PASON SYSTEMS INC.

2021 ANNUAL REPORT

PASON GLOBAL PRESENCE

MISSION STATEMENT

Pason provides technologies and services that improve the effectiveness, efficiency, and safety of drilling operations in challenging operating environments worldwide.

Our simple-to-use, innovative, and rig-tough technologies enable effective collaboration between the field and the office and are supported by our unrivalled service organization.

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QUICK FACTS

- Headquartered in Calgary, Alberta.
- US office in Houston, Texas.
- Local presence in Argentina, Australia, Brazil, Colombia, Dubai, Ecuador, Mexico, Peru, and Saudi Arabia.
- Listed on the Toronto Stock Exchange under the symbol PSI.

This annual report was written, photographed, designed, and produced by Pason employees.

PRESIDENT'S MESSAGE

Throughout 2021, Pason's financial and operational performance reflected both steady improvement of prevailing drilling industry conditions and a strengthened competitive position. The commitment and resilience of our people were on full display as we adapted to the changing realities of the COVID-19 pandemic, with resulting adjustments to public health guidelines and customer requirements. We maintained and built upon our leading technology and customer service positions, and as a result, our customers entrusted us with the largest North American market share in Pason's history. As customers increasingly look to use data to power automation and analytics technologies that improve their operational performance, we are committed to delivering solutions and providing support to earn their continued confidence.

"Pason's financial and operational performance reflected both steady improvement of prevailing drilling industry conditions and a strengthened competitive position."

The products and services we offer continue to improve the efficiency, effectiveness and safety of our customers' drilling activities. This provides them with not only financial benefits by reducing the capital intensity of their drilling operations, but also environmental benefits by reducing carbon intensity. Delivering greater production from well-placed wellbores and reducing inefficient and non-productive time in the drilling process both serve to reduce the carbon generated for each unit of oil or gas produced.

Our leading market position, an improved pricing environment, and growing adoption of our data delivery and drilling intelligence solutions helped deliver the highest Revenue per Industry Day in Pason's history. Consolidated revenue of $207 million in 2021 was up 32% from the prior year, significantly outpacing a 20% increase in North American drilling activity. Meanwhile, Adjusted EBITDA increased by 83% to $73 million, reflecting the fact that many of our operating costs are fixed in nature. Capital expenditures totalled $11 million and Pason generated $55 million of free cash flow. During the year, we returned $25 million to shareholders through our regular dividend and share repurchases.

Going forward, we will continue to allocate capital by making investments in maintaining our leadership position in our existing drilling-related markets, positioning ourselves for future growth in new and growing markets and returning capital to shareholders.

Our growth strategy remains unchanged. We will continue to pursue attractive organic and inorganic opportunities within (1) our existing drilling-related business; (2) adjacent oil and gas sectors outside of drilling; and (3) other markets beyond oil and gas. The investments we are making in research and development remain aligned with customer priorities to better utilize data in their operational efforts, and are providing additional commercial opportunities. In 2021, we invested a further $17 million to fund continued growth and increase our ownership stake in Intelligent Wellhead Systems, an emerging provider of wellsite

"We believe that Pason can play a meaningful and important role in helping the world meet its energy needs in an innovative, profitable and responsible manner."

instrumentation, engineering controls and digital solutions in the oil and gas completions industry. We are advancing our efforts in the solar and energy storage business through Energy Toolbase, which provides a leading economic modeling and proposal generation software platform as well as energy management systems to provide intelligent control of energy storage assets.

Our efforts position Pason to remain a compelling technology provider in the energy transition. The world's demand for energy continues to increase. Access to affordable energy is critical to the continued economic development and growth of the world. Meeting this critical need will require the responsible development of both hydrocarbons as well as alternative, renewable energy sources.

We expect to see continued, steady growth in oil and gas drilling activity through 2022, supported by increasingly constructive supply and demand fundamentals. The US Energy Information Administration expects that oil demand will eclipse pre-pandemic levels in 2022. In a balanced market, demand must be met by supply; oil supply must come from existing oil in storage, oil currently being produced, future production capacity from wells that have already been drilled but are awaiting completion, or newly drilled wells. US crude oil and petroleum product storage is currently at its lowest level in 8 years, a situation exacerbated by releases from the Strategic Petroleum Reserves in response to high oil prices. US land production remains approximately 10% lower than pre-pandemic levels, and the inventory of drilled wells awaiting completion is at its lowest level since the beginning of 2014. Meanwhile, OPEC+ countries are failing to meet their intended production targets and estimated excess OPEC+ production capacity is shrinking. The ability to bring on new sources of supply is further challenged by current challenges around the availability of labour, supply chain disruptions and underinvestment in larger, long-term development projects for more than five years.

The effects of supply and demand imbalance in world oil and gas markets is being directly felt by consumers as oil prices climb past US$100 per barrel for the first time since 2014 and gasoline prices contribute to higher levels of inflation than have been experienced in decades. As I write this, oil prices have pushed through US$110 per barrel as a result of the Russian invasion of Ukraine. While higher oil prices support a more optimistic outlook for oil and gas drilling activity, as global citizens we are troubled by the circumstances that have led to the current situation. The world is reckoning with the complexity of simultaneously navigating the emergence from a global pandemic, geopolitical strife, an energy transition driven by climate change concerns, and supply and demand imbalances driving rapidly increasing inflation.

In that context, we find ourselves reflecting on our place in the world and the role we can play in navigating the challenges and uncertainty, both as companies and individuals. We believe that Pason can play a meaningful and important role in helping the world meet its energy needs in an innovative, profitable and responsible manner. Doing so requires the continued commitment, dedication, intelligence and creativity of our talented employees, as well as our customers, suppliers and shareholders. On behalf of our Board of Directors, I thank you for your continued support.

Jon Faber

- President and Chief Executive Officer
March 2022

PASON TECHNOLOGY

A SNAPSHOT OF PASON'S DATA ECOSYSTEM

CAPTURE & AGGREGATE

Sensors, servers, and networking infrastructure make up Pason's field products, which monitor and record operations in remote and hostile environments.

Real-time and historical analytical data directly from remote field equipment facilitating collaboration across teams.

TRANSMIT

DAS™ FASTER DRILLING SAVING COST

CLICK HERE TO READ MORE

DELIVER

Pason's DataLink service provides direct connections using industry standard protocols for IT systems and analytics tools, a key enabler of remote operations analytics.

WELL DASHBOARD: EVERYTHING OUR CUSTOMERS NEED NOTHING THEY DON'T

CLICK HERE TO READ MORE

VISUALIZE

Using Pason's DataHub product suite, office-based engineers can visualize field operations in real-time using desktop computers or mobile devices.

UTILIZE

Unique software solutions unlock the power of automation, allowing Pason customers to use the best of their data directly from the field to the office.

2021 FINANCIAL HIGHLIGHTS

All dollar amounts are in $CDN unless otherwise indicated.

$207 MILLION IN REVENUE

RECORD REVENUE PER INDUSTRY DAY

$73 MILLION ADJUSTED EBITDA

$55 MILLION FREE CASH FLOW

$25 MILLION SHAREHOLDER RETURNS

* **$158 MILLION** IN CASH WITH NO DEBT

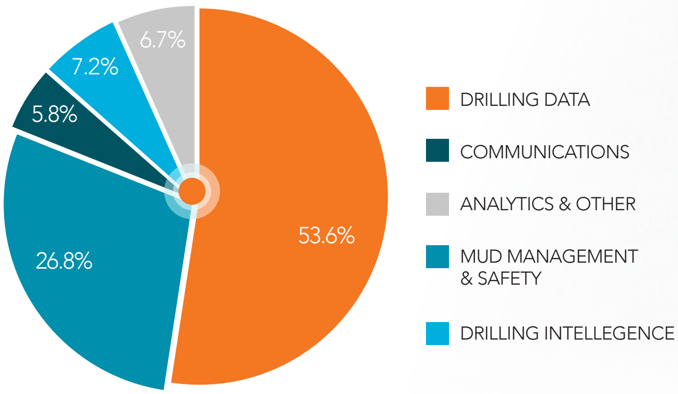
*At Dec 31, 2021

OVER **$500 MILLION** RETURNED TO SHAREHOLDERS OVER THE PAST 10 YEARS

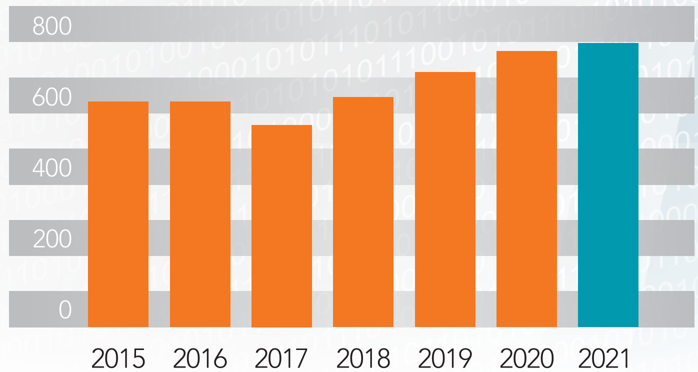
2021 OPERATIONAL & FINANCIAL HIGHLIGHTS

All dollar amounts are in $CDN unless otherwise indicated.

REVENUE BY CATEGORY



RECORD NORTH AMERICAN REVENUE PER INDUSTRY DAY IN 2021



IN 2021...

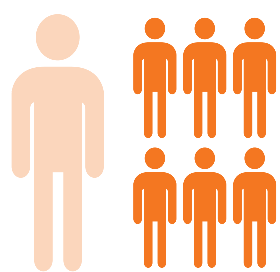
1426
UNIQUE RIGS SERVICED

9000+
DATAHUB USERS

$33
MILLION R&D SPEND

EMPLOYEE HEADCOUNT

TOTAL PASON



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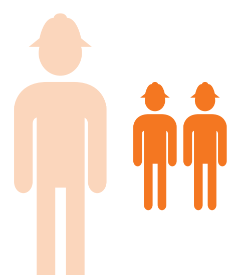
FIELD TECHNICIANS



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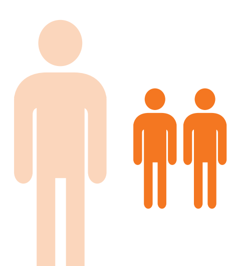
R&D AND IT



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MANAGEMENT'S DISCUSSION & ANALYSIS

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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, Colombia, 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.

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.

Consolidated Financial Statements and Notes

Management's Report to Shareholders

To the Shareholders of Pason Systems Inc.,

The Consolidated Financial Statements are the responsibility of management and are prepared and presented in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board. Financial statements will, by necessity, include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis so that the Consolidated Financial Statements are presented fairly in all material respects.

Management has also prepared the Management's Discussion and Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2021 and 2020.

The Audit Committee of the Board of Directors, which is comprised of three independent directors, has reviewed the Consolidated Financial Statements, including the notes thereto, with management and the external auditors. The Audit Committee meets regularly with management and the independent auditors to satisfy itself that management's responsibilities are properly discharged, to review the Consolidated Financial Statements, and to recommend approval of the financial statements to the Board. The Board of Directors has approved the Consolidated Financial Statements on the recommendation of the Audit Committee.

Deloitte LLP, the independent auditors appointed by the shareholders at the last annual general meeting, have audited the Consolidated Financial Statements of Pason Systems Inc. in accordance with Canadian Generally Accepted Auditing Standards. The independent auditors have full and unrestricted access to the Audit Committee to discuss the audit and their related findings as to the integrity of the financial reporting process. The independent auditor's report outlines the scope of their examination and sets forth their opinion.

Jon Faber
President & Chief Executive Officer
Calgary, Alberta
February 22, 2022

Celine Boston
Chief Financial Officer

Independent Auditor’s Report

Opinion

We have audited the consolidated financial statements of Pason Systems Inc., (the “Company”), which comprise the consolidated balance sheets as at December 31, 2021 and 2020, and the consolidated statements of operations, other comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the “financial statements”).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (“IFRS”).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards (“Canadian GAAS”). Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statement for the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue — Refer to Note 3 to the financial statements

Key Audit Matter Description

The Company’s derives the majority of its revenue from the rental of instrumentation and data services to oil and gas companies and drilling contractors. This revenue consists of transaction-based fees made up of a significant volume of low-dollar transactions, sourced from multiple systems, databases, and other tools. The processing and recording of revenue is highly automated and is based on contractual terms with customers.

Given the Company’s revenue transactions are highly automated, there are potential risks arising from the capture, processing and transfer of data accurately and completely between the various information technology (IT) systems. As such, auditing the Company’s systems to process revenue transactions resulted in an increased extent of audit effort, which included the need to involve professionals with expertise in IT.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the Company’s systems to process revenue transactions included the following, among others:

- With the assistance of IT specialists:
    - Evaluated the significant systems used to process revenue transactions and tested the effectiveness of general IT controls over each of these systems, including user access controls, change management controls, and IT operations controls;

    - Evaluated the effectiveness of controls of the interfaces and automated controls in relation to the completeness and accuracy of transactions recorded and transferred across systems, from their initial capturing to their recording into the general ledger;
    - Performed testing of system interfaces and automation within the relevant revenue streams and;
    - Assessed service auditor reports at those service providers, on which the Company relies.
- Tested the reconciliation of revenues per the general ledger to revenues earned per the various revenue system applications to assess the completeness of the IT systems.
- Performed detail transaction testing by agreeing the amounts in the IT systems to recognized to source documents such as invoices and charge records.

Obligation under put option - Refer to Notes 2, 3 and 15 to the financial statements

Key Audit Matter Description

As a result of a 2019 agreement which included various put and call provisions which provide a certain amount of liquidity to both parties, the Company recorded an obligation under put option ("obligation") that was initially recognized at the present value of the estimated redemption amount. The Company performs a re-evaluation of the obligation at each reporting period to determine the present value using a discounted cash flow model. This model is based upon certain assumptions and estimates.

While there are several assumptions and estimates that management makes to determine the obligation's present value, the assumptions and estimates with the highest degree of subjectivity and impact on the present value are the revenue growth rates and discount rate. As such, auditing these assumptions and estimates resulted in an increased extent of audit effort, which included the need to involve professionals with expertise in valuation.

How the Key Audit Matter Was Addressed in the Audit

Our audit procedures related to the revenue growth rates and the discount rate used to determine the present value of the obligation included the following, among others:

- Evaluated management's ability to accurately forecast revenue growth rates by comparing actual results to management's historical forecasts;
- Evaluated the reasonableness of management's forecasted revenue growth rates by comparing the forecasts to:
    - Analyst and industry reports for the industry, comparison of actual results to peers, and other relevant publicly available information,
    - Known changes in ETB LLC's operations or the industry in which they operate, which are expected to impact future operating performance,
    - Internal discussions by management and the Board of Directors;
- With the assistance of fair value specialists, evaluated the reasonableness of the discount rate by testing the source information underlying the determination of the discount rate and developing a range of independent estimates and comparing those to the discount rate selected by management.

Other Information

Management is responsible for the other information. The other information comprises:

- Management's Discussion and Analysis

- The information, other than the financial statements and our auditor’s report thereon, in the Annual Report.

Our opinion on the financial statements does not cover the other information and we do not and will not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We obtained Management’s Discussion and Analysis prior to the date of this auditor’s report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditor’s report. We have nothing to report in this regard.

The Annual Report is expected to be made available to us after the date of the auditor’s report. If, based on the work we will perform on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRS, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company’s ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company’s financial reporting process.

Auditor’s Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian GAAS will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Canadian GAAS, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management’s use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor’s report is Kyle Hawkins.

/s/ Deloitte LLP

Chartered Professional Accountants

Calgary, Alberta

February 22, 2022

Consolidated Balance Sheets

As at	Note*	**December 31, 2021**	December 31, 2020
(CDN 000s)		**($)**	($)
Assets			
Current			
Cash and cash equivalents	5	**158,283**	149,282
Trade and other receivables	6	**49,453**	25,747
Income taxes recoverable - other	16	**13,257**	15,304
Prepaid expenses		**5,197**	2,973
Income taxes recoverable	16	**375**	3,489
Total current assets		**226,565**	196,795
Non-current			
Property, plant and equipment	7	**82,265**	94,986
Investments	8	**30,046**	24,719
Intangible assets and goodwill	9	**41,065**	44,916
Total non-current assets		**153,376**	164,621
Total assets		**379,941**	361,416
Liabilities and equity			
Current			
Trade payables and accruals	10	**31,475**	14,035
Income taxes payable	16	**6,568**	2,039
Stock-based compensation liability	12	**2,647**	1,426
Lease liability		**1,792**	1,929
Obligation under put option	8	**—**	10,000
Total current liabilities		**42,482**	29,429
Non-current			
Deferred tax liabilities	16	**5,836**	7,927
Lease liability		**5,537**	4,240
Stock-based compensation liability	12	**6,821**	3,384
Obligation under put option	15	**11,484**	11,153
Total non-current liabilities		**29,678**	26,704
Equity			
Share capital	11	**162,567**	164,568
Share-based benefits reserve		**34,383**	33,170
Foreign currency translation reserve		**50,298**	54,090
Equity reserve		**(8,375)**	(8,375)
Retained earnings		**72,602**	63,609
Total equity attributable to equity holders of the Company		**311,475**	307,062
Non-controlling interest		**(3,694)**	(1,779)
Total equity		**307,781**	305,283
Total liabilities and equity		**379,941**	361,416

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

Approved by the Board of Directors

James B. Howe
Director

Judi Hess
Director

Consolidated Statements of Operations

Years Ended December 31,	Note*	2021	2020
(CDN 000s, except per share data)		**($)**	($)
Revenue		**206,686**	156,636
Operating expenses			
Rental services		**76,662**	66,695
Local administration		**11,006**	11,121
Depreciation and amortization	7, 9	**25,689**	34,417
		113,357	112,233
Gross profit		**93,329**	44,403
Other expenses			
Research and development		**32,220**	26,977
Corporate services		**13,175**	11,275
Stock-based compensation expense	12	**11,523**	4,840
Other income	14	**(7,252)**	(8,687)
		49,666	34,405
Income before income taxes		**43,663**	9,998
Income tax provision	16	**11,738**	4,864
Net income		**31,925**	5,134
Net income attributable to:			
Shareholders of Pason		**33,845**	6,568
Non-controlling interest		**(1,920)**	(1,434)
Net income		**31,925**	5,134
Income per share	17		
Basic		**0.41**	0.08
Diluted		**0.41**	0.08

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

Consolidated Statements of Other Comprehensive Income

Years Ended December 31,	Note*	2021	2020
(CDN 000s)		**($)**	($)
Net income		**31,925**	5,134
Items that may be reclassified subsequently to net income:			
Foreign currency translation adjustment	3	**(3,787)**	(3,714)
Other comprehensive loss		**(3,787)**	(3,714)
Total comprehensive income		**28,138**	1,420
Total comprehensive income attributed to:			
Shareholders of Pason		**30,053**	2,854
Non-controlling interest		**(1,915)**	(1,434)
Total comprehensive income		**28,138**	1,420

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

Consolidated Statements of Changes in Equity

(CDN 000s)	Note*	Share Capital ($)	Share-Based Benefits Reserve ($)	Foreign Currency Translation Reserve ($)	Equity Reserve ($)	Retained Earnings ($)	**Total Equity Attributable to Pason** ($)	Non-Controlling Interest ($)	**Total Equity** ($)
Balance at January 1, 2020		166,701	30,863	57,830	(8,375)	99,806	**346,825**	(371)	**346,454**
Net income (loss)		—	—	—	—	6,568	**6,568**	(1,434)	**5,134**
Dividends		—	—	—	—	(40,420)	**(40,420)**	—	**(40,420)**
Other comprehensive income		—	—	(3,740)	—	—	**(3,740)**	26	**(3,714)**
Expense related to stock options		—	2,307	—	—	—	**2,307**	—	**2,307**
Liability reversal for automatic share purchase plan commitment pursuant to NCIB	11	732	—	—	—	4,268	**5,000**	—	**5,000**
Shares cancelled under NCIB	11	(2,865)	—	—	—	(6,613)	**(9,478)**	—	**(9,478)**
Balance at December 31, 2020		164,568	33,170	54,090	(8,375)	63,609	**307,062**	(1,779)	**305,283**
Net income (loss)		—	—	—	—	33,845	**33,845**	(1,920)	**31,925**
Dividends	11	—	—	—	—	(16,567)	**(16,567)**	—	**(16,567)**
Other comprehensive income		—	—	(3,792)	—	—	**(3,792)**	5	**(3,787)**
Expense related to stock options		—	1,213	—	—	—	**1,213**	—	**1,213**
Exercise of stock options	11	146	—	—	—	—	**146**	—	**146**
Shares cancelled under NCIB	11	(1,804)	—	—	—	(6,628)	**(8,432)**	—	**(8,432)**
Liability for automatic share purchase plan commitment pursuant to NCIB	11	(343)	**—**	**—**	**—**	(1,657)	**(2,000)**	—	**(2,000)**
Balance at December 31, 2021		**162,567**	**34,383**	**50,298**	**(8,375)**	**72,602**	**311,475**	**(3,694)**	**307,781**

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

Consolidated Statements of Cash Flows

Years Ended December 31,	Note*	2021	2020
(CDN 000s)		($)	($)
Cash from (used in) operating activities			
Net income		**31,925**	5,134
Adjustment for non-cash items:			
Depreciation and amortization	7, 9	**25,689**	34,417
Stock-based compensation	12	**11,523**	4,840
Deferred income taxes	16	**(2,138)**	(467)
Derecognition of onerous lease	14	**—**	(5,757)
Put option revaluation	15	**381**	1,812
Net monetary gain		**601**	(1,781)
Unrealized foreign exchange (gain) loss and other		**(253)**	2,362
Funds flow from operations		**67,728**	40,560
Movements in non-cash working capital items:			
(Increase) decrease in trade and other receivables		**(22,656)**	34,277
(Increase) decrease in prepaid expenses		**(2,196)**	590
Change in income taxes recoverable/payable		**16,692**	5,132
Increase (decrease) in trade payables, accruals and stock-based compensation liability		**11,219**	(15,098)
Effects of exchange rate changes		**1,286**	407
Cash generated from operating activities		**72,073**	65,868
Income tax paid	16	**(7,012)**	(7,285)
Net cash from operating activities		**65,061**	58,583
Cash flows from (used in) financing activities			
Proceeds from issuance of common shares	11	**146**	—
Payment of dividends	11	**(16,567)**	(40,420)
Repurchase and cancellation of shares under NCIB	11	**(8,432)**	(9,478)
Repayment of lease liability		**(2,193)**	(2,299)
Net cash used in financing activities		**(27,046)**	(52,197)
Cash flows (used in) from investing activities			
Equity investments	8	**(17,127)**	(5,000)
Business combinations		**—**	(2,560)
Additions to property, plant and equipment	7	**(10,237)**	(4,668)
Development costs, net of ITCs	9	**(683)**	(491)
Proceeds on disposal of property, plant and equipment		**1,132**	953
Changes in non-cash working capital		**(162)**	(513)
Net cash used in investing activities		**(27,077)**	(12,279)
Effect of exchange rate on cash and cash equivalents		**(1,937)**	(5,841)
Net increase (decrease) in cash and cash equivalents		**9,001**	(11,734)
Cash and cash equivalents, beginning		**149,282**	161,016
Cash and cash equivalents, ending	5	**158,283**	149,282

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

Notes to Consolidated 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 specialized data management systems for drilling rigs. Our solutions, which include data acquisition, wellsite reporting, remote communications, web-based information management, and analytics, enable collaboration between the rig and the office. Through 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.

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

2. Basis of Preparation

Statement of compliance

The Consolidated Financial Statements have been prepared in compliance with International Financial Reporting Standards (IFRS).

The Consolidated Financial Statements were authorized for issue by the Board of Directors on February 22, 2022.

Basis of measurement

The Consolidated Financial Statements have been prepared on the historical cost basis except for certain assets, including financial instruments, that are measured at revalued amounts or fair values, as explained in the accounting policies below.

Functional and presentation currency

These Consolidated Financial Statements are presented in Canadian dollars, which is the Company's functional currency. Financial statements of the Company's US and International subsidiaries have a functional currency different from Canadian dollars and are translated to Canadian dollars using the exchange rate in effect at the period end date for all assets and liabilities, and at average monthly year to date rates of exchange during the period for revenues and expenses. The functional currency of the Company's US operations is the US dollar, while the local currency in each country is considered to be the functional currency of each respective International subsidiary.

All changes resulting from these translation adjustments are recognized in other comprehensive income. All financial information presented in Canadian dollars has been rounded to the nearest thousand except for per share amounts.

Key Sources of estimation uncertainty

In the application of the Group's accounting policies, which are described in Note 3, management is required to make judgments, estimates, and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based upon historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Although industry conditions began to recover in 2021, the COVID-19 pandemic continues to impact global levels of drilling activity, and as such the impact on Pason's financial and operational performance remains uncertain at this time. The Company continues to closely monitor current developments as it relates to the COVID-19 pandemic and should the duration, spread, or intensity of the pandemic continue or worsen, further negative impacts on the Company's financial and operational performance can be expected. As such, actual results may differ significantly from estimates made within these Consolidated Financial Statements.

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 of property, plant, and equipment, and amortization of intangible assets

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.

Cash generating units (CGU)

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 CGUs. The Company uses judgment in the determination of its CGUs.

Recoverable amounts of property and equipment, intangible assets, and goodwill

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.

Intangible assets and goodwill acquired in business combinations, and obligations under put option

Accounting for business combinations involves the allocation of the cost of an acquisition to the underlying net assets acquired based on estimated fair values. As part of this allocation process, the Company identifies and attributes values and estimated lives to identifiable intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk, and the weighted average cost of capital used by a market participant. These estimates and assumptions determine the amount allocated to identifiable separable intangible assets and goodwill, as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges. In conjunction with the ETB Inc. acquisition, the Company determines the obligation under the put option based upon certain assumptions and estimates which could differ significantly from actual results (Note 15).

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, all of which could differ significantly from actual results. This determines whether a provision or disclosure in the financial statements is needed.

Viability of new product development projects

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 ("PSUs") 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, and ultimate payout 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 of the Company.

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.

3. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these Consolidated Financial Statements.

The accounting policies have been applied consistently by the Group entities.

Basis of consolidation

(a) Business combinations

For acquisitions, the Group measures goodwill as the fair value of the consideration transferred less the net recognized amount, at fair value, of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

Contingent consideration is measured at fair value at the acquisition date. Subsequent adjustments to the consideration are recognized against the cost of the acquisition only to the extent that they arise from new information obtained within the measurement period (maximum of 12 months from the acquisition date) about the fair value at the date of acquisition. All other subsequent adjustments to contingent consideration classified as an asset or liability are recognized in profit or loss.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurs in connection with a business combination are expensed as incurred.

(b) Subsidiaries

Subsidiaries are entities controlled by the Company. The financial statements of subsidiaries are included in the Consolidated Financial Statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Company. Intercompany balances and transactions are eliminated in preparing the Consolidated Financial Statements.

Investments in Associates and Joint Ventures

The Company uses the equity method to account for its 50% interest in Rawabi Pason Company (Limited LCC) (Rawabi JV) and its minority investment in Intelligent Wellhead Systems Inc. (IWS). Under the equity method, the investment is carried at cost and adjusted for post acquisition changes in the Company's share of net assets of the associate or joint venture.

Goodwill and other intangible assets that arose on the initial acquisition are included as part of the carrying amount and not recognized separately. The equity pick-up recognized is reduced by the amortization of such intangible assets.

Distributions received from an associate or joint venture reduce the carrying cost.

Non-controlling interest

Non-controlling interest arises from business combinations in which the Company acquires less than 100% interest and is measured at either fair value or at the minority interest's proportionate share of the acquiree's identifiable assets. This decision is made on an acquisition-by-acquisition basis.

In 2019, the Company acquired 80% of Energy Toolbase Software Inc. (ETS Inc). As such, non-controlling interest representing 20% interest was valued using the minority interest's proportionate share of the acquiree's identifiable assets.

Non-controlling interest in the net income of the Company's non-wholly subsidiaries are included in net income, with minority interests presented as equity on the Consolidated Balance Sheets. The carrying amount of non-controlling interest is increased or decreased by the minority interest's share of subsequent changes in net income and comprehensive loss, as well as dividends or cash disbursements made to the minority interest even if the result is that non-controlling interest becomes a debit balance.

Government wage subsidies

The Company recognizes government wage subsidies when there is reasonable assurance that the relevant conditions are met and that the subsidy will be received. The benefits are recorded within other income/expenses in the income statement.

Foreign currency

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising from business combinations, are translated to Canadian dollars at exchange rates at the reporting date. The income and expenses of foreign operations are translated to Canadian dollars at average exchange rates.

Gains and losses arising from the translation of the financial statements of foreign operations are included in the Consolidated Statements of Other Comprehensive Income in the period they relate to, and such differences have been accumulated in Foreign Currency Translation Reserve on the Consolidated Balance Sheets. Advances made to subsidiaries for which the settlement is not planned or anticipated in the foreseeable future are considered part of the net investment. Accordingly, unrealized gains and losses from these advances are recorded in the Consolidated Statements of Other Comprehensive Income.

Monetary assets and liabilities relating to foreign denominated transactions are initially recorded at the rate of exchange in effect at the transaction date. Gains and losses resulting from subsequent changes in foreign exchange rates are recorded in profit or loss for the period.

Hyperinflation Accounting

Due to various qualitative and quantitative factors, Argentina was designated a hyper-inflationary economy in the second quarter of 2018 for accounting purposes. As such, the Company has applied IAS 29, *Financial Reporting in Hyper-Inflationary Economies* to these Consolidated Financial Statements for its Argentinian operating subsidiary. These Consolidated Financial Statements are based on the historical cost approach in IAS 29.

The application of hyperinflation accounting requires restatement of the Argentina subsidiary’s non monetary assets and liabilities, shareholders’ equity and other comprehensive income items from the transaction date when they were first recognized into the current purchasing power, which reflects a price index current at the end of the reporting period before being included in the Consolidated Financial Statements. To measure the impact of inflation on its financial position and results, the Company has elected to use the Retail Price Index (indice de precios al consumidor con cobertuna nacional or “IPC”) as recommended by the Government Board of the Argentine Federation of Professional Councils of Economic Sciences (FACPCE).

As a result of the change in the IPC for the year ended December 31, 2021, the Company recognized a net monetary gain within the Argentina subsidiary of $496 (2020 - $1,874). The level of the IPC at December 31, 2021, was 582.5 (2020 - 385.9), which represents an annual increase of 51% (2020 - 36%).

Financial instruments

All financial instruments are measured at fair value upon initial recognition of the transaction. Measurement in subsequent periods is dependent on whether the instrument is classified as a “financial asset or financial liability at fair value through profit or loss”, “available-for-sale financial assets”, “held-to-maturity investments”, “loans and receivables”, or “other financial liabilities”. The Company derecognizes a financial asset when the contractual right to the cash flows from the asset expires, or it transfers the right to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled, or expired. Financial assets and liabilities are offset and the net amount presented in the balance sheet when the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

The Company has the following non-derivative financial assets:

(a) Financial assets as fair value through profit or loss:

Cash and cash equivalents are held for trading within the fair value through profit or loss category. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in net income.

(b) Loans and receivables:

Trade and other receivables are held within the loans and receivables category (Note 6). Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognized at fair value plus any directly attributable transaction costs less any impairment losses. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

The Company has the following non-derivative financial liabilities:

(a) Non-derivative financial liabilities

Trade payables, accruals, provisions, and obligation under put option are held within the non-derivative financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method.

Cash and cash equivalents

Cash is comprised of cash on deposit, cash held in trust, bank indebtedness, and investments with maturities of 90 days or less at the date of investment. Bank overdrafts that are repayable on demand are included as a component of cash for the purpose of the statement of cash flows.

Share capital

Common shares are classified as equity.

Property, plant, and equipment

(a) Recognition and measurement

Items of property, plant, and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Property, plant, and equipment include parts and raw materials awaiting assembly. These assets are recorded at cost and no depreciation is taken.

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and any other costs directly attributable to bringing the assets to a working condition for their intended use and the costs of dismantling and removing the items.

When parts of an item of property, plant, and equipment have different useful lives, they are accounted for as separate items of property, plant, and equipment.

Proprietary software that is integral to the functionality of the related equipment is capitalized as part of that equipment.

Gains and losses on disposal of an item of property, plant, and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognized net within depreciation and amortization.

(b) Subsequent costs

The cost of replacing a part of an item of property, plant, and equipment is recognized in the carrying amount of the item only when it is probable that the future economic benefits will flow to the Company, the economic life is greater than one year, and its cost can be measured reliably. All other replacement costs, as well as the repair and maintenance of property, plant, and equipment, are recognized in profit or loss as incurred.

(c) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset less residual value which the Company has determined to be nominal.

Depreciation is recognized in profit or loss either on a straight-line or declining balance basis over the estimated useful lives of each part of an item of property, plant, and equipment. Land is not depreciated.

The estimated useful lives for the current and comparative year are as follows:

	Straight-Line	Declining Balance Rate
Rental equipment	—	20%
Other	3 years	—

Depreciation methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

Materials and supplies awaiting assembly are recorded at cost in property, plant, and equipment and no depreciation is taken.

Intangible assets

(a) Goodwill

Goodwill represents the excess of purchase price for business combinations over the fair value of the acquired net assets. Goodwill is allocated as of the date of the business combination. Goodwill is measured at cost less accumulated impairment losses.

(b) Research and development

Expenditure on research activities, undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as incurred.

Development activities involve a plan or design for the production of new or substantially improved products and processes. Development expenditures are capitalized only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Company intends to and has sufficient resources to complete development and to use the asset. The expenditure capitalized includes the cost of materials and direct labour costs that are directly attributable to preparing the asset for its intended use. Other development expenditures are recognized in profit or loss as incurred.

Capitalized development expenditures are measured at cost less accumulated amortization and accumulated impairment losses.

Capitalized development expenditures are amortized in the year in which the new products begin generating revenue. However, if at any time a product is deemed no longer commercially viable, the balance of the related deferred costs is expensed in profit or loss.

Investment tax credits are recorded only when received, as the timing and amounts are dependent upon the acceptance of the claim by the respective tax authorities, and are netted against the related development costs.

(c) Other intangible assets

Other intangible assets that are acquired by the Company have finite useful lives and are measured at cost less accumulated amortization and accumulated impairment losses.

Intangible assets are amortized when they are available for use on a straight-line basis over their estimated economic lives.

(d) Subsequent expenditures

Subsequent expenditures are capitalized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures, including expenditures on internally generated goodwill and brands, are recognized in profit or loss as incurred.

(e) Amortization

Amortization is calculated over the cost of the asset less residual value which the Company has determined to be nominal.

The estimated useful lives for intangible assets are as follows:

Customer relationships and technology	6 years
Non-compete agreements	5 years
Trademarks and software	3 years
Patents and research and development costs	3 years

Amortization methods, useful lives, and residual values are reviewed at each financial year-end and adjusted if appropriate.

Impairment

(a) Financial assets (including trade and other receivables)

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be reliably estimated.

Objective evidence that financial assets are impaired includes default or delinquency by a debtor, restructuring of an amount due to the Company on terms that the Company would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, or the disappearance of an active market for a security. The Company considers evidence of impairment for receivables at both a specific asset and collective level. All individually significant receivables are assessed for specific impairment. All individually significant receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables that are not individually significant are collectively assessed for impairment by grouping together receivables with similar risk characteristics.

In assessing collective impairment, the Company uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgment as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(b) Non-financial assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. Judgments and assessments are made to determine whether an event has occurred that indicates a possible impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated at least annually.

Assets that cannot be tested for impairment individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets, referred to as the CGU. The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

For goodwill impairment testing, goodwill acquired in a business combination is allocated to the CGU that is expected to benefit from the synergies of the combination. This allocation is subject to an operating segment ceiling test and reflects the lowest level at which that goodwill is monitored for internal reporting purposes.

The Company's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss as incurred. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro-rata basis.

An impairment loss in respect of goodwill cannot be reversed. In respect of other assets, impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized.

Share based compensation

Equity-settled share based compensation

(a) Stock option plan

The fair value of stock options granted is estimated at the grant date using the Black-Scholes option pricing model, which includes underlying assumptions related to the risk-free interest rate, average expected option life, estimated forfeitures, estimated volatility of the Company's shares and anticipated dividends.

Compensation expense associated with the option plan is recognized on a graded basis as stock-based compensation expense over the vesting period of the stock options with a corresponding increase in share based benefits reserve. Any consideration received on the exercise of stock options for common shares is credited to share capital.

Cash-settled share based compensation

(b) Restricted share unit (RSU) plan and Phantom stock full value (PSFV) plan

The Company has a RSU and a PSFV plan for qualified employees whereby holders receive a cash settlement based upon the number of outstanding units multiplied by the prevailing market price of the Company’s common shares on the vesting date. A liability is accrued and adjusted each quarter based upon the number of vested units and the current market price of the Company’s common shares.

Compensation expense for the plans is accrued on a graded basis over the respective three-year vesting period. Any changes in the fair value of the liability are recognized in profit or loss.

(c) Deferred share unit (DSU) plan

The Company has a DSU plan for directors of the Company. The DSUs are granted annually and represent rights to share values based on the number of DSUs issued. When a DSU holder ceases to be a member of the Board, the holder is entitled to receive a cash settlement based upon the number of outstanding DSUs multiplied by the prevailing market price of the Company’s common shares on the redemption date. A DSU liability is accrued and adjusted each quarter on outstanding DSUs based upon the current market price of the Company’s common shares.

Compensation expense for the DSU plan is accrued evenly over a one year period following grant. Any changes in the fair value of the liability are recognized in profit or loss.

(d) Performance share unit (PSU) plan

The Company has a PSU plan for Executive Officers of the Company. PSUs are a notional unit that entitle the holder to receive payment in cash upon vesting based upon the number of vested PSUs and a multiplier calculated based upon the achievement of certain performance measures and objectives specified by the Board of Directors. A PSU liability is accrued and adjusted each reporting period on vested PSUs based upon the expected fair value of the future obligation, with changes in fair value recognized in profit or loss.

Provisions

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be reliably estimated, and it is probable that an outflow of economic benefits will be required to settle the obligation.

Revenue

The Company applies the five-step model to arrangements that meet the definition of a contract, including when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it provides to the customer.

(a) identifies the contract(s) with a customer,

(b) identifies the performance obligations in the contract,

(c) determines the transaction price,

(d) allocate the transaction price to the performance obligations in the contract, and

(e) recognizes revenue when (or as) the entity satisfies a performance obligation.

Products and services for the Company are primarily comprised of specialized data management systems provided on a rental basis. The Company satisfies its performance obligations and recognizes rental revenue during the reporting period based on completion of each rental day.

Leases

The Company assesses whether a contract is or contains a lease, at inception of the contract. The company recognizes a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture, and telephones). For these leases, the Company recognizes the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Lease liabilities are initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the lessee uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability are comprised of:

(a) Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;

(b) Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;

(c) The amount expected to be payable by the lessee under residual value guarantees; The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and

(d) Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

Both the current and non-current portion of the lease liability is presented as a separate line in the Consolidated Balance Sheets. The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Company remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

(a) The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

(b) The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which case the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

(c) A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Company did not make any such adjustments during the periods presented.

The right-of-use assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day, less any lease incentives received and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Right-of-use assets are depreciated over the shorter period of lease term and useful life of the underlying asset. If a lease transfers ownership of the underlying asset or the cost of the right-of-use asset reflects that the Company expects to exercise a purchase option, the related right-of-use asset is depreciated over the useful life of the underlying asset. The depreciation starts at the commencement date of the lease. The right-of-use assets are presented as a separate line in the Consolidated Balance Sheets. The Company applies IAS 36 to determine whether a right-of-use asset is impaired and accounts for any identified impairment loss as described in the "Property, Plant, and Equipment" policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the right-of-use asset. The related payments are recognized as an expense in the period in which the event or condition that triggers those payments occurs and are included in the segment and category with which the expense arises.

As a practical expedient, IFRS 16 permits a lessee not to separate non-lease components, and instead account for any lease and associated non-lease components as a single arrangement. The Company has not used this practical expedient. For contracts that contain a lease component and one or more additional lease or non-lease components, the Company allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

Finance income, finance costs, and foreign exchange

Finance income comprises interest income on excess funds invested. Interest income is recognized as it accrues in profit or loss.

Finance costs include interest expense on bank borrowing, lease obligations, and changes in the fair value of financial assets at fair value through profit or loss, and impairment losses recognized on financial assets.

Foreign currency gains and losses are reported on a net basis.

Income tax

Income tax expense is comprised of current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to a business combination, or to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits, and deductible temporary differences, to the extent that it is probable that future taxable profits will be available to use unused tax losses and unused tax credits. Deferred tax assets are reviewed at each reporting date and the valuation allowance is reduced to the extent that it is no longer probable that the related tax benefit will be realized.

Dividends

Dividends on common shares are recognized in the Company's Consolidated Financial Statements in the period in which the Board of Directors approves the dividend.

Income per share

The Company presents basic and diluted income per share data for its common shares. Basic income per share is calculated by dividing the net income or loss available to common shareholders of the Company by the weighted average number of common shares outstanding during the year. Diluted income per share is determined by adjusting the net income or loss available to common shareholders and the weighted average number of common shares outstanding, adjusted for the effects of all dilutive potential common shares, which comprise stock options outstanding.

Segment reporting

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and expenses that relate to transactions with any of the Company's other components. All operating segments' results are reviewed regularly by the Company's senior management to make decisions about resources to be allocated to the segment and assess its performance, and for which discrete financial information is available.

Segment results that are reported include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items comprise mainly corporate assets, costs that benefit more than one operating unit which cannot be reasonably allocated, and amounts relating to current and deferred taxes as these amounts can be impacted by tax strategies implemented at the corporate level that benefit the Group as a whole.

Segment capital expenditures are the total costs incurred during the period to acquire property, plant, and equipment and intangible assets other than goodwill.

4. Changes in Accounting Standards

Standards and interpretations adopted in the year ended December 31, 2021

The Company has adopted the following amendments to IFRS effective January 1, 2021, and except as otherwise noted, none of which have had a material impact on the Company's Consolidated Financial Statements:

IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments; Disclosures, IFRS 4, Insurance Contracts, and IFRS 16, Leases, collectively named ‘Interest Rate Benchmark Reform – Phase 2’.

The amendments provide relief for modifications of financial contracts and leases and discontinuing hedge accounting required solely by Interest Rate Benchmark Reform. The amendments include a practical expedient to apply the change in the basis for determining the contractual cash flows prospectively by revising the effective interest rate. A similar practical expedient is also provided for modifications of the cash flows of lease liabilities.

In relation to hedge accounting, the amendments introduce an exception to the existing requirements so that changes in the formal designation of a hedge accounting relationship that are needed to reflect the changes required by Interest Rate Benchmark Reform do not result in the discontinuation of hedge accounting or the designation of a new hedging relationship. There is no impact to the Company for the year ended December 31, 2021.

Future Accounting Policy Changes

The following amendments have been issued and are effective for financial years beginning on or after January 1, 2022. Amendments that are not applicable to the Company have been excluded. The Company does not anticipate that the adoption of any of these amendments will have a material impact on its financial statements.

IAS 37, Provisions, Contingent Liabilities and Contingent Assets (effective January 1, 2022)

Clarifies that the ‘costs of fulfilling a contract’ when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts existing at the date when the amendments are first applied.

IAS 1, Presentation of Financial Statements (effective January 1, 2023)

Clarifies the presentation of liabilities in the statement of financial position. The classification of liabilities as current or non-current is based on contractual rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendments also introduce a definition of ‘settlement’ to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty.

5. Cash and Cash Equivalents

As at December 31,	2021	2020
	($)	($)
Cash	**120,714**	41,124
Cash equivalents	**37,569**	108,158
Cash and cash equivalents	**158,283**	149,282

Cash equivalents are made up of cash invested in money market funds with interest rates of approximately 0.15% and maturities ranging from 1–90 days.

6. Trade and Other Receivables

As at December 31,	2021	2020
	($)	($)
Trade receivables, net of allowances for doubtful accounts	**48,279**	24,303
Other receivables	**1,174**	1,444
Trade and other receivables	**49,453**	25,747

7. Property, Plant, and Equipment

	Materials and supplies	Rental equipment	Right of use assets	Other	Total
	($)	($)	($)	($)	($)
Property, plant and equipment					
Balance at January 1, 2020	6,190	461,824	10,585	55,878	534,477
Additions	2,015	2,304	286	349	4,954
Derecognition and disposals	—	(23,609)	(309)	—	(23,918)
Parts consumed	(849)	849	—	—	—
Hyperinflation	—	912	—	—	912
Effects of exchange rate changes	(26)	(8,070)	(81)	(97)	(8,274)
Balance at December 31, 2020	7,330	434,210	10,481	56,130	508,151
Additions	4,667	4,067	3,008	1,503	13,245
Derecognition and disposals	—	(40,965)	(2,509)	(20,070)	(63,544)
Parts consumed	(3,785)	3,785	—	—	—
Hyperinflation	—	(954)	—	—	(954)
Effects of exchange rate changes		5,234	42	80	5,356
Balance at December 31, 2021	**8,212**	**405,377**	**11,022**	**37,643**	**462,254**
Accumulated Depreciation					
Balance at January 1, 2020	—	370,229	2,316	43,410	415,955
Depreciation	—	20,968	2,581	4,735	28,284
Derecognition of assets	—	(23,609)	(309)	—	(23,918)
Hyperinflation	—	485	—	—	485
Effects of exchange rate changes	—	(7,527)	(66)	(48)	(7,641)
Balance at December 31, 2020	—	360,546	4,522	48,097	413,165
Depreciation	—	16,783	2,194	2,246	21,223
Derecognition and disposals	—	(39,465)	(2,509)	(15,712)	(57,686)
Hyperinflation	—	744	—	—	744
Effects of exchange rate changes	—	2,461	24	58	2,543
Balance at December 31, 2021	**—**	**341,069**	**4,231**	**34,689**	**379,989**
Carrying Amounts					
At December 31, 2020	7,330	73,664	5,959	8,033	94,986
At December 31, 2021	**8,212**	**64,308**	**6,791**	**2,954**	**82,265**

Other property, plant, and equipment includes computer equipment, leasehold improvements, and vehicles.

Derecognition of Assets

Included in the amounts recorded as derecognition and disposals in the above table are the costs and accumulated depreciation of fully depreciated assets that have been removed from the Company's books. In 2021, these amounts were $57,686 (2020: $23,918).

Included in depreciation and amortization expense are losses on the derecognition of assets and spare parts obsolescence reserves in the amount of $442 (2020: $746) for the year ended December 31, 2021.

8. Investments

Investments are comprised of the Company's investments in Intelligent Wellhead Systems Inc. (IWS) and Rawabi Pason Company (Rawabi JV). Rawabi JV is a provider of specialized data management systems for drilling rigs in the Kingdom of Saudi Arabia. IWS is a privately-owned oil and gas technology and service company that provides engineered controls, data acquisition and software to automate workflows and processes at live well operations in the completions segment of the oil and gas industry. During the second quarter of 2021, Pason increased its minority investment in IWS and acquired a portion of outstanding common shares for total cash consideration of $7,127.

A summary of the Company's equity investments is as follows:

Years Ended December 31,	2021	2020
	($)	($)
Equity Investments, beginning	24,719	26,265
Share of after tax income in associates and joint ventures	(444)	(525)
Amortization of intangibles	(659)	(546)
Additional investment	7,127	—
Dividends	(697)	(475)
Equity Investments, ending	30,046	24,719

Obligation under put option - IWS

The Company's initial minority investment in IWS was made in 2019, and consisted of total consideration of $25,000. The investment consisted of initial cash consideration of $10,000 and $15,000 payable in three separate $5,000 put options, exercisable at IWS' discretion for a period of up to three years. The first $5,000 put obligation was exercised in the first quarter of 2020, while the second and third were exercised during the second and third quarters respectively of 2021 to fund IWS' recent growth.

Including the amount relating to the additional investment made in 2021 as outlined above, total cash outflows associated with the Company's minority investment in IWS is $17,127 for the twelve months ended December 31, 2021 (2020: $5,000).

9. Intangible Assets and Goodwill

	Goodwill	Research & Development	Technology	Customer Relationships	Other	Total
	($)	($)	($)	($)	($)	($)
Intangible assets						
Balance at January 1, 2020	34,122	21,913	5,289	12,790	5,035	79,149
Internally developed	—	1,488	—	—	—	1,488
Investment tax credits received	—	(997)	—	—	—	(997)
Derecognition of investment tax credit	—	2,986	—	—	—	2,986
Derecognition of assets	—	—	—	—	(906)	(906)
Effects of exchange rate	(792)	—	(51)	(643)	(147)	(1,633)
Balance at December 31, 2020	33,330	25,390	5,238	12,147	3,982	80,087
Internally developed	—	1,414	—	—	—	1,414
Investment tax credits received	—	(732)	—	—	—	(732)
Derecognition of assets	—	(15,755)	—	(6,140)	(1,440)	(23,335)
Effects of exchange rate	122	—	(9)	159	96	368
Balance at December 31, 2021	**33,452**	**10,317**	**5,229**	**6,166**	**2,638**	**57,802**
Amortization						
Balance at January 1, 2020	612	13,082	1,560	8,993	3,887	28,134
Amortization	—	3,490	899	1,044	700	6,133
Derecognition of investment tax credit	—	2,986	—	—	—	2,986
Derecognition of assets	—	—	—	—	(906)	(906)
Effects of exchange rate	(5)	—	(32)	(590)	(549)	(1,176)
Balance at December 31, 2020	607	19,558	2,427	9,447	3,132	35,171
Amortization	—	1,968	922	1,164	412	4,466
Derecognition of assets	—	(15,755)	—	(6,290)	(1,290)	(23,335)
Effects of exchange rate	226	—	(53)	177	85	435
Balance at December 31, 2021	**833**	**5,771**	**3,296**	**4,498**	**2,339**	**16,737**
Carrying amounts						
At December 31, 2020	32,723	5,832	2,811	2,700	850	44,916
At December 31, 2021	**32,619**	**4,546**	**1,933**	**1,668**	**299**	**41,065**

Derecognition of assets

Included in the amounts recorded as derecognition of investment tax credits and derecognition of assets in the above table are the costs and accumulated amortization of fully amortized assets that have been removed from the Company's books.

Impairment assessment

Further, the Company assessed goodwill for impairment at December 31, 2021 as part of its annual reporting process. In doing so, the Company compared the aggregate recoverable amount of the assets included in the respective CGUs to their carrying amounts. The Company completed its annual assessment for goodwill impairment and determined that the recoverable amount for the Company's CGUs exceeded the carrying amounts, respectively.

For the December 31, 2021 goodwill impairment assessment, the Company's goodwill was allocated to the North America, International and Solar and Energy Storage CGUs.

The recoverable amount has been determined based on the value in use of the CGUs using cash flow budgets approved by management. There is a degree of uncertainty with respect to the estimates of the recoverable amounts of the CGUs' assets due in part to the necessity of making key assumptions about the future economic environment that the Company will operate in. The value in use calculations use discounted cash flow projections, which require key assumptions, including future cash flows, projected growth, and pre-tax discount rates. The Company considers a range of reasonable possibilities to use for these key assumptions and decides upon the amounts to use that represent management's best estimates.

Key assumptions are as follows:

	North America	**International**	**Solar and Energy Storage**
	(%)	(%)	(%)
Weighted average growth rate	12	8	nmf
Terminal growth rate	2.0	2.0	2.0
Pre-tax discount rate	15	15	25

The weighted average growth rate for the Solar and Energy Storage CGU is not meaningful given the early stages of associated cash flows.

For all operating segments, reasonable possible changes in key assumptions would not cause the recoverable amount of goodwill to fall below the carrying value. If future events cause a significant change in the operating environment of these business units, resulting in key operating metrics differing from management's estimates, the Company could potentially experience future material impairment charges against goodwill.

10. Trade Payables and Accruals

As at December 31,	Note	**2021**	2020
		($)	($)
Trade payables		**8,606**	3,620
Non-trade payables and accrued expenses		**20,869**	10,415
Liability for automatic purchase plan (APP) commitment pursuant to NCIB	11	**2,000**	—
Trade payables and accruals		**31,475**	14,035

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 20.

11. Share Capital

Common shares

Years Ended December 31,	2021		2020	
	($)	**(#)**	($)	(#)
Balance, beginning	**164,568**	**83,088,941**	166,701	84,538,241
Exercise of stock options	**146**	**16,089**	—	—
Shares repurchased and cancelled under NCIB	**(1,804)**	**(910,979)**	(2,865)	(1,449,300)
Reversal of prior period liability for APP commitment pursuant to NCIB	**—**	**—**	732	—
Liability for automatic share purchase plan commitment pursuant to NCIB	**(343)**	**—**	—	—
Balance, ending	**162,567**	**82,194,051**	**164,568**	**83,088,941**

At December 31, 2021, 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

During 2021, the Company declared and paid dividends of $16,567 (2020: $40,420) or $0.20 per common share (2020: $0.48).

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 year ended December 31, 2021, the Company repurchased 910,979 (2020 - 1,449,300) shares for cancellation for a total cash consideration of $8,432 (2020 - $9,478). The total consideration is allocated between share capital and retained earnings.

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 $2,000 for share repurchases that could take place during its internal blackout period. The total accrual was included in the Consolidated Balance Sheets under trade payables and accruals. The Company did not have an APP in place at December 31, 2020.

As at December 31,	2021	2020
	($)	($)
Amounts charged to		
Share capital	**343**	**—**
Retained earnings	**1,657**	—
Liability for automatic share purchase plan commitment	**2,000**	—

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:

Years Ended December 31,	**2021**		2020	
	Share Options	**Weighted Average Exercise Price**	Share Options	Weighted Average Exercise Price
	(#)	**($)**	(#)	($)
Outstanding, beginning	**4,277,601**	**15.96**	5,111,355	17.87
Granted	**599,373**	**10.63**	635,910	7.33
Exercised	**(16,089)**	**7.33**	—	—
Expired or forfeited	**(1,536,126)**	**17.34**	(1,469,664)	18.88
Outstanding, ending	**3,324,759**	**14.67**	4,277,601	15.96
Exercisable, ending	**2,147,030**	**17.28**	2,990,012	17.74
Available for grant, ending	**2,428,825**		1,537,897	

The following table summarizes information about the stock options outstanding at December 31, 2021:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable (Vested)	Weighted Average Exercise Price
($)	(#)	(Years)	($)	(#)	($)
7.33 - 8.98	564,454	3.92	7.33	188,279	7.33
8.99 - 12.91	1,085,414	4.02	11.65	328,526	12.90
12.92 - 20.22	1,674,891	1.41	19.31	1,630,225	19.31
	3,324,759	3.12	14.67	2,147,030	17.28

All stock options are valued using the Black-Scholes option pricing model. Weighted average assumptions for options granted in the year are as follows:

Years Ended December 31,	**2021**	2020
Fair value of stock options ($)	**3.06**	1.75
Forfeiture rate (%)	**11.34**	11.15
Risk-free interest rate (%)	**1.11**	0.33
Expected option life (years)	**3.26**	3.46
Expected volatility (%)	**44.93**	40.99
Expected annual dividends per share (%)	**1.90**	2.78

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:

Years Ended December 31,	2021	2020
	(#)	(#)
RSUs, beginning	**1,111,190**	650,055
Granted	**535,113**	806,548
Vested and paid	**(411,915)**	(219,800)
Forfeited	**(89,760)**	(125,613)
RSUs, ending	**1,144,628**	1,111,190

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:

Years Ended December 31,	2021	2020
	(#)	(#)
DSUs, beginning	**252,363**	169,938
Credited	**81,498**	82,425
Redeemed and paid	**(69,630)**	—
DSUs, ending	**264,231**	252,363

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. PSUs granted before 2021 vest equally over three years while PSUs awarded in 2021 vest at the end 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:

Years Ended December 31,	2021	2020
	(#)	(#)
PSUs, beginning	**2,332,028**	4,561,167
Granted	**995,943**	1,085,250
Vested and paid	**(942,847)**	(2,236,834)
Forfeited	**—**	(1,077,555)
PSUs, ending	**2,385,124**	2,332,028

Stock-based compensation expense and liability

For the year ended December 31, 2021, the Company recorded $11,523 of stock-based compensation expense for its equity and cash settled plans (2020: $4,840). As at December 31, 2021, the Company held $2,647 in current stock-based compensation liability and $6,821 in non-current stock-based compensation liability for its cash settled plans (as at December 31, 2020: $1,426 and $3,384 respectively).

13. Operating Segments

In 2020, the company realigned its operating segments to reflect how management allocates resources and assesses the performance of the Company.

Prior to the third quarter of 2020, the Company presented three operating segments, based upon the geographic segments of the Company's core business servicing the oil and gas industry, consisting of Canada, the United States, and International. The United States segment included Energy Toolbase Software Inc., which is the operating entity of the Company's solar and energy storage business.

Starting in the fourth quarter of 2020, the Company now reports on three strategic business units: The North American (Canada and the United States) and International (Latin America, including Mexico, Offshore, the Eastern Hemisphere, and the Middle East) business units, all of which offer technology services to the oil and gas industry, and the Solar and Energy Storage business unit, which provides technology services to solar and energy storage developers. All comparative figures have been reclassified to conform to the new presentation.

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

Year Ended December 31, 2021	**North America**	**International**	**Solar and Energy Storage**	**Total**
	($)	**($)**	**($)**	**($)**
Revenue				
Drilling Data	**88,907**	**21,885**	**—**	**110,792**
Mud Management and Safety	**47,631**	**7,767**	**—**	**55,398**
Communications	**10,434**	**1,504**	**—**	**11,938**
Drilling Intelligence	**13,734**	**1,072**	**—**	**14,806**
Analytics and Other	**5,384**	**4,261**	**4,107**	**13,752**
Total Revenue	**166,090**	**36,489**	**4,107**	**206,686**
Rental services and local administration	**61,959**	**19,432**	**6,277**	**87,668**
Depreciation and amortization	**22,569**	**3,100**	**20**	**25,689**
Segment gross profit (loss)	**81,562**	**13,957**	**(2,190)**	**93,329**
Research and development				**32,220**
Corporate services				**13,175**
Stock-based compensation				**11,523**
Other income				**(7,252)**
Income tax provision				**11,738**
Net income				**31,925**
Net income attributable to Pason				**33,845**
Capital expenditures	**9,596**	**520**	**121**	**10,237**
As at December 31, 2021				
Property plant and equipment	**73,177**	**8,837**	**251**	**82,265**
Intangible assets	**5,602**	**—**	**2,844**	**8,446**
Goodwill	**8,512**	**2,600**	**21,507**	**32,619**
Segment assets	**300,936**	**51,716**	**27,289**	**379,941**
Segment liabilities	**61,533**	**4,953**	**5,674**	**72,160**

Year Ended December 31, 2020	North America	International	Solar and Energy Storage	Total
	($)	($)	($)	($)
Revenue				
Drilling Data	69,861	12,220	—	82,081
Mud Management and Safety	38,848	6,177	—	45,025
Communications	8,083	756	—	8,839
Drilling Intelligence	9,263	502	—	9,765
Analytics and Other	5,324	2,248	3,354	10,926
Total Revenue	131,379	21,903	3,354	156,636
Rental services and local administration	57,132	14,626	6,058	77,816
Depreciation and amortization	30,037	4,357	23	34,417
Segment gross profit (loss)	44,210	2,920	(2,727)	44,403
Research and development				26,977
Corporate services				11,275
Stock-based compensation				4,840
Other income				(8,687)
Income tax provision				4,864
Net income				5,134
Net income attributable to Pason				6,568
Capital expenditures	5,159	—	—	5,159
As at December 31, 2020				
Property plant and equipment	83,829	11,046	111	94,986
Intangible assets	8,262	—	3,931	12,193
Goodwill	8,524	2,600	21,599	32,723
Segment assets	292,835	46,012	22,569	361,416
Segment liabilities	50,771	4,165	1,197	56,133

14. Other Income

Years Ended December 31,	2021	2020
	($)	($)
Government wage assistance	**(8,208)**	(9,941)
Foreign exchange (gain) loss	**(2,011)**	1,113
Net monetary gain	**(496)**	(1,874)
Net interest expense (income)	**1,526**	(867)
Equity loss (Note 8)	**1,103**	1,028
Put option revaluation (Note 15)	**381**	1,812
Other	**453**	245
Reorganization costs	**—**	5,554
Derecognition of onerous lease	**—**	(5,757)
Other income	**(7,252)**	(8,687)

During 2021, the Company was eligible to participate in the Canada Emergency Wage Subsidy (CEWS) program. As a result, $8,208 of government wage assistance primarily related CEWS benefit was recorded within other income (2020: $9,941).

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

During the second quarter of 2020, the Company initiated staff reduction initiatives to address the anticipated prolonged downturn in oil and gas drilling activity in all of its markets. Accordingly, the Company recorded reorganization expenses of $5,554, which is comprised of termination and other staff related costs.

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

15. 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.

The significant unobservable inputs to determine the fair value of the obligation under put option as at December 31, 2021, include the weighted average growth rate, terminal value, and pre-tax discount rate used in the Company's impairment assessment, and are further disclosed in Note 9.

A summary of the obligation under put option is as follows:

As at December 31,	**2021**	2020
	($)	($)
Balance, beginning	**11,153**	9,540
Put option revaluation	**381**	1,812
Foreign exchange	**(50)**	(199)
Balance, ending	**11,484**	11,153

16. Income Tax

The Company's income tax provision is comprised of the following:

Years Ended December 31,	**2021**	2020
	($)	($)
Current tax expense	**13,876**	5,331
Deferred tax expense	**(2,138)**	(467)
Total tax provision	**11,738**	4,864

The provision for income taxes, including deferred taxes, reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 23% for 2021 and 24% for 2020. The statutory rate for 2021 decreased due to the reduction in Alberta provincial rates as of July 1, 2020.

The Company’s US subsidiaries (US Consolidated Group) were subject to federal and state statutory tax rates of approximately 25% for both 2021 and 2020.

A summary of these differences is as follows:

Years Ended December 31,	**2021**	2020
	($)	($)
Income before income taxes	**43,663**	9,998
Expected income tax at statutory rate	**10,042**	2,400
Increase (decrease) resulting from:		
Impact of not recognizing deferred tax assets on previous net operating losses	**(152)**	502
Non-deductible portion of stock-based compensation	**286**	553
Withholding and other taxes	**1,196**	1,488
Put option revaluation	**88**	474
Foreign and other tax rate differences	**864**	(343)
Prior years reassessments and adjustments	**15**	(240)
Equity pickup of non controlling entities	**254**	230
Hyperinflation	**296**	(104)
Non-taxable permanent differences of foreign exchange	**(1,020)**	(319)
Other items	**(131)**	223
Income tax expense	**11,738**	4,864

Certain prior period amounts have been reclassified for consistency with the current year presentation.

Deferred tax assets and liabilities are comprised of the following:

As at December 31,	**2021**	2020
	($)	($)
Inter-company transactions	**4,157**	5,015
Share-based payments	**1,622**	916
Property, plant and equipment	**(8,387)**	(9,697)
Intangible assets	**(4,316)**	(4,758)
Other	**1,088**	597
	(5,836)	(7,927)
Deferred tax asset	**—**	—
Deferred tax liability	**5,836**	7,927
	5,836	7,927

Inter-company transactions represent amounts owing to the Company's Canadian subsidiary from the Company's US consolidated group that are not deductible for US tax purposes until paid.

The movement in deferred tax assets and liabilities is as follows:

As at	Inter-company transactions	Share-based payments	Other	Property, plant and equipment	Intangible assets	Total
	($)	($)	($)	($)	($)	($)
January 1, 2020	4,267	1,308	2,501	(10,756)	(5,886)	(8,566)
Recognized in income	877	(392)	(1,797)	903	876	467
Foreign exchange differences	(129)	—	(107)	156	252	172
December 31, 2020	5,015	916	597	(9,697)	(4,758)	(7,927)
Recognized in income	(829)	707	499	1,317	444	2,138
Foreign exchange differences	(29)	(1)	(8)	(7)	(2)	(47)
December 31, 2021	**4,157**	**1,622**	**1,088**	**(8,387)**	**(4,316)**	**(5,836)**

Foreign exchange differences are recognized through foreign currency translation adjustment in the Statement of Other Comprehensive Income.

All deferred taxes are classified as non-current, irrespective of the classification of the underlying assets or liabilities to which they relate, or the expected reversal of the temporary difference. In addition, deferred tax assets and liabilities have been offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Tax loss carry-forwards

The Company has net-operating losses in its International business segment for which no deferred tax asset has been recognized. Deferred tax assets are only recognized to the extent that it is probable that future taxable profits will be available to use unused tax losses.

Income Taxes Recoverable- Other

During the first quarter of 2019, the Company paid withholding tax owing to the Canada Revenue Agency (CRA) of $15,304 as part of a Bilateral Advanced Pricing Arrangement (APA) entered into with the CRA and the IRS. As such, the Company recorded an amount under Income Tax Recoverable - other on its Consolidated Balance Sheets, which represents a corresponding amount owing from the IRS. During 2021, the Company collected $6,541 from the IRS for two of the three years for which the withholding tax amount related to. As at December 31, 2021, Pason had $13,257 as an outstanding receivable from the IRS. As referenced in Note 25 of these Consolidated Financial Statements, the Company has collected all remaining principal amounts subsequent to December 31, 2021.

17. 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:

Years Ended December 31,	2021	2020
	(#)	(#)
Issued common shares outstanding, beginning	**83,088,941**	84,538,241
Effect of NCIB and exercised options	**(296,764)**	(582,162)
Weighted average number of common shares (basic)	**82,792,177**	83,956,079

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:

Years Ended December 31,	2021	2020
	(#)	(#)
Weighted average number of common shares (basic)	82,792,177	83,956,079
Effect of share options	121,734	12,403
Weighted average number of common shares (diluted)	82,913,911	83,968,482

For the year ended December 31, 2021, 2,732,805 (2020: 3,641,691) 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.

18. Financial Instruments

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

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

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

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

	Financial Assets and Liabilities at Fair Value			
As at December 31, 2021	Level 1	Level 2	Level 3	Total
	($)	($)	($)	($)
Cash and cash equivalents	158,283	—	—	158,283

19. Credit Facility

The Company has an undrawn $5,000 demand revolving credit facility. Interest is payable monthly on amounts drawn and is based on either the lender's prime rate, US base rate loans, or Bankers' Acceptance rates, plus applicable margins.

The credit facility is used by the Company for working capital purposes, and accordingly, amounts drawn against it are recorded as bank indebtedness offset by any excess cash balances. The Company can repay, without penalty, advances under the facility. The facility is secured by a general security agreement on all of the assets of the Company, Pason Systems Corp. and Pason Systems USA Corp.

Throughout the year and as at December 31, 2021, no amounts were drawn on this facility (2020: $nil).

The Company is subject to the following financial covenants:

- To maintain, on a consolidated basis, to be measured as at the end of each fiscal quarter, a ratio of debt to income before interest, taxes, depreciation and amortization, and impairment losses (EBITDA), calculated on a rolling four quarters basis for the fiscal quarter then ended and the immediately preceding three fiscal quarters of not greater than 1.50:1.
- To maintain an EBITDA for Pason Systems Corp. plus Pason Systems USA of not less than 80% of consolidated EBITDA.

Both covenants have been met throughout the reporting periods.

20. Financial Risk Management and Financial Instruments Overview

The Group has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market and foreign exchange risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risk, and the Group's approach to managing capital.

Risk management framework

The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework. The Group's risk management policies are established to identify and analyze the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

Credit risk

(a) Trade and other receivables

Credit risk refers to the possibility that a customer will fail to meet its contractual obligations. Credit risk arises from the Company's accounts receivable balances, which are predominantly with customers who explore for and develop oil and natural gas reserves. The Company has a process in place which assesses the creditworthiness of its customers as well as monitoring the age and balances outstanding on an ongoing basis. Payment terms with customers are 30 days from invoice date; however, industry practice can extend these terms.

The Group does not require collateral in respect of trade and other receivables.

The Group establishes an allowance for doubtful accounts that represents its estimate of expected losses in respect of trade receivables. The main components of this allowance are a specific loss component that relates to individually significant exposures, and a collective loss component established for groups of similar assets in respect of losses that have been incurred but not yet identified. The collective doubtful accounts allowance is determined based on historical data of payment statistics for similar financial assets.

(b) Exposure to credit risk

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was:

As at December 31,	2021	2020
	($)	($)
Trade and other receivables, net of allowance for doubtful accounts	**49,453**	25,747

The maximum exposure to credit risk for trade and other receivables at the reporting date by geographic region was:

As at December 31,	2021	2020
	($)	($)
North America	**34,061**	17,878
International	**14,083**	7,703
Solar and Energy Storage	**1,309**	166
	49,453	25,747

During the twelve months ended December 31, 2021 and 2020, the Company did not have any customers that comprised greater than 10% of total revenue.

(c) Allowance for doubtful accounts

The aging of trade and other receivables at the reporting date was:

As at December 31,	2021		2020	
	Gross	**Allowance**	Gross	Allowance
	($)	**($)**	($)	($)
Current	**36,558**	**—**	18,073	—
31–60 days	**9,169**	**—**	4,513	—
61–90 days	**2,165**	**—**	1,243	—
Greater than 90 days	**3,111**	**(1,550)**	3,831	(1,913)
	51,003	**(1,550)**	27,660	(1,913)

The movement in the allowance for doubtful accounts in respect of trade and other receivables during the year was as follows:

As at December 31,	2021	2020
	($)	($)
Opening balance	**1,913**	1,674
Additional expected credit losses	**444**	1,103
Accounts collected, previously allowed for	**87**	6
Write-off of uncollectible accounts	**(881)**	(795)
Effects of exchange rate changes	**(13)**	(75)
Ending balance	**1,550**	1,913

Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due. This is achieved through strong cash and working capital management.

Cash flow forecasting is performed in the operating entities of the Company and aggregated in head office, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient cash to meet operational needs at all times. Such forecasting takes into consideration the Company's capital allocation plans and compliance with internal balance sheet ratio targets.

The following are the contractual maturities of financial liabilities, including estimated interest payments and excluding the impact of netting agreements:

	As at December 31,						
	Carrying amount	Contractual cash flows	6 months or less	6–12 months	1–2 years	3–5 years	More than 5 years
	($)	($)	($)	($)	($)	($)	($)
Non-derivative liabilities:							
Trade payables and accruals	31,475	31,475	31,475	—	—	—	—
Cash settled stock-based compensation	9,468	9,468	—	2,647	3,685	87	3,049
Obligations under put option	11,484	11,484	—	—	11,484	—	—
	52,427	52,427	31,475	2,647	15,169	87	3,049

For cash settled stock-based compensation liabilities, the timing and amounts could differ significantly as a result of changes in the Company's share price and other performance metrics for the PSU plan as determined by the Board of Directors.

Market and foreign exchange risk

The Company did not enter into any hedging arrangements during the years ended December 31, 2021 and 2020.

(a) Foreign currency risk

Foreign currency risk is the risk that the value of future cash flows will fluctuate as a result of changes in foreign currency exchange rates. The Company is exposed to foreign currency risk as it relates to working capital balances denominated in foreign currencies and on the translation of its foreign operations into the Canadian dollar reporting currency. The Company also has intercompany loans that are considered part of the net investment in foreign subsidiaries and foreign exchange gains and losses are recorded within the foreign currency translation reserve.

A strengthening of the Canadian dollar against the US dollar by 1% at December 31, 2021, would have decreased net income and equity for the year by $80 and $5,635, respectively. A weakening of the Canadian dollar at December 31, 2021 would have had the equal but opposite effect.

(b) Interest rate risk

The Company is exposed to changes in interest rates with respect to its credit facility. Management believes this risk to be minor given the small amounts historically drawn on the facility.

(c) Fair values versus carrying amounts

The carrying values of financial assets and liabilities approximate their fair value due to the short-term nature of these items.

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

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

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

	Financial Assets at Fair Value			
	Level 1	Level 2	Level 3	**December 31, 2021**
	($)	($)	($)	**($)**
Cash and cash equivalents	**158,283**	—	—	**158,283**
Total financial assets at fair value	**158,283**	—	—	**158,283**

(d) Capital risk

The Company's strategy is to carry a flexible capital base to maintain investor, market, and creditor confidence and to sustain future business development opportunities. The Company manages its capital structure based on ongoing changes in economic conditions and related risk characteristics of its underlying assets.

The Company considers its capital structure to include equity and working capital. To maintain or adjust the capital structure, the Company may, from time to time, issue or repurchase shares, adjust its dividend, or adjust its capital spending to manage its cash.

The Company's share capital is not subject to external restrictions; however, the Company's committed revolving credit facility includes financial covenants, with which the Company is compliant.

There were no changes in the Company's approach to capital management during the year. The Company continues to maintain a conservative balance sheet with no interest bearing debt.

(e) Industry and seasonality risk

The most significant area of uncertainty for the Company is that the demand for the majority of its services is directly related to the strength of its customers' capital expenditure programs. The level of capital programs is strongly affected by the level and stability of commodity prices, which can be extremely difficult to predict and beyond the control of the Company and its customers. During periods of uncertainty, such as the unprecedented industry conditions experienced in 2020 and 2021, oil and gas companies tend to bias their capital decisions on conservative outlooks for commodity prices.

In addition to the cyclical nature of its business, the Company is also subject to risks and uncertainties associated with weather and seasonality. The Company continues to react to unfavourable weather conditions and spring breakup, which limit well access in Canada, through diversification into geographic regions such as the United States and internationally, where these factors are less likely to influence activity.

(f) Commodity risk

Prices for crude oil and natural gas fluctuate in response to a number of factors beyond the Company'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 cash flows of exploration and production companies, reduce the amount of drilling activity, and correspondingly reduce the demand for the Company's products and services.

21. Operating Commitments

Non-cancellable operating lease rentals and committed services are payable as follows:

As at December 31,	2021	2020
	($)	($)
Less than one year	**11,906**	4,293
Between one and three years	**5,716**	6,720
More than three years	**1,863**	2,336
	19,485	13,349

Contractual obligations relate to minimum future payments required primarily for 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 IRFS 16, Leases.

22. Capital Commitments

At December 31, 2021, the Group has entered into contracts to purchase property, plant, and equipment for $5,189 (2020: $1,763), the majority of which relates to the purchase of assets in the normal course of business.

23. Related Party Transactions and Key Management Compensation

Transactions with key management personnel and directors

In addition to salaries and director fees, as applicable, the Group also provides compensation to executive officers and directors under the Group’s long-term incentive plans (Note 12).

Executive management personnel and director compensation is comprised of:

Years Ended December 31,	2021	2020
	($)	($)
Compensation	**3,477**	3,548
Share-based payments	**3,886**	1,346
	7,363	4,894

The majority of these costs are included either in corporate services or stock-based compensation expense in the Consolidated Statements of Operations. The 2020 costs include retiring allowance benefits for certain members of key management.

Key management and directors of the Company control less than 1% of the voting shares of the Company. No balances are owing from any employees or directors as at December 31, 2021 or 2020.

24. Contingencies

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 which the Company may be required to pay by reason thereof, would individually or in the aggregate have a material adverse impact on its financial position, results of operations or liquidity.

25. Events After the Reporting Period

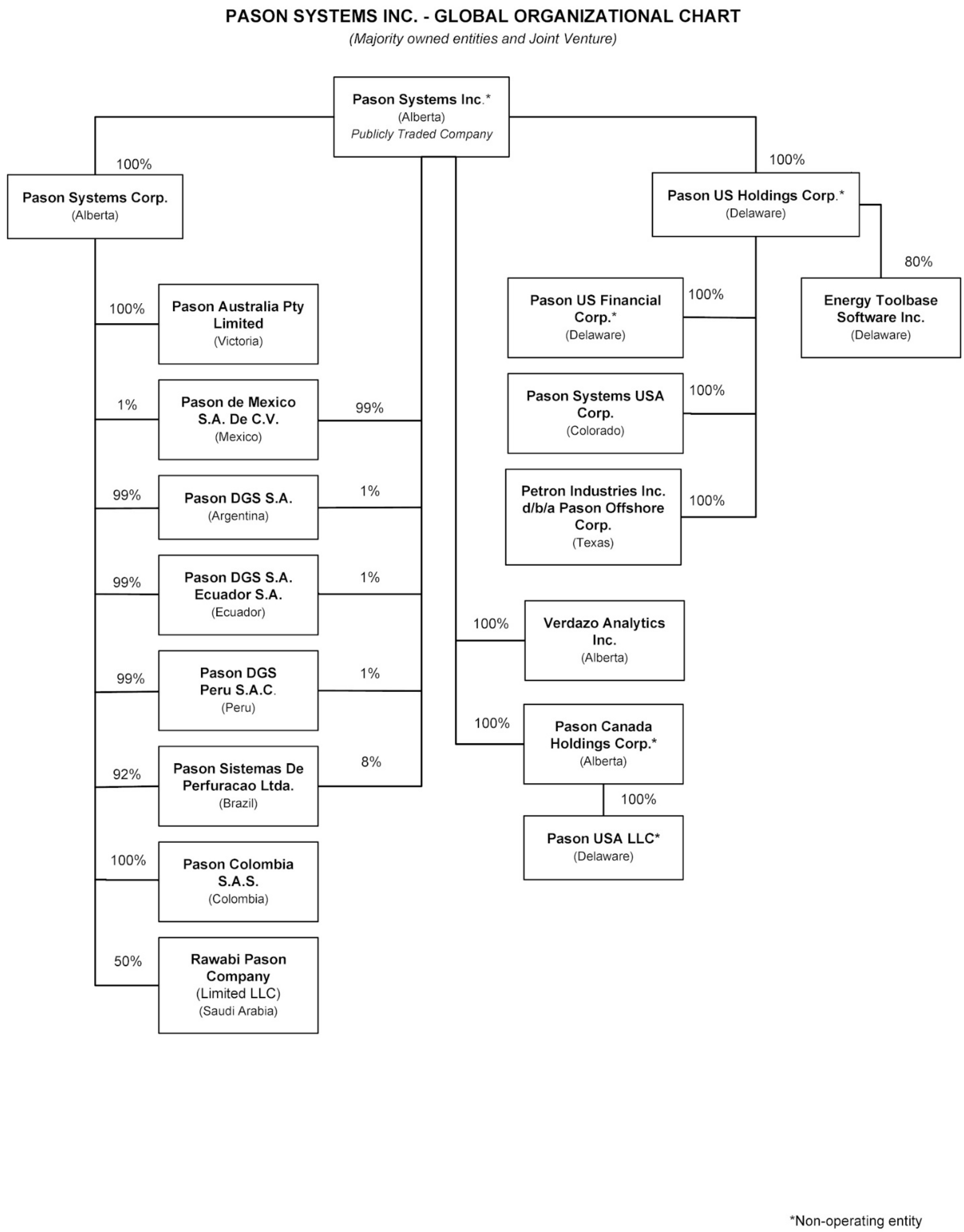
Dividend

On February 22, 2022, the Company declared a quarterly dividend of $0.08 per share on the Company's common shares. The dividend will be paid on March 31, 2022 to shareholders of record at the close of business on March 15, 2022.

Income Taxes Recoverable – Other

While the Company awaits final settlement on interest amounts accrued, subsequent to December 31, 2021, Pason received final settlement on all principal amounts owing from the IRS in relation to the APA in the amount of $12,538.

26. Organizational Structure



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.

Technology • Deployed • Simply

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