Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") has been prepared by management as of August 10, 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 unaudited Interim Condensed Consolidated Financial Statements and related notes for the three and six months ended June 30, 2022, the Consolidated Financial Statements for the twelve months ended December 31, 2021 and 2020, accompanying notes, and Pason's Annual Information Form dated March 16, 2022.

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 project developers to model, control, and monitor 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, 2021.

Highlights

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change	**2022**	2021	Change
(CDN 000s, except per share data)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**73,608**	43,593	69	**148,076**	86,148	72
EBITDA [(1)]	**31,673**	14,984	111	**66,359**	30,657	116
Adjusted EBITDA [(1)]	**30,962**	12,786	142	**64,335**	25,956	148
As a % of revenue	**42.1**	29.3	1,280 bps	**43.4**	30.1	1,330 bps
Funds flow from operations	**27,242**	14,662	86	**52,946**	28,392	86
Per share – basic	**0.33**	0.18	87	**0.64**	0.34	90
Per share – diluted	**0.33**	0.18	87	**0.64**	0.34	90
Cash from operating activities	**25,679**	9,841	161	**53,729**	20,926	157
Capital expenditures [(2)]	**6,727**	4,520	49	**11,191**	6,369	76
Free cash flow [(1)]	**19,135**	5,684	237	**42,717**	14,860	187
Cash dividends declared (per share)	**0.08**	0.05	60	**0.16**	0.10	60
Net income	**17,992**	4,880	269	**35,993**	8,871	306
Net income attributable to Pason	**18,540**	5,307	249	**37,113**	9,622	286
Per share – basic	**0.23**	0.06	283	**0.45**	0.12	277
Per share – diluted	**0.22**	0.06	267	**0.45**	0.12	277

(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 Condensed Consolidated Interim Statement of Cash Flows

As at	June 30, 2022	December 31, 2021	Change
(CDN 000s)	**($)**	($)	(%)
Cash and cash equivalents	**186,950**	158,283	18
Working capital	**201,729**	184,083	10
Total interest bearing debt	**—**	—	—
Shares outstanding end of period (#)	**82,130,025**	82,194,051	—

Pason’s financial results for the three and six months ended June 30, 2022, continue to reflect improved industry conditions, the Company’s strong competitive positioning, prudent balance sheet, and operating leverage. Financial results have improved significantly compared to the comparative periods in 2021.

Pason generated $73.6 million in revenue in the second quarter of 2022, representing a 69% increase from the $43.6 million generated in the second quarter of 2021, as drilling activity remained strong across Pason's operating regions. Revenue per Industry Day in the North American business unit was $801 in Q2 2022, an increase of 10% from the comparative period in 2021, resulting in improvements in revenue that outpaced underlying industry activity. With this increase in revenue, Pason generated $31.0 million in Adjusted EBITDA, or 42.1% of revenue in the second quarter of 2022, compared to $12.8 million in the second quarter of 2021, or 29.3% of revenue. While the Company incurred incremental expenses to support increased activity levels, and further faced inflationary effects on certain operating costs, second quarter results continue to demonstrate the Company's strong operating leverage through improved industry conditions.

Pason's balance sheet remains strong, with no interest bearing debt and $187.0 million in cash and cash equivalents as at June 30, 2022, compared to $158.3 million at December 31, 2021. During the second quarter of 2022, Pason generated $25.7 million in net cash from operating activities, a significant increase from the $9.8 million generated in the second quarter of 2021 and a reflection of the improved operating results along with strong working capital management.

During the second quarter of 2022, Pason incurred $6.7 million of capital expenditures, representing rental equipment additions to meet activity levels and investments associated with ongoing refresh of the

Company's fleet and technology platform. Resulting Free Cash Flow generated in Q2 2022 was $19.1 million compared to $5.7 million generated in the second quarter of 2021.

The Company recorded net income attributable to Pason of $18.5 million ($0.23 per share) in the second quarter of 2022, a significant increase compared to net income attributable to Pason of $5.3 million ($0.06 per share) recorded in the corresponding period in 2021 due to the improving industry conditions outlined above.

President’s Message

Pason delivered excellent operational and financial results again in the second quarter of 2022. Our strong competitive position and leading technology and service offering drove a 69% year-over-year increase in Pason’s consolidated revenue, outperforming a 58% increase in North American land drilling activity. Prudent management of our operating expenses and capital expenditures drove increases in Adjusted EBITDA and free cash flow of 142% and 237% respectively.

North American land drilling continued to steadily grow throughout the second quarter, despite the effects of a short Canadian spring break-up. In fact, in the 103 weeks since activity troughed in August of 2020, the US land drilling count has posted only 7 weekly declines, and has more than doubled since its lowest point. International markets have also seen continued growth. Increased drilling activity, together with strong market share, higher levels of product adoption, and more favourable pricing conditions all contributed to consolidated quarterly revenue of $73.6 million, up $30.0 million from the same period a year ago. While down sequentially from the first quarter due to the seasonal effects of the Canadian winter drilling season, North American Revenue per Industry Day again topped the $800 level in the quarter. International Business unit revenue increased by 58% year-over-year to $12.3 million. Revenue from our Solar and Energy Storage segment of $1.7 million was up 94% from the prior year period.

Adjusted EBITDA in the second quarter totaled $31.0 million, up from $12.7 million in the second quarter of 2021, and represented Adjusted EBITDA margins of 42.1% in the quarter. Pason’s second quarter revenue and Adjusted EBITDA were nearly identical to those of the second quarter of 2019, despite the fact that North American land drilling activity was 23% lower in the second quarter of 2022 as compared to the 2019 comparable period. Net income attributable to Pason for the second quarter was $0.23 per share, up from $0.06 per share a year ago.

We continue to navigate difficult global supply chain conditions, which have increased lead times and made visibility around equipment deliveries more challenging. We continue to expect 2022 capital expenditures to total approximately $30 million, with $11.2 million in capital expenditures recorded in the first half of the year. As noted in our first quarter report, we are strategically increasing our inventory of consumable supplies and equipment components further in advance of anticipated repairs and field consumption. While this has an impact on near-term working capital requirements, it enables us to respond to continued industry growth and to maintain the product and service advantages which underpin our leading competitive position. Free cash flow for the second quarter totaled $19.1 million.

Our capital allocation priorities remain unchanged. We are investing in capital expenditures and working capital that allow us to generate continued growth and profitability within our core drilling-related business. We are pursuing additional revenue growth not directly tied to North American land drilling through Energy Toolbase (ETB), which focuses on the solar and energy storage market, and our minority investment in Intelligent Wellhead Systems (IWS), which participates in the oil and gas completions market. We are committed to returning capital to our shareholders through our regular quarterly dividend, which we are maintaining at $0.08 per share, and share repurchases.

We maintain a balance sheet that allows us to both withstand the inevitable volatility of North American land drilling and to make growth-related investments. At the end of the first quarter, we had $187 million in cash and cash equivalents and $201 million of positive working capital.

Macroeconomic conditions have become more challenging as central banks attempt to bring down high prevailing levels of inflation by raising interest rates, while trying to avoid putting economies into recession. The world is wrestling with a global energy crisis with significant shortages and elevated prices in many countries; at the same time, geopolitical instability has placed an increased focus and attention on where commodities are sourced. Oil prices have become more volatile as traders weigh the implications of supply shortfalls against the potential demand impacts from an economic slowdown.

Despite that backdrop, our outlook for continued steady growth in North American land drilling is based on a review of market fundamentals. In previous cycles, high oil prices have led to significantly oversupplied markets. In the current situation, however, major sources of supply are below pre-pandemic levels and trending lower. US storage levels of crude oil and petroleum products are at levels last seen in 2008. US land production remains almost 10% below pre-pandemic levels. The inventory of drilled but uncompleted wells (“DUCs”) in the US has decreased for 24 consecutive months to its lowest level in more than 9 years; the pace of decline has slowed, suggesting the DUC inventory may be plateauing at a minimum level. There is a finite limit to how much supply can come from drawing down on storage and uncompleted well inventories. Meeting global demand for oil which is similar to pre-pandemic levels will require new drilling. As a result, we expect land drilling activity to steadily grow over the coming quarters.

Pason is well equipped to provide drilling data and technologies that are being used by companies in their automation and analytics efforts as they seek to develop energy resources in a profitable and responsible manner.

Jon Faber
President and Chief Executive Officer
August 10, 2022

Discussion of Operations

Overall Performance

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change	**2022**	2021	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**40,017**	23,699	69	**79,630**	46,432	71
Mud Management and Safety	**20,665**	12,152	70	**40,872**	23,663	73
Communications	**3,959**	2,294	73	**8,439**	4,809	75
Drilling Intelligence	**4,460**	2,589	72	**10,462**	5,606	87
Analytics and Other	**4,507**	2,859	58	**8,673**	5,638	54
Total revenue	**73,608**	**43,593**	69	**148,076**	86,148	72
Operating expenses						
Rental services	**26,275**	17,205	53	**51,447**	33,662	53
Local administration	**2,907**	2,646	10	**6,025**	5,097	18
Depreciation and amortization	**4,696**	6,156	(24)	**11,010**	13,987	(21)
	33,878	26,007	30	**68,482**	52,746	30
Gross profit	**39,730**	17,586	126	**79,594**	33,402	138
Other expenses						
Research and development	**9,294**	7,849	18	**18,138**	14,965	21
Corporate services	**3,951**	2,913	36	**7,439**	5,945	25
Stock-based compensation expense	**2,514**	2,216	13	**8,069**	4,818	67
Other income	**(1,210)**	(2,274)	(47)	**(2,563)**	(4,456)	(42)
	14,549	10,704	36	**31,083**	21,272	46
Income before income taxes	**25,181**	6,882	266	**48,511**	12,130	300
Income tax provision	**7,189**	2,002	259	**12,518**	3,259	284
Net income	**17,992**	4,880	269	**35,993**	8,871	306
Adjusted EBITDA (1)	**30,962**	12,786	142	**64,335**	25,956	148

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

The Company reports on three strategic business units: The North American (Canada and the United States) and International (Latin America, including Mexico, Offshore, the Eastern Hemisphere, and the Middle East) business units, all of which offer technology services to the oil and gas industry, and the Solar and Energy Storage business unit, which provides technology services to solar and energy storage developers.

North American Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change	**2022**	2021	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**32,660**	18,957	72	**65,686**	37,341	76
Mud Management and Safety	**18,068**	10,428	73	**35,945**	20,424	76
Communications	**3,457**	1,939	78	**7,458**	4,188	78
Drilling Intelligence	**4,107**	2,342	75	**9,802**	5,151	90
Analytics and Other	**1,345**	1,262	7	**2,746**	2,403	14
Total revenue	**59,637**	34,928	71	**121,637**	69,507	75
Rental services and local administration	**20,507**	14,036	46	**40,818**	27,956	46
Depreciation and amortization	**4,001**	5,640	(29)	**9,850**	12,630	(22)
Segment gross profit	**35,129**	15,252	130	**70,969**	28,921	145

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change	**2022**	2021	Change
	($)	($)	(%)	**($)**	($)	(%)
Revenue per Industry Day	**801**	728	10	**818**	724	13

Industry conditions in North America continued to steadily improve in the second quarter of 2022, with a 58% increase in industry activity compared to the comparative period in 2021. For the fourth consecutive quarter, the North American business unit outpaced the improvement in industry activity, generating $59.6 million of revenue in the second quarter of 2022, a 71% increase from $34.9 million in the comparative period of 2021. Revenue per Industry Day was $801 in Q2 2022, a 10% increase from the comparable period in 2021. The year over year increase is due to a combination of factors, including increased adoption of certain products, and improvement in pricing conditions from the challenging environment that existed during the COVID-19 related downturn. Furthermore, both revenue and Revenue per Industry Day for the North American business unit in the second quarter of 2022 benefited from a shorter Canadian break-up in activity levels, which was more pronounced in the second quarter of 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 increased by 46% in the second quarter of 2022 over the 2021 comparative period. The increase in operating costs is attributable to variable expenses incurred to deploy additional equipment along with increased headcount to meet the continued growth in industry activity. Rental services in the second quarter of 2022 was also impacted by inflationary effects on certain field related expenses, such as the cost of fuel and supplies.

Depreciation and amortization decreased by 29% in the second quarter of 2022 over the 2021 comparative period. The decrease is primarily due to lower capital expenditures in recent quarters and certain assets becoming fully depreciated in 2021.

Segment gross profit was $35.1 million during the second quarter of 2022 compared to $15.3 million in the comparative period of 2021, representing a significant increase due to the factors outlined above. The business unit's operating leverage remained strong with segment gross profit increasing by 130% year over year on a corresponding revenue increase of 71%.

Year-to-date, revenue of $121.6 million and segment gross profit of $71.0 million represent significant improvements from the prior year comparative results, and reflects the growing activity environment seen in 2022 coupled with strong operating leverage.

International Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change	**2022**	2021	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**7,357**	4,742	55	**13,944**	9,091	53
Mud Management and Safety	**2,597**	1,724	51	**4,927**	3,239	52
Communications	**502**	355	41	**981**	621	58
Drilling Intelligence	**353**	247	43	**660**	455	45
Analytics and Other	**1,502**	741	103	**2,490**	1,467	70
Total revenue	**12,311**	7,809	58	**23,002**	14,873	55
Rental services and local administration	**6,244**	4,512	38	**11,907**	8,152	46
Depreciation and amortization	**690**	511	35	**1,150**	1,347	(15)
Segment gross profit	**5,377**	2,786	93	**9,945**	5,374	85

The International business unit generated $12.3 million of revenue in the second quarter of 2022 compared to $7.8 million in the comparative period of 2021. The year over year increase of 58% 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. Further, in the second quarter of 2022, the Company recognized a $0.2 million increase to revenue relating to a contractual foreign exchange and inflationary related adjustment clause with one of its major customers. This amount is recorded in Analytics and Other in the above table.

Revenue generated in the International business unit in the second quarter of 2022 represents the highest quarterly revenue level for the business unit since 2015.

Rental services and local administration expense was $6.2 million in the second quarter of 2022, an increase of 38% compared to $4.5 million in the comparative period of 2021. As activity levels improve, the International business unit continues to incur certain variable costs, including repair costs and growth in field related headcount, to support the additional deployment of equipment. Similar to the North American business unit, the International business unit also experienced certain inflationary effects on operating costs in the second quarter of 2022.

Depreciation and amortization increased by 35% in the second quarter of 2022 over the 2021 comparative period. The increase is primarily due to the impacts of hyperinflationary accounting on the Company's Argentinian operations.

For the three months ended June 30, 2022, resulting segment gross profit was $5.4 million during the second quarter of 2022 compared to $2.8 million in the 2021 comparative period due to the factors outlined above, and demonstrating the Company's strong operating leverage in the context of improving activity levels.

Year-to-date, revenue of $23.0 million and segment gross profit of $9.9 million represent significant improvements from the prior year comparative results, and reflects the growing activity environment seen in 2022 coupled with strong operating leverage.

Solar and Energy Storage Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change	**2022**	2021	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Analytics and Other	**1,660**	856	94	**3,437**	1,768	94
Total revenue	**1,660**	856	94	**3,437**	1,768	94
Operating expenses and local administration (1)	**2,431**	1,303	87	**4,747**	2,651	79
Depreciation and amortization	**5**	5	—	**10**	10	—
Segment gross loss	**(776)**	(452)	72	**(1,320)**	(893)	48

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

Revenue generated by the Solar and Energy Storage business unit was $1.7 million, an increase of 94% from the comparative period in 2021. The increase in revenue is primarily due to the commissioning of control systems and sales of related hardware. Quarterly revenue for the Solar and Energy Storage business unit will fluctuate with timing of commissioning of control system projects.

Operating expenses and local administration were $2.4 million during the second quarter of 2022, a 87% increase from $1.3 million during the comparable period. The increase is due primarily to input costs associated with the commissioning of the control systems along with ongoing investments in sales and marketing efforts. Segment gross loss was $0.8 million for the second quarter of 2022, an increase of $0.3 million from the comparable period in 2021.

Year to date, revenue generated by the segment totaled $3.4 million, a 94% increase over the comparative period in 2021, demonstrating increased control system sales. Segment gross loss increased from $0.9 million during the six months ended June 30, 2021 to $1.3 million in the 2022 comparative period as the business unit continues to make investments in future growth.

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 Condensed Consolidated 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 June 30,			Six Months Ended June 30,		
	2022	2021	Change	**2022**	2021	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Research and development	**1,368**	1,170	17	**2,620**	2,213	18

Corporate Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change	**2022**	2021	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Research and development	**9,294**	7,849	18	**18,138**	14,965	21
Corporate services	**3,951**	2,913	36	**7,439**	5,945	25
Stock-based compensation	**2,514**	2,216	13	**8,069**	4,818	67
Total corporate expenses	**15,759**	12,978	21	**33,646**	25,728	31

Research and development and corporate service expenses increased 18% and 36%, respectively, from the comparative period in 2021. Throughout 2021 and continuing in 2022, Pason has made additional investments in research and development, further improving the Company's ability to support increasing activity levels and product enhancements. Furthermore, the change in corporate services and research and development expenses year over year reflects accrual recognition for performance based elements of the Company's compensation plan.

Also in the second quarter of 2022, the Company incurred certain transaction fees associated with ongoing tax initiatives, including the planned renewal of the Company's Bilateral Advanced Pricing Arrangement with the CRA and IRS.

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.

Other Income

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change	**2022**	2021	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Foreign exchange (gain) loss	**(1,054)**	725	nmf	**(651)**	1,173	nmf
Net interest income	**(718)**	(270)	166	**(1,231)**	(278)	343
Government wage assistance	**—**	(2,966)	nmf	**—**	(5,890)	nmf
Equity loss	**220**	194	13	**692**	523	32
Net monetary loss (gain)	**268**	(11)	nmf	**67**	(60)	nmf
Other expenses (income)	**74**	54	37	**(1,440)**	76	nmf
Total other income	**(1,210)**	(2,274)	(47)	**(2,563)**	(4,456)	(42)

Net interest income is primarily comprised of interest generated from the Company's invested cash and cash equivalents and will fluctuate as available yields fluctuate. The year over year increase for both the three and six month periods reflects the increasing interest rate environment along with higher levels of cash invested.

The Company did not recognize any government wage assistance in 2022 as the program was terminated in October 2021. During the three and six months ended June 30, 2021, Pason participated in the Canada Emergency Wage Subsidy ("CEWS") program.

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 investments.

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

Other expenses (income) for six months ended June 30, 2022 is primarily comprised of proceeds received on a bankruptcy settlement of a former lessee.

Income Tax Provision

During the second quarter of 2022, the Company recorded an income tax expense of $7.2 million, compared to an income tax expense of $2.0 million during the comparative period in 2021. The increase is attributable to the improvement in income before income taxes, in light of improved operating performance year over year, as further outlined herein.

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 Income Tax Recoverable, which represents a corresponding amount owing from the IRS. During the first quarter of 2022, the Company received final settlement on all principal amounts owing from the IRS in relation to the APA, in the amount of $12.5 million.

Summary of Quarterly Results

Three Months Ended	Jun 30, 2020	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	**Jun 30, 2022**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	26,848	23,068	32,758	42,555	43,593	57,705	62,833	74,468	**73,608**
EBITDA [1]	4,271	2,348	8,300	15,673	14,984	24,870	26,874	34,686	**31,673**
Adjusted EBITDA [1]	(848)	(1,118)	8,201	13,170	12,786	22,356	24,208	33,373	**30,962**
As a % of revenue	nmf	nmf	25.0	30.9	29.3	38.7	38.5	44.8	**42.1**
Funds flow from operations	134	4,765	8,939	13,730	14,662	19,983	19,353	25,704	**27,242**
Per share – basic	0.00	0.06	0.11	0.17	0.18	0.24	0.23	0.31	**0.33**
Per share – diluted	0.00	0.06	0.11	0.17	0.18	0.24	0.23	0.31	**0.33**
Cash from operating activities	29,953	5,754	(2,717)	11,085	9,841	17,074	27,061	28,050	**25,679**
Free cash flow [1]	29,888	4,141	(3,100)	9,176	5,684	16,261	23,990	23,582	**19,135**
Net income (loss)	(4,799)	(3,957)	(2,662)	3,991	4,880	12,775	10,279	18,001	**17,992**
Net income (loss) attributable to Pason	(4,487)	(3,698)	(2,166)	4,315	5,307	13,074	11,149	18,573	**18,540**
Per share – basic	(0.05)	(0.04)	(0.03)	0.05	0.06	0.16	0.14	0.23	**0.23**
Per share – diluted	(0.05)	(0.04)	(0.03)	0.05	0.06	0.16	0.14	0.23	**0.22**

(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.

Q2 2022 vs Q1 2022

Following the start of improving industry conditions seen in late 2020, North American and International rig counts have steadily improved. The effects of the seasonal slowdown in Canadian drilling activity in the second quarter were mostly offset by continued growth in the Company's other end markets. Consolidated revenue was $73.6 million in the second quarter of 2022, a 1% decrease compared to consolidated revenue of $74.5 million in the first quarter of 2022.

Revenue in the North American business unit was $59.6 million in the second quarter of 2022 compared to revenue of $62.0 million in the first quarter of 2022. The slight decrease in revenue was as a result of a brief Canadian spring break-up, which was largely offset with sequential growth in US industry activity.

The International business unit reported revenue of $12.3 million in the second quarter of 2022, a 15% increase compared to $10.7 million in the first quarter of 2022. The increase in revenue was attributable to improved industry activity in Pason's international markets and an inflation and foreign exchange triggered adjustment recognized in the Company's Argentinian subsidiary.

The Company's gross profit was $39.7 million in the second quarter of 2022 compared to gross profit of $39.9 million in the first quarter of 2022. Similarly, Adjusted EBITDA was $31.0 million in the second quarter of 2022, a 7% decrease from $33.4 million in the first quarter of 2022. While the Company's cost structure remains primarily fixed, Pason continues to make investments for further increases in activity levels, while also managing inflationary effects on certain elements of the Company's cost structure.

Cash from operating activities was $25.7 million in the second quarter of 2022, compared to $28.1 million in the first quarter of 2022, for which the slight decrease is primarily driven by the reduction in Adjusted EBITDA sequentially.

The Company recorded net income attributable to Pason in the second quarter of 2022 of $18.5 million ($0.23 per share) compared to net income attributable to Pason of $18.6 million ($0.23 per share) in the first quarter of 2022. Second quarter net income benefited from lower depreciation and amortization expense, as well as lower stock based compensation.

Liquidity and Capital Resources

As at	**June 30, 2022**	December 31, 2021	Change
(000s)	**($)**	($)	(%)
Cash and cash equivalents	**186,950**	158,283	18
Working capital	**201,729**	184,083	10
Total assets	**410,309**	379,941	8
Total interest bearing debt	**—**	—	—

Pason's balance sheet remains strong with no interest bearing debt and as at June 30, 2022, $187.0 million in cash and cash equivalents, and $201.7 million in working capital. As industry conditions continue to improve and supply chain challenges persist, Pason remains focused on disciplined and proactive management of required investments in working capital.

The Company has an undrawn $5.0 million demand revolving credit facility available as at June 30, 2022, consistent with December 31, 2021.

Cash Flow Statement Summary

	Three Months Ended June 30,			Six Months Ended June 30,		
	2022	2021	Change	**2022**	2021	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Funds flow from operations	**27,242**	14,662	86	**52,946**	28,392	86
Cash from operating activities	**25,679**	9,841	161	**53,729**	20,926	157
Cash used in financing activities	**(8,423)**	(7,620)	11	**(15,794)**	(12,401)	27
Cash used in investing activities	**(6,544)**	(16,284)	(60)	**(11,012)**	(18,193)	(39)
Net capital expenditures (1)	**6,544**	4,157	57	**11,012**	6,066	82
As a % of funds flow (2)	**24.0 %**	28.4 %	(440) bps	**20.8 %**	21.4 %	(60) bps

(1) Includes additions to property, plant, and equipment, proceeds on disposals, changes in non-cash working capital, and development costs from Pason's Condensed Consolidated Interim 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 in the second quarter of 2022 from the comparative quarter in 2021 due to the improvement in gross profit experienced by the Company in a growing activity environment. As a result, cash from operating activities increased 161% from the same period in 2021.

In an effort to proactively manage ongoing supply chain challenges, starting in the second quarter of 2022, Pason began making incremental investments in inventory levels for field supplies and components used in equipment repairs. In the second quarter of 2022, Pason invested $2.4 million in additional inventory levels. This initiative is expected to continue in the coming quarters.

Cash used in financing activities

Cash used in financing activities was $8.4 million during the second quarter of 2022, compared to $7.6 million during the comparative quarter of 2021.

Dividend

During the three month period ended June 30, 2022, the Company paid dividends to holders of common shares totaling $6.6 million, or $0.08 per share, compared to $4.2 million, or $0.05 per share in the comparative quarter of 2021. Given the recovering industry activity levels seen throughout 2021 and the improved outlook for drilling activity, on February 22, 2022, the Company announced an increased quarterly dividend of $0.08 per share, from the previous quarterly level of $0.05 per share.

On August 10, 2022, the Company declared a quarterly dividend of $0.08 per share on the Company's common shares. The dividend will be paid on September 29, 2022, to shareholders of record at the close of business on September 15, 2022.

Normal Course Issuer Bid ("NCIB")

In 2021, the Company renewed its NCIB commencing on December 20, 2021, and expiring on December 19, 2022. Under the 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 that exceeds the daily purchase restriction.

For the three-month period ended June 30, 2022, the Company repurchased 93,000 (Q2 2021 - 313,900) shares for cancellation for total cash consideration of $1.5 million (Q2 2021 - $3.0 million). The total consideration is allocated between share capital and retained earnings.

For the six month period ended June 30, 2022, the Company repurchased 206,900 shares for cancellation for a total cash consideration of $2.9 million. For the six month period ended June 2021, the Company repurchased 313,900 common shares for cancellation for a total cash consideration of $3.0 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

During the second quarter, Pason invested $6.5 million in net additions to rental equipment to meet activity levels as well as investments associated with ongoing refresh of the Company's fleet and technology platform. During the second quarter of 2021, Pason's investing activities of $16.3 million consisted of a $12.1 million outflow related to the Company's minority investment in Intelligent Wellhead Systems, along with $4.2 million in net capital expenditures. Pason continues to make necessary capital investments in its equipment and technology in order to service improved industry conditions.

Contractual Obligations

As at June 30, 2022	Less than 1 year	1–3 years	Thereafter	**Total**
(000s)	($)	($)	($)	**($)**
Leases and other operating contracts	10,057	4,937	1,715	**16,709**
Capital commitments	24,223	—	—	**24,223**
Total contractual obligations	34,280	4,937	1,715	**40,932**

Leases and other operating contracts relate primarily to minimum future lease payments for facility leases, commitments associated with ongoing repair costs of the Company's equipment and technology, and commitments to purchase hardware associated with ETB's control system sales offering. A portion of these commitments have been recognized on the balance sheet as a leased asset with a corresponding liability, in accordance with IFRS 16, Leases.

Capital commitments relate to contracts to purchase property, plant and equipment in the normal course of business.

Disclosure of Outstanding Share and Options Data

As at June 30, 2022, there were 82,130,025 common shares and 2,984,304 options issued and outstanding. As at August 10, 2022, there were 82,063,183 common shares and 2,952,462 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 three and six months ended June 30, 2022, are detailed as follows:

Impact on IFRS Measures

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2022	2021	**2022**	2021
(000s)	**($)**	($)	**($)**	($)
Increase in revenue	**240**	6	**129**	275
(Increase) in rental services and local administration expenses	**(124)**	(12)	**(76)**	(130)
(Increase) in depreciation expense	**(62)**	(138)	**(170)**	(371)
Increase (decrease) in segment gross profit	**54**	**(144)**	**(117)**	**(226)**
Net monetary (loss) presented in other expenses	**(268)**	(109)	**(67)**	(60)
(Increase) in other expenses	**(47)**	(27)	**(34)**	(27)
(Increase) in income tax provision	**(36)**	(24)	**(14)**	(56)
(Decrease) in net income	**(297)**	**(304)**	**(232)**	**(369)**

Impact on Non-GAAP Measures

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2022	2021	**2022**	2021
(000s)	**($)**	($)	**($)**	($)
increase in revenue	**240**	6	**129**	275
(increase) in rental services and local administration expenses	**(124)**	(12)	**(76)**	(130)
Net monetary (loss) presented in other expenses	**(268)**	(109)	**(67)**	(60)
Increase in other expenses	**(47)**	(27)	**(34)**	(27)
(Decrease) increase in EBITDA	**(199)**	(142)	**(48)**	58
Elimination of net monetary gain presented in other expenses	**268**	109	**67**	60
Elimination of other expenses	**47**	27	**34**	27
Increase (decrease) in Adjusted EBITDA	**116**	(6)	**53**	145

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, 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.

Reconcile Net Income to EBITDA

Three Months Ended	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	**Jun 30, 2022**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Net (loss) income	(3,957)	(2,662)	3,991	4,880	12,775	10,279	18,001	**17,992**
Add:								
Income taxes	(1,369)	282	1,257	2,002	5,239	3,240	5,329	**7,189**
Depreciation and amortization	7,503	7,888	7,831	6,156	5,530	6,172	6,314	**4,696**
Stock-based compensation	276	2,818	2,602	2,216	1,611	5,094	5,555	**2,514**
Net interest income	(105)	(26)	(8)	(270)	(285)	2,089	(513)	**(718)**
EBITDA	2,348	8,300	15,673	14,984	24,870	26,874	34,686	**31,673**

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	**Jun 30, 2022**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	2,348	8,300	15,673	14,984	24,870	26,874	34,686	**31,673**
Add:								
Foreign exchange loss (gain)	113	968	448	725	(204)	(2,980)	403	**(1,054)**
Recognition of onerous lease	—	—	—	—	—	—	—	**—**
Government wage assistance	(3,334)	(2,244)	(2,924)	(2,966)	(2,190)	(128)	—	**—**
Reorganization costs	—	—	—	—	—	—	—	**—**
Put option revaluation	—	1,812	—	—	—	381	—	**—**
Net monetary gain (loss)	(465)	(594)	(49)	(11)	(190)	(246)	(202)	**268**
Other	220	(41)	22	54	70	307	(1,514)	**75**
Adjusted EBITDA	(1,118)	8,201	13,170	12,786	22,356	24,208	33,373	**30,962**

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	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	**Jun 30, 2022**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	5,754	(2,717)	11,085	9,841	17,074	27,061	28,050	**25,679**
Less:								
Net additions to property, plant and equipment	(1,282)	(66)	(1,510)	(3,696)	(1,258)	(2,803)	(4,334)	**(6,412)**
Deferred development costs	(331)	(317)	(399)	(461)	445	(268)	(134)	**(132)**
Free cash flow	4,141	(3,100)	9,176	5,684	16,261	23,990	23,582	**19,135**

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 Condensed Consolidated Interim 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. As such, actual results may differ significantly from estimates made within the Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2022. Significant estimates made by the Company have most recently been set out in the Company's MD&A for the year ended December 31, 2021, and its consolidated financial statements and note disclosures for the year ended December 31, 2021, and within Note 2 of the Company's Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2022.

Significant Accounting Policies

The Company's significant accounting policies have been disclosed within the Consolidated Financial Statements for the year ended December 31, 2021 and within Note 2 of the Company's Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2022.

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 and six months ended June 30, 2022, that would materially affect, or is reasonably likely to materially affect, the Company's controls and processes over financial reporting.

Risks and Uncertainties

The following information is a summary of certain risk factors relating to Pason. This section does not describe all risks applicable to the Company, its industry or its business, and is intended only as a summary of certain material risks. Investors should also consider the other risks described throughout the Company's public disclosure documents on file with the Canadian securities regulatory authorities available on SEDAR at www.sedar.com. Additional risks and uncertainties not currently known to Pason, or that Pason currently considers remote or immaterial, may also impair the operations of the Company. Should any such risks actually occur, Pason's business, financial condition, operating results or price and liquidity of Pason's securities could be materially harmed.

Commodity Prices and Drilling Activity Levels

Pason derives most of its revenue from the rental of instrumentation and data services to Operators and Contractors in Canada, the US, Australia, Latin America and the Middle East during drilling activity. The success of the Company's business depends on the level of industry activity for oil and natural gas exploration and development in the markets in which Pason operates. The level of oil and natural gas industry activity has seen significant volatility in recent years and is influenced by numerous factors over which the Company has no control. One of the primary factors is prevailing oil and natural gas commodity prices, which fluctuate in response to factors beyond Pason's control. Such factors could include, but may not be limited to: global supply and demand for crude oil and natural gas; the cost of exploring for, producing and delivering oil and natural gas; pipeline availability and the capacity of other oil and natural gas transportation and processing systems; the actions of the Organization of Petroleum Exporting Countries and other major petroleum exporting countries; global political, military, regulatory, economic and social conditions; government regulation; political stability in the Middle East and elsewhere; the price of foreign imports; the availability of alternate fuel sources; and prevailing weather conditions.

From 2014 to 2020, global commodity prices were negatively affected by a combination of factors including increased production, decisions of OPEC and Russia, and the impact of the COVID-19 pandemic on overall demand for oil and gas. These headwinds drove significant pressure on commodity prices, and adversely impacted the level of capital spending by our customers on exploration and production activities and could continue to do so. Throughout 2021, commodity prices began to recover from the lows experienced in 2020, as the demand for oil and gas neared pre-pandemic levels, while supply continued to lag. Global drilling activity also improved from the lows experienced in 2020, while Operators faced ongoing pressure from the investment community to constrain spending within cash flows and further allocate a significant portion of cash flow generation to returns to shareholders, impacting the amount of drilling-related capital expenditures.

While global drilling activity is showing signs of recovery and commodity prices have strengthened over the last year, these aforementioned factors could continue to put pressure on commodity prices, adversely impacting the level of drilling activity in the regions in which Pason operates, which could have a materially adverse effect on Pason's business, financial condition, results of operations and cash flows.

Further, Russia's recent invasion of Ukraine has had a significant effect on commodity prices and economies globally. The conflict is rapidly evolving and has elicited a swift international response, including sanctions against Russia, which could continue to have significant implications on commodity prices and economies more broadly. The extent, duration and impact of the current Russian-Ukrainian conflict and related international action cannot be accurately predicted at this time. Pason does not have any operations or revenue generated in Russia or the Ukraine, however, the situation is rapidly evolving and ongoing conflict may negatively impact commodity price volatility and global financial conditions, which could have an indirect adverse effect on Pason's business and financial condition.

Public Health Crises, Including COVID-19

Starting in March of 2020, the COVID-19 pandemic had a significant impact on the demand for oil and gas and this, combined with an over-supply, led to a significant decline in commodity prices. Although global demand for oil and gas has almost returned to pre-pandemic levels and commodity prices have recovered from the lows experienced in 2020, the ultimate impact of COVID-19 on future oil demand is unknown at the present time. It is, therefore, not possible to predict the long-term effects of COVID-19 on the Company's operating results. The ongoing pandemic has had, or may have, significant adverse impacts on 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 manage its cost structure. The Company would be further exposed to the aforementioned risks in the occurrence of any future public health crises and/or pandemics unrelated to COVID-19.

Seasonal Factors

Drilling activity in Canada is seasonal due to weather that limits access to well sites 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 drilling activity is less seasonal.

Credit and Liquidity

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. During times of depressed oil and gas markets, customers may experience financial constraints. Further, many of our customers require reasonable access to credit facilities and debt capital markets to finance their oil and natural gas drilling activity. If the availability of credit to our customers is reduced, they may reduce their drilling expenditures, reducing the demand for the Company's products and services. While Pason monitors its exposure to credit risk and has a large customer base, which minimizes Pason's risk exposure to the financial concerns of any single customer, lack of payment from multiple clients may have a material adverse effect on the Company's financial condition.

Customers

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

Competition

Pason's main source of competition in the North American Operations and International Operations segments remains the instrumentation divisions of large US service companies. Potential actions taken by competitors such as pricing changes and new products and technologies could affect the Company's leading market share or competitive position. In addition, while the Company continues to make investments in R&D to provide innovative technologies for customers, management cannot reasonably predict whether these investments will result in increased levels of product adoption, market share or pricing. These factors could materially affect our business, financial condition, results of operations and cash flows.

Qualified Personnel and Access to Talent

Due to the specialized and technical nature of Pason's business, Pason is highly dependent on attracting and retaining qualified, key employees, which involves compensating them appropriately. The shift to remote work in some roles, particularly since the start of the COVID-19 pandemic, has expanded the job market beyond traditional geographic boundaries. Employers must now compete for talent not only locally, but within a greater global market. Due to high levels of competition for qualified personnel, there can be no assurance that qualified personnel will be attracted or retained to meet the growth needs of the business. Further, Pason does not carry "key person" insurance on any of its key employees. In addition, Pason's ability to meet activity levels and customer demand for the Company's products and services will depend on the ability to attract qualified personnel as needed, which may be more difficult in periods of rapidly accelerated growth in activity levels.

The inability to recruit or retain skilled personnel or their inability to perform their duties could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. To mitigate these risks, Pason has a dedicated HR department in each significant business unit that is focused on proactive recruiting and retention initiatives.

Intellectual Property

Pason relies on innovative technologies and products to maintain its competitive position in the market. Pason employs trademarks, patents, contracts, and other measures to protect the Company's intellectual property, trade secrets and confidential information. Pason also believes that 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, provides protection in maintaining a competitive position.

Despite these precautions, it may be possible for third parties to attempt to infringe the Company's intellectual property and Pason could incur substantial costs to protect and enforce its intellectual property rights. Moreover, from time to time third parties may assert patent, trademark, copyright and other intellectual property rights to technologies that are important to the Company. In such an event, the Company may be required to incur significant costs in litigating a resolution to the asserted claim. There can be no assurance that such a resolution would not require that the Company pay damages or obtain a license of a third party's proprietary rights in order to continue to provide its products as currently offered, or, if such a license is required, that it will be available on terms acceptable to the Company.

Cyber Security

The Company takes measures and makes meaningful investments to protect the security and integrity of its IT infrastructure 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. Natural disasters, energy blackouts, operating malfunction, viruses or malware, cyber security attacks, theft, computer or telecommunication errors, human error, internal or external misconduct or other unknown disruptive events could result in the temporary or permanent loss of any or all parts of the IT infrastructure or data. There is a risk the data and other electronic information stored in Pason's IT infrastructure could be accessed, publicly disclosed, lost, or stolen. Such occurrences could negatively affect Pason's business and financial performance in the form of loss of revenue, increased operational costs, reputational damage or litigation.

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 that 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 recent quarters. 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.

Geopolitical Risk

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 Pason's control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and warranted. Most of Pason'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 this MD&A under the title Impact of Hyperinflation.

Foreign Exchange Risk

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 financial statements. 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 financial statements as unrealized foreign currency translation adjustments. The Company does not employ any financial instruments to manage foreign exchange risk at this time.

Most 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.

Climate Change Risks

Regulatory and Policy Risks

There is an increasing trend in public and government support of climate change initiatives across the regions in which Pason operates. Governmental authorities are strengthening existing environmental regulations and introducing new climate change measures, such as emission caps, reduction targets, taxes and penalties, efficiency standards, and alternative energy incentives and mandates. In addition, concerns about climate change have resulted in many environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Pason is not a large-scale emitter of greenhouse gases or other emissions and does not anticipate the impact of these regulations to be material to its operations; however, present and future environmental regulations and other developments could have a material impact on Pason's client base, which is primarily comprised of operators and contractors. While it is not possible at this time to predict how such regulations or developments would impact the Company's business, any future environmental requirements could result in reduced demand for hydrocarbons, as well as increased capital expenditures, operating costs and project delays for our customers, which in turn could have a material adverse effect on the business, financial condition, results of operations, and prospects for the Company.

Physical Risks

There is growing evidence that climate change is causing the increased frequency and severity of extreme weather events as well as longer-term changes in climate patterns. As a result, the physical impacts of such increasingly volatile weather conditions may have an adverse effect on the operations of the Company. These include more frequent and extreme weather events, natural disasters such as flooding and forest fires, shifts in temperature and precipitation, and changing sea levels, which could cause damage to key corporate assets. Climate change may have similar impacts on the Company's major customers, reducing demand for Pason's products and services, and may also impact suppliers, which could result in shortages in certain consumables and the supply of products that are required to maintain the Company's operations. While the Company takes such risks into consideration and implements mitigation strategies to address, where possible, the risks associated with the impacts of extreme weather events, the frequency and severity of such events can vary widely and cannot be predicted. This uncertainty, in turn, could have a material adverse effect on the Company's ability to operate in certain jurisdictions and its projections, business operations and financial condition. Pason maintains a corporate insurance program consistent with industry practice that protects the Company from liabilities due to environmental accidents and disruptions and has operational and emergency response procedures and safety and environmental programs in place to reduce potential loss exposure.

Alternative Energies Risk

The focus of governments, businesses and consumers on transitioning to a low-carbon economy has been accelerated by the COVID-19 pandemic, resulting in increased policies and initiatives designed to shift resources and investment away from fossil fuels towards low carbon energy sources. This shift, combined with technological advances and cost declines in alternative energy sources, could reduce consumer demand for, and result in a reduction in the global economy's reliance on, oil and natural gas; which in turn could decrease demand for the Company's drilling-oriented products and services. To mitigate this risk, Pason continues to look at new opportunities to diversify its business, including exploring new opportunities to apply the Company's expertise in instrumentation and data services to markets beyond of oil and gas drilling, such as recent investments made in supporting ETB in the solar energy and storage market. However, there is no guarantee that Pason would be successful in these ventures should there be a significant reduction in global demand for oil and gas.

Investor Sentiment

Investor sentiment towards the oil and natural gas industry has evolved in recent years and some institutional investors have announced that they are no longer willing to fund or invest in companies in the oil and natural gas industry, or are reducing such investment over time. While Pason believes it operates its business sustainably, the Company's ability to access capital and the price and liquidity of its securities may be adversely impacted by investors' perceptions of the sector in which it generates the majority of its revenue.

Insurance

Pason's operations are subject to risks inherent in the oil and natural gas services industry, such as hardware or software defects, malfunctions and failures, human error, and natural disasters. These risks could expose Pason to substantial liability for personal injury, loss of life, business interruption, property damage, pollution, and other liabilities. Pason carries prudent levels of insurance to protect the Company against these unforeseen events, subject to appropriate deductibles and the availability of coverage. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives.

Extreme weather conditions, natural occurrences, and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage. It is anticipated that the Company will continue to maintain appropriate insurance coverage, but there can be no assurance that such insurance coverage will be available on commercially reasonable terms or on terms as favourable as Pason's current arrangements. The occurrence of a significant event outside of the scope of coverage of Pason's insurance policies could also have a material adverse effect on the results of the organization.

Payment of Future Cash Dividends

The decision to pay dividends and the amount paid is at the discretion of the Board, which regularly reviews the Company's financial position, operating results, and industry outlook, all of which could impact Pason's dividend policy. The amount of cash available for future dividends will be dependent on a number of factors including, but not limited to, the Company's ability to generate cash flow in excess of its operating and investment needs, its overall financial position, and its capital allocation priorities.

Taxation

Pason and its subsidiaries are subject to income and other forms of taxation in the various jurisdictions in which they operate. Pason structures its operations in a tax efficient manner in compliance with all 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 its business, operating results, or financial condition. The management of Pason believes that the Company's 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 possibly succeed in challenging, management's interpretation of the applicable tax legislation.

Litigation and Legal Claims

Pason may be involved in various claims and litigation arising in the normal course of business. 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 day-to-day business operations, however, the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in Pason's favour. In addition, future legal proceedings could be filed against the Company, the outcome of which is also uncertain and could have a material adverse effect on the Company.

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, 2021 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.

Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	June 30, 2022	December 31, 2021
(CDN 000s) (unaudited)		**($)**	($)
Assets			
Current			
Cash and cash equivalents	4	**186,950**	158,283
Trade and other receivables		**63,604**	49,453
Prepaid expenses		**4,454**	5,197
Inventory	2, 5	**7,153**	—
Income taxes recoverable	11	**294**	13,632
Total current assets		**262,455**	226,565
Non-current			
Property, plant and equipment		**79,501**	82,265
Investments	7	**30,071**	30,046
Intangible assets and goodwill		**38,282**	41,065
Total non-current assets		**147,854**	153,376
Total assets		**410,309**	379,941
Liabilities and equity			
Current			
Trade payables and accruals		**31,410**	31,475
Income taxes payable		**8,465**	6,568
Stock-based compensation liability	10	**7,501**	2,647
Lease liability		**1,678**	1,792
Obligation under put option	8	**11,672**	—
Total current liabilities		**60,726**	42,482
Non-current			
Deferred tax liabilities		**3,836**	5,836
Lease liability		**4,754**	5,537
Stock-based compensation liability	10	**9,650**	6,821
Obligation under put option	8	**—**	11,484
Total non-current liabilities		**18,240**	29,678
Equity			
Share capital	9	**163,963**	162,567
Share-based benefits reserve		**34,793**	34,383
Foreign currency translation reserve		**50,847**	50,298
Equity reserve		**(8,375)**	(8,375)
Retained earnings		**94,907**	72,602
Total equity attributable to equity holders of the Company		**336,135**	311,475
Non-controlling interest		**(4,792)**	(3,694)
Total equity		**331,343**	307,781
Total liabilities and equity		**410,309**	379,941

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

Condensed Consolidated Interim Statements of Operations

	Note*	Three Months Ended June 30, 2022	2021	Six Months Ended June 30, 2022	2021
(CDN 000s, except per share data) (unaudited)		**($)**	($)	**($)**	($)
Revenue		**73,608**	43,593	**148,076**	86,148
Operating expenses					
Rental services		**26,275**	17,205	**51,447**	33,662
Local administration		**2,907**	2,646	**6,025**	5,097
Depreciation and amortization		**4,696**	6,156	**11,010**	13,987
		33,878	26,007	**68,482**	52,746
Gross profit		**39,730**	17,586	**79,594**	33,402
Other expenses					
Research and development		**9,294**	7,849	**18,138**	14,965
Corporate services		**3,951**	2,913	**7,439**	5,945
Stock-based compensation expense	10	**2,514**	2,216	**8,069**	4,818
Other income	13	**(1,210)**	(2,274)	**(2,563)**	(4,456)
		14,549	10,704	**31,083**	21,272
Income before income taxes		**25,181**	6,882	**48,511**	12,130
Income tax provision		**7,189**	2,002	**12,518**	3,259
Net income		**17,992**	4,880	**35,993**	8,871
Net income (loss) attributable to:					
Shareholders of Pason		**18,540**	5,307	**37,113**	9,622
Non-controlling interest		**(548)**	(427)	**(1,120)**	(751)
Net income		**17,992**	4,880	**35,993**	8,871
Income per share	14				
Basic		**0.23**	0.06	**0.45**	0.12
Diluted		**0.22**	0.06	**0.45**	0.12

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

Condensed Consolidated Interim Statements of Other Comprehensive Income

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note*	**2022**	2021	**2022**	2021
(CDN 000s) (unaudited)		**($)**	($)	**($)**	($)
Net income		**17,992**	4,880	**35,993**	8,871
Items that may be reclassified subsequently to net income:					
Foreign currency translation adjustment		**4,275**	(3,639)	**571**	(7,322)
Other comprehensive income (loss)		**4,275**	(3,639)	**571**	(7,322)
Total comprehensive income		**22,267**	1,241	**36,564**	1,549
Total comprehensive income (loss) attributed to:					
Shareholders of Pason		**22,801**	1,672	**37,662**	2,297
Non-controlling interest		**(534)**	(431)	**(1,098)**	(748)
Total comprehensive income		**22,267**	1,241	**36,564**	1,549

*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 December 31, 2020		164,568	33,170	54,090	(8,375)	63,609	**307,062**	(1,779)	**305,283**
Net income		—	—	—	—	9,622	**9,622**	(751)	**8,871**
Dividends		—	—	—	—	(8,322)	**(8,322)**	—	**(8,322)**
Other comprehensive income (loss)		—	—	(7,319)	—	—	**(7,319)**	(3)	**(7,322)**
Expense related to stock options		—	565	—	—	—	**565**	—	**565**
Shares cancelled under NCIB	9	(622)	—	—	—	(2,369)	**(2,991)**	—	**(2,991)**
Balance at June 30, 2021		163,946	33,735	46,771	(8,375)	62,540	**298,617**	(2,533)	**296,084**
Net income		—	—	—	—	24,223	**24,223**	(1,169)	**23,054**
Dividends		—	—	—	—	(8,245)	**(8,245)**	—	**(8,245)**
Other comprehensive income (loss)		—	—	3,527	—	—	**3,527**	8	**3,535**
Expense related to stock options		146	648	—	—	—	**794**	—	**794**
Liability for automatic share purchase plan commitment pursuant to NCIB	9	(343)	—	—	—	(1,657)	**(2,000)**	—	**(2,000)**
Shares cancelled under NCIB	9	(1,182)	—	—	—	(4,259)	**(5,441)**	—	**(5,441)**
Balance at December 31, 2021		162,567	34,383	50,298	(8,375)	72,602	**311,475**	(3,694)	**307,781**
Net income		—	—	—	—	37,113	**37,113**	(1,120)	**35,993**
Dividends		—	—	—	—	(13,150)	**(13,150)**	—	**(13,150)**
Other comprehensive income (loss)		—	—	549	—	—	**549**	22	**571**
Exercise of stock options		1,601	(231)	—	—	—	**1,370**	—	**1,370**
Expense related to stock options		—	641	—	—	—	**641**	—	**641**
Liability reversal for automatic share purchase plan commitment pursuant to NCIB		343	—	—	—	1,657	**2,000**	—	**2,000**
Liability for automatic share purchase plan commitment pursuant to NCIB	9	(137)	—	—	—	(864)	**(1,001)**	—	**(1,001)**
Shares cancelled under NCIB	9	(411)	—	—	—	(2,451)	**(2,862)**	—	**(2,862)**
Balance at June 30, 2022		**163,963**	**34,793**	**50,847**	**(8,375)**	**94,907**	**336,135**	**(4,792)**	**331,343**

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

Condensed Consolidated Interim Statements of Cash Flows

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note*	**2022**	2021	**2022**	2021
(CDN 000s) (unaudited)		**($)**	($)	**($)**	($)
Cash from (used in) operating activities					
Net income		**17,992**	4,880	**35,993**	8,871
Adjustment for non-cash items:					
Depreciation and amortization		**4,696**	6,156	**11,010**	13,987
Stock-based compensation expense	10	**2,514**	2,216	**8,069**	4,818
Deferred income taxes		**3,037**	248	**(1,973)**	(797)
Net monetary loss (gain)		**260**	142	**308**	(58)
Unrealized foreign exchange (gain) loss and other		**(1,257)**	1,020	**(461)**	1,571
Funds flow from operations		**27,242**	14,662	**52,946**	28,392
Movements in non-cash working capital items:					
(Increase) in trade and other receivables		**(3,959)**	(5,277)	**(14,150)**	(11,904)
Decrease in prepaid expenses		**180**	374	**743**	408
Increase (decrease) in income taxes payable/recoverable	11	**1,091**	(1,257)	**23,810**	2,828
Increase (decrease) in trade payables, accruals and stock-based compensation liability		**6,805**	1,274	**1,096**	3,923
(Increase) in inventory	5	**(2,434)**	—	**(2,434)**	—
Effects of exchange rate changes		**303**	149	**293**	(279)
Cash generated from operating activities		**29,228**	9,925	**62,304**	23,368
Income tax paid		**(3,549)**	(84)	**(8,575)**	(2,442)
Net cash from operating activities		**25,679**	9,841	**53,729**	20,926
Cash flows from (used in) financing activities					
Proceeds from exercise of stock options	9	**299**	—	**1,370**	**—**
Payment of dividends	9	**(6,580)**	(4,164)	**(13,150)**	(8,322)
Repurchase and cancellation of shares under NCIB	9	**(1,498)**	(2,991)	**(2,862)**	(2,991)
Repayment of lease liability		**(644)**	(465)	**(1,152)**	(1,088)
Net cash used in financing activities		**(8,423)**	(7,620)	**(15,794)**	(12,401)
Cash flows (used in) from investing activities					
Equity investments	7	**—**	(12,127)	**—**	(12,127)
Additions to property, plant and equipment		**(6,595)**	(3,845)	**(10,925)**	(5,509)
Development costs, net of ITCs		**(132)**	(461)	**(266)**	(860)
Proceeds on disposal of property, plant and equipment		**189**	191	**341**	343
Changes in non-cash working capital		**(6)**	(42)	**(162)**	(40)
Net cash used in investing activities		**(6,544)**	(16,284)	**(11,012)**	(18,193)
Effect of exchange rate on cash and cash equivalents		**4,181**	(2,331)	**1,744**	(4,581)
Net increase in cash and cash equivalents		**14,893**	(16,394)	**28,667**	(14,249)
Cash and cash equivalents, beginning		**172,057**	151,427	**158,283**	149,282
Cash and cash equivalents, ending	4	**186,950**	135,033	**186,950**	135,033

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

Notes to Condensed Consolidated Interim Financial Statements

(CDN 000s, except per share data)

1. Description of Business

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

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

2. Basis of Preparation

Statement of compliance

These unaudited Condensed Consolidated Interim Financial Statements have been prepared in accordance with the requirements of International Accounting Standard ("IAS") 34, Interim Financial Reporting and include the accounts of Pason and its wholly owned subsidiaries. All significant intercompany balances and transactions including revenue and expenses have been eliminated. These unaudited Condensed Consolidated Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2021.

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.

Inventory

During the second quarter of 2022, a change to the Company's operational strategy saw increased purchases of consumable inventory and resulted in the inclusion of consumable supplies and components as part of Inventory within these Condensed Consolidated Interim Financial Statements.

In accordance with *IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors,* the application of the Company's inventory policy to new transactions is treated prospectively with no comparative period adjustments.

3. Changes in Accounting Standards

Adoption of new standard January 1, 2022:

IAS 37, Provisions, Contingent Liabilities and Contingent Assets

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. The impact to the Company has been deemed immaterial.

4. Cash and Cash Equivalents

As at	As at June 30, 2022	December 31, 2021
	($)	($)
Cash	**124,666**	120,714
Cash equivalents	**62,284**	37,569
Cash and cash equivalents	**186,950**	158,283

Cash equivalents are made up of cash invested in money market funds with interest rates of approximately 0.80% and maturities ranging from 1–90 days.

5. Inventory

Inventory is comprised of products and components which will be consumed through the Company’s field service presence or through equipment repairs. Inventories are measured at the lower of cost and net realizable value. The cost of inventories is determined on a standard cost basis and includes expenditures incurred in acquiring the inventories, and other costs incurred in bringing them to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

6. Seasonality

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

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

7. Investments

Investments are comprised of the Company's investments in Intelligent Wellhead Systems Inc. ("IWS") and 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. The Company's initial minority investment 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 third quarter of 2020, the second was exercised during the second quarter of 2021, and the third during the fourth quarter of 2021 to fund IWS' recent growth.

Total cash outflow associated with the Company's minority investment in IWS during the second quarter of 2022 was $nil (second quarter of 2021 - $12,127).

8. Obligation Under Put Option

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

9. Share Capital

Common shares

	Six Months Ended June 30, 2022		Year Ended December 31, 2021	
	($)	**(#)**	($)	(#)
Balance, beginning	**162,567**	**82,194,051**	164,568	83,088,941
Shares repurchased and cancelled under NCIB	**(411)**	**(206,900)**	(1,804)	(910,979)
Exercise of stock options	**1,601**	**142,874**	146	16,089
Liability for automatic share purchase plan ("APP") commitment pursuant to NCIB	**(137)**	**—**	(343)	—
Reversal of prior period liability for APP commitment pursuant to NCIB	**343**	**—**	—	—
Balance, ending	**163,963**	**82,130,025**	162,567	82,194,051

At June 30, 2022, the Company was authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

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

Common share dividends

For the three month period ended June 30, 2022, the Company declared and paid dividends of $6,580 (second quarter of 2021: $4,164) or $0.08 per common share (second quarter of 2021: $0.05).

For the six month period ended June 30, 2022, the Company declared and paid dividends of $13,150 (second quarter of 2021: $8,322) or $0.16 per common share (second quarter of 2021: $0.10).

Normal Course Issuer Bid ("NCIB")

In 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 June 30, 2022, the Company repurchased 93,000 (second quarter of 2021 - 313,900) shares for cancellation for total cash consideration of $1,498 (second quarter of 2021 - $2,991).

For the six month period ended June 30, 2022, the Company repurchased 206,900 (2021 - 313,900) shares for cancellation for total cash consideration of $2,862 (2021 - $2,991). The total consideration is allocated between share capital and retained earnings.

10. Stock-Based Compensation

Stock option plan

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

	Six Months Ended June 30, 2022		Twelve Months Ended December 31, 2021	
	Share Options	**Weighted Average Exercise Price**	Share Options	Weighted Average Exercise Price
	(#)	**($)**	(#)	($)
Outstanding, beginning	**3,324,759**	**14.67**	4,277,601	15.96
Granted	**—**	**—**	599,373	10.63
Exercised	**(142,874)**	**9.58**	(16,089)	7.33
Expired or forfeited	**(197,581)**	**18.00**	(1,536,126)	17.34
Outstanding, ending	**2,984,304**	**14.85**	3,324,759	14.67
Exercisable, ending	**1,888,151**	**17.75**	2,147,030	17.28
Available for grant, ending	**2,764,798**		2,428,825	

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:

	Six Months Ended June 30, 2022	Twelve Months Ended December 31, 2021
	(#)	(#)
RSUs, beginning	**1,144,628**	1,111,190
Granted	**—**	535,113
Vested and paid	**(1,500)**	(411,915)
Forfeited	**(74,281)**	(89,760)
RSUs, ending	**1,068,847**	1,144,628

Deferred share units plan

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

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

	Six Months Ended June 30, 2022	Twelve Months Ended December 31, 2021
	(#)	(#)
DSUs, beginning	**264,231**	252,363
Credited	**55,065**	81,498
Redeemed and paid	**—**	(69,630)
DSUs, ending	**319,296**	264,231

Performance share units plan

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

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

	Six Months Ended June 30, 2022	Twelve Months Ended December 31, 2021
	(#)	(#)
PSUs, beginning	**2,385,124**	2,332,028
Granted	—	995,943
Vested and paid	—	(942,847)
PSUs, ending	**2,385,124**	2,385,124

Stock-based compensation expense and liability

For the three month period ended June 30, 2022, the Company recorded $2,514 of stock-based compensation expense for its equity and cash settled plans (second quarter of 2021: $2,216). For the six month period ended June 30, 2022, the company recorded $8,069 of stock-based compensation expense for its equity and cash settled plans (2021: $4,818). As at June 30, 2022, the Company held $7,501 in current stock-based compensation liability and $9,650 in non-current stock-based compensation liability for its cash settled plans (as at December 31, 2021: $2,647 and $6,821, respectively).

11. Income Taxes

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, which represented a corresponding amount owing from the IRS. During the three months ended March 31, 2022, the Company received final settlement on all principal amounts owing from the IRS in relation to the APA, in the amount of $12.5 million.

12. Operating Segments

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

Three Months Ended June 30, 2022	North America	International	Solar and Energy Storage	Total
	($)	($)	($)	($)
Revenue				
Drilling Data	32,660	7,357	—	40,017
Mud Management and Safety	18,068	2,597	—	20,665
Communications	3,457	502	—	3,959
Drilling Intelligence	4,107	353	—	4,460
Analytics and Other	1,345	1,502	1,660	4,507
Total Revenue	59,637	12,311	1,660	73,608
Rental services and local administration	20,507	6,244	2,431	29,182
Depreciation and amortization	4,001	690	5	4,696
Segment gross profit (loss)	35,129	5,377	(776)	39,730
Research and development				9,294
Corporate services				3,951
Stock-based compensation				2,514
Other income				(1,210)
Income tax provision				7,189
Net income				17,992
Net income attributable to Pason				18,540
Capital expenditures	6,942	209	—	7,151
As at June 30, 2022				
Property plant and equipment	72,005	8,894	857	81,756
Intangible assets	4,095	—	2,374	6,469
Goodwill	7,353	2,600	21,860	31,813
Segment assets	325,250	57,222	27,837	410,309
Segment liabilities	66,305	5,050	7,611	78,966

Three Months Ended June 30, 2021	North America	International	Solar and Energy Storage	Total
	($)	($)	($)	($)
Revenue				
Drilling Data	18,957	4,742	—	23,699
Mud Management and Safety	10,428	1,724	—	12,152
Communications	1,939	355	—	2,294
Drilling Intelligence	2,342	247	—	2,589
Analytics and Other	1,262	741	856	2,859
Total Revenue	34,928	7,809	856	43,593
Rental services and local administration	14,036	4,512	1,303	19,851
Depreciation and amortization	5,640	511	5	6,156
Segment gross profit (loss)	15,252	2,786	(452)	17,586
Research and development				7,849
Corporate services				2,913
Stock-based compensation				2,216
Other income				(2,274)
Income tax provision				2,002
Net income				4,880
Net income attributable to Pason				5,307
Capital expenditures	3,952	568	—	4,520
As at June 30, 2021				
Property plant and equipment	77,787	9,779	95	87,661
Intangible assets	6,413	—	3,312	9,725
Goodwill	8,332	2,600	21,026	31,958
Segment assets	279,112	49,732	25,212	354,106
Segment liabilities	51,208	5,346	1,468	58,022

Six Months Ended June 30, 2022	North America	International	Solar and Energy Storage	Total
	($)	($)	($)	($)
Revenue				
Drilling Data	**65,686**	**13,944**	**—**	**79,630**
Mud Management and Safety	**35,945**	**4,927**	**—**	**40,872**
Communications	**7,458**	**981**	**—**	**8,439**
Drilling Intelligence	**9,802**	**660**	**—**	**10,462**
Analytics and Other	**2,746**	**2,490**	**3,437**	**8,673**
Total Revenue	**121,637**	**23,002**	**3,437**	**148,076**
Rental services and local administration	**40,818**	**11,907**	**4,747**	**57,472**
Depreciation and amortization	**9,850**	**1,150**	**10**	**11,010**
Segment gross profit (loss)	**70,969**	**9,945**	**(1,320)**	**79,594**
Research and development				**18,138**
Corporate services				**7,439**
Stock-based compensation				**8,069**
Other income				**(2,563)**
Income tax provision				**12,518**
Net income				**35,993**
Net income attributable to Pason				**37,113**
Capital expenditures	**10,699**	**916**	**—**	**11,615**

Six Months Ended June 30, 2021	North America	International	Solar and Energy Storage	Total
	($)	($)	($)	($)
Revenue				
Drilling Data	37,341	9,091	—	46,432
Mud Management and Safety	20,424	3,239	—	23,663
Communications	4,188	621	—	4,809
Drilling Intelligence	5,151	455	—	5,606
Analytics and Other	2,403	1,467	1,768	5,638
Total Revenue	69,507	14,873	1,768	86,148
Rental services and local administration	27,956	8,152	2,651	38,759
Depreciation and amortization	12,630	1,347	10	13,987
Segment gross profit (loss)	28,921	5,374	(893)	33,402
Research and development				14,965
Corporate services				5,945
Stock-based compensation				4,818
Other income				(4,456)
Income tax provision				3,259
Net income				8,871
Net income attributable to Pason				9,622
Capital expenditures	5,801	568	—	6,369

13. Other Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2022	2021	**2022**	2021
	($)	($)	**($)**	($)
Foreign exchange (gain) loss	**(1,054)**	725	**(651)**	1,173
Net interest income	**(718)**	(270)	**(1,231)**	(278)
Government wage assistance	**—**	(2,966)	**—**	(5,890)
Equity loss	**220**	194	**692**	523
Net monetary loss (gain)	**268**	(11)	**67**	(60)
Other expenses (income)	**74**	54	**(1,440)**	76
Total other income	**(1,210)**	(2,274)	**(2,563)**	(4,456)

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

The Company did not recognize any government wage assistance in 2022 as the program was terminated in October 2021. During the three and six months ended June 30, 2021, Pason participated in the Canada Emergency Wage Subsidy ("CEWS") program.

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

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

Other (income) expenses for the six months ended June 30, 2022 is primarily comprised of proceeds received on a bankruptcy settlement of a former lessee.

14. 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 June 30,		Six Months Ended June 30,	
	2022	2021	**2022**	2021
	(#)	(#)	**(#)**	(#)
Issued common shares outstanding, beginning	**82,195,141**	83,088,941	**82,194,051**	83,088,941
Effect of NCIB and exercised options	**(34,840)**	(78,475)	**(49,843)**	(44,843)
Weighted average number of common shares (basic)	**82,160,301**	83,010,466	**82,144,208**	83,044,098

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 June 30,		Six Months Ended June 30,	
	2022	2021	**2022**	2021
	(#)	(#)	**(#)**	(#)
Weighted average number of common shares (basic)	**82,160,301**	83,010,466	**82,144,208**	83,044,098
Effect of share options	**824,271**	123,554	**740,875**	121,132
Weighted average number of common shares (diluted)	**82,984,572**	83,134,020	**82,885,083**	83,165,230

For the periods ended June 30, 2022, 1,520,053 (2021 - 2,827,695) 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.

15. Approval of Financial Statements

These unaudited Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on August 10, 2022.

16. Events After the Reporting Period

On August 10, 2022, the Company declared a quarterly dividend of $0.08 per share on the Company's common shares. The dividend will be paid on September 29, 2022, to shareholders of record at the close of business on September 15, 2022.

Corporate Information

Directors

Marcel Kessler
Chairman of the Board
GrafTech International Ltd.
Cochrane, 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) 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.

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Auditors

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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.