Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") has been prepared by management as of April 29, 2021, 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, 2020 and 2019, accompanying notes, and Pason's Annual Information Form dated March 17, 2021.

The Company uses certain non-IFRS 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-IFRS measures are defined under Non-IFRS 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 rig and the office. Pason services major oil and gas basins with a local presence in the following countries: United States, Canada, Argentina, Australia, Bolivia, Brazil, Columbia, Dubai, Ecuador, Mexico, Peru and Saudi Arabia. The Company has an over 40 year track record of distinctive technology and service capabilities offering end-to-end data management solutions enabling secure access to critical drilling operations information and decision making in real time.

Through 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 for the year ended December 31, 2020.

Highlights

	Three Months Ended March 31,		
	2021	2020	Change
(CDN 000s, except per share data)	**($)**	($)	(%)
Revenue	**42,555**	73,962	(42)
EBITDA [(1)]	**15,673**	33,469	(53)
Adjusted EBITDA [(1)]	**13,170**	33,305	(60)
As a % of revenue	**30.9**	45.0	(1,410) bps
Funds flow from operations	**13,730**	26,722	(49)
Per share – basic	**0.17**	0.32	(47)
Per share – diluted	**0.17**	0.32	(47)
Cash from operating activities	**11,085**	25,593	(57)
Capital expenditures	**1,849**	3,088	(40)
Free cash flow [(1)]	**9,176**	22,935	(60)
Cash dividends declared (per share)	**0.05**	0.19	(74)
Net income	**3,991**	16,552	(76)
Net income attributable to Pason	**4,315**	16,919	(74)
Per share – basic	**0.05**	0.20	(74)
Per share – diluted	**0.05**	0.20	(74)
Total interest bearing debt	**—**	—	—
Shares outstanding end of period	**83,088,941**	84,096,000	(1)

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

Pason's financial results for the three months ended March 31, 2021 reflect the Company's strong competitive positioning, prudent balance sheet, and operating leverage as industry conditions continued to improve from the lows experienced in 2020. In comparison to the first quarter of 2020, which reflected pre-pandemic activity levels, financial results in the first quarter of 2021 still reflect ongoing headwinds associated with the COVID-19 pandemic on the oil and gas industry.

Pason generated $42.6 million in revenue in Q1 2021, a 42% reduction from $74.0 million generated in the three months ended March 31, 2020. Despite the year over year decline in activity levels and revenue, through disciplined cost management subsequent to the cost restructuring efforts undertaken in the second quarter of 2020, Pason was able to generate $13.2 million in Adjusted EBITDA, or 30.9% of revenue, in the first quarter of 2021 compared to $33.3 million or 45.0% of revenue in Q1 2020. Sequentially, Q1 2021 revenue represented an increase of 30% from $32.8 million generated in Q4 2020 as the Company continued to defend its leading market share position in key markets with improving activity levels. In the quarter, the Company saw some incremental operating costs related to ongoing research and development efforts and equipment repairs to meet increased activity, but continued to see improvements in Adjusted EBITDA margin, from 25.2% in Q4 2020 to 30.9% in Q1 2021.

The Company recorded net income attributable to Pason of $4.3 million ($0.05 per share) in the first quarter of 2021 compared to net income attributable to Pason of $16.9 million ($0.20 per share) recorded in the corresponding period in 2020. The year-over-year decline is due to the factors and headwinds outlined above.

Pason's balance sheet remains strong with no interest bearing debt and $151.4 million in cash and cash equivalents as at March 31, 2021 (as at March 31, 2020: $170.3 million). Pason generated $13.7 million in funds flow from operations in the first quarter (Q1 2020: $26.7 million), which was partially offset by investments in working capital to meet improving industry activity levels, resulting in cash generated from operating activities of $11.1 million (Q1 2020: $25.6 million). Year-over-year, funds flow from operations and cash from operating activities was negatively impacted by the reduction in activity levels affecting gross profit, offset by the Company receiving government wage subsidies as well as cost savings from the 2020 restructuring.

In the first quarter, Pason remained disciplined on capital expenditures, with $1.8 million in Q1 2021 which represents a 40% reduction from $3.1 million in the comparative 2020 period, and as a result generated $9.2 million of Free Cash Flow (Q1 2020: $22.9 million). The Company's first quarter results and ability to generate positive Free Cash Flow through the early stages of recovering activity levels is a reflection of the Company's operating leverage, and the decision to retain critical technology and service capabilities through the downturn to be in a position of strength with a prudent balance sheet as activity levels recovered.

President's Message

The context in which this quarter's message is being written could not feel more different than that of the first quarter a year ago. At this time twelve months ago, we had just come through the last quarter prior to the devastating impacts of the COVID-19 pandemic. Industry activity was falling precipitously as oil prices plummeted and traded at negative prices for the only time in history. Nobody could predict the full extent of the pandemic and how deep the reductions in drilling activity would ultimately be, nor how long they would persist.

While a year-over-year comparison of the 2021 first quarter financial results to those of the comparative period a year ago reflect the differing realities of a pre-pandemic environment in 2020 and an ongoing pandemic in 2021, our industry continues to recover. Our financial results are improving sequentially, and our outlook is increasingly optimistic, albeit tempered with continued uncertainty around ongoing impacts from COVID-19 and the production policy decisions of the OPEC+ nations.

North American land rig counts in the first quarter were down 45% from the prior year period but are up more than 90% from their lowest point in the summer of 2020. Pason's revenue remains highly correlated to North American land drilling activity and, as a result, consolidated first quarter revenue of $42.6 million was down 42% from the first quarter of 2020. Adjusted EBITDA of $13.2 million was down 60% from the prior year period, as many of our costs are fixed in nature. Continued discipline on capital expenditures and a strong focus on working capital management helped deliver free cash flow of $9.2 million in the quarter, also down 60% from 2020 levels. Net income attributable to Pason of $4.3 million was down 74% year-over-year.

Through the most challenging quarters of the current downturn, we continued to invest in the required technology and service capabilities to grow our competitive position. With these capabilities in place, we have been able to generate strong incremental margins as the industry recovers. Our financial results bottomed in the third quarter of 2020, and since that time we have posted incremental Adjusted EBITDA margins of 73%.

Our competitive position remained strong in the first quarter. In North America, revenue per industry day of $720 was down 2% year-over-year and was unchanged from the fourth quarter of 2020. International revenue decreased 24% from the prior year period and was up 23% sequentially as industry activity continued to improve across our major operating regions.

We continue to advance our efforts in the solar and energy storage market through Energy Toolbase (ETB). Our economic analysis and proposal generation software package remains a compelling tool for project developers, maintaining a strong subscriber base, and our pipeline of opportunities and bookings for new installations continues to grow for our energy storage control system. We remain focused on developing an integrated platform to enable the modeling, control, and monitoring of energy storage systems.

Our balance sheet remains strong. We ended the first quarter with $151.4 million of cash and cash equivalents, and $170.8 million of positive working capital. We are maintaining our quarterly dividend at $0.05 per share.

Many leading indicators point to continued growth in North American land drilling activity. WTI oil prices, currently in the mid-$60s, are at levels last seen in early 2019, a full year prior to the COVID-19 pandemic. US land production continues to be approximately 15% lower than pre-pandemic levels. The inventory of drilled but uncompleted wells (DUCs) continues to steadily decline from its peak in the summer of 2020 and now sits at its lowest level since late 2018. According to the International Energy Agency, oil demand is now at 95% of its pre-COVID highs.

Against this backdrop, industry analysts are now calling for the US land rig count to exit 2021 at approximately 500 rigs and to push toward 600 rigs in 2022. We will ensure we have the necessary people and equipment to meet the expectations of our customers as activity increases. We anticipate certain operating costs will begin to increase in the coming quarters in anticipation of future activity levels, though our incremental margins will remain strong. We continue to expect to spend up to $15 million in capital expenditures in 2021.

Our product development initiatives continue to be aligned with the efforts of customers to increasingly utilize automation and analytics technologies to improve drilling performance. We remain committed to providing unmatched service quality and technology innovations, and our resolve is strengthened as the industry increasingly looks to better utilize technology in its efforts.

Jon Faber

President and Chief Executive Officer
April 29, 2021

Discussion of Operations

Overall Performance

	Three Months Ended March 31,		
	2021	2020	Change
(000s)	**($)**	($)	(%)
Revenue			
Drilling Data	**22,733**	38,671	(41)
Mud Management and Safety	**11,511**	21,397	(46)
Drilling Intelligence	**3,017**	5,395	(44)
Communications	**2,515**	5,078	(50)
Analytics and Other	**2,779**	3,421	(19)
Total revenue	**42,555**	73,962	(42)
Operating expenses			
Rental services	**16,457**	24,781	(34)
Local administration	**2,451**	4,373	(44)
Depreciation and amortization	**7,831**	10,414	(25)
	26,739	39,568	(32)
Gross profit	**15,816**	34,394	(54)
Other expenses			
Research and development	**7,116**	8,062	(12)
Corporate services	**3,032**	3,685	(18)
Stock-based compensation expense (recovery)	**2,602**	(122)	*nmf*
Other income	**(2,182)**	(806)	171
	10,568	10,819	(2)
Income before income taxes	**5,248**	23,575	(78)
Income tax provision	**1,257**	7,023	(82)
Net income	**3,991**	16,552	(76)
Adjusted EBITDA (1)	**13,170**	33,305	(60)

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

Changes in Reportable Segments

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

In the third quarter of 2020 the Company streamlined its structure and operations by consolidating its core US and Canadian operations. As a result of this consolidation, along with the continued investment in solar and energy storage business, the Company determined that the prior operating segments no longer reflected how management monitored and evaluated operating results. This conclusion was reached in part due to the fact that solar and energy storage business is distinct from its core business and that anticipated future operating results will be significant enough to warrant a distinct segment, as well as the consolidation of management of North American operations. As such, the Company now reports on the following segments: North America, International, Solar and Energy Storage, and these reportable segments reflect how management allocates resources and assesses the performance of the Company.

All comparative figures have been reclassified to conform to the new presentation.

North American Operations

	Three Months Ended March 31,		
	2021	2020	Change
(000s)	**($)**	($)	(%)
Revenue			
Drilling Data	**18,384**	33,167	(45)
Mud Management and Safety	**9,996**	19,164	(48)
Communications	**2,249**	4,629	(51)
Drilling Intelligence	**2,809**	5,094	(45)
Analytics and Other	**1,141**	1,768	(35)
Total revenue	**34,579**	63,822	(46)
Rental services and local administration	**13,920**	22,036	(37)
Depreciation and amortization	**6,990**	9,369	(25)
Segment gross profit	**13,669**	32,417	(58)

	Three Months Ended March 31,		
	2021	2020	Change
	($)	($)	(%)
Revenue per Industry day	**720**	738	(2)

Although North American industry activity continued to recover from the lows experienced in the third quarter of 2020, in comparison to the first quarter of 2020 which represented pre-pandemic activity levels, challenging industry conditions remained. Revenue in the North American business unit was $34.6 million during the first quarter of 2021, a decrease of 46% from the comparable period in 2020, as average North American land rig count fell 45% during the same comparative periods. In the first quarter, Pason grew Revenue per Industry Day from the low points of the downturn as the Company's competitive position and product adoption remained strong. Year-over-year, North American Revenue per Industry Day was $720, a decrease of 2% from the comparable period in 2020, primarily due to a strengthening Canadian dollar negatively impacting US dollar source revenue on translation as well as the geographic sales mix within North America. 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 North American regions.

Rental services and local administration decreased by 37% in the first quarter of 2021 over the 2020 comparative period. The decrease in operating costs is attributable to the Company's restructuring efforts undertaken in Q2 2020 to support lower activity levels.

Depreciation and amortization decreased by 25% in the first quarter of 2021 over the 2020 comparative period. The decrease is due to a combination of lower capital expenditures, certain development projects becoming fully amortized in 2020, and the impacts of foreign exchange.

Segment gross profit was $13.7 million during the first quarter of 2021 compared to $32.4 million in the 2020 comparative period, representing a 58% decline year-over-year, due to the factors outlined above.

International Operations

	Three Months Ended March 31,		
	2021	2020	Change
(000s)	**($)**	($)	(%)
Revenue			
Drilling Data	**4,349**	5,504	(21)
Mud Management and Safety	**1,515**	2,233	(32)
Communications	**266**	449	(41)
Drilling Intelligence	**208**	301	(31)
Analytics and Other	**726**	762	(5)
Total revenue	**7,064**	9,249	(24)
Rental services and local administration	**3,640**	5,283	(31)
Depreciation and amortization	**836**	1,039	(20)
Segment gross profit	**2,588**	2,927	(12)

The International business unit's revenue decreased by 24% in the first quarter of 2021 over the 2020 comparative period as activity levels in the Company's major international markets also experienced a significant reduction in activity, as was witnessed in North America.

Rental services and local administration decreased by 31% in the first quarter of 2021 over the 2020 comparative period. The decrease in operating costs is attributable to the Company's restructuring efforts undertaken in Q2 2020 to support lower activity levels.

Depreciation and amortization decreased by 20% in the first quarter of 2021 over the 2020 comparative period. The decrease is due to a combination of lower capital expenditures in recent years, several development projects becoming fully amortized in 2020, and the impacts of foreign exchange.

Segment gross profit was $2.6 million during the first quarter of 2021 compared to $2.9 million in the 2020 comparative period, due to the factors outlined above.

Solar and Energy Storage Operations

	Three Months Ended March 31,		
	2021	2020	Change
(000s)	**($)**	($)	(%)
Revenue			
Analytics and Other	**912**	891	2
Total revenue	**912**	891	2
Operating expenses and local administration (1)	**1,348**	1,835	(27)
Depreciation and amortization	**5**	6	(17)
Segment gross loss	**(441)**	(950)	(54)

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

Revenue generated by the Solar and Energy Storage business unit was $0.9 million in both the first quarter of 2021 and the 2020 comparative period, for which the majority is comprised of subscription-based software licenses for the Company's solar energy planning tools. Operating expenses and local administration was $1.3 million during the first quarter of 2021, a 27% decrease from $1.8 million during the comparable period primarily due to the effects of foreign exchange and timing of compensation accruals. Segment gross loss was $0.4 million for the first quarter of 2021 compared to a segment gross loss of $1.0 million during the 2020 comparable period.

The Solar and Energy Storage business unit incurred the following research and development costs, which are included in research and development in the Condensed Interim Statement of Operations. Consistent with the Company's other reporting segments, research and development costs are excluded from the segment gross loss table above.

	Three Months Ended March 31,		
	2021	2020	Change
(000s)	**($)**	($)	(%)
Research and development	**1,043**	1,003	4

Corporate Expenses

	Three Months Ended March 31,		
	2021	2020	Change
(000s)	**($)**	($)	(%)
Research and development	**7,116**	8,062	(12)
Corporate services	**3,032**	3,685	(18)
Stock-based compensation	**2,602**	(122)	*nmf*
Total corporate expenses	**12,750**	11,625	10

Research and development and corporate service expenses in the first quarter of 2021 have decreased by 12% and 18% accordingly, compared to 2020 levels as a result of the Company's cost reduction initiatives undertaken during the second quarter of 2020, and the Company remaining disciplined on cost structure as activity levels improve.

The change in stock-based compensation expense (recovery) is attributable to the change in the Company's share price performance.

Other Income

	Three Months Ended March 31,		
	2021	2020	Change
(000s)	**($)**	($)	(%)
Other (income) expenses			
Government wage assistance	**(2,924)**	—	*nmf*
Net monetary gain	**(49)**	(419)	(88)
Net interest income	**(8)**	(398)	(98)
Equity loss (income)	**329**	(244)	*nmf*
Foreign exchange loss	**448**	(47)	*nmf*
Other	**22**	302	(93)
Total other income	**(2,182)**	(806)	171

In the first quarter, Pason recognized $2.9 million in government wage assistance, primarily related to the Canada Emergency Wage Subsidy (CEWS) (Q1 2020: $nil). In the first quarter, the Company recorded a sequential increase in government wage assistance as the Company trued up previously accrued claim amounts. In April 2021, the Government of Canada announced the extension of the CEWS program to the end of September 2021. The Company awaits further details on eligibility and measurement requirements, but intends to participate through the duration of this program extension as applicable.

Net monetary gain included in other income is a result of applying hyperinflation accounting to the Company's Argentinian subsidiary.

The 98% decrease in net interest income is primarily due to a decrease in the yield on the Company's passive investments.

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

Income Tax Provision

During the first quarter of 2021, the Company recorded an income tax provision of $1.3 million, an 82% decrease compared to the comparative period in 2020. The decrease is primarily attributable to the decrease in income before income taxes, in light of lower activity levels year-over-year.

Summary of Quarterly Results

Three Months Ended	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	**Mar 31, 2021**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	72,894	72,195	68,410	73,962	26,848	23,068	32,758	**42,555**
EBITDA [(1)]	25,606	33,167	25,555	33,469	4,271	2,348	8,300	**15,673**
Adjusted EBITDA [(1)]	30,741	31,489	26,615	33,305	(848)	(1,118)	8,201	**13,170**
Funds flow from operations	23,794	29,899	22,126	26,722	134	4,765	8,939	**13,730**
Per share – basic	0.28	0.35	0.26	0.32	0.00	0.06	0.11	**0.17**
Per share – diluted	0.28	0.35	0.26	0.32	0.00	0.06	0.11	**0.17**
Cash from operating activities	37,938	37,453	24,714	25,593	29,953	5,754	(2,717)	**11,085**
Free cash flow [(1)]	32,547	33,067	19,955	22,935	29,888	4,141	(3,100)	**9,176**
Net income (loss)	9,245	15,418	10,096	16,552	(4,799)	(3,957)	(2,662)	**3,991**
Net income (loss) attributable to Pason	9,245	15,418	10,405	16,919	(4,487)	(3,698)	(2,166)	**4,315**
Per share – basic	0.11	0.18	0.12	0.20	(0.05)	(0.04)	(0.03)	**0.05**
Per share – diluted	0.11	0.18	0.12	0.20	(0.05)	(0.04)	(0.03)	**0.05**

(1) Non-IFRS financial measures are defined in the Management's Discussion and Analysis 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.

Q1 2021 vs Q4 2020

Following the historic lows in industry activity in Q3 2020, North America and International rig counts increased throughout the fourth quarter of 2020 and this continued into the first quarter of 2021. Consolidated revenue was $42.6 million in the first quarter of 2021, a 30% increase compared to consolidated revenue of $32.8 million in the fourth quarter of 2020.

Revenue in the North American business unit was $34.6 million in the first quarter of 2021, a 31% increase compared to revenue of $26.3 million in the fourth quarter of 2020. The increase in revenue is attributable to a 33% increase in North American industry days as industry fundamentals continued to improve, partially offset by the impact of a strengthening Canadian dollar for US dollar source revenue.

The International business unit reported revenue of $7.1 million in the first quarter of 2021, a 23% increase compared to revenue of $5.7 million in the fourth quarter of 2020. The increase in revenue is attributable to a global increase in drilling activity, partially offset by heavy rains in Australia, which caused several rigs to temporarily suspend operations.

Gross profit was $15.8 million in the first quarter of 2021, a 76% increase compared to gross profit of $9.1 million in the fourth quarter of 2020. Adjusted EBITDA was $13.2 million in the first quarter of 2021 compared to $8.2 million during the fourth quarter of 2020. The increase in gross profit and Adjusted EBITDA is mainly due to the $9.8 million increase in revenue, which offset certain incremental costs associated with ongoing research and development activities and equipment repairs to meet increased activity levels. The first quarter continues to demonstrate Pason's operating leverage as the Company began to absorb its fixed cost base with improving activity levels.

Accordingly, cash from operating activities was $11.1 million in the first quarter of 2021, compared to a cash outflow of $2.7 million in the fourth quarter of 2020.

The Company recorded net income attributable to Pason in the first quarter of 2021 of $4.3 million ($0.05 per share) compared to a net loss attributable to Pason of $2.2 million ($0.03 per share) in the fourth quarter of 2020. The 2021 first quarter results benefited from the increased activity levels as noted above, while the fourth quarter of 2020 included a $1.8 million charge resulting from the revaluation of a put option obligation.

Liquidity and Capital Resources

As at	**March 31, 2021**	December 31, 2020	Change
(000s)	**($)**	($)	(%)
Cash and cash equivalents	**151,427**	149,282	1
Working capital	**170,765**	167,366	2
Total assets	**360,481**	361,416	—
Total interest bearing debt	**—**	—	—

Throughout the downturn, Pason managed to preserve its strong balance sheet with no interest bearing debt and $151.4 million in cash and cash equivalents as March 31, 2021. In the first quarter, Pason saw an increase in working capital from $167.4 million at December 31, 2020, to $170.8 million at March 31, 2021, primarily driven by increased accounts receivable as activity levels have improved, and partially offset by the impact of the strengthening Canadian dollar on US dollar source working capital. 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 March 31, 2021, consistent with December 31, 2020.

Cash Flow Statement Summary

Three months ended March 31,	**2021**	2020	Change
(000s)	**($)**	($)	(%)
Funds flow from operations	**13,730**	26,722	(49)
Cash from operating activities	**11,085**	25,593	(57)
Cash used in financing activities	**(4,781)**	(20,431)	(77)
Cash used in investing activities	**(1,909)**	(7,658)	(75)
Capital expenditures	**1,849**	3,088	(40)
As a % of funds flow (1)	**13.5 %**	11.6 %	190 bps

(1) Calculated by dividing capital expenditures by funds flow from operations.

Cash from operating activities

Funds flow from operations decreased by 49% in the first quarter of 2021 over the 2020 comparative period due to the reduction in activity levels experienced by the Company year-over-year, partially offset by the Company's reduced cost structure in the first quarter of 2021 and the government wage assistance received by the Company. Cash from operating activities decreased by 57% in the first quarter of 2021 over the 2020 comparative period due to the reduction in funds flow from operations, and further driven by the investments made in working capital in Q1 2021 as activity levels improved.

Cash used in financing activities

Cash used in financing activities was $4.8 million during the first quarter of 2021, a 77% decline over the comparative period in 2020. The decline is primarily driven by the reduction in the quarterly dividend as outlined further below.

Dividend

During the first quarter of 2021, the Company declared and paid dividends to holders of common shares totalling $4.2 million (Q1 2020 - $16.0 million), or $0.05 per share (Q1 2020 - $0.19 per share). 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, preserving approximately $46.5 million in cash on an annualized basis.

Normal Course Issuer Bid (NCIB)

In 2020, the Company renewed its NCIB commencing on December 18, 2020, and expiring on December 17, 2021. Under the current NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 4,149,047 common shares, which represents 10% of the applicable public float.

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 83,393 common shares. The Company may make one block purchase per calendar week that exceeds the daily purchase restriction.

During the first quarter of 2021, the Company did not repurchase any common shares for cancellation. During the first quarter of 2020, the Company repurchased 442,000 common shares for cancellation for a total cash consideration of $3.8 million. The total consideration is allocated between share capital and retained earnings.

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

Net cash used in investing activities was $1.9 million during the first quarter of 2021, a 75% decline over the comparative period in 2020. The decline is primarily driven by the Company's $5.0 million obligation under put option paid out in the first quarter of 2020, along with a reduction in capital expenditures in light of lower activity levels, resulting in a 40% reduction in capital expenditures year-over- year.

Contractual Obligations

As at March 31, 2021	Less than 1 year	1–3 years	Thereafter	**Total**
(000s)	($)	($)	($)	**($)**
Operating leases and other contracts	3,794	4,939	2,299	**11,032**

Contractual obligations relate primarily to minimum future lease payments required primarily for operating leases of certain facilities. 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.

Disclosure of Outstanding Share and Options Data

As at March 31, 2021, there were 83,088,941 common shares and 3,566,071 options issued and outstanding. As at April 29, 2021, there were 83,088,941 common shares and 3,566,071 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 Condensed Consolidated Interim Financial Statements for its Argentinian operating subsidiary. The Company's Condensed Consolidated Interim 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 first quarter of 2021 are detailed as follows:

Impact on IFRS Measures

	Three Months Ended March 31,		
	2021	2020	Change
(000s)	**($)**	($)	(%)
Increase in revenue	**269**	93	189
(Increase) in rental services and local administration expenses	**(118)**	(55)	115
(Increase) in depreciation expense	**(233)**	(144)	62
(Decrease) in segment gross profit	**(82)**	**(106)**	(23)
Net monetary gain presented in other expenses	**49**	419	(88)
Other expenses	**—**	(11)	*nmf*
(Increase) in income tax provision	**(32)**	(12)	167
(Decrease) increase in net income	**(65)**	**290**	nmf

Impact on Non-IFRS Measures

	Three Months Ended March 31,		
	2021	2020	Change
(000s)	**($)**	($)	(%)
Increase in revenue	**269**	93	189
(Increase) in rental services and local administration expenses	**(118)**	(55)	115
Net monetary gain presented in other expenses	**49**	419	(88)
(Increase) in other expenses	**—**	(11)	*nmf*
Increase in EBITDA	**200**	446	(55)
Elimination of net monetary gain presented in other expenses	**(49)**	(419)	(88)
Elimination of other expenses	**—**	11	*nmf*
Increase in Adjusted EBITDA	**151**	38	297

Additional IFRS Measures

In its Condensed Consolidated Interim Financial Statements, 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 Condensed Consolidated Interim 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, non-cash, 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-IFRS Financial Measures

These definitions are not recognized measures under IFRS, and accordingly, may not be comparable to measures used by other companies. Management believes these non-IFRS 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.

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.

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.

Reconcile Net Income to EBITDA

Three Months Ended	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	**Mar 31, 2021**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Net income (loss)	9,245	15,418	10,096	16,552	(4,799)	(3,957)	(2,662)	**3,991**
Add:								
Income taxes	3,469	5,485	3,846	7,023	(1,072)	(1,369)	282	**1,257**
Depreciation and amortization	9,978	9,917	10,713	10,414	8,612	7,503	7,888	**7,831**
Stock-based compensation	3,089	2,446	1,481	(122)	1,868	276	2,818	**2,602**
Net interest income	(175)	(99)	(581)	(398)	(338)	(105)	(26)	**(8)**
EBITDA	25,606	33,167	25,555	33,469	4,271	2,348	8,300	**15,673**

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	**Mar 31, 2021**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	25,606	33,167	25,555	33,469	4,271	2,348	8,300	**15,673**
Add:								
Foreign exchange loss (gain)	553	615	930	(47)	79	113	968	**448**
Recognition of onerous lease	4,289	—	—	—	(5,757)	—	—	**—**
Government wage assistance	—	—	—	—	(4,363)	(3,334)	(2,244)	**(2,924)**
Reorganization costs	—	—	—	—	5,554	—	—	**—**
Put option revaluation	—	—	—	—	—	—	1,812	**—**
Net monetary gain	—	(2,376)	(511)	(419)	(396)	(465)	(594)	**(49)**
Other	293	83	641	302	(236)	220	(41)	**22**
Adjusted EBITDA	30,741	31,489	26,615	33,305	(848)	(1,118)	8,201	**13,170**

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	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	**Mar 31, 2021**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	37,938	37,453	24,714	25,593	29,953	5,754	(2,717)	**11,085**
Less:								
Net additions to property, plant and equipment	(5,510)	(3,726)	(4,143)	(2,236)	(644)	(1,282)	(66)	**(1,510)**
Deferred development costs	119	(660)	(616)	(422)	579	(331)	(317)	**(399)**
Free cash flow	32,547	33,067	19,955	22,935	29,888	4,141	(3,100)	**9,176**

Critical Accounting Estimates

The preparation of the Company's Condensed Consolidated Interim Financial Statements requires that certain estimates and judgments 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 judgments 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 Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2021. Significant estimates made by the Company have most recently been set out in the Company's MD&A for the year ended December 31, 2020, and its consolidated financial statements and note disclosures for the year ended December 31, 2020, and within Note 3 of the Company's Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2021.

Significant Accounting Policies

The Company's significant accounting policies have been disclosed within the Consolidated Financial Statements for the year ended December 31, 2020, and within Note 3 of these Condensed Consolidated Interim Financial Statements for the three months ended March 31, 2021.

Internal Control over Financial Reporting

There have been no significant changes in the design of the Company's internal controls over financial reporting during the three months ended March 31, 2021 that would materially affect, or is reasonably likely to materially affect, the Company's controls and processes over financial reporting.

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. 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. This supply / demand imbalance is having a direct impact on Pason's revenue. 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 challenge and succeed in 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.

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 under the heading, "Risk and Uncertainty", in our management's discussion and analysis for the year ended December 31, 2020 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.

Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	March 31, 2021	December 31, 2020
(CDN 000s) (unaudited)		($)	($)
Assets			
Current			
Cash and cash equivalents	4	**151,427**	149,282
Trade and other receivables		**32,248**	25,747
Income taxes recoverable - other	6	**15,162**	15,304
Prepaid expenses		**2,913**	2,973
Income taxes recoverable		**1,866**	3,489
Total current assets		**203,616**	196,795
Non-current			
Property, plant and equipment		**89,025**	94,986
Investments		**24,191**	24,719
Intangible assets and goodwill		**43,649**	44,916
Total non-current assets		**156,865**	164,621
Total assets		**360,481**	361,416
Liabilities and equity			
Current			
Trade payables and accruals		**16,219**	14,035
Income taxes payable		**2,048**	2,039
Stock-based compensation liability	8	**2,910**	1,426
Lease liability		**1,674**	1,929
Obligation under put option		**10,000**	10,000
Total current liabilities		**32,851**	29,429
Non-current			
Deferred tax liabilities		**6,828**	7,927
Lease liability		**3,867**	4,240
Stock-based compensation liability	8	**4,215**	3,384
Obligation under put option		**11,016**	11,153
Total non-current liabilities		**25,926**	26,704
Equity			
Share capital	7	**164,568**	164,568
Share-based benefits reserve		**33,441**	33,170
Foreign currency translation reserve		**50,403**	54,090
Equity reserve		**(8,375)**	(8,375)
Retained earnings		**63,766**	63,609
Total equity attributable to equity holders of the Company		**303,803**	307,062
Non-controlling interest		**(2,099)**	(1,779)
Total equity		**301,704**	305,283
Total liabilities and equity		**360,481**	361,416

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

Condensed Consolidated Interim Statements of Operations

Three Months Ended March 31,	Note*	2021	2020
(CDN 000s, except per share data) (unaudited)		($)	($)
Revenue		**42,555**	73,962
Operating expenses			
Rental services		**16,457**	24,781
Local administration		**2,451**	4,373
Depreciation and amortization		**7,831**	10,414
		26,739	39,568
Gross profit		**15,816**	34,394
Other expenses			
Research and development		**7,116**	8,062
Corporate services		**3,032**	3,685
Stock-based compensation expense (recovery)	8	**2,602**	(122)
Other income	10	**(2,182)**	(806)
		10,568	10,819
Income before income taxes		**5,248**	23,575
Income tax provision		**1,257**	7,023
Net income		**3,991**	16,552
Net income (loss) attributable to:			
Shareholders of Pason		**4,315**	16,919
Non-controlling interest		**(324)**	(367)
Net income		**3,991**	16,552
Income per share	11		
Basic		**0.05**	0.20
Diluted		**0.05**	0.20

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

Condensed Consolidated Interim Statements of Other Comprehensive Income

Three Months Ended March 31,	2021	2020
(CDN 000s) (unaudited)	($)	**($)**
Net income	**3,991**	16,552
Items that may be reclassified subsequently to net income:		
Foreign currency translation adjustment	**(3,683)**	23,888
Other comprehensive (loss) income	**(3,683)**	**23,888**
Total comprehensive income	**308**	40,440
Total comprehensive income attributed to:		
Shareholders of Pason	**628**	40,847
Non-controlling interest	**(320)**	(407)
Total comprehensive income	**308**	40,440

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

Condensed Consolidated Interim Statements of Changes in Equity

	Note*	Share Capital	Share-Based Benefits Reserve	Foreign Currency Translation Reserve	Equity Reserve	Retained Earnings	**Total Equity Attributable to Pason**	Non-Controlling Interest	**Total Equity**
(CDN 000s) (unaudited)		($)	($)	($)	($)	($)	($)	($)	($)
Balance at January 1, 2020		166,701	30,863	57,830	(8,375)	99,806	346,825	(371)	346,454
Net income (loss)		—	—	—	—	16,919	16,919	(367)	16,552
Dividends		—	—	—	—	(16,026)	(16,026)	—	(16,026)
Other comprehensive income		—	—	23,928	—	—	23,928	(40)	23,888
Expense related to stock options		—	652	—	—	—	652	—	652
Shares cancelled under NCIB	7	(821)	—	—	—	(2,999)	(3,820)	—	(3,820)
Liability reversal for automatic share purchase plan commitment pursuant to NCIB	7	732	—	—	—	4,268	5,000	—	5,000
Balance at March 31, 2020		166,612	31,515	81,758	(8,375)	101,968	373,478	(778)	372,700
Net (loss)		—	—	—	—	(10,351)	(10,351)	(1,067)	(11,418)
Dividends		—	—	—	—	(24,394)	(24,394)	—	(24,394)
Other comprehensive income		—	—	(27,668)	—	—	(27,668)	66	(27,602)
Expense related to stock options		—	1,655	—	—	—	1,655	—	1,655
Shares cancelled under NCIB	7	(2,044)	—	—	—	(3,614)	(5,658)	—	(5,658)
Balance at December 31, 2020		164,568	33,170	54,090	(8,375)	63,609	307,062	(1,779)	305,283
Net income (loss)		—	—	—	—	4,315	4,315	(324)	3,991
Dividends		—	—	—	—	(4,158)	(4,158)	—	(4,158)
Other comprehensive income		—	—	(3,687)	—	—	(3,687)	4	(3,683)
Expense related to stock options		—	271	—	—	—	271	—	271
Balance at March 31, 2021		**164,568**	**33,441**	**50,403**	**(8,375)**	**63,766**	**303,803**	**(2,099)**	**301,704**

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

Condensed Consolidated Interim Statements of Cash Flows

Three Months Ended March 31,	Note*	2021	2020
(CDN 000s) (unaudited)		($)	($)
Cash from (used in) operating activities			
Net income		**3,991**	16,552
Adjustment for non-cash items:			
Depreciation and amortization		**7,831**	10,414
Stock-based compensation expense (recovery)	8	**2,602**	(122)
Deferred income taxes		**(1,045)**	7
Net monetary gain		**(200)**	(444)
Unrealized foreign exchange loss and other		**551**	315
Funds flow from operations		**13,730**	26,722
Movements in non-cash working capital items:			
Increase in trade and other receivables		**(6,627)**	(360)
Decrease in prepaid expenses		**34**	1,099
Increase in income taxes payable		**4,085**	6,631
Increase in trade payables, accruals and stock-based compensation liability		**2,649**	(7,463)
Effects of exchange rate changes		**(428)**	497
Cash generated from operating activities		**13,443**	27,126
Income tax paid		**(2,358)**	(1,533)
Net cash from operating activities		**11,085**	25,593
Cash flows from (used in) financing activities			
Payment of dividends	7	**(4,158)**	(16,026)
Repurchase and cancellation of shares under NCIB		**—**	(3,820)
Repayment of lease liability		**(623)**	(585)
Net cash used in financing activities		**(4,781)**	(20,431)
Cash flows (used in) from investing activities			
Obligation under put option		**—**	(5,000)
Additions to property, plant and equipment		**(1,450)**	(2,666)
Development costs		**(399)**	(422)
Proceeds on disposal of investment and property, plant and equipment		**152**	414
Changes in non-cash working capital		**(212)**	16
Net cash used in investing activities		**(1,909)**	(7,658)
Effect of exchange rate on cash and cash equivalents		**(2,250)**	11,810
Net increase in cash and cash equivalents		**2,145**	9,314
Cash and cash equivalents, beginning		**149,282**	161,016
Cash and cash equivalents, ending	4	**151,427**	170,330

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

Notes to Condensed Consolidated Interim Financial Statements

(000s, except per share data)

1. Description of Business

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

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

2. Basis of Preparation

Statement of compliance

These unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with the requirements of International Accounting Standard ("IAS") 34, Interim Financial Reporting and include the accounts of Pason and its wholly owned subsidiaries. All significant intercompany balances and transactions including revenue and expenses have been eliminated. These unaudited Condensed Consolidated Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2020.

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

Key Sources of Estimation Uncertainty

The COVID-19 pandemic has had a significant negative impact on the demand for fossil fuels and this combined with an over-supply of oil has led to a decline in oil prices. As a result, the Company's customers have reduced their capital expenditure programs which has led to a precipitous fall in the active rig count in all major markets the Company operates in, which has had a significant impact on the Company's revenue. As the COVID-19 pandemic continues, management cannot reasonably estimate the resulting length or severity impacting the Company. As such, actual results may differ significantly from estimates made within these Condensed Consolidated Interim Financial Statements.

3. Changes in Accounting Standards

Adoption of new standard

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’ (adopted January 1, 2021).

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.

4. Cash and Cash Equivalents

As at	**March 31, 2021**	December 31, 2020
	($)	($)
Cash	**42,464**	41,124
Cash equivalents	**108,963**	108,158
Cash and cash equivalents	**151,427**	149,282

Cash equivalents are made up of cash invested in money market funds with interest rates of approximately 0.2% and maturities ranging from 1–90 days.

5. Seasonality

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

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

6. 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 Internal Revenue Service (IRS). As such, the Company recorded an amount under current income tax recoverable - other, which represents a corresponding amount owing from the IRS. During the first quarter of 2021, the Company collected $142 from the IRS for one of the three years for which the withholding tax amount related to. The remaining $15,162 is currently under audit by the IRS, and the Company remains confident in its collectibility given tax returns for all three years were completed in accordance with final terms of the APA.

7. Share Capital

Common shares

	Three Months Ended March 31, 2021		Year ended December 31, 2020	
	($)	**(#)**	($)	(#)
Balance, beginning	**164,568**	**83,088,941**	166,701	84,538,241
Shares repurchased and cancelled under NCIB	—	—	(2,865)	(1,449,300)
Reversal of prior period liability for APP commitment pursuant to NCIB	—	—	732	—
Balance, ending	**164,568**	**83,088,941**	164,568	83,088,941

At March 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 the first quarter of 2021, the Company declared and paid dividends of $4,158 (first quarter of 2020: $16,026) or $0.05 per common share (first quarter of 2020: $0.19).

Normal Course Issuer Bid (NCIB)

In 2020, the Company renewed its NCIB commencing on December 18, 2020, and expiring on December 17, 2021. Under the current NCIB, the Company may purchase for cancellation, as the Company considers advisable, up to a maximum of 4,149,047 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 83,393 common shares. The Company may make one block purchase per calendar week which exceeds the daily purchase restriction.

During the first quarter of 2021, the Company did not repurchase any common shares for cancellation. During the first quarter of 2020, the Company repurchased 442,000 common shares for cancellation for a total cash consideration of $3,820. The total consideration is allocated between share capital and retained earnings.

8. 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 outstanding stock options can be summarized as follows:

	Three Months Ended March 31, 2021		Twelve Months Ended December 31, 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	—	—	635,910	7.33
Expired or forfeited	**(711,530)**	**17.42**	(1,469,664)	18.88
Outstanding, ending	**3,566,071**	**15.67**	4,277,601	15.96
Exercisable, ending	**2,321,195**	**17.76**	2,990,012	17.74
Available for grant, ending	**2,250,159**		**1,537,897**	

Restricted share units plan

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

The outstanding RSUs can be summarized as follows:

	Three Months Ended March 31, 2021	Twelve Months Ended December 31, 2020
	(#)	(#)
RSUs, beginning	**1,111,190**	650,055
Granted	**—**	806,548
Vested and paid	**—**	(219,800)
Forfeited	**(32,330)**	(125,613)
RSUs, ending	**1,078,860**	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 issued. DSUs are credited evenly following the year in which they are awarded. DSUs vest and are paid upon the retirement of the Director.

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

	Three Months Ended March 31, 2021	Twelve Months Ended December 31, 2020
	(#)	(#)
DSUs, beginning	**252,363**	169,938
Credited	**20,363**	82,425
DSUs, ending	**272,726**	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:

	Three Months Ended March 31, 2021	Twelve Months Ended December 31, 2020
	(#)	(#)
PSUs, beginning	**2,332,028**	4,561,167
Granted	**—**	1,085,250
Vested and paid	**—**	(2,236,834)
Forfeited	**—**	(1,077,555)
PSUs, ending	**2,332,028**	2,332,028

Stock-based compensation expense and liability

For the three-month period ended March 31, 2021, the Company recorded $2,602 of stock-based compensation expense for its equity and cash settled plans (first quarter of 2020: recovery of $122). As at March 31, 2021, the Company held $2,910 in current stock-based compensation liability and $4,215 in non-current stock-based compensation liability for its cash settled plans (as at December 31, 2020: $1,426 and $3,384 respectively).

9. Operating Segments

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.

In 2020, the Company streamlined its structure and operations by consolidating its core US and Canadian operations. Furthermore, the Solar and Energy Storage business is distinct from the Company's core business and anticipated future operating results are expected to be significant, warranting a distinct segment. Given these factors, management realigned the Company's operating segments to better reflect how management makes decisions for the Company.

As a result of the change in reportable segments 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:

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

Three months ended March 31, 2020 (restated)	North America	International	Solar and Energy Storage	Total
	($)	($)	($)	($)
Revenue				
Drilling Data	33,167	5,504	—	38,671
Mud Management and Safety	19,164	2,233	—	21,397
Communications	4,629	449	—	5,078
Drilling Intelligence	5,094	301	—	5,395
Analytics and Other	1,768	762	891	3,421
Total Revenue	63,822	9,249	891	73,962
Rental services and local administration	22,036	5,283	1,835	29,154
Depreciation and amortization	9,369	1,039	6	10,414
Segment gross profit (loss)	32,417	2,927	(950)	34,394
Research and development				8,062
Corporate services				3,685
Stock-based compensation recovery				(122)
Other income				(806)
Income tax provision				7,023
Net income				16,552
Net income attributable to Pason				16,919
Capital expenditures	2,738	350	—	3,088
As at March 31, 2020				
Property plant and equipment	104,593	15,469	139	120,201
Intangible assets	10,945	—	5,133	16,078
Goodwill	9,354	2,600	24,067	36,021
Segment assets	362,704	56,471	31,047	450,222
Segment liabilities	71,051	5,927	544	77,522

10. Other (Income)

Three Months Ended March 31,	2021	2020
	($)	($)
Government wage assistance	**(2,924)**	—
Net monetary gain	**(49)**	(419)
Net interest income	**(8)**	(398)
Equity loss (income)	**329**	(244)
Foreign exchange loss (gain)	**448**	(47)
Other	**22**	302
Other (income) expenses	**(2,182)**	(806)

During the first quarter of 2021, the Company was eligible to participate in the Canada Emergency Wage Subsidy (CEWS) program, which was started by the Government of Canada in April 2020. As a result, a CEWS benefit of $2,924 was recorded as government wage assistance.

Net monetary gain included in other income is a result of applying hyperinflation accounting to the Company's Argentinian subsidiary.

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

11. Income Per Share

Basic income per share

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

Three Months Ended March 31,	2021	2020
	(#)	(#)
Issued common shares outstanding, beginning	**83,088,941**	84,538,241
Effect of NCIB and exercised options	**—**	(143,200)
Weighted average number of common shares (basic)	**83,088,941**	84,395,041

Diluted income per share

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

Three Months Ended March 31,	2021	2020
	(#)	(#)
Weighted average number of common shares (basic)	**83,088,941**	84,395,041
Effect of share options	**120,826**	—
Weighted average number of common shares (diluted)	**83,209,767**	84,395,041

For the three-month period ended March 31, 2021, 2,945,261 (first quarter of 2020 - 4,989,889) 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.

12. Approval of Financial Statements

The unaudited Consolidated Financial Statements were approved by the Board of Directors on April 29, 2021.

13. Events After the Reporting Period

On April 29, 2021, the Company announced a quarterly dividend of $0.05 per share on the Company's common shares. The dividend will be paid on June 29, 2021, to shareholders of record at the close of business on June 15, 2021.

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(4)(5)
CEO & Director
Copperleaf Technologies Inc.
Vancouver, British Columbia

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

Laura Schwinn(2)(4)(6)
President Specialty Catalysts
W. R. Grace & Co.
Columbia, Maryland

(1) Audit Committee Chair
(2) Audit Committee Member
(3) HR and Compensation Committee Chair
(4) HR 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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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.