93,329**	44,403	110
Other expenses						
Research and development	**8,304**	5,941	40	**32,220**	26,977	19
Corporate services	**3,374**	2,294	47	**13,175**	11,275	17
Stock-based compensation expense	**5,094**	2,818	81	**11,523**	4,840	138
Other (income) expense	**188**	467	(60)	**(7,252)**	(8,687)	(17)
	16,960	11,520	47	**49,666**	34,405	44
Income (loss) before income taxes	**13,519**	(2,380)	nmf	**43,663**	9,998	337
Income tax provision	**3,240**	282	nmf	**11,738**	4,864	141
Net income (loss)	**10,279**	(2,662)	nmf	**31,925**	5,134	522
Adjusted EBITDA (1)	**24,208**	8,201	195	**72,520**	39,540	83

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

North American Operations

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2021	2020	Change	**2021**	2020	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**26,937**	13,940	93	**88,907**	69,861	27
Mud Management and Safety	**14,359**	7,460	92	**47,631**	38,848	23
Communications	**3,187**	1,677	90	**10,434**	8,083	29
Drilling Intelligence	**4,522**	2,022	124	**13,734**	9,263	48
Analytics and Other	**1,472**	1,219	21	**5,384**	5,324	1
Total revenue	**50,477**	26,318	92	**166,090**	131,379	26
Rental services and local administration	**17,499**	11,099	58	**61,959**	57,132	8
Depreciation and amortization	**5,176**	6,509	(20)	**22,569**	30,037	(25)
Segment gross profit	**27,802**	8,710	219	**81,562**	44,210	84

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2021	2020	Change	**2021**	2020	Change
	($)	($)	(%)	**($)**	($)	(%)
Revenue per Industry day	**767**	721	6	**748**	706	6

Industry conditions in North America continued to improve in the fourth quarter of 2021, with an 83% increase in industry activity compared to the fourth quarter of 2020. Outpacing the improvement in industry activity, the North American business unit generated $50.5 million of revenue in the fourth quarter of 2021, a 92% increase from $26.3 million in the comparative period of 2020. Revenue per Industry day was $767 in Q4 2021, an increase of 6% from the comparable period in 2020 and a record level for the Company. The year over year increase is due to increased market share and also reflects improved pricing conditions in 2021.

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

Rental services and local administration costs increased by 58% in the fourth quarter of 2021 over the 2020 comparative period. The increase in operating costs is attributable to variable expenses incurred to support higher activity levels, such as repair costs on higher levels of equipment deployed, along with headcount and compensation increases in anticipation of continued growth in industry activity.

Depreciation and amortization decreased by 20% in the fourth quarter of 2021 over the 2020 comparative period. The decrease is due to a combination of lower capital expenditures in recent quarters and certain capital assets and development projects becoming fully amortized in 2020 and 2021.

Segment gross profit was $27.8 million during the fourth quarter of 2021 compared to $8.7 million in the 2020 comparative period, representing a significant increase due to the factors outlined above, and demonstrating strong operating leverage in the context of improving activity levels.

On a year to date basis, revenue of $166.1 million represents a 26% increase from $131.4 million generated in 2020. Segment gross profit for the twelve months ended December 31, 2021 was $81.6 million, a 84% increase from $44.2 million during the comparative 2020 period. The year over year improvements in Pason's North American financial results are a reflection of the improved industry conditions, increased Revenue per Industry day, and strong operating leverage.

International Operations

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2021	2020	Change	**2021**	2020	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**6,919**	3,159	119	**21,885**	12,220	79
Mud Management and Safety	**2,417**	1,433	69	**7,767**	6,177	26
Communications	**447**	182	146	**1,504**	756	99
Drilling Intelligence	**330**	86	284	**1,072**	502	114
Analytics and Other	**1,069**	878	22	**4,261**	2,248	90
Total revenue	**11,182**	5,738	95	**36,489**	**21,903**	67
Rental services and local administration	**6,577**	3,160	108	**19,432**	14,626	33
Depreciation and amortization	**991**	1,374	(28)	**3,100**	4,357	(29)
Segment gross profit	**3,614**	1,204	200	**13,957**	**2,920**	378

The International business unit generated $11.2 million of revenue in the fourth quarter of 2021 compared to $5.7 million in the comparative period of 2020. The increase is due to increased industry activity in the international markets that the company serves, and higher levels of revenue generated per drilling day with improved product adoption.

Rental services and local administration expenses were $6.6 million in the fourth quarter of 2021, an increase of 108% compared to $3.2 million in the comparative period of 2020. As activity levels improve, certain variable costs such as repair costs are incurred to support the additional deployment of equipment. Further, the Company recorded a $0.7 million hyperinflationary increase to its Argentinian rental services and local administration expenses in the fourth quarter of 2021, compared to a $0.3 million reduction in the fourth quarter of 2020.

Depreciation and amortization decreased by 28% in the fourth quarter of 2021 over the 2020 comparative period. The decrease is due to a combination of lower capital expenditures in recent quarters and certain capital assets becoming fully amortized in 2020 and 2021.

Segment gross profit was $3.6 million during the fourth quarter of 2021 compared to $1.2 million in the 2020 comparative period due to the factors outlined above.

On a year to date basis, the International business unit generated revenue of $36.5 million and segment gross profit of $14.0 million, both representing significant increases compared to the corresponding period in 2020, which reflects the improvement in industry conditions year over year.

Solar and Energy Storage Operations

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2021	2020	Change	**2021**	2020	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Analytics and Other	**1,174**	702	67	**4,107**	3,354	22
Total revenue	**1,174**	702	67	**4,107**	3,354	22
Operating expenses and local administration (1)	**2,106**	1,471	43	**6,277**	6,058	4
Depreciation and amortization	**5**	5	—	**20**	23	(13)
Segment gross loss	**(937)**	(774)	21	**(2,190)**	(2,727)	(20)

(1) Included in rental services and local administration in the Consolidated Statements of Operations.

Revenue generated by the Solar and Energy Storage business unit was $1.2 million in the fourth quarter of 2021, an increase of 67% from the comparative period in 2020. While this revenue continued to be primarily comprised of subscription-based software licenses for the Company's solar energy economic modeling and proposal generation tools, sales of control systems and related hardware contributed to the increase in revenue.

Operating expenses and local administration costs were $2.1 million during the fourth quarter of 2021, a 43% increase from $1.5 million during the comparable period. The increase in operating expenses and local administration is primarily driven by costs incurred with the commissioning of control systems and related hardware, along with the year-to-date impact of compensation accruals.

As a result, segment gross loss was $0.9 million for the fourth quarter of 2021, compared to a segment gross loss of $0.8 million in the comparable 2020 period.

On a year to date basis, revenue growth translated into an improvement in segment gross loss with $2.2 million incurred in 2021 compared to $2.7 million in 2020.

Pason continues to invest in the development and build out of its solar energy control systems technology offering. The Solar and Energy Storage business unit incurred the following research and development costs, which are included in research and development in the Company's Consolidated Statement of Operations. Consistent with the Company's other reporting segments, research and development costs are excluded from the computation of segment gross loss.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2021	2020	Change	**2021**	2020	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Research and development	**1,355**	838	62	**4,661**	3,372	38

Corporate Expenses

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2021	2020	Change	**2021**	2020	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Research and development	**8,304**	5,941	40	**32,220**	26,977	19
Corporate services	**3,374**	2,294	47	**13,175**	11,275	17
Stock-based compensation	**5,094**	2,818	81	**11,523**	4,840	138
Total corporate expenses	**16,772**	11,053	52	**56,918**	43,092	32

Research and development and corporate services expenses increased 40% and 47%, respectively, in the fourth quarter of 2021 over the comparative period in 2020. For the annual periods, research and development and corporate service expenses increased 19% and 17%, respectively. Throughout 2021, Pason has made additional investments in research and development, further improving the Company's ability to support increasing activity levels, increased market share, and product enhancements. In addition, research and development and corporate services expenses in 2021 reflect the impact of performance based elements of the Company's compensation plan. In contrast, the comparative periods reflect the significant cost reduction measures taken due to the effects of the pandemic on 2020 operating performance.

The change in stock-based compensation expense is attributable to the change in the Company's share price performance and ongoing vesting of outstanding awards. In 2021, the Company saw a 46% increase in its share price performance, in comparison to a 62% decline in 2020.

Other (Income) Expense

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2021	2020	Change	**2021**	2020	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Foreign exchange (gain) loss	**(2,980)**	968	nmf	**(2,011)**	1,113	nmf
Net monetary gain	**(246)**	(594)	(59)	**(496)**	(1,874)	(74)
Government wage assistance	**(128)**	(2,244)	(94)	**(8,208)**	(9,941)	(17)
Derecognition of onerous lease	**—**	—	—	**—**	(5,757)	nmf
Other	**307**	(41)	nmf	**453**	245	85
Reorganization costs	**—**	—	—	**—**	5,554	nmf
Put option revaluation	**381**	1,812	(79)	**381**	1,812	(79)
Equity loss	**765**	592	29	**1,103**	1,028	7
Net interest expense (income)	**2,089**	(26)	nmf	**1,526**	(867)	nmf
Total other (income) expense	**188**	467	(60)	**(7,252)**	(8,687)	(17)

During the fourth quarter of 2021, the Internal Revenue Service (IRS) confirmed their pending settlement of the amounts due to the Company as further outlined under Income Taxes. As such, the Company recorded a foreign exchange gain of $3.3 million and net interest expense of $2.5 million during the fourth quarter of 2021 on the amounts collected in the fourth quarter and the remaining amounts outstanding as at December 31, 2021.

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

Government wage assistance is primarily comprised of the Company's participation in the Canada Emergency Wage Subsidy (CEWS) program, which began in March of 2020 and ended in October of 2021. During the fourth quarter of 2021, Pason recognized $0.1 million in government wage assistance related to the CEWS program, a decrease from the $2.2 million recognized in the fourth quarter of 2020 given the termination of the program in October 2021.

In calendar year 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 $5.8 million was recorded, comprised of the derecognition of the previous recorded onerous lease liability, offset by a termination payment.

Also during the second quarter of 2020, the Company initiated staff reduction initiatives to address the anticipated downturn in oil and gas drilling activity in all of its markets as the COVID-19 pandemic began. Accordingly, the Company recorded reorganization expenses of $5.6 million, which is comprised of termination and other staff related costs.

In the fourth quarter of 2021, the Company recorded a $0.4 million increase to the obligation under put option associated with the purchase of ETB to reflect the change in the fair value of the outstanding obligation. The increase was recorded within other (income) expenses as outlined above.

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

Income Taxes

During the fourth quarter of 2021, the Company recorded an income tax expense of $3.2 million, compared to $0.3 million during the comparative period in 2020. The increase is primarily attributable to the improvement in income before income taxes, in light of improved operating performance year over year, as further outlined herein.

Income Taxes Recoverable

During the first quarter of 2019, the Company paid withholding tax owing to the Canada Revenue Agency (CRA) of $15.3 million 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 current income tax recoverable - other on its Consolidated Financial Statements, which represents a corresponding amount owing from the IRS. During 2021, the Company collected $6.5 million from the IRS for two of the three years for which the withholding tax amount related to. As at December 31, 2021, Pason had $13.3 million as an outstanding receivable from the IRS. While the Company awaits final settlement on interest amounts earned, as at the date of this MD&A, Pason has received final settlement on all principal amounts owing from the IRS in relation to the APA.

Summary of Quarterly Results

Three Months Ended	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	**Dec 31, 2021**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	73,962	26,848	23,068	32,758	42,555	43,593	57,705	**62,833**
EBITDA (1)	33,469	4,271	2,348	8,300	15,673	14,984	24,870	**26,874**
Adjusted EBITDA (1)	33,305	(848)	(1,118)	8,201	13,170	12,786	22,356	**24,208**
As a % of revenue	45.0	nmf	nmf	25.0	30.9	29.3	38.7	**38.5**
Funds flow from operations	26,722	134	4,765	8,939	13,730	14,662	19,983	**19,353**
Per share – basic	0.32	0.00	0.06	0.11	0.17	0.18	0.24	**0.23**
Per share – diluted	0.32	0.00	0.06	0.11	0.17	0.18	0.24	**0.23**
Cash from operating activities	25,593	29,953	5,754	(2,717)	11,085	9,841	17,074	**27,061**
Free cash flow (1)	22,935	29,888	4,141	(3,100)	9,176	5,684	16,261	**23,990**
Net income (loss)	16,552	(4,799)	(3,957)	(2,662)	3,991	4,880	12,775	**10,279**
Net income (loss) attributable to Pason	16,919	(4,487)	(3,698)	(2,166)	4,315	5,307	13,074	**11,149**
Per share – basic	0.20	(0.05)	(0.04)	(0.03)	0.05	0.06	0.16	**0.14**
Per share – diluted	0.20	(0.05)	(0.04)	(0.03)	0.05	0.06	0.16	**0.14**

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

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

The overall seasonality of the Company's operations has, and will continue to become less pronounced as a result of market share growth internationally and in the US, along with increased diversification of operations with the Company's Solar and Energy Storage business units. Furthermore, as noted herein and specifically as it relates to results starting in Q2 2020, quarterly results will vary significantly due to the drastic impacts of the global COVID-19 pandemic on the oil and gas industry.

Q4 2021 vs Q3 2021

Following the historic lows in industry activity in Q3 2020, North American and International rig counts continued to steadily improve throughout the fourth quarter of 2021. As such, the Company saw a sequential increase in consolidated revenue from $57.7 million to $62.8 million.

Revenue in the North American business unit was $50.5 million in the fourth quarter of 2021, a 10% increase compared to revenue of $46.1 million in the third quarter of 2021. The increase is driven by a 10% increase in industry activity, while the Company was able to maintain its Revenue per Industry Day sequentially.

The International business unit reported revenue of $11.2 million in the fourth quarter of 2021, a 7% increase compared to $10.4 million in the third quarter of 2021. The increase in revenue is attributable to continued improvements in drilling activity in Pason's international end markets, and was also impacted by the hyperinflation adjustment recognized for the Company's Argentinian subsidiary.

Sequential increases in rental services and local administrative expenses of 15% are attributable to expenses incurred to support higher activity levels, such as repair costs on higher levels of equipment expected to be deployed, along with staffing increases in anticipation of continued growth in industry activity.

The Company's gross profit was $30.5 million in the fourth quarter of 2021, a 4% increase compared to gross profit of $29.4 million in the third quarter of 2021, due to the factors outlined above, partially offset by higher depreciation and amortization as the Company recognized certain income tax credits in the third quarter, offsetting depreciation amounts.

Research and development and corporate service expenses decreased sequentially primarily due to the impact of year to date accruals for performance based elements of the Company's compensation plan.

Adjusted EBITDA was $24.2 million in the fourth quarter of 2021, an 8% increase from $22.4 million in the third quarter. While Adjusted EBITDA in the fourth quarter was impacted by the incremental costs referenced above, Pason's cost structure remains primarily fixed and operating leverage remains strong.

The Company recorded stock based compensation expense in the fourth quarter of 2021 of $5.1 million, a 219% increase from $1.6 million in the third quarter. The sequential increase reflects the change in the Company's share price performance and ongoing vesting of outstanding awards.

As a result of the factors outlined above, the Company recorded net income attributable to Pason in the fourth quarter of 2021 of $11.1 million ($0.14 per share) compared to net income attributable to Pason of $13.1 million ($0.16 per share) in the third quarter of 2021.

Cash from operating activities was $27.1 million in the fourth quarter of 2021, compared to $17.1 million in the third quarter of 2021. The increase is driven by the sequential improvement in activity levels, and also from the $6.3 million collected from the IRS in the fourth quarter.

Liquidity and Capital Resources

As at	**December 31, 2021**	December 31, 2020	Change
(000s)	**($)**	($)	(%)
Cash and cash equivalents	**158,283**	149,282	6
Working capital	**184,083**	167,366	10
Total assets	**379,941**	361,416	5
Total interest bearing debt	**—**	—	—

Throughout the challenging industry conditions seen in 2020 and 2021, Pason managed to preserve its strong balance sheet with no interest bearing debt and as at December 31, 2021 had $158.3 million in cash and cash equivalents. Working capital levels increased from December 31, 2020 to December 31, 2021, as the Company made investments in accounts receivable to meet increased revenue levels. As industry conditions improve, Pason remains focused on disciplined management of required investments in working capital.

The Company has an undrawn $5.0 million demand revolving credit facility available as at December 31, 2021, consistent with December 31, 2020.

Cash Flow Statement Summary

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2021	2020	Change	**2021**	2020	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Funds flow from operations	**19,353**	8,939	117	**67,728**	40,560	67
Cash from operating activities	**27,061**	(2,717)	nmf	**65,061**	58,583	11
Cash used in financing activities	**(6,887)**	(7,746)	(11)	**(27,046)**	(52,197)	(48)
Cash used in investing activities	**(8,071)**	(2,943)	174	**(27,077)**	(12,279)	121
Net capital expenditures (1)	**3,071**	383	nmf	**9,950**	4,719	111
As a % of funds flow (2)	**15.9 %**	4.3 %	1,160 bps	**14.7 %**	11.6 %	310 bps

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

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

Cash from operating activities

As noted above, funds flow from operations increased significantly for both the three and twelve months ended December 31, 2021 from the comparable 2020 periods. The increase is primarily due to the improved industry conditions year over year and the impact on operating results.

For the twelve month periods, cash from operating activities reflects the increase in funds flow from operations but also reflects the working capital investments made throughout 2021 to support higher levels of revenue. In contrast, 2020 reflects the working capital harvest that occurred as activity levels fell drastically.

Cash used in financing activities

Cash used in financing activities was $6.9 million during the fourth quarter of 2021, compared to $7.7 million million during the fourth quarter of 2020.

Dividend

During the three month period ended December 31, 2021, the Company paid dividends to holders of common shares totaling $4.1 million, or $0.05 per share, compared to $4.2 million, or $0.05 per share in Q4 2020. For the year ended December 31, 2021, the Company paid dividends to holders of common shares totaling $16.6 million or $0.20 per share, compared to $40.4 million, or $0.48 per share in 2020.

In light of the COVID-19 pandemic and related uncertainty surrounding the outlook for industry activity, on August 6, 2020, Pason announced a reduced quarterly dividend from an annualized $0.76 per share to $0.20 per share. Given the recovering industry activity levels seen throughout 2021 and the improving outlook for drilling activity, on February 22, 2022, the Company announced an increased quarterly dividend of $0.08 per share. The dividend will be paid on March 31, 2022 to shareholders of record at the close of business on March 15, 2022.

Normal Course Issuer Bid (NCIB)

On December 15, 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 December 31, 2021, the Company repurchased 237,200 (Q4 2020 - 601,500) shares for cancellation at an average price per share of $10.42 (Q4 2020 - $5.32) for total cash consideration of $2.5 million (Q4 2020 - $3.2 million). For the twelve month period ended December 31, 2021, the Company repurchased 910,979 (2020 - 1,449,300) common shares for cancellation at an average price per share of $9.26 (2020 - $6.54) for a total cash consideration of $8.4 million (2020 - $9.5 million). The total consideration is allocated between share capital and retained earnings during the respective periods.

At December 31, 2021, the Company entered into an automatic purchase plan (APP) with an independent broker. As such, as at December 31, 2021, the Company recorded a liability of $2.0 million for share repurchases that could take place during its internal blackout period. The Company did not have an APP in place at December 31, 2020.

Pason continues to assess capital allocation on an ongoing basis taking into account, among other considerations, the Company’s financial position, operating results, and industry outlook. Pason will continue to balance the Company's commitment to shareholder returns while preserving financial strength to support long-term success.

Cash used in investing activities

During the fourth quarter, Pason used $8.1 million for investing activities compared to $2.9 million used in the comparative period in 2020. During the fourth quarter of 2021, the Company made the final $5.0 payment under a put option relating to its minority investment in IWS and invested $3.1 million in updates and additions to rental equipment to meet activity levels.

Contractual Obligations

As at December 31, 2021	Less than 1 year	1–3 years	Thereafter	**Total**
(000s)	($)	($)	($)	**($)**
Operating leases and other contracts	**11,906**	**5,716**	**1,863**	**19,485**

Contractual obligations relate primarily to minimum future lease payments required primarily for operating leases of certain facilities, along with commitments associated with ongoing repair costs of the company's equipment and technology. A portion of these future obligations have been recognized on the balance sheet as a leased asset and a corresponding liability, in accordance with IFRS 16, Leases.

Capital Commitments

At December 31, 2021, the Group has entered into contracts to purchase property, plant, and equipment for $5.2 million (2020: $1.7 million), the majority of which relates to the purchase of assets in the normal course of business.

Disclosure of Outstanding Share and Options Data

As at December 31, 2021 there were 82,194,051 common shares and 3,324,759 options issued and outstanding. As at February 22, 2022, there were 82,081,951 common shares and 3,259,518 options issued and outstanding.

Impact of Hyperinflation

Due to various qualitative and quantitative factors, Argentina was designated a hyper-inflationary economy as of the second quarter of 2018 for accounting purposes. As such, the Company has applied accounting standards IAS 21, The Effects of Changes in Foreign Exchange, and IAS 29, Financial Reporting in Hyper-Inflationary Economies its Consolidated Financial Statements for its Argentinian operating subsidiary. The Company's Consolidated Financial Statements are based on the historical cost approach in IAS 29.

The impact of applying IAS 21 to the operating results of the Argentina subsidiary for the three and twelve months ended December 31, 2021 are detailed as follows:

Impact on IFRS Measures

	Three Months Ended December 31,		**Twelve Months Ended December 31,**	
	2021	2020	**2021**	2020
(000s)	**($)**	($)	**($)**	($)
Increase (decrease) in revenue	**1,340**	(276)	**2,136**	(745)
(Increase) decrease in rental services and local administration expenses	**(699)**	283	**(1,039)**	652
(Increase) in depreciation expense	**(489)**	(578)	**(1,167)**	(1,347)
Increase (decrease) in segment gross profit	**152**	**(571)**	**(70)**	**(1,440)**
Net monetary gain (loss) presented in other expenses	**(246)**	594	**(496)**	1,874
Other expenses	**(175)**	—	**(242)**	—
(Increase) decrease in income tax provision	**(217)**	—	**(393)**	—
(Decrease) increase in net income	**(486)**	**23**	**(1,201)**	**434**

Impact on Non-GAAP Measures

	Three Months Ended December 31,		**Twelve Months Ended December 31,**	
	2021	2020	**2021**	2020
(000s)	**($)**	($)	**($)**	($)
Increase (decrease) in revenue	**1,340**	(276)	**2,136**	(745)
(Increase) decrease in rental services and local administration expenses	**(699)**	283	**(1,039)**	652
Net monetary gain (loss) presented in other expenses	**(246)**	594	**(496)**	1,874
Increase in other expenses	**(175)**	—	**(242)**	—
Increase in EBITDA	**220**	601	**359**	1,781
Elimination of net monetary gain presented in other expenses	**246**	(594)	**496**	(1,874)
Elimination of other expenses	**175**	—	**242**	—
Increase (decrease) in Adjusted EBITDA	**641**	7	**1,097**	(93)

Additional IFRS Measures

In its Consolidated Financial Statements and MD&A, the Company uses certain additional IFRS measures. Management believes these measures provide useful supplemental information to readers.

Funds flow from operations

Management believes that funds flow from operations, as reported in the Consolidated Statements of Cash Flows, is a useful additional measure as it represents the cash generated during the period, regardless of the timing of collection of receivables and payment of payables. Funds flow from operations represents the cash flow from continuing operations, excluding non-cash items. Funds flow from operations is defined as net income adjusted for depreciation and amortization expense, stock-based compensation expense, deferred taxes, and other non-cash items impacting operations.

Cash from operating activities

Cash from operating activities is defined as funds flow from operations adjusted for changes in working capital items.

Non-GAAP Financial Measures

A non-GAAP financial measure has the definition set out in National Instrument 52-112 "Non-GAAP and Other Financial Measures Disclosure".

The following non-GAAP measures may not be comparable to measures used by other companies. Management believes these non-GAAP measures provide readers with additional information regarding the Company's operating performance, and ability to generate funds to finance its operations, fund its research and development and capital expenditure program, and return capital to shareholders through dividends or share repurchases.

EBITDA and Adjusted EBITDA

EBITDA is defined as net income before interest income and expense, income taxes, stock-based compensation expense, and depreciation and amortization expense.

Adjusted EBITDA is defined as EBITDA, adjusted for foreign exchange, impairment of property, plant, and equipment, restructuring costs, net monetary adjustments, government wage assistance, revaluation of put obligation, and other items, which the Company does not consider to be in the normal course of continuing operations.

Management believes that EBITDA and Adjusted EBITDA are useful supplemental measures as they provide an indication of the results generated by the Company's principal business activities prior to the consideration of how these results are taxed in multiple jurisdictions, how the results are impacted by foreign exchange or how the results are impacted by the Company's accounting policies for equity-based compensation plans. Users should be cautioned that these metrics should not be construed as an alternative measure to net income or loss determined in accordance with IFRS. Management does not use these non-GAAP measures to assess the Company's financial results against internal expectations.

Reconcile Net Income to EBITDA

Three Months Ended	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	**Dec 31, 2021**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Net income (loss)	16,552	(4,799)	(3,957)	(2,662)	3,991	4,880	12,775	**10,279**
Add:								
Income taxes	7,023	(1,072)	(1,369)	282	1,257	2,002	5,239	**3,240**
Depreciation and amortization	10,414	8,612	7,503	7,888	7,831	6,156	5,530	**6,172**
Stock-based compensation	(122)	1,868	276	2,818	2,602	2,216	1,611	**5,094**
Net interest (income) expense	(398)	(338)	(105)	(26)	(8)	(270)	(285)	**2,089**
EBITDA	33,469	4,271	2,348	8,300	15,673	14,984	24,870	**26,874**

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	**Dec 31, 2021**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	33,469	4,271	2,348	8,300	15,673	14,984	24,870	**26,874**
Add:								
Foreign exchange loss (gain)	(47)	79	113	968	448	725	(204)	**(2,980)**
Recognition of onerous lease	—	(5,757)	—	—	—	—	—	**—**
Government wage assistance	—	(4,363)	(3,334)	(2,244)	(2,924)	(2,966)	(2,190)	**(128)**
Reorganization costs	—	5,554	—	—	—	—	—	**—**
Put option revaluation	—	—	—	1,812	—	—	—	**381**
Net monetary gain	(419)	(396)	(465)	(594)	(49)	(11)	(190)	**(246)**
Other	302	(236)	220	(41)	22	54	70	**307**
Adjusted EBITDA	33,305	(848)	(1,118)	8,201	13,170	12,786	22,356	**24,208**

Free cash flow

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

Reconcile cash from operating activities to free cash flow

Three Months Ended	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	**Dec 31, 2021**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	25,593	29,953	5,754	(2,717)	11,085	9,841	17,074	**27,061**
Less:								
Net additions to property, plant and equipment	(2,236)	(644)	(1,282)	(66)	(1,510)	(3,696)	(1,258)	**(2,803)**
Deferred development costs	(422)	579	(331)	(317)	(399)	(461)	445	**(268)**
Free cash flow	22,935	29,888	4,141	(3,100)	9,176	5,684	16,261	**23,990**

Supplementary Financial Measures

A supplementary financial measure: (a) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of the Company; (b) is not presented in the financial statements of the Company; (c) is not a non-GAAP financial measure; and (d) is not a non-GAAP ratio. Supplementary financial measures found within this MD&A are as follows:

Revenue per Industry day

Revenue per Industry day is defined as the daily revenue generated from all products that the Company is renting over all active drilling rig days in the North American market. This metric provides a key measure of the Company’s ability to evaluate and manage product adoption, pricing, and market share penetration. Drilling days are calculated by using accepted industry sources.

Adjusted EBITDA as a percentage of revenue

Calculated as adjusted EBITDA divided by revenue.

Net capital expenditures as a percentage of funds flow from operations

Calculated as net capital expenditures divided by funds flow from operations.

Critical Accounting Estimates

The preparation of the Company's Consolidated Financial Statements requires that certain estimates and judgements be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and management's judgements based on information available as at the financial statement date, and, as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired. Furthermore, as the impacts of the COVID-19 pandemic on the oil and gas industry continue, management cannot reasonably estimate the resulting length or severity of the impact on the Company. As such, actual results may differ significantly from estimates made within the Consolidated Financial Statements for the year ended December 31, 2021.

Allowance for Doubtful Accounts

Amounts included in allowance for doubtful accounts reflect the expected credit losses for the Company's trade receivables. The Company determines the allowance amount based on management's best estimate of expected losses, considering actual loss history as well as current and projected economic and industry activity. Significant or unexpected changes in economic conditions could significantly impact the Company's future expected credit losses.

Depreciation & Amortization

When calculating depreciation of property, plant and equipment, and amortization of intangible assets, the Company estimates the useful lives and residual values of the related assets. The estimates made by management regarding the useful lives and residual values affect the carrying amounts of the property and equipment and intangible assets on the balance sheet and the related depreciation and amortization expenses recognized in the statement of operations. Assessing the reasonableness of the estimated useful lives of property and equipment and intangible assets requires judgment and is based on available information. The Company periodically, and at least annually, evaluates its depreciation and amortization methods and rates for consistency against those methods and rates used by its peers, or may revise initial estimates for changes in circumstances, such as technological advancements. A change in the estimated remaining useful life or the residual value will affect the depreciation or amortization expense prospectively.

Carrying Value of Assets

For purposes of reviewing whether goodwill impairment exists, the Group has determined that the assets of each of its operating segments are an appropriate basis for its cash generating units (CGUs). The Company uses judgment in the determination of the CGUs.

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. If not, 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 CGUs 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 judgments are required in making assumptions with respect to discount rates, the market outlook, and future 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.

At December 31, 2021, the Company performed an impairment test on its goodwill and concluded that there was no impairment.

Provisions and Contingencies

The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated.

The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter. This determines whether a provision or disclosure in the financial statements is needed.

Development Costs

New product development projects that meet the capitalization criteria are capitalized, and include the cost of materials and direct labour costs that are directly attributable to preparing the asset for its intended use. Subsequent changes in facts or circumstances could result in the balance of the related deferred costs being expensed in profit or loss. Results could differ due to changes in technology or if actual future economic benefit differs materially from what was expected.

Stock-Based Compensation

The fair value of stock options is calculated using a Black-Scholes option pricing model. There are a number of estimates used in the calculation, such as the estimated forfeiture rate, expected option life, and the future price volatility of the underlying security, which can vary from actual future events. The factors applied in the calculation are management's best estimates based on historical information and future forecasts.

The fair value of Performance Share Units is calculated using management's best estimate of the Company's ability to achieve certain performance measures and objectives as set out by the Board of Directors, considering historical and expected performance. Changes in these estimates and future events could alter the calculation of the provision for such compensation.

Income Taxes

The Company operates in multiple jurisdictions with complex legal and tax regulatory environments. In certain of these jurisdictions, the Company has taken income tax positions that management believes are supportable and are intended to withstand challenge by tax authorities. Some of these positions are inherently uncertain and include those relating to transfer pricing matters and the interpretation of income tax laws applied to complex transactions as the tax positions taken by the Company rely on the exercise of judgment and it is frequently possible for there to be a range of legitimate and reasonable views.

The Company has adopted certain transfer pricing (TP) policies and methodologies to value inter-company transactions that occur in the normal course of business. The value placed on such transactions must meet certain guidelines that have been established by the tax authorities in the jurisdictions in which the Company operates. The Company believes that its TP methodologies are in accordance with such guidelines. The Company entered into a Bilateral Advanced Pricing Arrangement (APA) with the Canada Revenue Agency (CRA) and the Internal Revenue Service (IRS) (collectively, the Parties) covering the taxation years ended December 31, 2013, through to December 31, 2021. The purpose of this APA was for the Company to obtain agreement among the Parties on the TP methodology applied to the material inter-company transactions between Pason Systems Corp. (Pason Canada) and Pason Systems USA and Petron (collectively Pason USA) (the covered transactions).

The calculation of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences, tax losses, and other tax credits will reverse. Tax interpretations, regulations, and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change.

The estimation of deferred tax assets and liabilities includes uncertainty with respect to the reversal of temporary differences.

Deferred tax assets are recognized when it is probable that taxable income will be available against which the temporary differences or tax losses giving rise to the deferred tax asset can be used. This requires estimation of future taxable income and use of tax loss carry-forwards for a considerable period into the future. Income tax expense in future periods may be affected to the extent actual taxable income is not sufficient or available to use the temporary differences, giving rise to the deferred tax asset.

Significant Accounting Policies

The Company's significant accounting policies have been disclosed within Note 3 of Pason's Consolidated Financial Statements for the year ended December 31, 2021.

Risk and Uncertainties

Pason has implemented a risk management framework that helps the Company manage the reality that future events, decisions, or actions may cause undesirable effects. The framework takes a value-based approach to identifying, prioritizing, communicating, mitigating, and monitoring risks, and aligns this with the Company's appetite for risk considering its culture, strategy, and objectives.

Although a framework can help the Company to manage its risks, the Company’s performance is subject to a variety of risks and uncertainties. Although the risks described below are the risks that we believe are material, there may also be risks of which we are currently unaware, or that we currently regard as immaterial based upon the information available to us. Interested parties should be aware that the occurrence of the events described in these risk factors could have a material adverse effect on our business, operating results, and financial condition.

COVID-19

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. COVID-19’s negative impact on the demand for oil has been significant and this combined with an over-supply of oil led to a decline in oil prices in 2020. As a result, Pason customers reduced their capital expenditure programs, which led to a precipitous fall in the active rig count in Pason’s major markets, starting in the second quarter of 2020. While industry conditions have improved from the lows seen in 2020, the ultimate impact of COVID-19 on future oil demand is unknown at the present time and thus, it is not possible to predict the long-term effects of COVID-19 on the Company’s operating results. The current economic climate has or may have significant adverse impacts to Pason, including but not limited to: material declines in revenue and cash flows due to reduced drilling and demand for associated products and services, increased risk of non-payment of accounts receivable, potential for impairment charges on long-term assets, and additional reorganization costs, if deemed required in the context of Pason's ongoing efforts to reduce its cost structure.

Operationally, the Company experienced minimal adverse impacts to its business operations and workforce throughout the COVID-19 pandemic. With the exception of certain international regions that experienced temporary country-wide economic shutdowns, Pason's operations have been and continue to remain open and fully operating. In response to the pandemic, additional safety measures have been implemented throughout the Company's operations, both in the field and in office/warehouse settings, to ensure the ongoing safety of our employees and our customers' employees, and to maintain delivery of products and services to customers while complying with recommendations from global and local health authorities.

Operating Risks

Pason derives the majority of its revenue from the rental of instrumentation and data services to oil and gas companies and drilling contractors in Canada, the US, Australia, and Latin America. The demand for our products is directly related to land-based or offshore drilling activity funded by energy companies' capital expenditure programs. A substantial or extended decline in energy prices or diversion of funds to large capital programs could adversely affect capital available for drilling activities, directly impacting Pason's revenue.

Commodity Prices

Prices for crude oil and natural gas fluctuate in response to a number of factors beyond Pason's control. The factors that affect prices include, but are not limited to, the following: the actions of the Organization of Petroleum Exporting Countries, world economic conditions, government regulation, political stability in the Middle East and elsewhere, global supply and demand for crude oil and natural gas, the price of foreign imports, the availability of alternate fuel sources, and weather conditions. Any of these can reduce the amount of drilling activity.

Seasonality

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

Proprietary Rights

Pason relies on innovative technologies and products to protect its competitive position in the market. To protect Pason's intellectual property, the Company employs trademarks, patents, employment agreements, and other measures to protect trade secrets and confidentiality of information. Pason also believes that due to the rapid pace of technological change in the industry, technical expertise, knowledge, and innovative skills, combined with an ability to rapidly develop, produce, enhance, and market products, also provides protection in maintaining a competitive position.

Litigation

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in Pason's favour, the Company does not currently believe that the outcome of any pending or threatened proceedings related to these or other matters, or the amounts that the Company may be required to pay by reason thereof, would individually or in the aggregate have a material adverse impact on its day-to-day business operations.

Credit Risk

Pason is exposed to credit risk to the extent that its customers, operating primarily in the oil and natural gas industry, may experience financial difficulty and be unable to meet their obligations. However, Pason has a large number of customers on both the operator and contractor side, which minimizes exposure to any single customer.

Qualified Personnel

Due to the specialized and technical nature of Pason's business, Pason is highly dependent on attracting and retaining qualified or key personnel. There is competition for qualified personnel in the areas where Pason operates, and there can be no assurance that qualified personnel can be attracted or retained to meet the growth needs of the business. Further, the Company does not carry "key person" insurance on any of its key employees. As such, the unexpected loss of a key employee could have an adverse effect on Pason's results. To mitigate these risks, Pason has a human resources department in each significant business unit that is focused on recruiting and retention initiatives. In addition, the Company has deployed necessary equipment and technology to enable remote work for employees impacted by COVID-19 restrictions.

Alternative Energies

There continues to be extensive discussion at all levels of government worldwide and by the public concerning the burning of fossil fuels and the impact this may have on the global environment. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability, which could lead to potentially increased capital expenditures and operating costs. Implementation of strategies for reducing greenhouse gases could have a material impact on the nature of operations of the Company. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and the possible resulting requirements, it is not possible to predict either the nature of those requirements or the impact on the Company.

International Operations

Assets outside of Canada and the US may be adversely affected by changes in governmental policy, social instability, or other political or economic developments beyond the Company's control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and considered warranted. The vast majority of the Company's revenues are generated in Canada and the US, which limits exposure to risks and uncertainties in foreign countries. The Company's Argentinian subsidiary is operating in a highly inflationary economy and its operating results are being impacted by a weakening Argentina peso relative to the Canadian dollar, the details of which are outlined in the Company's Consolidated Financial Statements.

Foreign Exchange Exposure

The Company operates internationally and is primarily exposed to exchange risk relative to the US dollar. The Canadian operations are exposed to currency risk on US denominated financial assets and liabilities with fluctuations in the rate recognized as foreign exchange gains or losses in the Consolidated Statements of Operations. The Company's self-sustaining foreign subsidiaries expose the Company to exchange rate risk on the translation of their financial assets and liabilities to Canadian dollars for public reporting purposes.

Adjustments arising when translating the foreign subsidiaries into Canadian dollars are reflected in the Consolidated Statements of Operations and Other Comprehensive Income as unrealized foreign currency translation adjustments.

The Company does not employ any financial instruments to manage risk or hedge its activities. The vast majority of the Company's activities are conducted in Canada and the US, where local revenue is earned against local expenses and the Company is therefore naturally hedged.

Major Customers

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

Dividends

The decision to pay dividends and the amount paid is at the discretion of Pason's Board of Directors, which regularly reviews the Company's financial position, operating results, and industry outlook. Pason's ability to pay dividends is dependent on the Company's ability to generate cash flow in excess of its operating and investment needs and the Company's financial position.

Taxation

Pason and its subsidiaries are subject to income and other forms of taxation in the various jurisdictions in which they operate. Pason attempts to structure its operations in a tax efficient manner in light of prevailing tax regimes. Any adverse change to existing taxation measures, policies or regulations, or the introduction of new taxation measures, policies or regulations in any of the jurisdictions in which Pason operates could have a negative impact on Pason's business, operating results, or financial condition.

The management of Pason believes that the provision for income taxes is adequate and in accordance with both generally accepted accounting principles and appropriate regulations. However, the tax filing positions of the Company are subject to review and audit by tax authorities who may successfully challenge management's interpretation of the applicable tax legislation.

Information Security

Pason's business operations use an extensive network of communications and computer hardware and software systems. In addition, Pason's equipment captures, transmits, and stores significant quantities of drilling data on behalf of its customers. The Company takes measures to protect the security and integrity of its information systems and data, however, there is a risk that these measures may not fully protect against a potential security breach, which could have a negative impact on the Company's ability to operate or its reputation with existing and potential customers.

Availability of Raw Materials, Parts, or Finished Products

Pason purchases many materials, components and finished products in connection with its operations. Some of the components and finished products are obtained from a single source or a limited group of suppliers. While Pason makes it a priority to maintain and enhance these strategic relationships, there can be no assurance that these relationships will continue and reliance on these suppliers involves risks, including price increases, inferior component quality, unilateral termination, and a potential inability to obtain an adequate supply of required components or finished products in a timely manner. While Pason has long standing relationships with recognized and reputable suppliers, it does not have long-term contracts with all of its suppliers, and the partial or complete loss of certain of these sources could have a negative impact on the Company's operations and could damage customer relationships. Further, a significant increase in the price of one or more of these components could have a negative impact on Pason's cost structure.

The Company's ability to provide services to its customers is also dependent upon the ongoing refresh of existing hardware within its technology offering, which requires purchases of materials, components and finished products. While Pason has a dedicated procurement team who proactively manages required equipment and hardware needs, the availability and supply of these items may be impacted in periods of high or recovering activity levels, such as those seen in 2021. Supply chain disruptions, including those caused as a result of COVID-19, may result in timing delays on expected deliveries for certain components of the Company's product offering and may impact the Company's cost structure and ability to meet rising activity levels.

SEDAR

Additional information relating to the Company, including the Company's most recent Annual Information Form can be accessed on the Company's website at www.pason.com and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Forward Looking Information

Certain statements contained herein constitute "forward-looking statements" and/or "forward-looking information" under applicable securities laws (collectively referred to as "forward-looking statements"). Forward-looking statements can generally be identified by the words "anticipate", "expect", "believe", "may", "could", "should", "will", "estimate", "project", "intend", "plan", "outlook", "forecast" or expressions of a similar nature suggesting a future outcome or outlook.

Without limiting the foregoing, this document includes, but is not limited to, the following forward-looking statements: the Company's growth strategy and related schedules; divergence in activity levels between the geographic regions in which we operate; demand fluctuations for our products and services; the Company's ability to increase or maintain market share; projected future value, forecast operating and financial results; planned capital expenditures; expected product performance and adoption, including the timing, growth and profitability thereof; potential dividends and dividend growth strategy; future use and development of technology; our financial ability to meet long-term commitments not included in liabilities; the collectability of accounts receivable; the application of critical accounting estimates and judgements; treatment under governmental regulatory and taxation regimes; and projected increasing shareholder value.

These forward-looking statements reflect the current views of Pason with respect to future events and operating performance as of the date of this document. They are subject to known and unknown risks, uncertainties, assumptions, and other factors that could cause actual results to be materially different from results that are expressed or implied by such forward-looking statements.

Although we believe that these forward-looking statements are reasonable based on the information available on the date such statements are made and processes used to prepare the information, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties and other factors, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such risks and uncertainties include, but are not limited to: the state of the economy; volatility in industry activity levels and resulting customer expenditures on exploration and production activities; customer demand for existing and new products; the industry shift towards more efficient drilling activity and technology to assist in that efficiency; the impact of competition; the loss of key customers; the loss of key personnel; cybersecurity risks; reliance on proprietary technology and ability to protect the Company's proprietary technologies; changes to government regulations (including those related to safety, environmental, or taxation); the impact of extreme weather events and seasonality on our suppliers and on customer operations; and war, terrorism, pandemics, social or political unrest that disrupts global markets.

These risks, uncertainties and assumptions include but are not limited to those discussed in Pason's Annual Information Form for the year ended December 31, 2020 under the heading, "Risk and Uncertainty," in our management's discussion and analysis for the year ended December 31, 2021, and in our other filings with Canadian securities regulators. These documents are on file with the Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or through Pason's website (www.pason.com).

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The preparation and presentation of the Company's Consolidated Financial Statements and the overall reasonableness of the Company's financial reporting are the responsibility of management. The Board of Directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility with the assistance of the Audit Committee of the Board of Directors.

Management’s Report on Disclosure Controls and Procedures (DC&P)

Disclosure controls and procedures within the Company have been designed to provide reasonable assurance that all relevant information is identified to the President and Chief Executive Officer (CEO), Chief Financial Officer (CFO), and Board of Directors to ensure appropriate and timely decisions are made regarding public disclosure.

For the year ended December 31, 2021, an evaluation of the Company’s Disclosure Controls and Procedures was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that our DC&P, as defined in National Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings (NI 52-109), was effective to ensure that the information required by Canadian Securities regulatory authorities will be recorded, processed, and reported within the prescribed timelines.

Management’s Report on Internal Control over Financial Reporting (ICFR)

Management, under the supervision and participation of the Company’s CEO and CFO, is responsible for establishing and maintaining a system of internal controls over financial reporting to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements in accordance with International Financial Reporting Standards. The assessment has been based on criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the Company’s ICFR was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2021, our ICFR, as defined in NI 52-109, was effective. There were no changes in our ICFR during the year ended December 31, 2021, that have materially affected, or are reasonably likely to affect, our ICFR.

Historical Review

Selected Financial Data

Years Ended December 31,

	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
(CDN 000s, except per share data)	**($)**	($)	($)	($)	($)	($)	($)	($)	($)	($)
Operating Results										
Revenue	**206,686**	156,636	295,642	306,393	245,643	160,446	285,148	499,272	403,088	386,514
Expenses										
Rental services	**76,662**	66,695	105,496	104,398	95,912	80,115	120,445	153,151	134,874	125,269
Local administration	**11,006**	11,121	13,106	14,496	11,147	9,720	16,470	18,753	18,641	19,906
Corporate services	**13,175**	11,275	15,653	15,905	15,141	16,758	20,040	22,243	17,373	15,723
Research and development	**32,220**	26,977	30,439	26,997	25,219	22,848	31,733	35,427	27,252	22,467
Stock-based compensation	**11,523**	4,840	10,840	12,313	11,762	6,195	7,398	19,471	32,511	23,792
Depreciation and amortization	**25,689**	34,417	40,830	34,588	45,681	55,384	81,381	69,201	62,171	68,213
Adjusted EBITDA[(1)(2)]	**72,520**	39,540	129,644	146,004	98,224	31,005	96,460	251,623	136,647	151,753
As a % of revenue	**35.1**	25.2	43.9	48.1	40.0	19.3	33.8	50.4	33.9	39.3
Funds flow from operations	**67,728**	40,560	111,718	128,544	87,121	26,815	94,263	224,204	134,930	158,948
Per share – basic	**0.82**	0.48	1.31	1.51	1.03	0.32	1.13	2.71	1.64	1.94
Net income (loss) attributable to Pason	**33,845**	6,568	54,112	62,944	25,190	(41,792)	(7,917)	114,637	25,458	39,895
Per share – basic	**0.41**	0.08	0.63	0.74	0.30	(0.49)	(0.09)	1.39	0.31	0.49
Capital expenditures	**10,920**	5,159	24,178	23,876	20,764	12,856	50,811	121,188	70,664	71,424
Financial Position										
Total assets	**379,941**	361,416	437,841	461,716	398,446	435,251	529,625	570,066	445,876	488,378
Working capital	**184,083**	167,366	183,769	256,153	193,692	198,419	244,972	206,571	127,933	163,371
Total equity	**307,781**	305,283	346,454	386,077	347,486	386,651	489,448	483,523	366,469	368,696
Common Share Data										
Common shares outstanding (#)										
At December 31	**82,194**	83,089	84,538	85,783	85,158	84.628	84,063	83,363	82,158	82,049
Weighted average	**82,792**	83,956	85,409	85,357	84,821	84.365	83,675	82,647	82,098	81,968
Dividends ($)	**0.20**	0.48	0.74	0.70	0.68	0.68	0.68	0.64	0.53	0.46

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

(2) Prior to 2015, Adjusted EBITDA was defined as EBITDA.

Corporate Information

Directors

Marcel Kessler
Chairman of the Board
Pason Systems Inc.
Calgary, Alberta

T. Jay Collins(2)(3)
Director
Oceaneering International Inc.
Houston, Texas

Jon Faber
President & CEO
Pason Systems Inc.
Calgary, Alberta

Judi Hess(2)(4)(6)
CEO & Director
Copperleaf Technologies Inc.
Vancouver, British Columbia

James B. Howe(1)(6)(7)
President
Bragg Creek Financial
Consultants Ltd.
Calgary, Alberta

Laura Schwinn(4)(5)
President Specialty Catalysts
W. R. Grace & Co.
Columbia, Maryland

(1) Audit Committee Chair
(2) Audit Committee Member
(3) Human Resources and Compensation Committee Chair
(4) Human Resources and Compensation Committee Member
(5) Corporate Governance and Nominations Committee Chair
(6) Corporate Governance and Nomination Committee Member
(7) Lead Director

Officers & Key Personnel

Jon Faber
President
& Chief Executive Officer

Celine Boston
Chief Financial Officer

Kevin Boston
Vice President, Commercial

Natalie Fenez
Vice President, Legal & Corporate Secretary

Heather Hantos
Vice President, Human Resources

Bryce McLean
Vice President, Operations

Lars Olesen
Vice President, Product & Technology

Russell Smith
Vice President, International

Ryan Van Beurden
Vice President, Rig-site Research & Development

Reid Wuntke
President, Energy Toolbase Software Inc.

Corporate Head Office

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InvestorRelations@pason.com
www.pason.com

Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI.TO

Eligible Dividend Designation

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