



MANAGEMENT'S DISCUSSION AND ANALYSIS



For the three and nine months ended September 30, 2022

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") has been prepared by management as of November 2, 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 nine months ended September 30, 2022, the Consolidated Financial Statements for the twelve months ended December 31, 2021 and 2020, accompanying notes, and Pason's Annual Information Form for the year ended December 31, 2021.

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

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

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

Company Profile

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

Through Pason's subsidiary, Energy Toolbase ("ETB"), the Company also provides products and services for the solar power and energy storage industry. ETB's solutions enable 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 September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
(CDN 000s, except per share data)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue	92,502	57,705	60	240,578	143,853	67
EBITDA ⁽¹⁾	50,659	24,870	104	117,018	55,527	111
Adjusted EBITDA ⁽¹⁾	46,231	22,356	107	110,566	48,312	129
As a % of revenue	50.0	38.7	1,130 bps	46.0	33.6	1,240 bps
Funds flow from operations	35,968	19,983	80	88,914	48,375	84
Per share – basic	0.44	0.24	82	1.08	0.59	85
Per share – diluted	0.43	0.24	82	1.07	0.59	85
Cash from operating activities	30,743	17,074	80	84,472	38,000	122
Capital expenditures ⁽²⁾	6,915	1,205	474	18,106	7,574	139
Free cash flow ⁽¹⁾	24,047	16,261	48	66,764	31,121	115
Cash dividends declared (per share)	0.08	0.05	60	0.24	0.15	60
Net income	33,739	12,775	164	69,732	21,646	222
Net income attributable to Pason	34,246	13,074	162	71,359	22,696	214
Per share – basic	0.42	0.16	163	0.87	0.27	222
Per share – diluted	0.41	0.16	163	0.86	0.27	222

(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	September 30, 2022	December 31, 2021	Change
(CDN 000s)	(\$)	(\$)	(%)
Cash and cash equivalents	206,027	158,283	30
Working capital	226,343	184,083	23
Total interest bearing debt	—	—	—
Shares outstanding end of period (#)	81,758,607	82,194,051	(1)

Pason's financial results for the three and nine months ended September 30, 2022, reflect improved industry conditions, increasing demand for the Company's products and technologies, strong competitive positioning and operating leverage. Financial results have improved significantly compared to the comparative periods in 2021.

Pason generated \$92.5 million in revenue in the third quarter of 2022, representing a 60% increase from the \$57.7 million generated in the comparative period of 2021, as drilling activity remained strong across Pason's operating regions. Revenue per Industry Day in the North American business unit was \$871 in Q3 2022, which represented a new quarterly record level for the Company and an increase of 14% from the comparative period in 2021. With this increase in revenue, Pason generated \$46.2 million in Adjusted EBITDA, or 50.0% of revenue in the third quarter of 2022, compared to \$22.4 million in the third quarter of 2021, or 38.7% of revenue. While Pason continues to make investments in people and technology to support increased activity levels, third quarter results demonstrate the Company's strong operating leverage through improved industry conditions. Third quarter 2022 results also benefited from a stronger US dollar relative to the Company's Canadian dollar reporting currency.

Pason's balance sheet remains strong, with no interest bearing debt and \$206.0 million in cash and cash equivalents as at September 30, 2022, compared to \$158.3 million at December 31, 2021. During the third quarter of 2022, Pason generated \$36.0 million in funds flow from operations, an 80% increase from the \$20.0 million generated in the third quarter of 2021 and a reflection of improved operating results. Similarly, cash generated from operating activities increased by 80% year over year with \$30.7 million generated during the three months ended September 30, 2022.

During the third quarter of 2022, Pason incurred \$6.9 million of capital expenditures, representing net additions to rental equipment to meet activity levels, investments associated with the ongoing refresh of the Company's fleet and technology platform, and also an element of catch up from lower capital expenditure levels throughout 2020 and 2021. Resulting Free Cash Flow generated in Q3 2022 was \$24.0 million compared to \$16.3 million generated in the third quarter of 2021.

The Company recorded net income attributable to Pason of \$34.2 million (\$0.42 per share) in the third quarter of 2022, a significant increase compared to net income attributable to Pason of \$13.1 million (\$0.16 per share) recorded in the corresponding period in 2021, due to the improving industry conditions outlined above.

President's Message

Pason delivered exceptional operational and financial results in the third quarter of 2022. Consolidated quarterly revenue of \$92.5 million represented the highest quarterly revenue since the first quarter of 2015, and quarterly Adjusted EBITDA of \$46.2 million was the highest since the fourth quarter of 2014.

North American rig counts in the quarter were similar to those in the first quarter of 2020, the last period prior to the onset of the COVID-19 pandemic, while revenue and Adjusted EBITDA were 25% and 39% higher, respectively, compared to the first quarter of 2020. Since bottoming during the most extreme depths of the pandemic in the third quarter of 2020, quarterly revenue has increased by \$69.4 million and we generated \$0.68 of Adjusted EBITDA from every additional dollar of revenue generated.

Our third quarter results speak to the continued strength of our competitive position and our leading technology and service offering. The 60% increase in consolidated revenue significantly outpaced a 49% increase in underlying North American land drilling activity. Adjusted EBITDA margins of 50% reflect both the significant operating leverage in our business and the effects of a strengthening US dollar.

Pason generated Revenue per Industry Day of \$871 in the third quarter, a new quarterly record for the Company and a 14% year-over-year increase from the third quarter of 2021. We maintain a leading market position, coupled with strong product adoption and improved pricing for the Company's products and technologies. Revenue per Industry Day also benefited from the strengthening US dollar in the quarter.

Our International Business Unit posted a 52% year-over-year increase in revenue to \$15.8 million and generated \$7.8 million in segment gross profit. Our Solar and Energy Storage segment recorded \$1.4 million in revenue, up 23% compared to the third quarter of 2021. Sequentially, revenue for this segment decreased due to the timing of the commissioning of control system projects and associated revenue recognition, while subscription revenue for our economic modeling software increased in the quarter.

Free cash flow for the third quarter totaled \$24.0 million, up 48% from the same quarter of 2021. 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 third quarter, we had \$206.0 million in cash and cash equivalents and \$226.3 million of positive working capital.

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 while navigating the ongoing challenges of supply chain uncertainties. 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 and share repurchases.

In the third quarter, we recorded \$6.9 million in capital expenditures, bringing our total capital expenditures for the first nine months of the year to \$18.1 million. We continue to expect 2022 capital expenditures to total approximately \$30 million, which would imply significantly higher sequential capital expenditures in the fourth quarter provided expected equipment delivery timelines are met. Customer demands and requirements for data continue to increase and evolve in order to enable their automation and analytics technology initiatives. We see opportunities to renew and extend the capabilities of important parts of our hosting platform to maintain our leading market position and reinforce the foundation for future product

development and continued revenue growth. As such, we currently expect to spend approximately \$45 million in capital expenditures in 2023 and anticipate capital expenditures to remain at this level for a couple of years before beginning to trend lower. While this level of capital expenditures is higher than we have incurred since 2015, as a rental business we have redeployed idled assets through a series of industry downturns. Further, over the past two years, maintenance capital spending on operational equipment such as trucks has been delayed by acute supply chain shortages. Our capital intensity remains lower than the Company's historical annual capital expenditures.

When we took the extraordinary measure of significantly reducing our dividend in the third quarter of 2020, we communicated our intention to establish a more flexible approach to capital allocation. This included establishing the regular dividend at a lower percentage of free cash flow than prior to the pandemic and an increased use of share repurchases to return capital to shareholders. We continue to favour flexibility in our capital allocation. As we consider the impressive free cash flow generation capabilities of our business, we are able to meaningfully increase the fixed amount of returns to shareholders through the regular dividend while preserving our ability to adjust total shareholder returns over time through share repurchases. As a result, we are increasing our regular quarterly dividend from \$0.08 per share to \$0.12 per share. At our current share count, the proforma aggregate annual dividends of \$39.2 million compares to free cash flow of \$90.8 million over the trailing twelve month period. While the board will continue to regularly consider the appropriate level of regular dividend payments, following this increase, we expect potential future increases to the regular dividend to be more modest over time. In the third quarter, we also returned \$5.1 million to shareholders through share repurchases.

As we look ahead to the end of this year and into 2023, macroeconomic conditions continue to become challenging, with central banks moving more aggressively to address high prevailing levels of inflation by significantly raising interest rates. There are growing concerns around economic recession and questions around the potential impact on global oil demand. At the same time, the world is wrestling with a global energy crisis with significant shortages and elevated prices in many countries, with concerns becoming more heightened as cold winter weather approaches in the Northern Hemisphere. Geopolitical instability has placed an increased focus and attention on where commodities are sourced. WTI oil prices have retreated to approximately US\$85 per barrel. We expect that these factors will continue to result in volatility in the financial trading in oil commodities in the near-term, however, supply and demand fundamentals for the physical commodity remain constructive.

US storage of crude oil and petroleum products, including the Strategic Petroleum Reserve ("SPR"), are at levels last seen in 2005. US land production remains approximately 8% below pre-pandemic levels. The inventory of drilled but uncompleted wells ("DUCs") in the US has decreased for 27 consecutive months, though 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 continuing global demand for oil will require new drilling. As a result, we continue to expect land drilling activity to steadily grow over the coming quarters, albeit at a more modest pace than witnessed over the past two years, owing in part to the potential demand impacts from economic recession, as well as continued challenges around labour availability and tightening availability of high spec rigs.

Pason is well equipped to provide the 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
November 2, 2022

Discussion of Operations

Overall Performance

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	49,814	30,504	63	129,444	76,936	68
Mud Management and Safety	25,805	14,959	73	66,677	38,622	73
Communications	5,644	3,495	61	14,083	8,304	70
Drilling Intelligence	6,791	4,348	56	17,253	9,954	73
Analytics and Other	4,448	4,399	1	13,121	10,037	31
Total revenue	92,502	57,705	60	240,578	143,853	67
Operating expenses						
Rental services	29,135	19,962	46	80,582	53,624	50
Local administration	3,215	2,765	16	9,240	7,862	18
Depreciation and amortization	4,433	5,530	(20)	15,443	19,517	(21)
	36,783	28,257	30	105,265	81,003	30
Gross profit	55,719	29,448	89	135,313	62,850	115
Other expenses						
Research and development	9,879	8,951	10	28,017	23,916	17
Corporate services	3,911	3,856	1	11,350	9,801	16
Stock-based compensation expense	2,032	1,611	26	10,101	6,429	57
Other income	(5,324)	(2,984)	78	(7,887)	(7,440)	6
	10,498	11,434	(8)	41,581	32,706	27
Income before income taxes	45,221	18,014	151	93,732	30,144	211
Income tax provision	11,482	5,239	119	24,000	8,498	182
Net income	33,739	12,775	164	69,732	21,646	222
Adjusted EBITDA ⁽¹⁾	46,231	22,356	107	110,566	48,312	129

(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 September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	40,418	24,629	64	106,104	61,970	71
Mud Management and Safety	22,467	12,848	75	58,412	33,272	76
Communications	4,776	3,059	56	12,234	7,247	69
Drilling Intelligence	6,265	4,061	54	16,067	9,212	74
Analytics and Other	1,319	1,509	(13)	4,065	3,912	4
Total revenue	75,245	46,106	63	196,882	115,613	70
Rental services and local administration	22,422	16,504	36	63,240	44,460	42
Depreciation and amortization	3,867	4,763	(19)	13,717	17,393	(21)
Segment gross profit	48,956	24,839	97	119,925	53,760	123
	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue per Industry Day	871	765	14	837	740	13

Industry conditions in North America continued to improve in the third quarter of 2022, with a 49% increase in industry activity compared to the comparative period in 2021. Further, Pason's Revenue per Industry Day in the third quarter of 2022 of \$871 was a new quarterly record level for the Company and a 14% increase from the comparative 2021 period. Revenue per Industry Day in the current quarter benefited from the strengthening US dollar relative to the Canadian dollar, and also represents strong product adoption and improved pricing for the Company's products and technologies. As a result, for the fifth consecutive quarter, the North American business unit outpaced the improvement in industry activity, generating \$75.2 million of revenue in the third quarter of 2022, a 63% increase from \$46.1 million in the comparative period 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 36% in the third 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. Inflationary effects also impacted rental services in the third quarter of 2022 on certain field related expenses, such as the cost of fuel and supplies.

Depreciation and amortization decreased by 19% in the third quarter of 2022 over the 2021 comparative period. The year over year decrease is primarily due to lower capital expenditures throughout 2020 and 2021 and certain assets becoming fully depreciated in 2022. Further, depreciation and amortization expense is partially offset by gains on disposal of assets in the normal course of business.

Segment gross profit was \$49.0 million during the third quarter of 2022 compared to \$24.8 million in the comparative period of 2021, representing a significant increase due to the aforementioned factors.

On a year to date basis, revenue of \$196.9 million and segment gross profit of \$119.9 million represent significant improvements from the prior year's comparative results and reflect the growing activity environment seen in 2022 coupled with strong operating leverage.

International Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	9,396	5,875	60	23,340	14,966	56
Mud Management and Safety	3,338	2,111	58	8,265	5,350	54
Communications	868	436	99	1,849	1,057	75
Drilling Intelligence	526	287	83	1,186	742	60
Analytics and Other	1,701	1,725	(1)	4,191	3,192	31
Total revenue	15,829	10,434	52	38,831	25,307	53
Rental services and local administration	7,497	4,703	59	19,404	12,855	51
Depreciation and amortization	561	762	(26)	1,711	2,109	(19)
Segment gross profit	7,771	4,969	56	17,716	10,343	71

The International business unit generated \$15.8 million of revenue in the third quarter of 2022 compared to \$10.4 million in the comparative period of 2021. The year over year increase of 52% 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, a number of International business unit revenue contracts contain pricing linked to the US dollar, and therefore third quarter 2022 revenue benefited from the strengthening US Dollar.

In the third 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 (Q3 2021: \$0.6 million). This amount is recorded within Analytics and Other in the table above.

Rental services and local administration expense was \$7.5 million in the third quarter of 2022, an increase of 59% compared to \$4.7 million in the comparative period of 2021. As activity levels improve, the International business unit incurs 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 third quarter of 2022.

Depreciation and amortization decreased by 26% in the third quarter of 2022 over the 2021 comparative period. The decrease is primarily due to the impact of assets becoming fully depreciated.

For the three months ended September 30, 2022, the resulting segment gross profit was \$7.8 million during the third quarter of 2022 compared to \$5.0 million in the 2021 comparative period due to the factors outlined above.

On a year to date basis, revenue of \$38.8 million and segment gross profit of \$17.7 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 September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Analytics and Other	1,428	1,165	23	4,865	2,933	66
Total revenue	1,428	1,165	23	4,865	2,933	66
Operating expenses and local administration⁽¹⁾	2,431	1,520	60	7,178	4,171	72
Depreciation and amortization	5	5	—	15	15	—
Segment gross loss	(1,008)	(360)	180	(2,328)	(1,253)	86

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

The Solar and Energy Storage business unit generated \$1.4 million in revenue, an increase of 23% from the comparative period in 2021. The increase in revenue is primarily due to increased sales of the Company's subscription based software licenses and the strengthening US dollar relative to the Canadian dollar. Quarterly revenue for the Solar and Energy Storage business unit will fluctuate with the timing of the commissioning of control system projects.

Operating expenses and local administration were \$2.4 million during the third quarter of 2022, a 60% increase from \$1.5 million during the comparable period. The increase is primarily due to hardware costs associated with control systems, along with ongoing investments in sales and marketing efforts. Segment gross loss was \$1.0 million for the third quarter of 2022 compared to a segment gross loss of \$0.4 million in the comparable period in 2021.

Year to date, revenue generated by the segment totaled \$4.9 million, a 66% increase over the comparative period in 2021, demonstrating increased control system sales. Segment gross loss increased from \$1.3 million during the nine months ended September 30, 2021, to \$2.3 million in the 2022 comparative period as the business unit continues to invest 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 September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Research and development	1,333	1,093	22	3,953	3,306	20

Corporate Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Research and development	9,879	8,951	10	28,017	23,916	17
Corporate services	3,911	3,856	1	11,350	9,801	16
Stock-based compensation	2,032	1,611	26	10,101	6,429	57
Total corporate expenses	15,822	14,418	10	49,468	40,146	23

Third quarter research and development and corporate service expenses increased 10% and 1%, 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 recognition of performance based elements of the Company's compensation plan.

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 September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Foreign exchange (gain) loss	(3,332)	(204)	1,533	(3,983)	969	nmf
Net interest income	(1,027)	(285)	260	(2,258)	(563)	301
Net monetary (gain)	(1,380)	(190)	626	(1,313)	(250)	425
Equity loss (gain)	131	(185)	nmf	823	338	143
Government wage assistance	—	(2,190)	nmf	—	(8,080)	nmf
Other expenses (income)	284	70	306	(1,156)	146	nmf
Total other income	(5,324)	(2,984)	78	(7,887)	(7,440)	6

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 nine month periods reflects the increasing interest rate environment along with higher levels of cash invested.

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

Equity loss (gain) 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.

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

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

Income Tax Provision

During the third quarter of 2022, the Company recorded an income tax expense of \$11.5 million, compared to an income tax expense of \$5.2 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	Sep 30, 2020	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022
(000s, except per share data)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue	23,068	32,758	42,555	43,593	57,705	62,833	74,468	73,608	92,502
EBITDA ⁽¹⁾	2,348	8,300	15,673	14,984	24,870	26,874	34,686	31,673	50,659
Adjusted EBITDA ⁽¹⁾	(1,118)	8,201	13,170	12,786	22,356	24,208	33,373	30,962	46,231
As a % of revenue	nmf	25.0	30.9	29.3	38.7	38.5	44.8	42.1	50.0
Funds flow from operations	4,765	8,939	13,730	14,662	19,983	19,353	25,704	27,242	35,968
Per share – basic	0.06	0.11	0.17	0.18	0.24	0.23	0.31	0.33	0.44
Per share – diluted	0.06	0.11	0.17	0.18	0.24	0.23	0.31	0.33	0.43
Cash from operating activities	5,754	(2,717)	11,085	9,841	17,074	27,061	28,050	25,679	30,743
Free cash flow ⁽¹⁾	4,141	(3,100)	9,176	5,684	16,261	23,990	23,582	19,135	24,047
Net income (loss)	(3,957)	(2,662)	3,991	4,880	12,775	10,279	18,001	17,992	33,739
Net income (loss) attributable to Pason	(3,698)	(2,166)	4,315	5,307	13,074	11,149	18,573	18,540	34,246
Per share – basic	(0.04)	(0.03)	0.05	0.06	0.16	0.14	0.23	0.23	0.42
Per share – diluted	(0.04)	(0.03)	0.05	0.06	0.16	0.14	0.23	0.22	0.41

(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.

Q3 2022 vs Q2 2022

Following the start of improving industry conditions seen in late 2020, North American and International rig counts have steadily improved. Canadian drilling activity resumed from the spring break-up lows seen in the second quarter, and Pason also saw continued activity level growth in other end markets. Consolidated revenue was \$92.5 million in the third quarter of 2022, a 26% increase compared to consolidated revenue of \$73.6 million in the second quarter of 2022.

Revenue in the North American business unit was \$75.2 million in the third quarter of 2022 compared to revenue of \$59.6 million in the second quarter of 2022. The increase in revenue was a result of sequential growth in US and Canadian industry activity, along with improvements in Revenue per Industry Day. The sequential increase in Revenue per Industry benefited from regional mix of drilling activity, improved pricing conditions, and a strengthening US dollar relative to the Canadian dollar.

The International business unit reported revenue of \$15.8 million in the third quarter of 2022, a 28% increase compared to \$12.3 million in the second quarter of 2022. The increase in revenue was attributable to improved industry activity in Pason's international markets, and further reflects the impacts of hyperinflationary accounting for the Company's Argentinian subsidiary.

The Company's gross profit was \$55.7 million in the third quarter of 2022 compared to gross profit of \$39.7 million in the second quarter of 2022. Similarly, Adjusted EBITDA was \$46.2 million in the third quarter of 2022, a 49% increase from \$31.0 million in the second quarter of 2022. Sequential gross profit and Adjusted EBITDA increases reflect the Company's primarily fixed cost structure and strong operating leverage.

Cash from operating activities was \$30.7 million in the third quarter of 2022, compared to \$25.7 million in the second quarter of 2022, for which the increase is primarily driven by the improvement in Adjusted EBITDA sequentially, slightly offset by investments made in working capital and additional tax installments paid.

The Company recorded net income attributable to Pason in the third quarter of 2022 of \$34.2 million (\$0.42 per share) compared to net income attributable to Pason of \$18.5 million (\$0.23 per share) in the second quarter of 2022. The increase in net income attributable to Pason year over year is driven by the improvement in operating results as described above.

Liquidity and Capital Resources

As at	September 30, 2022	December 31, 2021	Change
(000s)	(\$)	(\$)	(%)
Cash and cash equivalents	206,027	158,283	30
Working capital	226,343	184,083	23
Total assets	463,411	379,941	22
Total interest bearing debt	—	—	—

Pason's balance sheet remains strong with no interest bearing debt and as at September 30, 2022, \$206.0 million in cash and cash equivalents, and \$226.3 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's cash balance as at September 30, 2022 was impacted by the strengthening US dollar relative to the Canadian dollar.

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

Cash Flow Statement Summary

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2022	2021	Change	2022	2021	Change
(000s)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Funds flow from operations	35,968	19,983	80	88,914	48,375	84
Cash from operating activities	30,743	17,074	80	84,472	38,000	122
Cash used in financing activities	(12,029)	(7,758)	55	(27,823)	(20,159)	38
Cash used in investing activities	(6,696)	(813)	724	(17,708)	(19,006)	(7)
Net capital expenditures ⁽¹⁾	6,696	813	724	17,708	6,879	157
As a % of funds flow ⁽²⁾	18.6 %	4.1 %	1,450 bps	19.9 %	14.2 %	570 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

Funds flow from operations increased significantly in the third 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. Similarly, cash generated from operating activities increased from \$17.1 million in the third quarter of 2021 to \$30.7 million in the third quarter of 2022, representing an increase of 80%.

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 third quarter of 2022, Pason invested \$3.1 million in additional inventory levels. This initiative is expected to continue in the coming quarters. Pason will continue to manage required working capital investments with increasing revenue levels.

Cash used in financing activities

Cash used in financing activities was \$12.0 million during the third quarter of 2022, compared to \$7.8 million during the comparative quarter of 2021.

Dividend

During the three month period ended September 30, 2022, the Company paid dividends to holders of common shares totaling \$6.6 million, or \$0.08 per share, compared to \$4.1 million, or \$0.05 per share in the comparative quarter of 2021.

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 November 2, 2022, the Company declared a further increase to its quarterly dividend to \$0.12 per share on the Company's common shares. The dividend will be paid on December 30, 2022, to shareholders of record at the close of business on December 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 September 30, 2022, the Company repurchased 378,450 (Q3 2021 - 359,878) shares for cancellation for total cash consideration of \$5.1 million (Q3 2021 - \$3.0 million). The total consideration is allocated between share capital and retained earnings.

For the nine month period ended September 30, 2022, the Company repurchased 585,350 shares for cancellation for a total cash consideration of \$8.0 million. For the nine month period ended September 2021, the Company repurchased 673,779 common shares for cancellation for a total cash consideration of \$6.0 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 third quarter of 2022, Pason invested \$6.7 million in net capital expenditures, an increase from \$0.8 million in the third quarter of 2021. Capital expenditures in the current quarter reflect net additions to rental equipment to meet activity levels, investments associated with the ongoing refresh of the Company's fleet and technology platform, and also an element of catch up from lower capital expenditure levels throughout 2020 and 2021. Pason continues to make necessary capital investments in its equipment and technology in order to service the increasing demand for its products and technology.

Contractual Obligations

As at September 30, 2022	Less than 1 year	1–3 years	Thereafter	Total
(000s)	(\$)	(\$)	(\$)	(\$)
Leases and other operating contracts	10,682	4,270	1,730	16,682
Capital commitments	29,427	4,473	—	33,900
Total contractual obligations	40,109	8,743	1,730	50,582

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 September 30, 2022, there were 81,758,607 common shares and 2,977,272 options issued and outstanding. As at November 2, 2022, there were 81,612,707 common shares and 2,935,399 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 nine months ended September 30, 2022, are detailed as follows:

Impact on IFRS Measures

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(000s)	(\$)	(\$)	(\$)	(\$)
Increase in revenue	2,126	521	2,255	796
(Increase) in rental services and local administration expenses	(1,035)	(210)	(1,111)	(340)
(Increase) in depreciation expense	(225)	(307)	(395)	(678)
Increase (decrease) in segment gross profit	866	4	749	(222)
Net monetary gain (loss) presented in other expenses	1,380	(190)	1,313	(250)
(Increase) in other expenses	(462)	(40)	(496)	(67)
(Increase) in income tax provision	(380)	(120)	(394)	(176)
Increase (Decrease) in net income	1,404	(346)	1,172	(715)

Impact on Non-GAAP Measures

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
(000s)	(\$)	(\$)	(\$)	(\$)
Increase in revenue	2,126	521	2,255	796
(Increase) in rental services and local administration expenses	(1,035)	(210)	(1,111)	(340)
Net monetary gain (loss) presented in other expenses	1,380	(190)	1,313	(250)
Increase in other expenses	(462)	(40)	(496)	(67)
Increase in EBITDA	2,009	81	1,961	139
Elimination of net monetary gain presented in other expenses	(1,380)	190	(1,313)	250
Elimination of other expenses	462	40	496	67
Increase in Adjusted EBITDA	1,091	311	1,144	456

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	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Net (loss) income	(2,662)	3,991	4,880	12,775	10,279	18,001	17,992	33,739
Add:								
Income taxes	282	1,257	2,002	5,239	3,240	5,329	7,189	11,482
Depreciation and amortization	7,888	7,831	6,156	5,530	6,172	6,314	4,696	4,433
Stock-based compensation	2,818	2,602	2,216	1,611	5,094	5,555	2,514	2,032
Net interest income	(26)	(8)	(270)	(285)	2,089	(513)	(718)	(1,027)
EBITDA	8,300	15,673	14,984	24,870	26,874	34,686	31,673	50,659

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
EBITDA	8,300	15,673	14,984	24,870	26,874	34,686	31,673	50,659
Add:								
Foreign exchange loss (gain)	968	448	725	(204)	(2,980)	403	(1,054)	(3,332)
Government wage assistance	(2,244)	(2,924)	(2,966)	(2,190)	(128)	—	—	—
Put option revaluation	1,812	—	—	—	381	—	—	—
Net monetary (gain) loss	(594)	(49)	(11)	(190)	(246)	(202)	268	(1,380)
Other	(41)	22	54	70	307	(1,514)	75	284
Adjusted EBITDA	8,201	13,170	12,786	22,356	24,208	33,373	30,962	46,231

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	Dec 31, 2020	Mar 31, 2021	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022
(000s)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Cash from operating activities	(2,717)	11,085	9,841	17,074	27,061	28,050	25,679	30,743
Less:								
Net additions to property, plant and equipment	(66)	(1,510)	(3,696)	(1,258)	(2,803)	(4,334)	(6,412)	(6,590)
Deferred development costs	(317)	(399)	(461)	445	(268)	(134)	(132)	(106)
Free cash flow	(3,100)	9,176	5,684	16,261	23,990	23,582	19,135	24,047

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 nine months ended September 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 nine months ended September 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 nine months ended September 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 nine months ended September 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.

Throughout 2022, global drilling activity has shown continued signs of recovery. However, macroeconomic conditions have become challenging with ongoing conflict between Russia and Ukraine, and with central banks rapidly increasing benchmark interest rates to address high prevailing levels of inflation. These factors have contributed to growing concerns around economic recessions and the potential impact on global oil demand. Concurrently, the world is grappling with global energy shortages and elevated energy prices in many countries. All of these factors have contributed to significant volatility in commodity prices during 2022, and more recently, downward pressure.

While the global supply and demand fundamentals for drilling activity remain constructive, 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.

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*	September 30, 2022	December 31, 2021
(CDN 000s) (unaudited)		(\$)	(\$)
Assets			
Current			
Cash and cash equivalents	4	206,027	158,283
Trade and other receivables		77,669	49,453
Prepaid expenses		9,515	5,197
Inventory	2, 5	10,252	—
Income taxes recoverable	11	2,986	13,632
Total current assets		306,449	226,565
Non-current			
Property, plant and equipment		87,099	82,265
Investments	7	29,940	30,046
Intangible assets and goodwill		39,923	41,065
Total non-current assets		156,962	153,376
Total assets		463,411	379,941
Liabilities and equity			
Current			
Trade payables and accruals		46,426	31,475
Income taxes payable		10,974	6,568
Stock-based compensation liability	10	8,311	2,647
Lease liability		1,979	1,792
Obligation under put option	8	12,416	—
Total current liabilities		80,106	42,482
Non-current			
Deferred tax liabilities		4,184	5,836
Lease liability		4,005	5,537
Stock-based compensation liability	10	10,700	6,821
Obligation under put option	8	—	11,484
Total non-current liabilities		18,889	29,678
Equity			
Share capital	9	163,142	162,567
Share-based benefits reserve		35,155	34,383
Foreign currency translation reserve		62,370	50,298
Equity reserve		(8,375)	(8,375)
Retained earnings		117,402	72,602
Total equity attributable to equity holders of the Company		369,694	311,475
Non-controlling interest		(5,278)	(3,694)
Total equity		364,416	307,781
Total liabilities and equity		463,411	379,941

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

Condensed Consolidated Interim Statements of Operations

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note*	2022	2021	2022	2021
(CDN 000s, except per share data) (unaudited)		(\$)	(\$)	(\$)	(\$)
Revenue		92,502	57,705	240,578	143,853
Operating expenses					
Rental services		29,135	19,962	80,582	53,624
Local administration		3,215	2,765	9,240	7,862
Depreciation and amortization		4,433	5,530	15,443	19,517
		36,783	28,257	105,265	81,003
Gross profit		55,719	29,448	135,313	62,850
Other expenses					
Research and development		9,879	8,951	28,017	23,916
Corporate services		3,911	3,856	11,350	9,801
Stock-based compensation expense	10	2,032	1,611	10,101	6,429
Other income	13	(5,324)	(2,984)	(7,887)	(7,440)
		10,498	11,434	41,581	32,706
Income before income taxes		45,221	18,014	93,732	30,144
Income tax provision		11,482	5,239	24,000	8,498
Net income		33,739	12,775	69,732	21,646
Net income (loss) attributable to:					
Shareholders of Pason		34,246	13,074	71,359	22,696
Non-controlling interest		(507)	(299)	(1,627)	(1,050)
Net income		33,739	12,775	69,732	21,646
Income per share	14				
Basic		0.42	0.16	0.87	0.27
Diluted		0.41	0.16	0.86	0.27

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

Condensed Consolidated Interim Statements of Other Comprehensive Income

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note*	2022	2021	2022	2021
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
Net income		33,739	12,775	69,732	21,646
Items that may be reclassified subsequently to net income:					
Foreign currency translation adjustment		11,544	5,158	12,115	(2,164)
Other comprehensive income (loss)		11,544	5,158	12,115	(2,164)
Total comprehensive income		45,283	17,933	81,847	19,482
Total comprehensive income (loss) attributed to:					
Shareholders of Pason		45,769	18,230	83,431	20,533
Non-controlling interest		(486)	(297)	(1,584)	(1,051)
Total comprehensive income		45,283	17,933	81,847	19,482

*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 (loss)		—	—	—	—	22,696	22,696	(1,050)	21,646
Dividends		—	—	—	—	(12,443)	(12,443)	—	(12,443)
Other comprehensive (loss)		—	—	(2,163)	—	—	(2,163)	(1)	(2,164)
Expense related to stock options		—	907	—	—	—	907	—	907
Shares cancelled under NCIB	9	(1,334)	—	—	—	(4,627)	(5,961)	—	(5,961)
Balance at September 30, 2021		163,234	34,077	51,927	(8,375)	69,235	310,098	(2,830)	307,268
Net income (loss)		—	—	—	—	11,149	11,149	(870)	10,279
Dividends		—	—	—	—	(4,124)	(4,124)	—	(4,124)
Other comprehensive (loss) income		—	—	(1,629)	—	—	(1,629)	6	(1,623)
Expense related to stock options		—	306	—	—	—	306	—	306
Exercise of stock options		146	—	—	—	—	146	—	146
Liability for automatic share purchase plan commitment pursuant to NCIB	9	(343)	—	—	—	(1,657)	(2,000)	—	(2,000)
Shares cancelled under NCIB	9	(470)	—	—	—	(2,001)	(2,471)	—	(2,471)
Balance at December 31, 2021		162,567	34,383	50,298	(8,375)	72,602	311,475	(3,694)	307,781
Net income (loss)		—	—	—	—	71,359	71,359	(1,627)	69,732
Dividends		—	—	—	—	(19,708)	(19,708)	—	(19,708)
Other comprehensive income		—	—	12,072	—	—	12,072	43	12,115
Exercise of stock options		1,695	(240)	—	—	—	1,455	—	1,455
Expense related to stock options		—	1,012	—	—	—	1,012	—	1,012
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	(301)	—	—	—	(1,699)	(2,000)	—	(2,000)
Shares cancelled under NCIB	9	(1,162)	—	—	—	(6,809)	(7,971)	—	(7,971)
Balance at September 30, 2022		163,142	35,155	62,370	(8,375)	117,402	369,694	(5,278)	364,416

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

Condensed Consolidated Interim Statements of Cash Flows

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note*	2022	2021	2022	2021
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
Cash from (used in) operating activities					
Net income		33,739	12,775	69,732	21,646
Adjustment for non-cash items:					
Depreciation and amortization		4,433	5,530	15,443	19,517
Stock-based compensation expense	10	2,032	1,611	10,101	6,429
Deferred income taxes		546	958	(1,427)	161
Net monetary (gain)		(2,371)	(530)	(2,063)	(588)
Unrealized foreign exchange (gain) loss and other		(2,411)	(361)	(2,872)	1,210
Funds flow from operations		35,968	19,983	88,914	48,375
Movements in non-cash working capital items:					
(Increase) in trade and other receivables		(14,066)	(8,940)	(28,216)	(20,844)
(Increase) in prepaid expenses		(5,061)	(1,698)	(4,318)	(1,290)
Increase in income taxes payable / recoverable	11	9,211	3,122	33,021	5,950
Increase in trade payables, accruals and stock-based compensation liability		14,082	8,548	15,178	12,471
(Increase) in inventory	5	(3,099)	—	(5,533)	—
Effects of exchange rate changes		3,102	591	3,395	312
Cash generated from operating activities		40,137	21,606	102,441	44,974
Income tax paid		(9,394)	(4,532)	(17,969)	(6,974)
Net cash from operating activities		30,743	17,074	84,472	38,000
Cash flows from (used in) financing activities					
Proceeds from exercise of stock options	9	85	—	1,455	—
Payment of dividends	9	(6,558)	(4,121)	(19,708)	(12,443)
Repurchase and cancellation of shares under NCIB	9	(5,109)	(2,970)	(7,971)	(5,961)
Repayment of lease liability		(447)	(667)	(1,599)	(1,755)
Net cash used in financing activities		(12,029)	(7,758)	(27,823)	(20,159)
Cash flows (used in) from investing activities					
Equity investments	7	—	—	—	(12,127)
Additions to property, plant and equipment		(6,809)	(1,650)	(17,734)	(7,159)
Development costs, net of ITCs		(106)	445	(372)	(415)
Proceeds on disposal of property, plant and equipment		285	632	626	975
Changes in non-cash working capital		(66)	(240)	(228)	(280)
Net cash used in investing activities		(6,696)	(813)	(17,708)	(19,006)
Effect of exchange rate on cash and cash equivalents		7,059	3,544	8,803	(1,037)
Net increase in cash and cash equivalents		19,077	12,047	47,744	(2,202)
Cash and cash equivalents, beginning		186,950	135,033	158,283	149,282
Cash and cash equivalents, ending	4	206,027	147,080	206,027	147,080

*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	September 30, 2022	December 31, 2021
	(\$)	(\$)
Cash	157,922	120,714
Cash equivalents	48,105	37,569
Cash and cash equivalents	206,027	158,283

As at September 30, 2022, the Company's cash and cash equivalents are invested in term deposits and 1-90 day money market funds with interest rates ranging between 1.40% and 3.40%.

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.

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

	Nine Months Ended September 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	(1,162)	(585,350)	(1,804)	(910,979)
Exercise of stock options	1,695	149,906	146	16,089
Liability for automatic share purchase plan ("APP") commitment pursuant to NCIB	(301)	—	(343)	—
Reversal of prior period liability for APP commitment pursuant to NCIB	343	—	—	—
Balance, ending	163,142	81,758,607	162,567	82,194,051

At September 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 September 30, 2022, the Company declared and paid dividends of \$6,558 (third quarter of 2021: \$4,121) or \$0.08 per common share (third quarter of 2021: \$0.05).

For the nine month period ended September 30, 2022, the Company declared and paid dividends of \$19,708 (2021: \$12,443) or \$0.24 per common share (2021: \$0.15).

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 September 30, 2022, the Company repurchased 378,450 (third quarter of 2021 - 359,878) shares for cancellation for total cash consideration of \$5,109 (third quarter of 2021 - \$2,970).

For the nine month period ended September 30, 2022, the Company repurchased 585,350 (2021 - 673,779) shares for cancellation for total cash consideration of \$7,971 (2021 - \$5,961). 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:

	Nine Months Ended September 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	(149,906)	9.70	(16,089)	7.33
Expired or forfeited	(197,581)	18.30	(1,536,126)	17.34
Outstanding, ending	2,977,272	14.79	3,324,759	14.67
Exercisable, ending	1,839,901	17.73	2,147,030	17.28
Available for grant, ending	2,745,830		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:

	Nine Months Ended	Twelve Months Ended
	September 30, 2022	December 31, 2021
	(#)	(#)
RSUs, beginning	1,144,628	1,111,190
Granted	—	535,113
Vested and paid	(1,500)	(411,915)
Forfeited	(81,734)	(89,760)
RSUs, ending	1,061,394	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:

	Nine Months Ended	Twelve Months Ended
	September 30, 2022	December 31, 2021
	(#)	(#)
DSUs, beginning	264,231	252,363
Credited	71,375	81,498
Redeemed and paid	—	(69,630)
DSUs, ending	335,606	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:

	Nine Months Ended September 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 September 30, 2022, the Company recorded \$2,032 of stock-based compensation expense for its equity and cash settled plans (third quarter of 2021: \$1,611). For the nine month period ended September 30, 2022, the company recorded \$10,101 of stock-based compensation expense for its equity and cash settled plans (2021: \$6,429). As at September 30, 2022, the Company held \$8,311 in current stock-based compensation liability and \$10,700 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 September 30, 2022	North America	International	Solar and Energy Storage	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	40,418	9,396	—	49,814
Mud Management and Safety	22,467	3,338	—	25,805
Communications	4,776	868	—	5,644
Drilling Intelligence	6,265	526	—	6,791
Analytics and Other	1,319	1,701	1,428	4,448
Total Revenue	75,245	15,829	1,428	92,502
Rental services and local administration	22,422	7,497	2,431	32,350
Depreciation and amortization	3,867	561	5	4,433
Segment gross profit (loss)	48,956	7,771	(1,008)	55,719
Research and development				9,879
Corporate services				3,911
Stock-based compensation				2,032
Other income				(5,324)
Income tax provision				11,482
Net income				33,739
Net income attributable to Pason				34,246
Capital expenditures	6,625	290	—	6,915
As at September 30, 2022				
Property plant and equipment	75,996	10,978	125	87,099
Intangible assets	3,971	—	2,278	6,249
Goodwill	7,821	2,600	23,253	33,674
Segment assets	370,299	60,258	32,854	463,411
Segment liabilities	81,132	5,492	12,371	98,995

Three Months Ended September 30, 2021	North America	International	Solar and Energy Storage	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	24,629	5,875	—	30,504
Mud Management and Safety	12,848	2,111	—	14,959
Communications	3,059	436	—	3,495
Drilling Intelligence	4,061	287	—	4,348
Analytics and Other	1,509	1,725	1,165	4,399
Total Revenue	46,106	10,434	1,165	57,705
Rental services and local administration	16,504	4,703	1,520	22,727
Depreciation and amortization	4,763	762	5	5,530
Segment gross profit (loss)	24,839	4,969	(360)	29,448
Research and development				8,951
Corporate services				3,856
Stock-based compensation				1,611
Other income				(2,984)
Income tax provision				5,239
Net income				12,775
Net income attributable to Pason				13,074
Capital expenditures	1,063	142	—	1,205
As at September 30, 2021				
Property plant and equipment	76,419	9,209	157	85,785
Intangible assets	6,349	—	3,141	9,490
Goodwill	8,530	2,600	21,616	32,746
Segment assets	299,483	51,587	26,483	377,553
Segment liabilities	62,669	5,519	2,097	70,285

Nine Months Ended September 30, 2022	North America	International	Solar and Energy Storage	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	106,104	23,340	—	129,444
Mud Management and Safety	58,412	8,265	—	66,677
Communications	12,234	1,849	—	14,083
Drilling Intelligence	16,067	1,186	—	17,253
Analytics and Other	4,065	4,191	4,865	13,121
Total Revenue	196,882	38,831	4,865	240,578
Rental services and local administration	63,240	19,404	7,178	89,822
Depreciation and amortization	13,717	1,711	15	15,443
Segment gross profit (loss)	119,925	17,716	(2,328)	135,313
Research and development				28,017
Corporate services				11,350
Stock-based compensation				10,101
Other income				(7,887)
Income tax provision				24,000
Net income				69,732
Net income attributable to Pason				71,359
Capital expenditures	16,900	1,206	—	18,106

Nine Months Ended September 30, 2021	North America	International	Solar and Energy Storage	Total
			(\$)	
Revenue	(\$)	(\$)	(\$)	(\$)
Drilling Data	61,970	14,966	—	76,936
Mud Management and Safety	33,272	5,350	—	38,622
Communications	7,247	1,057	—	8,304
Drilling Intelligence	9,212	742	—	9,954
Analytics and Other	3,912	3,192	2,933	10,037
Total Revenue	115,613	25,307	2,933	143,853
Rental services and local administration	44,460	12,855	4,171	61,486
Depreciation and amortization	17,393	2,109	15	19,517
Segment gross profit (loss)	53,760	10,343	(1,253)	62,850
Research and development				23,916
Corporate services				9,801
Stock-based compensation				6,429
Other income				(7,440)
Income tax provision				8,498
Net income				21,646
Net income attributable to Pason				22,696
Capital expenditures	6,864	710	—	7,574

13. Other Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(\$)	(\$)	(\$)	(\$)
Foreign exchange (gain) loss	(3,332)	(204)	(3,983)	969
Net interest income	(1,027)	(285)	(2,258)	(563)
Net monetary gain	(1,380)	(190)	(1,313)	(250)
Equity loss (gain)	131	(185)	823	338
Government wage assistance	—	(2,190)	—	(8,080)
Other expenses (income)	284	70	(1,156)	146
Total other income	(5,324)	(2,984)	(7,887)	(7,440)

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

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

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

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

Other expenses (income) for the nine months ended September 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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(#)	(#)	(#)	(#)
Issued common shares outstanding, beginning	82,130,025	82,775,041	82,194,051	83,088,941
Effect of NCIB and exercised options	(153,444)	(89,970)	(115,476)	(161,548)
Weighted average number of common shares (basic)	81,976,581	82,685,071	82,078,575	82,927,393

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 September 30,		Nine Months Ended September 30,	
	2022	2021	2022	2021
	(#)	(#)	(#)	(#)
Weighted average number of common shares (basic)	81,976,581	82,685,071	82,078,575	82,927,393
Effect of share options	656,885	66,653	717,608	104,760
Weighted average number of common shares (diluted)	82,633,466	82,751,724	82,796,183	83,032,153

For the periods ended September 30, 2022, 1,478,835 (2021 - 2,796,564) 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 November 2, 2022.

16. Events After the Reporting Period

On November 2, 2022, the Company declared a quarterly dividend of \$0.12 per share on the Company's common shares. The dividend will be paid on December 30, 2022, to shareholders of record at the close of business on December 15, 2022.

Corporate Information

Directors

Marcel Kessler⁽¹⁾
President & CEO
GrafTech International Ltd.
Cochrane, Alberta

T. Jay Collins⁽³⁾⁽⁴⁾
Director
Oceanering International Inc.
Houston, Texas

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

Judi Hess⁽³⁾⁽⁵⁾⁽⁷⁾
CEO & Director
Copperleaf Technologies Inc.
Vancouver, British Columbia

James B. Howe⁽²⁾⁽⁷⁾⁽⁸⁾
President
Bragg Creek Financial
Consultants Ltd.
Calgary, Alberta

Laura Schwinn⁽⁵⁾⁽⁶⁾
President Specialty Catalysts
W. R. Grace & Co.
Columbia, Maryland

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.

- (1) Chairman of the Board
- (2) Audit Committee Chair
- (3) Audit Committee Member
- (4) HR and Compensation Committee Chair
- (5) HR and Compensation Committee Member
- (6) Corporate Governance and Nominations Committee Chair
- (7) Corporate Governance and Nomination Committee Member
- (8) Lead Director