

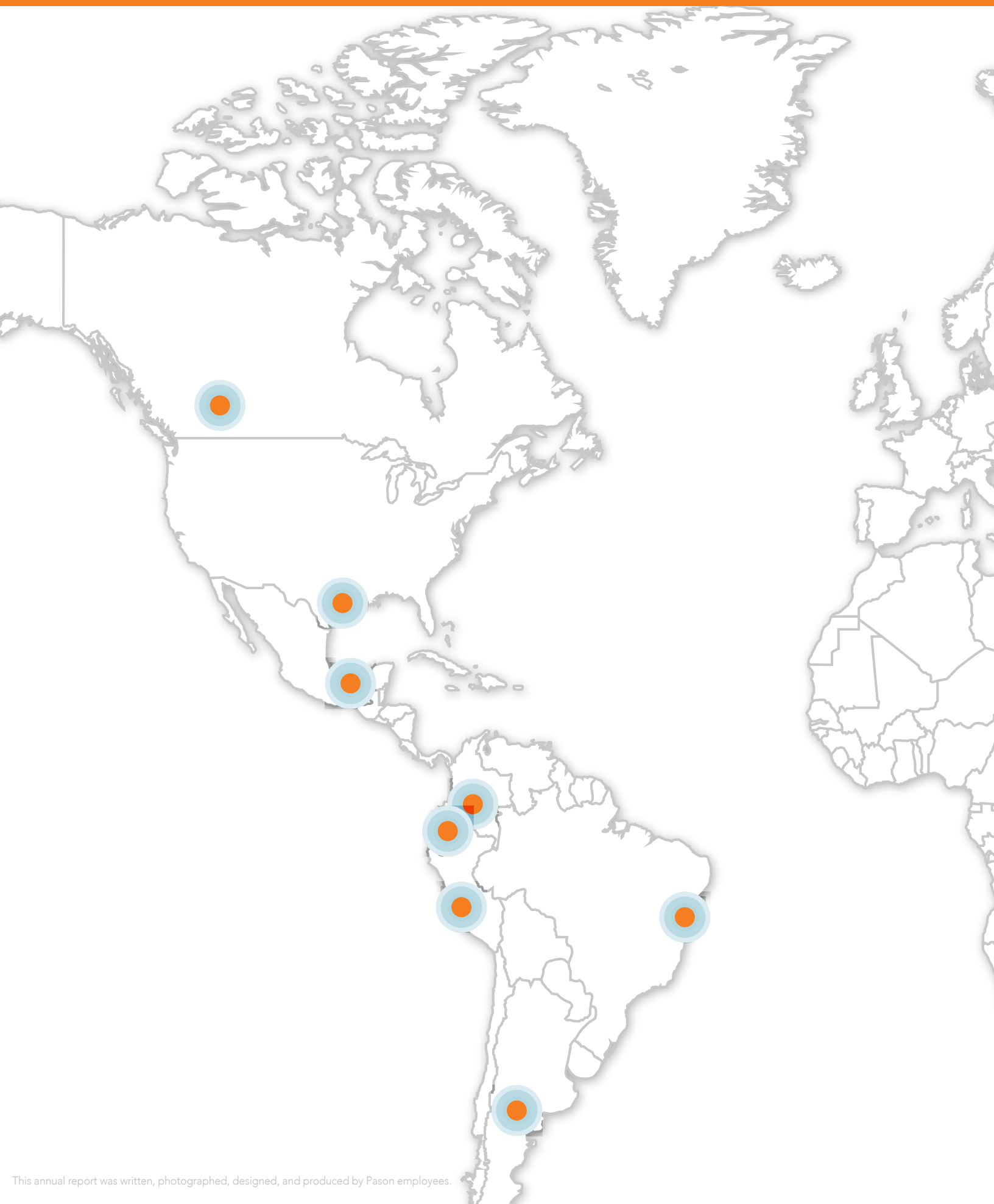


PASON SYSTEMS INC.

2019 ANNUAL REPORT



PASON GLOBAL PRESENCE





MISSION STATEMENT

Pason provides technologies and services that improve the effectiveness, efficiency, and safety of drilling operations in challenging operating environments worldwide. Our simple-to-use, innovative, and rig-tough technologies enable effective collaboration between the field and the office and are supported by our unrivalled service organization.

QUICK FACTS

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

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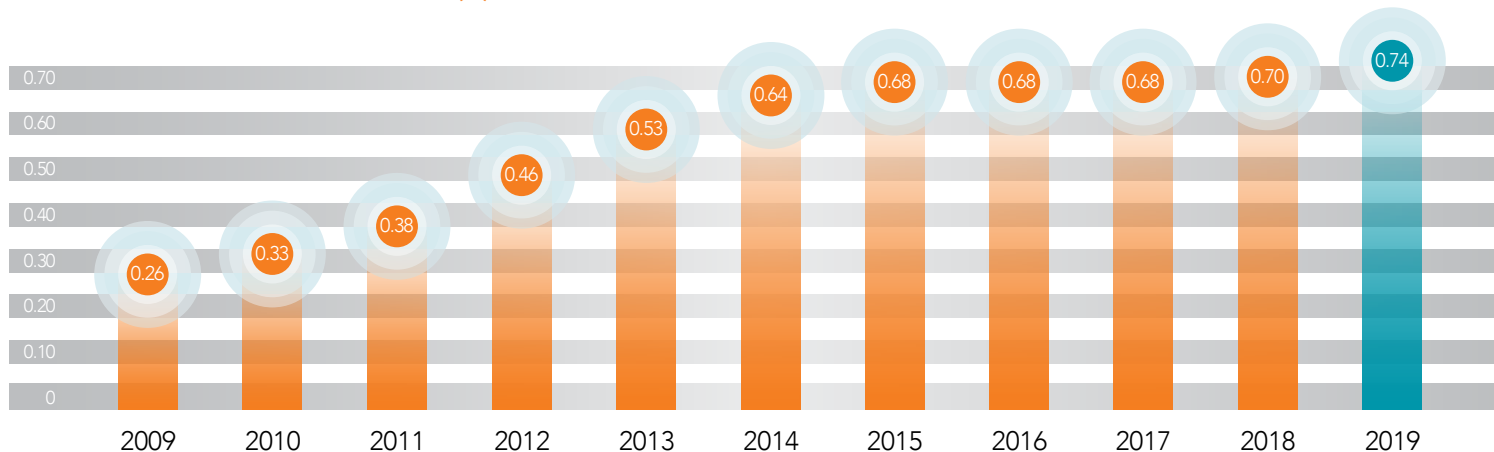
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FINANCIALS AT A GLANCE 2019

*All dollar amounts are in \$CDN unless otherwise indicated.

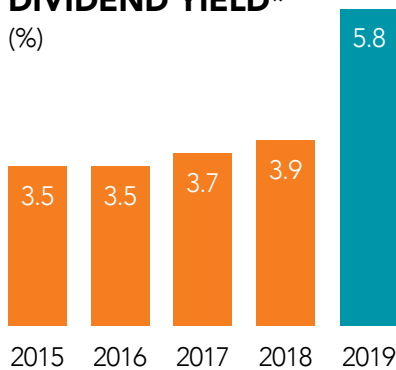
SHAREHOLDER RETURNS

DIVIDENDS PER SHARE (\$)



\$86
MILLION
IN FREE CASH FLOW

DIVIDEND YIELD* (%)

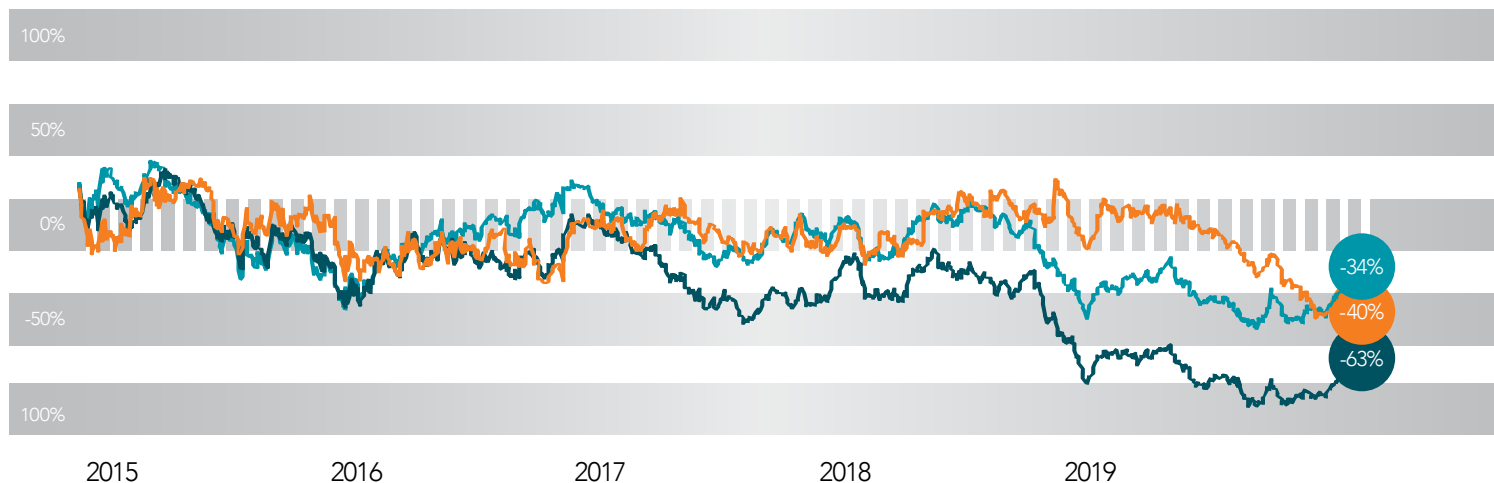


* At year end.

\$63
MILLION
DIVIDENDS PAID IN 2019

SHARE PRICE PERFORMANCE

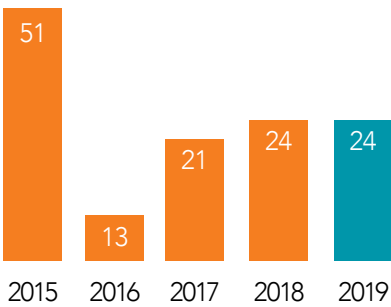
PSI — Pason Systems Inc.
SPTTEN — TSX Capped Energy Index
PHLX — Oil Service Index



KEY FINANCIAL METRICS

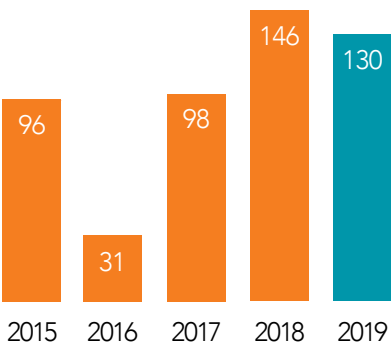
CAPEX

(\$MILLIONS)



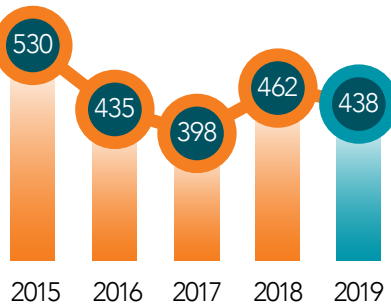
ADJUSTED EBITDA

(\$MILLIONS)



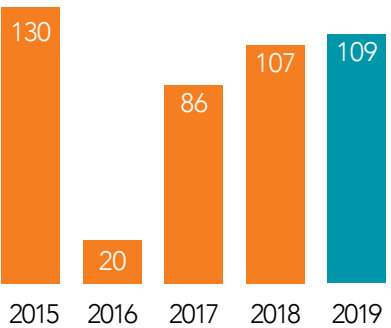
TOTAL ASSETS

(\$MILLIONS)



CASH FROM OPERATING ACTIVITIES

(\$MILLIONS)

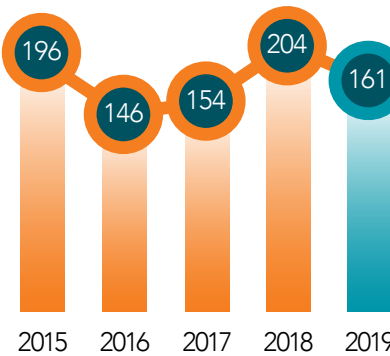


\$130 MILLION
ADJUSTED EBITDA

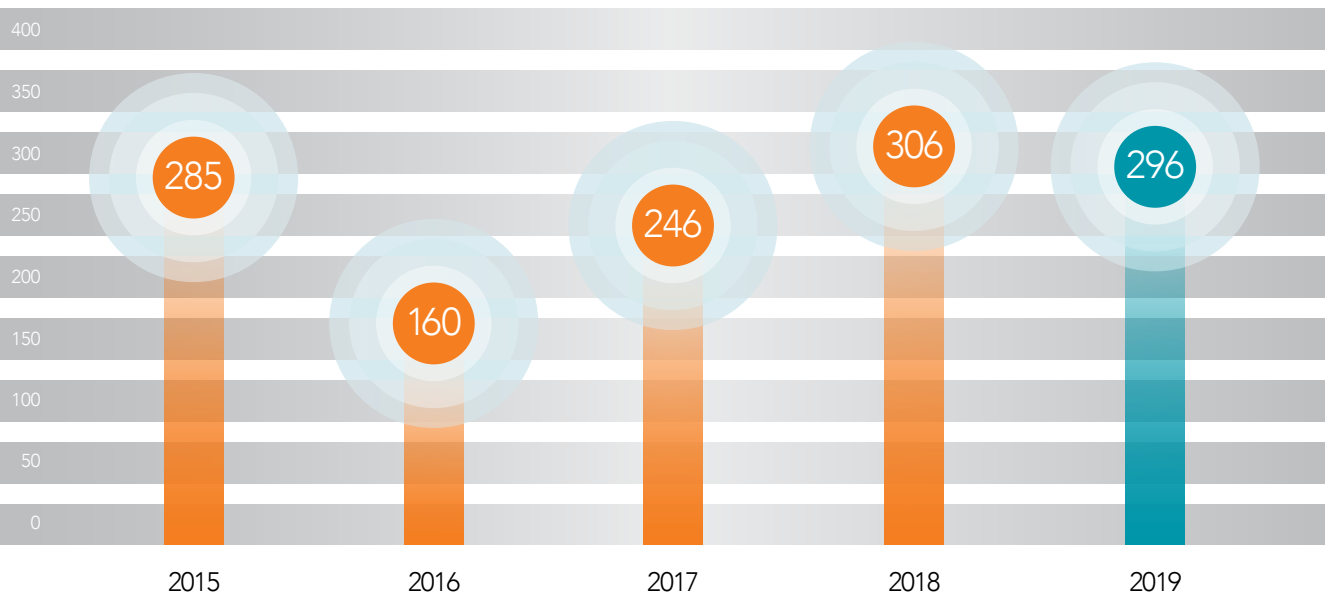
CASH BALANCE

(\$MILLIONS)

No Debt



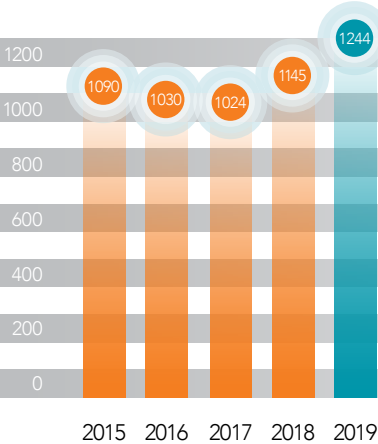
TOTAL REVENUE (\$MILLIONS)



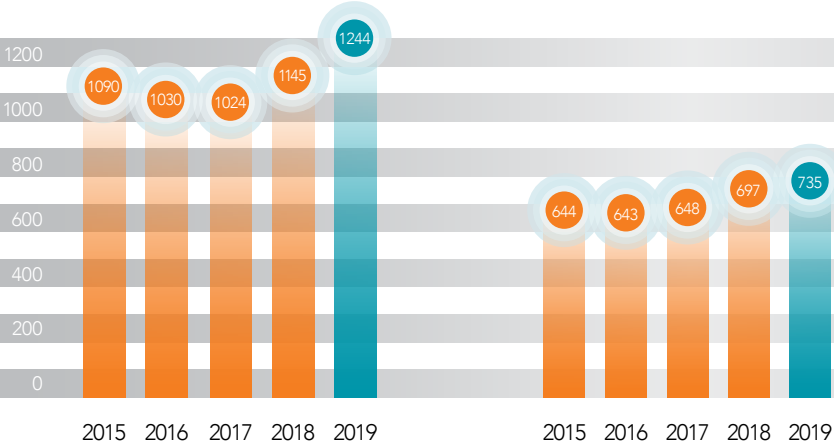
KEY OPERATIONAL METRICS

RENTAL REVENUE PER EDR DAY (\$)

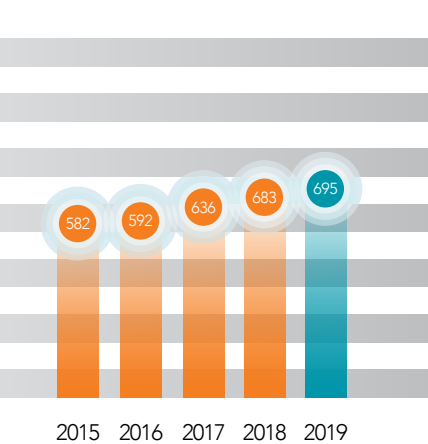
CANADA



UNITED STATES (\$USD)



INTERNATIONAL



EDR MARKET SHARE*

(%)

CANADA



UNITED STATES



AUSTRALIA



LATIN AMERICA



*Estimated 2019.

EMPLOYEE HEADCOUNT

TOTAL PASON



FIELD TECHNICIANS

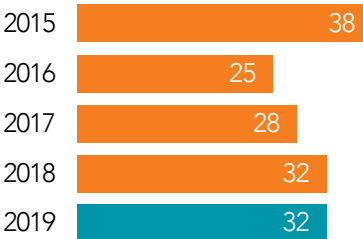


R&D AND IT



ANNUAL R&D SPEND

(\$MILLIONS)



EMPLOYEE HEADCOUNT BY REGION

CANADA



UNITED STATES



INTERNATIONAL



PASON & PASONITES CARE

A SNAPSHOT OF PASON'S COMMUNITY GIVING IN 2019



Pason USA Feeds Kids in Need

Pason USA packed lunches to support Kids' Meals, a not-for-profit organization that provides free lunch to kids in need.



**MORE THAN
ONE
MILLION DOLLARS
DONATED TO
UNITED WAY
SINCE 2008**



Pason Canada's Ongoing Contributions Recognized by the United Way



Pason Mexico Recycles to Help Sick Children

Pason Mexico participated in a fundraiser where money raised through plastic recycling was donated to children fighting cancer.



**PLAYGROUNDS
BUILT IN 10 YEARS
BY PASON CANADA**



Pason Argentina Participates in Blind Running Race

Pason Argentina participated in Carrera a Ciegas (Blind Race), a sports and social awareness event to inform and educate the public about visual impairment.



Pason Canada Sponsors Community Arena

The Pason Centennial Arenas have been a continued partnership with the Town of Okotoks for the past eight years. The facility features three ice surfaces — including two NHL-sized rinks and a leisure rink — and is home to the Okotoks Junior 'A' Oilers of the Alberta Junior Hockey League.



Pason USA Adopts a Family for the Holidays

Pason USA adopted a family of eight through The Houston Children's Charity. They provided a bunk bed and mattress, household goods, baby supplies, and Christmas gifts for all the children.

PRESIDENT'S MESSAGE

Pason celebrated 41 years in business in 2019, and we were faced with a flurry of bad news and challenges surrounding the short- and long-term future of our industry. As I write this, there are two concerns that weigh heavily upon me: the spread of COVID-19 and the long-term future of the oil and gas industry.

The spread of the novel coronavirus is fast moving and unpredictable and I can add little to clarify this issue. Therefore, in this year's message, I try to cut through the noise and make some sense of the direction of the energy industry.

At the end of 2019, the world consumed over 100 million barrels of oil per day, the highest demand in history. This is despite a decade of significant investments being made in renewable energy sources.

"It is a fact, not just a forecast, that the world needs fossil fuels for the foreseeable future."

Energy, in the form of hydro, solar, wind, or nuclear power cannot replace carbon resources for transportation fuel for airplanes, ships, trains and big trucks, or for petrochemicals, anytime soon. One-quarter of crude oil is used as feedstock for products essential to everyday life for which there is no substitute. It is a fact, not just a forecast, that the world needs fossil fuels for the foreseeable future.



The dislocation and potential damages caused by climate change are well reported. The dislocation by massive energy disruption is not. If people are denied affordable energy or lose what energy they have because non-carbon alternatives are insufficient or unaffordable, the consequences will be as severe. A world without oil and gas is a world with abandoned airports, train stations, bus terminals, transport trucks, and an absence of many modern materials and pharmaceuticals. The economic loss and disruption to the world would ensure that the transition to a renewable resource future will not materialize due to lack of funding.

However, a gradual transition to a low carbon future dominated by renewable energy needs to happen. Such a transition is much more likely to succeed if it can fully leverage the technical and managerial capabilities, as well as the capital, of the oil and gas sector.

So, what can be done today and what is the role for our industry? Pason is only a small player, but we have an important role to play. Collectively, with

the rest of the oil and gas industry, there is a great deal that can be done. There are four key elements to our future role.

First, while oil will continue to be essential for transportation and for petrochemicals, it is necessary to produce that oil with the smallest possible carbon footprint. The tools that Pason provides make a meaningful impact in safely speeding up drilling operations, leading to a reduction in the CO₂ emissions of each barrel produced.

Our new product offerings continue to gain momentum with customers. ExxonMobil DAS, Pason's drilling automation software package, has been deployed on over 270 drilling rigs for construction of over 1,700 wells since launch. Drilling performance is improving considerably when the optimization system is used, in terms of higher rate of penetration (i.e., faster drilling) and minimized damaging vibrations, leading to longer life of expensive equipment.

"However, a gradual transition to a low carbon future dominated by renewable energy needs to happen."

In addition, DataLink, Pason's Data Delivery solution for automated delivery of large, complex data sets from the field to corporate databases and applications, is currently being used on over 300 active drilling rigs. DataLink is an important enabler for our customer's data analytics efforts to

"Over the past ten years, Pason alone has invested over \$300 million in R&D, manufactured and purchased equipment for over \$500 million, paid taxes of over \$160 million, and returned over half a billion dollars to shareholders through dividends and share repurchases."

improve the effectiveness and efficiency of upstream oil and gas operations.

To further our assistance to our industry, in the third quarter of 2019, we committed \$25 million to acquire a minority interest in Intelligent Wellhead Systems (IWS). IWS is a privately-owned oilfield technology and service company that provides unique surface control systems for well completions and workover operations. Pason has been looking to enter the completions space for several years and IWS represents the first truly compelling opportunity we have seen. We are excited to play a role in IWS' continued growth and apply Pason's know-how to improve the efficiency and safety of completions operations.

Second, roughly half of the world's carbon emissions come from burning coal. Incredibly, there are over 450 coal power plants currently under construction around the world, and hundreds more

are being planned. Moving from coal to natural gas for power generation, with less than half the CO₂ emissions for the same amount of energy generated, is the single most impactful action the world can take to reduce its total carbon footprint. Pason's solutions are equally as valuable in support of natural gas drilling.

"...the oil and gas industry possesses underappreciated engineering and management skills which have been deployed in creative problem solving for decades."

Third, the gradual transition to renewable energy for the bulk of the world's energy needs will require significant government intervention, global political cooperation, and trillions of dollars of investment every year for decades. Over the past 10 years, Pason alone has invested over \$300 million in R&D, manufactured and purchased equipment for over \$500 million, paid taxes of over \$160 million, and returned over half a billion dollars to shareholders through dividends and share repurchases. To shut down the oil and gas industry and deprive the world of this much-needed capital is both naïve and foolish.

Fourth, the oil and gas industry possesses underappreciated engineering and management skills, which have been deployed in creative problem-solving for decades. At Pason, we have started to leverage some of our skills and expertise beyond oil and gas. In 2019, we announced the acquisition of a majority interest of Energy Toolbase (ETB), a U.S.-based software-as-a-service company. ETB provides an industry-leading software package to model the economics and build proposals for solar and energy storage (i.e., battery) projects. The ETB product is used by distributed energy project developers. Over the past two years, Pason Power has been building a foundation in the solar and energy storage market through its battery control system and Energy DataHub products. With the combined commercial and technical capabilities of Pason Power and ETB, we are positioning ourselves for meaningful long-term growth in the solar and energy storage market.

Our core business and market positions are very strong. Our service capabilities are unrivalled, as is our expertise for user interface design and ruggedization for field users. These strengths, along with our exceptional workforce and strong balance sheet, are the foundation for our ability to achieve success and fulfil an important role in the gradual transition to the renewable energy future.



Marcel Kessler

• President and Chief Executive Officer
March 3, 2020



MANAGEMENT'S DISCUSSION & ANALYSIS

CONSOLIDATED FINANCIAL STATEMENTS & NOTES

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Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of February 26, 2020, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the Consolidated Financial Statements and accompanying notes.

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.

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

Performance Data

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	2019	2018	Change
(CDN 000s, except per share data) (unaudited)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue	68,410	81,965	(17)	295,642	306,393	(4)
EBITDA ^(1,2)	25,555	38,418	(33)	124,763	138,335	(10)
Adjusted EBITDA ^(1,2)	26,615	39,415	(32)	129,644	146,004	(11)
As a % of revenue	38.9	48.1	(920) bps	43.9	47.7	(380) bps
Funds flow from operations	22,126	30,711	(28)	111,718	128,544	(13)
Per share – basic	0.26	0.36	(28)	1.31	1.51	(13)
Per share – diluted	0.26	0.36	(28)	1.30	1.50	(13)
Cash from operating activities	24,714	23,407	6	108,547	107,177	1
Capital expenditures	5,587	8,450	(34)	24,178	23,876	1
Free cash flow ⁽¹⁾	19,955	16,603	20	85,954	85,522	1
Cash dividends declared	0.19	0.18	6	0.74	0.70	6
Net income	10,096	20,720	(51)	53,803	62,944	(15)
Net income attributable to Pason	10,405	20,720	(50)	54,112	62,944	(14)
Per share – basic	0.12	0.24	(49)	0.63	0.74	(14)
Per share – diluted	0.12	0.24	(49)	0.63	0.73	(14)
Total interest bearing debt	—	—	—	—	—	—
Shares outstanding end of period (#000's)	84,538	85,783	(1)	84,538	85,783	(1)

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

(2) Prior period amounts have been restated to conform with current year's presentation.

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Q4 2019 vs Q4 2018

The Company generated consolidated revenue of \$68.4 million in the fourth quarter of 2019, a decrease of 17% from the same period in 2018. The decrease is attributable to a drop in North American drilling activity, offset by a slight increase in activity in the International business unit, increased market share in the US business unit, and continued increases in product penetration in all major business units, leading to increases in Revenue per EDR day.

Adjusted EBITDA decreased to \$26.6 million in the fourth quarter, a decrease of 32% from the same period in 2018. The decrease in adjusted EBITDA was driven by the decrease in consolidated gross profit and a lower proportion of R&D costs being capitalized.

Funds flow from operations was \$22.1 million in the fourth quarter, a decrease of 28% from the same period in 2018. Cash from operating activities was \$24.7 million in the fourth quarter of 2019, an increase of 6% from the same period in 2018. This financial metric was impacted by movements in working capital, mostly due to the release of trade and other receivables.

Free cash flow was \$20.0 million in the fourth quarter of 2019, an increase of 20% from the same period in 2018. The increase was driven by the increase in cash from operating activities and a decline in capital expenditures.

The Company recorded net income attributable to Pason of \$10.4 million (\$0.12 per share) in the fourth quarter of 2019, compared to net income of \$20.7 million (\$0.24 per share) recorded in the same period in 2018. Net income was negatively impacted by the drop in drilling activity, and this combined with the Company's fixed cost structure, led to a drop in consolidated gross profit. These factors were offset by a drop in stock-based compensation expense in the fourth quarter of 2019 compared to the 2018 comparative figure.

Impact of IFRS 16

The Company adopted IFRS 16, Leases, effective January 1, 2019, using the modified retrospective approach. This new standard supersedes IAS 17, Leases, and introduces a single lessee accounting model by eliminating a lessee's classification of leases as either operating leases or finance leases. Comparative figures have not been restated. Further disclosure is provided in Note 3 to the Consolidated Financial Statements.

The impact of adopting this new standard on IFRS Measures and Non-IFRS Measures is described below. The figures presented below are the 2019 actual numbers that are classified differently than the 2018 comparative figures. Effectively, the operating expense line items recognized under the previous standard will be bifurcated between depreciation expense and interest expense.

Impact on IFRS Measures

	Three Months Ended December 31, 2019	Year Ended December 31, 2019
(000s) (unaudited)	(\$)	(\$)
Reduction in rental services and local administration expenses	263	1,090
Reduction in research and development expenses	98	332
Reduction in corporate services costs	341	1,257
(Increase) in depreciation of right of use assets	(647)	(2,580)
(Increase) in net interest expense on lease liabilities	(112)	(457)
Reduction in Income tax provision	16	97
(Decrease) in net income	(41)	(261)
Increase in depreciation of right of use assets	647	2,580
(Reduction) in Income tax provision	(16)	(97)
Total increase in funds flow from operations and cash from operating activities	590	2,222

Impact on Non-IFRS Measures

	Three Months Ended December 31, 2019	Year Ended December 31, 2019
(000s) (unaudited)	(\$)	(\$)
Reduction in rental services and local administration - Canada operating segment	40	160
Reduction in rental services and local administration - United States operating segment	198	794
Reduction in rental services and local administration - International operating segment	25	136
Reduction in research and development expenses	98	332
Reduction in corporate services costs	341	1,257
Total increase in EBITDA and Adjusted EBITDA	702	2,679

Impact of Hyperinflation

In 2018, the Company concluded that its Argentinian subsidiary is operating in a hyperinflationary economy. This conclusion impacts the application of two accounting standards, IAS 21, The Effects of Changes in Foreign Exchange, and IAS 29, Financial Reporting in Hyperinflationary Economies.

The impact of applying IAS 21 to the operating results of Argentina subsidiary for the fourth quarter of 2019 was to increase revenue and reduce segment gross profit by \$792 and \$41 respectively. For the twelve months ending December 31, 2019, the impact was to reduce both revenue by \$955 and segment gross profit by \$991.

The impact of applying IAS 29 to the non-monetary assets and liabilities, and shareholders' equity of the Argentina subsidiary was to record a non-cash net monetary adjustment of \$212 for the three months ended December 31, 2019. This non-cash net monetary adjustment for the 12 months ended December 31, 2019 was \$2,588.

Impact on IFRS Measures

	Three Months Ended December 31, 2019	Year Ended December 31, 2019
(000s) (unaudited)	(\$)	(\$)
Increase (decrease) in revenue	792	(955)
(Increase) decrease in rental services and local administration expenses	(493)	562
(Increase) in depreciation expense	(340)	(598)
(Decrease) in segment gross profit	(41)	(991)
Income inclusion presented in other expenses	212	2,588
(Increase) decrease in income tax expenses	(40)	40
Increase in net income	131	1,637

Impact on Non-IFRS Measures

	Three Months Ended December 31, 2019	Year Ended December 31, 2019
(000s) (unaudited)	(\$)	(\$)
Increase (decrease) in revenue	792	(955)
(Increase) decrease in rental services and local administration expenses	(493)	562
Income inclusion presented in other expenses	212	2,588
Increase in EBITDA	511	2,195
(Elimination) of income inclusion presented in other expenses	(212)	(2,588)
Increase (decrease) in Adjusted EBITDA	299	(393)

Additional IFRS Measures

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

Cash from operating activities

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

Non-IFRS Financial Measures

These definitions are not recognized measures under IFRS, and accordingly, may not be comparable to measures used by other companies. These Non-IFRS measures provide readers with additional information regarding the Company's ability to generate funds to finance its operations, fund its research and development and capital expenditure program, and pay dividends.

Revenue per EDR day

Revenue per EDR day is defined as the daily revenue generated from all products that the Company has on rent on a drilling rig that has the Company's base EDR installed. This metric provides a key measure on the Company's ability to increase production adoption and evaluate product pricing.

EBITDA

EBITDA is defined as net income before interest income and expense, income taxes, stock-based compensation expense, depreciation and amortization expense, and gains on disposal of investments.

Adjusted EBITDA

Adjusted EBITDA is defined as EBITDA, adjusted for foreign exchange, impairment of property, plant, and equipment, restructuring costs, net monetary adjustments, 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.

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 the capital expenditure program, and provides an indication of the amount of cash available to finance, among other items, the Company's dividend and other investment opportunities.

Overall Performance

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	2019	2018	Change
(000s) (unaudited)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	35,915	42,357	(15)	156,208	157,162	(1)
Mud Management and Safety	19,768	23,089	(14)	85,827	85,952	—
Communications	4,438	6,764	(34)	19,760	28,177	(30)
Drilling Intelligence	4,619	6,720	(31)	20,321	22,786	(11)
Analytics and Other	3,670	3,035	21	13,526	12,316	10
Total revenue	68,410	81,965	(17)	295,642	306,393	(4)

The Pason Electronic Drilling Recorder (EDR) remains the Company's primary product. The EDR provides a complete system of drilling data acquisition, data networking, and drilling management tools and reports at both the wellsite and at customer offices. The EDR is the base product from which all other wellsite instrumentation products are linked. By linking these products, a number of otherwise redundant elements such as data processing, display, storage, and networking are eliminated. This ensures greater reliability and a more robust system of instrumentation for the customer.

Total revenue decreased by 17% in the fourth quarter of 2019 compared to the corresponding period in 2018.

Communication revenue decreased 34% in the fourth quarter of 2019 compared to the corresponding period in 2018. In the Company's major operating segments, wellsite communications have been transitioning from satellite to terrestrial bandwidth. The transition has resulted in a lower rental service cost to Pason with cost savings shared with its customers.

Drilling intelligence revenue decreased 31% in the fourth quarter of 2019 compared to the corresponding period in 2018 as a result of the decrease in drilling activity in the North American markets as well as the mix of rig types and customers which were active in the period.

Analytics and other revenue increased 21% in the fourth quarter of 2019 compared to the corresponding period in 2018 predominately as a result of the revenue generated from the ETB LLC acquisition.

Industry activity in the US market decreased by 24% in the fourth quarter of 2019 compared to the corresponding period in 2018, while fourth quarter Canadian industry activity decreased by 23%. The Canadian and US business units both experienced a decline in drilling activity as producers reduced capital spending. For the fourth quarter of 2019, the Company saw an increase in revenue in the International business unit with gains in all of its significant markets.

US EDR days decreased by 24% in the fourth quarter of 2019 compared to the corresponding period in 2018, while Canadian EDR days, which includes non-oil and gas-related activity, decreased 29% from 2018 levels.

In the fourth quarter of 2019, the Pason EDR was installed on 62% of the land rigs in the US market, an increase of 60bps over the same time period in 2018.

In the fourth quarter of 2019, the Pason EDR was installed on 85% of the land rigs in the Canadian market, a decrease of 600bps over the same period in 2018. For the purposes of market share, the Company uses the number of EDR days billed and oil and gas drilling days as reported by accepted industry sources.

Discussion of Operations

United States Operations

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	2019	2018	Change
(000s) (unaudited)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	24,084	29,918	(19)	109,482	110,229	(1)
Mud Management and Safety	14,016	16,268	(14)	64,189	59,421	8
Communications	2,297	3,733	(38)	11,339	15,730	(28)
Drilling Intelligence	2,105	3,866	(46)	11,158	12,693	(12)
Analytics and Other	1,716	1,546	11	5,946	5,813	2
Total revenue	44,218	55,331	(20)	202,114	203,886	(1)
Rental services and local administration	18,730	19,364	(3)	77,453	72,021	8
Depreciation and amortization	5,004	4,121	21	19,375	16,249	19
Segment gross profit	20,484	31,846	(36)	105,286	115,616	(9)

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	2019	2018	Change
(unaudited)	(#)	(#)	(%)	(#)	(#)	(%)
Electronic Drilling Recorder (EDR) Rental Days	44,800	58,900	(24)	204,900	223,500	(8)

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	2019	2018	Change
(unaudited)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue per EDR day - USD	732	705	4	735	697	5
Revenue per EDR day - CAD	966	932	4	975	903	8

Revenue from the US operations decreased by 20% in the fourth quarter of 2019 over the 2018 comparable period (21% when measured in USD).

Industry activity in the US market decreased by 24% in the fourth quarter of 2019 over the 2018 comparable period. For the year, industry activity in the US market decreased by 10%. Active rig count declined in most major plays.

US market share was 62% for the fourth quarter of 2019 compared to 61% during the same period in 2018.

EDR rental days decreased by 24% in the fourth quarter of 2019 over the 2018 comparable period. Revenue per EDR day increased to US\$732 in the fourth quarter of 2019, an increase of US\$27 over the same period in 2018. The increase in revenue per EDR day is due to increased adoption of certain products and select price increases initiated in 2019.

Rental services and local administration decreased by 3% in the fourth quarter of 2019 over the 2018 comparative period. Included in the US business segment are the results of both Pason Power and ETB LLC. When measured in USD, and excluding Pason Power and ETB LLC, expenses declined by 11%. The decrease in operating costs is attributable to the Company managing field and office staff levels to support the current level of activity.

Depreciation expense increased by 21% in the fourth quarter of 2019 over the 2018 comparative period. The majority of this increase is due to the amortization of intangibles associated with the Company's acquisition of ETB LLC.

Canadian Operations

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	2019	2018	Change
(000s) (unaudited)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	5,793	7,191	(19)	23,108	29,095	(21)
Mud Management and Safety	3,594	4,766	(25)	14,071	19,722	(29)
Communications	1,703	2,641	(36)	6,807	10,944	(38)
Drilling Intelligence	2,147	2,519	(15)	7,828	8,623	(9)
Analytics and Other	983	776	27	3,980	3,613	10
Total revenue	14,220	17,893	(21)	55,794	71,997	(23)
Rental services and local administration	5,343	6,864	(22)	21,226	26,374	(20)
Depreciation and amortization	4,407	2,519	75	17,071	15,027	14
Segment gross profit	4,470	8,510	(47)	17,497	30,596	(43)

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	2019	2018	Change
(unaudited)	(#)	(#)	(%)	(#)	(#)	(%)
Electronic Drilling Recorder (EDR) Rental Days	10,300	14,500	(29)	42,000	60,000	(30)

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	2019	2018	Change
(unaudited)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue per EDR day - CAD	1,292	1,183	9	1,244	1,145	9

Canadian drilling activity in the fourth quarter of 2019 decreased by 23% relative to the same period in 2018, while EDR rental days decreased 29% in the fourth quarter of 2019 compared to 2018. For the year, Canadian drilling activity decreased 30% and EDR rental days declined a similar amount.

Revenue in the Canadian business unit decreased by 21% in the fourth quarter of 2019 over the 2018 comparative period. Canadian market share was 85% for the fourth quarter of 2019 compared to 91% in the comparative period in 2018.

Revenue per EDR day increased by \$109 to \$1,292 during the fourth quarter of 2019 compared to the same period in 2018. The increase is driven by increased usage of data drilling and drilling intelligence products.

Rental services and local administration decreased by 22% in the fourth quarter of 2019 relative to the same period in 2018, primarily due to the bandwidth cost savings the Company has achieved in its communications category and the implementation of cost saving measures.

Analytics and other increased 27% during the fourth quarter of 2019 compared to the same period in 2018 as a result of an increase in Verdazo revenue.

Depreciation and amortization expense increased by 75% in the fourth quarter of 2019 over the 2018 comparative period. The increase is due to the adoption of IFRS 16, Leases and the Company initiating the amortization of previously deferred research and development projects.

Segment gross profit for the fourth quarter of 2019 decreased 47% to \$4.5 million compared to \$8.5 million in segment gross profit in the 2018 comparative period.

International Operations

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	2019	2018	Change
(000s) (unaudited)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Revenue						
Drilling Data	6,038	5,248	15	23,618	17,838	32
Mud Management and Safety	2,158	2,055	5	7,567	6,809	11
Communications	438	390	12	1,614	1,503	7
Drilling Intelligence	367	335	10	1,335	1,470	(9)
Analytics and Other	971	713	36	3,600	2,890	25
Total revenue	9,972	8,741	14	37,734	30,510	24
Rental services and local administration	5,942	5,227	14	21,313	19,109	12
Depreciation and amortization	1,302	916	42	4,384	3,579	22
Segment gross profit	2,728	2,598	5	12,037	7,822	54

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

In 2018, management concluded that its Argentinian subsidiary is operating in a hyperinflationary economy. The impact of applying hyperinflation accounting to this subsidiary is provided above in the section called "**Impact of Hyperinflation.**" The impact for 2018 was not material.

Revenue in the International business unit increased by 14% in the fourth quarter of 2019 compared to the same period in 2018. Revenue increased in all of the Company's major international markets, with the majority of the absolute gains realized in Australia.

Rental services and local administration expenses increased by 14% in the fourth quarter of 2019 compared to the same period in 2018. Depreciation expense increased by 42% in the fourth quarter of 2019 compared to the same period in 2018.

Segment gross profit was \$2.7 million for the fourth quarter of 2019, an increased of 5% compared to the same period in 2018. Hyperinflation accounting on the Argentinian subsidiary had a nominal effect on segment gross profit.

Corporate Expenses

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	2019	2018	Change
(000s) (unaudited)	(\$)	(\$)	(%)	(\$)	(\$)	(%)
Other expenses						
Research and development	7,470	7,310	2	30,439	26,997	13
Corporate services	4,240	3,897	9	15,653	15,905	(2)
Stock-based compensation	1,481	3,335	(56)	10,840	12,313	(12)
Other						
Foreign exchange loss	930	1,007	(8)	2,199	7,682	(71)
Net interest expense - lease liability	174	—	—	578	—	—
Interest income - short term investments	(755)	(385)	96	(1,481)	(935)	58
Derecognition of lease receivable	—	—	—	4,289	—	—
Net monetary gain	(511)	—	—	(2,887)	—	—
Equity income	70	(112)	—	(86)	(17)	406
Other	641	(10)	—	1,280	(13)	—
Total corporate expenses	13,740	15,042	(9)	60,824	61,932	(2)

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Stock-based compensation decreased 56% in the fourth quarter of 2019 over the 2018 comparative period due to the drop in the Company's stock price in the fourth quarter of 2019.

The majority of the foreign exchange loss recorded in the year ending December 31, 2019 and the previous year relate to unrealized foreign exchange losses on inter-company advances made to the Company's Argentinian subsidiary as a result of the devaluation of the Argentina peso relative to the Canadian dollar.

Net interest expense - lease liabilities is a result of the adoption of the new lease accounting standard.

In July 2019, the Company was notified that the tenant that was leasing the Company's previous office space in Colorado, USA filed for Chapter 7 bankruptcy. As a result, the Company derecognized the lease receivable that it had previously recorded and reported a non-cash charge of \$4.3 million in the second quarter of 2019. Management is researching various options to reduce the Company's future obligations.

In 2018, the Company commenced applying IAS 29, Financial Reporting in Hyperinflationary Economies for its Argentina subsidiary. Accordingly, the application of hyperinflation accounting has been applied to the non-monetary assets and liabilities, and shareholders' equity of the Argentina subsidiary. In the fourth quarter of 2019, a non-cash net monetary gain of \$0.5 million was recorded. The impact of applying this accounting standard on 2018 amounts was not material.

Q4 2019 vs Q3 2019

Consolidated revenue was \$68.4 million in the fourth quarter of 2019 compared to \$72.2 million in the third quarter of 2019, a decrease of \$3.8 million.

Revenue in the US business unit was \$44.2 million in the fourth quarter of 2019 compared to \$49.8 million in the third quarter of 2019. Sequentially, both EDR rental days and industry activity decreased 11%.

Revenue in the Canadian business unit was \$14.2 million in the fourth quarter of 2019 compared to \$13.8 million in the third quarter of 2019.

The International business unit reported revenue of \$10.0 million in the fourth quarter of 2019 compared to \$8.5 million in the third quarter of 2019.

Adjusted EBITDA, which adjusts EBITDA for foreign exchange and certain non-recurring charges, was \$26.6 million in the fourth quarter of 2019 compared to \$31.6 million in the third quarter of 2019. The drop in this financial metric was mostly attributable to the drop in segment gross profit in the US business unit of \$5.4 million.

Funds flow from operations was \$22.1 million in the fourth quarter of 2019 compared to \$29.9 million in the third quarter of 2019.

The Company recorded net income attributable to Pason in the fourth quarter of 2019 of \$10.4 million (\$0.12 per share) compared to net income of \$15.4 million (\$0.18 per share) in the third quarter of 2019.

Summary of Quarterly Results

Three Months Ended	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019
(000s, except per share data) (unaudited)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Revenue	73,813	68,271	82,344	81,965	82,143	72,894	72,195	68,410
EBITDA ⁽¹⁾	32,220	23,614	44,633	38,803	40,435	25,606	33,167	25,555
Adjusted EBITDA ⁽¹⁾	34,753	29,458	42,473	39,303	40,641	30,675	31,557	26,615
Funds flow from operations	33,958	27,836	36,039	30,711	35,899	23,794	29,899	22,126
Per share – basic	0.40	0.33	0.42	0.36	0.42	0.28	0.35	0.26
Per share – diluted	0.40	0.32	0.42	0.36	0.42	0.28	0.35	0.26
Cash from operating activities	24,344	27,617	31,809	23,407	8,442	37,938	37,453	24,714
Free cash flow ⁽¹⁾	18,906	23,133	26,880	16,603	385	32,547	33,067	19,955
Net Income	12,359	5,479	24,386	20,720	19,044	9,245	15,418	10,096
Net Income attributable to Pason	12,359	5,479	24,386	20,720	19,044	9,245	15,418	10,405
Per share – basic	0.15	0.06	0.29	0.24	0.22	0.11	0.18	0.12
Per share – diluted	0.14	0.06	0.28	0.24	0.22	0.11	0.18	0.12

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Reconcile Income to EBITDA

Three Months Ended	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019
(000s) (unaudited)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Net Income	12,359	5,479	24,386	20,720	19,044	9,245	15,418	10,096
Add:								
Income taxes	8,152	5,060	8,754	7,192	7,393	3,469	5,485	3,846
Depreciation and amortization	9,175	9,220	8,904	7,556	10,222	9,978	9,917	10,713
Stock-based compensation	2,534	3,855	2,589	3,335	3,824	3,089	2,446	1,481
Net interest income ⁽¹⁾	(10)	(76)	(464)	(385)	(48)	(175)	(99)	(581)
EBITDA ⁽²⁾	32,210	23,538	44,169	38,418	40,435	25,606	33,167	25,555

(1) Prior period amounts have been restated to conform with current year's presentation.

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019
(000s) (unaudited)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
EBITDA	32,210	23,538	44,169	38,418	40,435	25,606	33,167	25,555
Add:								
Foreign exchange	2,404	5,787	(1,516)	1,007	101	553	615	930
Derecognition of lease	—	—	—	—	—	4,289	—	—
Net monetary gain	—	—	—	—	—	—	(2,376)	(511)
Other ⁽¹⁾	11	159	(173)	(10)	263	293	83	641
Adjusted EBITDA ⁽²⁾	34,625	29,484	42,480	39,415	40,799	30,741	31,489	26,615

(1) Prior period amounts have been restated to conform with current year's presentation.

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Reconcile cash from operating activities to free cash flow

Three Months Ended	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019
(000s) (unaudited)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Cash from operating activities	24,344	27,617	31,809	23,407	8,442	37,938	37,453	24,714
Less:								
Net additions to property, plant and equipment	(4,452)	(3,227)	(3,890)	(5,621)	(7,489)	(5,510)	(3,726)	(4,143)
Deferred development costs	(986)	(1,257)	(1,039)	(1,183)	(568)	119	(660)	(616)
Free cash flow ⁽¹⁾	18,906	23,133	26,880	16,603	385	32,547	33,067	19,955

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

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, 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 same quarter for the previous year.

Liquidity and Capital Resources

As at December 31,	2019	2018	Change
(000s) (unaudited)	(\$)	(\$)	(%)
Cash and cash equivalents	161,016	203,838	(21)
Working capital	183,769	256,153	(28)
Funds flow from operations	111,718	128,544	(13)
Capital expenditures	24,178	23,876	1
As a % of funds flow ⁽¹⁾	21.6%	18.6%	300 bps

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Acquisition

Energy Toolbase LLC

In the third quarter of 2019, the Company made a US\$20.0 million investment to acquire the majority interest in Energy Toolbase LLC (ETB), a private, US-based software-as-a-service (SaaS) company. A portion of the consideration is payable in 2020.

ETB is an industry leading software platform that specializes in modeling and proposing the economics of solar PV and energy storage projects. Over one thousand leading distributed energy organizations throughout the United States use the SaaS platform to accurately, objectively and transparently analyze their projects and create customer facing proposals.

Investment

Intelligent Wellhead Systems Inc.

In the fourth quarter of 2019, the Company entered into an agreement to invest CDN\$25.0 million to acquire a minority interest in Intelligent Wellhead Systems Inc. ("IWS"). IWS is a privately-owned oil and gas technology and service company that provides proprietary and unique surface control systems for various markets globally. The investment consists of an initial cash payment of \$10.0 million, which was made in the fourth quarter of 2019, and three put options, exercisable at the discretion of IWS, of \$5.0 million each.

Normal Course Issuer Bid (NCIB)

In 2018, the Company implemented an NCIB which ended on December 17, 2019. The Company renewed the expiring NCIB, which commenced on December 18, 2019 and expires on December 17, 2020. Under the new NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 6,777 common shares, which represent 10% of the public float.

The actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 44 common shares. The Company may make one block purchase per calendar week which exceeds the daily purchase restriction.

In the fourth quarter of 2019, the Company purchased 856 common shares for cancellation, for a total cash consideration of \$11.0 million. For the year ended December 31, 2019, the Company purchased 1,538 common shares for cancellation, for a total cash consideration of \$24.0 million.

Payment of Income Tax - Other

During the first quarter of 2019, the Company paid withholding tax owing to the Canada Revenue Agency (CRA) of \$15,304 as part of the Bilateral Advanced Pricing Arrangement entered into with the CRA and the Internal Revenue Service (IRS). The Company will recover this amount from the IRS when its previous years US tax returns are reassessed.

Income Tax Provision

In 2019, the Province of Alberta announced a reduction to corporate income tax rates that decrease the provincial corporate income tax rate from 12% to 8% by 2022. The reduction in the Alberta provincial corporate income tax rate is considered enacted and accordingly the Company recorded its Canadian tax provision based upon these new rates. This change did not have a material impact on the Company's 2019 tax provision.

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	(\$)	(\$)	(\$)	(\$)
Operating leases and other contracts	6,847	10,577	4,653	22,077

Contractual obligations relate primarily to minimum future lease payments required primarily for operating leases of certain facilities. A portion of these future obligations have been recognized on the balance sheet as a leased asset and a corresponding liability, in accordance with IRFS 16, Leases.

The Company has available a \$5.0 million demand revolving credit facility. At December 31, 2019, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at December 31, 2019, there were 84,538 common shares and 5,111 options issued and outstanding.

SEDAR

Additional information relating to the Company 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.

Critical Accounting Estimates

The preparation of the Consolidated Financial Statements requires that certain estimates and judgments be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and management's judgments, and as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired.

Depreciation and Amortization

The accounting estimate that has the greatest impact on the Company's financial statements is depreciation and amortization. Depreciation of the Company's capital assets includes estimates of useful lives. These estimates may change with experience over time so that actual results could differ significantly from these estimates.

Carrying Value of Assets

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

Stock-Based Payments

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

Income Taxes

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

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

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

Risk and Uncertainties

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

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

Operating Risks

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

Commodity Prices

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

Seasonality

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

Proprietary Rights

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

Litigation

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in Pason's favour, the Company does not currently believe that the outcome of any pending or threatened proceedings related to these or other matters, or the amounts 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.

Credit Risk

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

Availability of Qualified Personnel

Due to the specialized and technical nature of Pason's business, Pason is highly dependent on attracting and retaining qualified or key personnel. There is competition for qualified personnel in the areas where Pason operates, and there can be no assurance that qualified personnel can be attracted or retained to meet the growth needs of the business. To mitigate this risk, Pason has a Human Resources department within each significant business unit to support that function.

Alternative Energies

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

International Operations

Assets outside of Canada and the US may be adversely affected by changes in governmental policy, social instability, or other political or economic developments beyond the Company's control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and considered warranted. Approximately 90% of the Company's revenues are generated in Canada and the US, which limits exposure to risks and uncertainties in foreign countries. The Company's Argentinian subsidiary is operating in a highly inflationary economy and its operating results are being impacted by a weakening Argentina peso relative to the Canadian dollar.

Foreign Exchange Exposure

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

Adjustments arising when translating the foreign subsidiaries into Canadian dollars are reflected in the Consolidated Statements of Operations and Other Comprehensive Income as unrealized foreign currency translation adjustments. The Company has not hedged either one of these risks.

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

Major Customers

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

Key Personnel

Pason's success depends to a significant extent on the contributions of a number of its officers and key employees. The Company does not carry "key person" insurance on any of its key employees. As such, the loss of services of one or more of these key employees could have a material adverse effect on Pason's business, operating results, or financial condition.

Dividends

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

Taxation

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

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

Information Security

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

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

For the year ended December 31, 2019, an evaluation of the Company's Disclosure Controls and Procedures was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that our DC&P, as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109), was effective to ensure that the information required by Canadian Securities regulatory authorities will be recorded, processed, and reported within the prescribed timelines.

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

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

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

An evaluation of the Company's ICFR was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2019, our ICFR, as defined in NI 52-109, was effective. There were no changes in our ICFR during the year ended December 31, 2019 that have materially affected, or are reasonably likely to affect, our ICFR.

Consolidated Financial Statements and Notes

Management's Report to Shareholders

To the Shareholders of Pason Systems Inc.,

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

Management has prepared the Management's Discussion and Analysis (MD&A). The MD&A is based on the Company's financial results prepared in accordance with IFRS. The MD&A compares the audited financial results for the years ended December 31, 2019 and 2018.

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

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



Marcel Kessler
President & Chief Executive Officer
Calgary, Alberta
February 26, 2020



Jon Faber
Chief Financial Officer

Independent Auditor's Report

To the Shareholders of Pason Systems Inc.

Opinion

We have audited the consolidated financial statements of Pason Systems Inc., (the "Company"), which comprise the consolidated balance sheets as at December 31, 2019 and 2018, and the consolidated statements of operations, other comprehensive income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

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

Other Information

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

- Management's Discussion and Analysis
- The information, other than the financial statements and our auditor's report thereon, in the Annual Report.

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

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

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

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

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

The engagement partner on the audit resulting in this independent auditor's report is Shawn Lai.

/s/ Deloitte LLP

Chartered Professional Accountants

Calgary, Alberta

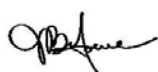
February 26, 2020

Consolidated Balance Sheets

As at	Note*	December 31, 2019	December 31, 2018
(CDN 000s)		(\$)	(\$)
Assets			
Current			
Cash and cash equivalents	5,17	161,016	203,838
Trade and other receivables	6	59,716	80,020
Income taxes recoverable - other	15	15,304	15,304
Prepaid expenses		3,621	3,934
Income taxes recoverable	15	2,382	6,203
Total current assets		242,039	309,299
Non-current			
Property, plant and equipment	7	118,522	120,417
Investments	8	26,265	1,245
Intangible assets and goodwill	10	51,015	30,755
Total non-current assets		195,802	152,417
Total assets		437,841	461,716
Liabilities and equity			
Current			
Trade payables and accruals	11	34,420	34,229
Income taxes payable	15	3,133	—
Income taxes payable - other	15	—	15,304
Stock-based compensation liability	12	2,442	3,301
Lease liability	3,14	3,275	312
Investment - put option	8	15,000	—
Total current liabilities		58,270	53,146
Non-current			
Deferred tax liabilities	15	8,566	17,060
Lease liability	3,14	11,532	2,233
Stock-based compensation liability	12	3,479	3,200
Obligation under put option	9	9,540	—
Total non-current liabilities		33,117	22,493
Equity			
Share capital	12	166,701	164,723
Share-based benefits reserve		30,863	27,287
Foreign currency translation reserve		57,830	63,574
Equity reserve	9	(8,375)	—
Retained earnings		99,806	130,493
Total equity attributable to equity holders of the Company		346,825	386,077
Non-controlling interest	9	(371)	—
Total equity		346,454	386,077
Total liabilities and equity		437,841	461,716

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

Approved by the Board of Directors



James B. Howe
Director



Judi Hess
Director

Consolidated Statements of Operations

Years Ended December 31,	Note*	2019	2018
(CDN 000s, except per share data)		(\$)	(\$)
Revenue		295,642	306,393
Operating expenses			
Rental services		105,496	104,398
Local administration		14,496	13,106
Depreciation and amortization	7,10	40,830	34,855
		160,822	152,359
Gross profit		134,820	154,034
Other expenses			
Research and development		30,439	26,997
Corporate services		15,653	15,905
Stock-based compensation expense	12	10,840	12,313
Other expenses	14	3,892	6,717
		60,824	61,932
Income before income taxes		73,996	92,102
Income tax provision	15	20,193	29,158
Net income		53,803	62,944
Net income attributable to:			
Shareholders of Pason		54,112	62,944
Non-controlling interest	9	(309)	—
Net income		53,803	62,944
Income per share	16		
Basic		0.63	0.74
Diluted		0.63	0.73

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

Consolidated Statements of Other Comprehensive Income

Years Ended December 31,	Note*	2019	2018
(CDN 000s)		(\$)	(\$)
Net income		53,803	62,944
Items that may be reclassified subsequently to net income:			
Tax recovery (expense) on net investment in foreign operations related to an inter-company financing	15	10,481	(3,110)
Foreign currency translation adjustment	3	(16,225)	26,326
Other comprehensive (loss) gain		(5,744)	23,216
Total comprehensive income		48,059	86,160
Total comprehensive income (loss) attributed to:			
Shareholders of Pason		48,368	86,160
Non-controlling interest		(309)	—
		48,059	86,160

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

Consolidated Statements of Changes in Equity

(CDN 000s)	Note*	Share Capital	Share-Based Benefits Reserve	Foreign Currency Translation Reserve	Equity Reserve	Retained Earnings	Total Equity Attributable to Pason	Non-Controlling Interest	Total Equity
		(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Balance at January 1, 2018		150,887	24,425	40,358	—	131,816	347,486	—	347,486
Net income		—	—	—	—	62,944	62,944	—	62,944
Dividends		—	—	—	—	(59,785)	(59,785)	—	(59,785)
Other comprehensive income		—	—	23,216	—	—	23,216	—	23,216
Exercise of stock options	12	12,854	(1,842)	—	—	—	11,012	—	11,012
Expense related to vesting of options		—	4,704	—	—	—	4,704	—	4,704
Prior years business acquisition	12	1,500	—	—	—	—	1,500	—	1,500
Shares cancelled under Normal Course Issuer Bid	12	(95)	—	—	—	(826)	(921)	—	(921)
Liability for automatic share purchase plan commitment pursuant to NCIB	12	(423)	—	—	—	(3,656)	(4,079)	—	(4,079)
Balance at December 31, 2018		164,723	27,287	63,574	—	130,493	386,077	—	386,077
Net income		—	—	—	—	54,112	54,112	(309)	53,803
Dividends		—	—	—	—	(63,100)	(63,100)	—	(63,100)
Prior years business acquisition	12	1,250	—	—	—	—	1,250	—	1,250
Acquisition	9	—	—	—	(8,375)	—	(8,375)	(62)	(8,437)
Other comprehensive loss	15	—	—	(5,744)	—	—	(5,744)	—	(5,744)
Exercise of stock options	12	3,990	(624)	—	—	—	3,366	—	3,366
Expense related to vesting of options		—	4,200	—	—	—	4,200	—	4,200
Shares cancelled under Normal Course Issuer Bid	12	(2,953)	—	—	—	(21,087)	(24,040)	—	(24,040)
Liability reversal for automatic share purchase plan commitment pursuant to NCIB	12	423	—	—	—	3,656	4,079	—	4,079
Liability for automatic share purchase plan commitment pursuant to NCIB	12	(732)	—	—	—	(4,268)	(5,000)	—	(5,000)
Balance at December 31, 2019		166,701	30,863	57,830	(8,375)	99,806	346,825	(371)	346,454

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

Consolidated Statements of Cash Flows

Years Ended December 31,	Note*	2019	2018
(CDN 000s)		(\$)	(\$)
Cash from (used in) operating activities			
Net income		53,803	62,944
Adjustment for non-cash items:			
Depreciation and amortization		40,830	34,855
Stock-based compensation	12	10,840	12,313
Deferred income taxes	15	2,185	9,796
Derecognition of lease receivable	14	4,289	—
Hyperinflationary adjustment		(1,252)	—
Unrealized foreign exchange (gain) loss and other		1,023	8,636
Funds flow from operations		111,718	128,544
Movements in non-cash working capital items:			
Decrease (increase) in trade and other receivables		14,089	(24,523)
Decrease in prepaid expenses		164	253
Increase in income taxes		9,174	14,054
(Decrease) increase in trade payables, accruals and stock-based compensation liability		(8,540)	4,368
Effects of exchange rate changes		(697)	530
Cash generated from operating activities		125,908	123,226
Income tax paid	15	(17,361)	(16,049)
Net cash from operating activities		108,547	107,177
Cash flows from (used in) financing activities			
Proceeds from issuance of common shares	12	3,366	11,012
Payment of dividends	12	(63,100)	(59,785)
Repurchase and cancellation of shares under Normal Course Issuer Bid	12	(24,040)	(921)
Repayment of lease liability		(2,342)	—
Net cash used in financing activities		(86,116)	(49,694)
Cash flows (used in) from investing activities			
Acquisition (net of cash)	9	(23,660)	—
Investment	8	(10,000)	—
Additions to property, plant and equipment	7	(22,453)	(19,411)
Development costs	10	(1,725)	(4,465)
Proceeds on disposal of investment and property, plant and equipment		1,322	1,543
Maturity of short-term investment		—	65,650
Purchase of short-term investments		—	(65,840)
Changes in non-cash working capital		263	678
Net cash used in investing activities		(56,253)	(21,845)
Effect of exchange rate on cash and cash equivalents		(9,000)	14,071
Net (decrease) increase in cash and cash equivalents		(42,822)	49,709
Cash and cash equivalents, beginning of period		203,838	154,129
Cash and cash equivalents, end of period	5	161,016	203,838

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

Notes to Consolidated Financial Statements

(\$CDN 000s, except per share data)

1. Description of Business

Pason Systems Inc. (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 Consolidated Financial Statements include the accounts of Pason Systems Inc., its wholly owned subsidiaries, and ETB Inc. (Note 9).

2. Basis of Preparation

Statement of compliance

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

The Consolidated Financial Statements were authorized for issue by the Board of Directors on February 26, 2020.

Basis of measurement

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

Functional and presentation currency

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

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

Key Sources of Estimation Uncertainty

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

basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

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

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

Cash generating units (CGU)

For purposes of determining if any impairment exists, the Group has determined that the assets of each of its geographic segments are an appropriate basis for its CGUs. The Company uses judgment in the determination of the CGUs.

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

At each reporting period, management assesses whether there are indicators of impairment of the Company's property and equipment, intangible assets, and goodwill. If an indication of impairment exists, the property and equipment, intangible assets, and goodwill are tested for impairment. Goodwill is tested for impairment at least annually. In order to determine if impairment exists and to measure the potential impairment charge, the carrying amounts of the Company's CGUs are compared to their recoverable amounts, which is the greater of fair value less costs to sell and value in use (VIU). An impairment charge is recognized to the extent the carrying amount exceeds the recoverable amount. VIU is calculated as the present value of the expected future cash flows specific to each CGU. In calculating VIU, significant judgment is required in making assumptions with respect to discount rates, the market outlook, and future net cash flows associated with the CGU. Any changes in these assumptions will have an impact on the measurement of the recoverable amount and could result in adjustments to impairment charges already recorded.

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

Accounting for business combinations involves the allocation of the cost of an acquisition to the underlying net assets acquired based on estimated fair values. As part of this allocation process, the Company identifies and attributes values and estimated lives to identifiable intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk and the weighted average cost of capital used by a market participant. These estimates and assumptions determine the amount allocated to identifiable separable intangible assets and goodwill, as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges. In conjunction with the ETB Inc. acquisition, the Company determined the obligation under the put option based upon certain assumptions and estimates which could differ significantly from actual results (Note 9).

Provisions and contingencies

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

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

Viability of new product development projects

New product development projects are capitalized, and include the cost of materials and direct labour costs that are directly attributable to preparing the asset for its intended use. Subsequent changes in facts or circumstances could result in the balance of the related deferred costs being expensed in profit or loss. Results could differ if new product development projects become unprofitable due to changes in technology or if actual rental rates differ materially from forecasted pricing.

Stock-based payments

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

Income taxes

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

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

The calculation of deferred income taxes is based on a number of assumptions, including estimating the future periods in which temporary differences, tax losses, and other tax credits will reverse. Tax

interpretations, regulations, and legislation in the various jurisdictions in which the Company and its subsidiaries operate are subject to change.

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

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

3. Significant Accounting Policies

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

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

Basis of consolidation

(a) Business combinations

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

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

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

(b) Subsidiaries

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

Investments in Associates and Joint Ventures

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

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

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

Non-controlling interest

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

For the acquisition of Energy Toolbase Software Inc (ETB Inc), non-controlling interest was valued using the minority interest's proportionate share of the acquiree's identifiable assets method.

Non-controlling interest in the net (loss) income of the Company's non-wholly subsidiaries are included in net income (loss).

The non-controlling interest related to ETB Inc's minority interests are presented as equity.

The carrying amount of non-controlling interest is increased or decreased by the minority interest's share of subsequent changes in net (loss) income and comprehensive (loss) income, as well as dividends or cash disbursements made to the minority interest even if the result is that non-controlling interest becomes a debit balance.

Non-controlling interest in put options

The Company accounts for non-controlling interests that have been granted a put option as a non-derivative financial liability. The liability is re-measured at each reporting period with any adjustments recorded through the income statement.

Non-controlling interest continues to be recognized as the non-controlling interest holders still participate in any returns (losses) associated with their ownership investment.

Foreign currency

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

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

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

Hyperinflation Accounting

Due to various qualitative factors and developments with respect to the economic environment in Argentina, including, but not limited to, the acceleration of multiple local inflation indices, the three-year cumulative inflation rate of the local Argentine wholesale price index exceeding 100%, and the significant devaluation of the Argentine Peso, Argentina has been designated a hyper-inflationary economy as of the second quarter of 2018 for accounting purposes.

Accordingly, IAS 29, *Financial Reporting in Hyper-Inflationary Economies*, has been applied to these Consolidated Financial Statements as the Company's Argentina operating subsidiary use the Argentine Peso as its functional currency. The financial statements are based on the historical cost approach in IAS 29.

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

As the Consolidated Financial Statements of the Company have been previously presented in Canadian dollars, a stable currency, the comparative period amounts have not been restated. Opening equity reported in Canadian dollars is affected by the cumulative effect of restating non monetary items from the date they were first recognized and the effect of translating those balances at the closing exchange rate (the "Opening Translation Adjustment"). On initial application of IAS 29, there is an accounting policy choice to recognize this amount directly to opening equity or to other comprehensive income as a translation adjustment. The Company elected to recognize the Opening Translation Adjustment of \$847 to other comprehensive income as a foreign currency translation adjustment.

As a result of the change in the IPC for the year ended December 31, 2019, the Company recognized a net monetary gain within the Argentina subsidiary of \$2,887 to adjust transactions for the period into a measuring unit current as of December 31, 2019. The impact of applying hyper-inflationary accounting for the year ended December 31, 2018 was not material.

The level of the IPC at December 31, 2019 was 283.4, which represents an increase of 54% over the IPC at January 1, 2019.

Financial instruments

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

The Company has the following non-derivative financial assets:

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

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

(b) Loans and receivables:

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

The Company has the following non-derivative financial liabilities:

(a) Non-derivative financial liabilities

Trade payables, accruals, provisions, and obligation under put option are held within the non-derivative financial liabilities category. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. Refer to Put Option (Note 9).

Cash and cash equivalents

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

Share capital

Common shares are classified as equity.

Property, plant, and equipment

(a) Recognition and measurement

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

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

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

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

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

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

(b) Subsequent costs

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

(c) Depreciation

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

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

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

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

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

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

Intangible assets

(a) Goodwill

Goodwill represents the excess of purchase price for business acquisitions over the fair value of the acquired net assets. Goodwill is allocated as of the date of the business acquisition.

Goodwill that arises upon the acquisition of subsidiaries is included in intangible assets.

Goodwill is measured at cost less accumulated impairment losses.

(b) Research and development

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

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

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

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

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

(c) Other intangible assets

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

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

(d) Subsequent expenditures

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

(e) Amortization

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

The estimated useful lives for intangible assets are as follows:

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

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

Impairment

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

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

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

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

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

(b) Non-financial assets

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

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

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

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

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

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

Employee benefits

(a) Stock option plan

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

Compensation expense associated with the option plan is recognized as stock-based compensation expense over the vesting period of the stock options with a corresponding increase in contributed surplus.

Any consideration received on the exercise of stock options for common shares is credited to share capital.

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

The Company has a RSU and a PSFV plan for qualified employees whereby holders receive a cash settlement based upon the number of outstanding units multiplied by the prevailing

market price of the Company's common shares on the vesting date. A liability is accrued and adjusted each quarter based upon the current market price of the Company's common shares.

Compensation expense for the plans is accrued on a graded basis over the respective three-year vesting period.

Any changes in the fair value of the liability are recognized in profit or loss.

(c) Deferred share unit (DSU) plan

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

Compensation expense for the DSU plan is accrued evenly over the respective one-year vesting period.

Any changes in the fair value of the liability are recognized in profit or loss.

(d) Performance share unit (PSU) plan

The Company has a PSU plan for Executive Officers of the Company. Under the terms of the Plan, the number of PSU's awarded to an employee shall be equal to one PSU for each \$1.00 of Grant Value awarded on such date. The Grant Value awarded to an employee shall be determined by the Board of Directors. PSU's are awarded annually and entitle the employee to receive, upon vesting, a cash payment dependent upon the change in trading value of the Company's common shares relative to two prescribed benchmark indices. If the return is below a specified level compared to the indices, the units awarded will be forfeited with no payment made. The maximum payout is 200% of the initial grant value. PSU grants vest in three equal portions on the first, second and third anniversary of the grant date. The fair value of the PSU's are accrued on a graded basis over the respective three-year vesting period.

Provisions

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

Revenue

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

- (a) identifies the contract(s) with a customer,
- (b) identifies the performance obligations in the contract,
- (c) determines the transaction price,
- (d) allocate the transaction price to the performance obligations in the contract, and
- (e) recognizes revenue when (or as) the entity satisfies a performance obligation.

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

Leases

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

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

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

- (a) Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- (b) Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date;
- (c) The amount expected to be payable by the lessee under residual value guarantees; The exercise price of purchase options, if the lessee is reasonably certain to exercise the options; and
- (d) Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

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

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

- (a) The lease term has changed or there is a significant event or change in circumstances resulting in a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- (b) The lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- (c) A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

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

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

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

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

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

Finance income, finance costs, and foreign exchange

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

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

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

Income tax

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

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

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse,

based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

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

Dividends

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

Income per share

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

Segment reporting

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

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

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

Standards and interpretations adopted in the year ended December 31, 2019

IFRS 16, Leases

Effective January 1, 2019, the Company adopted IFRS 16, Leases. This new standard supersedes IAS 17, Leases, and introduces a single lessee accounting model by eliminating a lessee's classification of leases as either operating leases or finance leases.

For the transition of this standard, the Company applied the modified retrospective approach with the recognition of the initial present value of fixed lease payments over the remaining lease term as a right of use asset and a corresponding lease liability on the Consolidated Balance Sheets as at January

2019, each totaling \$9,764. The asset is disclosed as a right-of-use asset and the liability as a lease liability. The weighted average discount rate of 5% was used and is based on our estimated incremental borrowing rate. The prior year figures were not restated.

At the inception of a contract, the Company determines whether such a contract is or contains a lease under IFRS 16. Leased assets are capitalized at the date the lease commences and are comprised of the initial lease liability, less any lease incentives received. The lease term includes periods covered by any option to renew, where it is reasonably certain that the option will be exercised. The lease term will also include periods covered by any option to terminate, where it is reasonably certain that the option will not be exercised. The discount rate used will be the rate implicit in the lease if readily determinable. Depreciation is calculated based on the initial cost of the asset and recognized in net income on a straight line basis over the estimated useful life of the lease. The lease asset is included in property, plant, and equipment on the Consolidated Balance Sheets. Payments made related to the finance lease obligation are allocated between finance costs and the reduction of the outstanding liability. Finance costs are allocated to each period during the lease term using the effective interest rate method. Leases with durations of twelve months or less and leases for low-value assets are both exempted and in these cases the lease payments will be treated as an expense on the Consolidated Statement of Operations.

The cash flows of the total lease expense over the term of a lease will be unaffected by the new standard. However, the impact of the new standard on the Consolidated Statement of Operations results in the Company's lease expense being presented as depreciation of right of use assets and financing costs arising from lease liabilities rather than being a part of either rental services and local administration expense, research and development expenses, or corporate service costs.

The Company's actual cash flows will be unaffected, however relative to the prior year presentation and the prior standard, the Company's Consolidated Statement of Cash Flows will reflect an increase in net cash from operating activities offset by a corresponding decrease in financing activity cash flows due to the payment of the principal component of leases.

Under the new standard the onerous lease that the Company recorded previously has been segregated into two separate contracts, applying both the lessee and lessor accounting requirements. The sublease the Company entered into is classified as a finance lease for purposes of IFRS 16.

Balance sheet reconciliation as at January 1, 2019

Asset

	(\$)
Right of use assets - real estate	9,307
Right of use assets - other	457
Right of use asset as at January 1, 2019	9,764

The right of use assets are recorded as Property, plant, and equipment in the Consolidated Balance Sheets.

Liability

	(\$)
Operating commitments as at December 31, 2018	18,261
Relief for short term leases and low value assets	(1,103)
New right of use asset entered into	485
Operating commitments not recognized as a lease liability	(6,527)
Gross lease liability as at January 1, 2019	11,116
Discounting	(1,352)
Lease liability as at January 1, 2019	9,764

Future Accounting Policy Changes

The following amendments have been issued and are effective for financial years beginning on or after January 1, 2020. Amendments that are not applicable to the Company have been excluded. The Company does not anticipate that the adoption of any of these amendments will have a material impact on the financial statements.

IFRS 3, Business combinations

Amendments to IFRS 3, Business Combinations, assist in determining whether a transaction should be accounted for as a business combination or an asset acquisition. It amends the definition of a business to include an input and a substantive process that together significantly contribute to the ability to create goods and services provided to customers, generating investment and other income, and it excludes returns in the form of lower costs and other economic benefits. The amendments will be applied prospectively to new transactions.

IAS 28, Investments in associates and joint ventures

Indicates that long-term interests in an associate or joint venture, such as long-term loans, should be accounted for using IFRS 9, Financial instruments.

IAS 12/IFRIC 23, Income taxes

Clarified that IAS 12 applies to accounting for uncertain tax positions. The IFRIC includes guidance to deal with uncertainty of tax treatments.

4. Determination of Fair Values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement or disclosure purposes based on the methods below. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

Intangible assets

The fair value of customer relationships acquired in a business combination is determined using the multi-period excess earnings method, whereby the subject asset is valued after deducting a fair return on all other assets that are part of creating the related cash flows.

The fair value of other intangible assets is based on the discounted cash flows expected to be derived from the use of the assets.

Share-based payment transactions

Employee stock options are valued using the Black-Scholes option pricing model, while RSUs, DSUs and PSUs are measured using the fair value method. Measurement inputs for Black-Scholes include the share price on measurement date, the exercise price of the instrument, the expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), the weighted average expected life of the instruments (based on historical experience), the expected dividends, the risk-free interest rate (based on government bonds), and estimated forfeiture rates.

5. Cash and Cash Equivalents

As at	December 31, 2019	December 31, 2018
	(\$)	(\$)
Cash	56,539	57,819
Cash equivalents	104,477	146,019
Cash and cash equivalents	161,016	203,838

The Group's exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities is disclosed in Note 19. Cash equivalents are made up of cash invested in money market funds with interest rates of approximately 1.70% and maturities from 1–30 days.

6. Trade and Other Receivables

As at December 31,	2019	2018
	(\$)	(\$)
Trade receivables, net of allowances for doubtful accounts	57,572	76,965
Other receivables	2,144	3,055
	59,716	80,020

All trade and other receivables are classified as current assets.

The Group's exposure to credit and currency risks, and impairment losses related to trade and other receivables, is disclosed in Note 19.

7. Property, Plant, and Equipment

	Materials and supplies	Rental equipment	Right of use assets	Other	Total
	(\$)	(\$)	(\$)	(\$)	(\$)
Property, plant and equipment					
Balance at January 1, 2018	7,531	455,892	—	50,767	514,190
Additions	5,414	4,789	—	9,208	19,411
Derecognition of assets	—	(5,010)	—	(1,934)	(6,944)
Disposals and scrap	(41)	(15,603)	—	(2,985)	(18,629)
Parts consumed	(5,095)	5,095	—	—	—
Effects of exchange rate changes	(178)	23,345	—	(397)	22,770
Balance at December 31, 2018	7,631	468,508	—	54,659	530,798
Additions	9,439	10,062	10,848	2,952	33,301
Derecognition of assets	—	(3,850)	(263)	—	(4,113)
Disposals and scrap	—	(11,451)	—	(1,630)	(13,081)
Parts consumed	(10,745)	10,745	—	—	—
Hyperinflation	—	5,108	—	—	5,108
Effects of exchange rate changes	(135)	(17,298)	—	(103)	(17,536)
Balance at December 31, 2019	6,190	461,824	10,585	55,878	534,477
Depreciation and impairment losses					
Balance at January 1, 2018	—	348,840	—	37,665	386,505
Provisions	—	22,288	—	6,828	29,116
Derecognition of assets	—	(5,010)	—	(1,934)	(6,944)
Disposals and scrap	—	(14,325)	—	(2,511)	(16,836)
Effects of exchange rate changes	—	17,806	—	734	18,540
Balance at December 31, 2018	—	369,599	—	40,782	410,381
Provisions	—	23,920	2,579	3,768	30,267
Derecognition of assets	—	(3,850)	(263)	—	(4,113)
Disposals and scrap	—	(9,362)	—	(633)	(9,995)
Hyperinflation	—	2,623	—	—	2,623
Effects of exchange rate changes	—	(12,701)	—	(507)	(13,208)
Balance at December 31, 2019	—	370,229	2,316	43,410	415,955
Carrying Amounts					
At December 31, 2018	7,631	98,909	—	13,877	120,417
At December 31, 2019	6,190	91,595	8,269	12,468	118,522

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

Derecognition of Assets

Included in the amounts recorded as derecognition of assets in the above table are the costs and accumulated depreciation of fully depreciated assets that have been removed from the Company's books. In 2019, these amounts were \$4,113 (2018: \$6,944).

Included in depreciation and amortization expense are losses on the derecognition of assets and spare parts obsolescence reserves in the amount of \$2,132 (2018: \$1,243) for the year ended December 31, 2019.

8. Investments

In the fourth quarter of 2019, the Company entered into an agreement to invest \$25,000 for a fixed price to acquire a minority interest in Intelligent Wellhead Systems Inc. ("IWS"). IWS is a privately-owned oil and gas technology and service company that provides proprietary and unique surface control systems for various markets globally. The investment consists of an initial cash payment of \$10,000, which was made in the fourth quarter of 2019, and three put options, exercisable at the discretion of IWS, of \$5,000 each for a period of up to three years, with any remaining unexercised put option automatically triggered on expiry. The put options, totaling \$15,000, have been accrued for at December 31, 2019 and are presented as a current liability. IWS may include one or more tranches in any single exercise of the put option. Based on the minority interest ownership before and after exercise of the put options and powers to participate in the financial and operating decisions of IWS, the Company uses the equity method to account for this investment. The equity income for the year was immaterial.

As part of the investment, the Company entered into a Shareholder's Agreement with the existing shareholder's of IWS, which includes a Company call option to purchase all of the issued and outstanding shares not held by the Company at the time the option is exercised. The call option period begins in 2022 and expires in 2025. The call option exercise price is calculated based upon the total equity value of IWS, as defined in the agreement, and the fair value was immaterial.

9. Acquisition

On September 10, 2019, a US subsidiary of the Company, Pason US Holdings Corp. (Holdco) entered into an agreement with Energy Toolbase LLC (ETB LLC), whereby Holdco and ETB LLC formed Energy Toolbase Software Inc (ETB Inc). Holdco contributed 100% of the shares it held in Pason Power Inc. (Power) and \$26,664 in return for an 80% interest in ETB Inc. ETB LLC owners contributed all of the ETB LLC partnership units in return for 20% of ETB Inc and \$26,664 in cash. At December 31, 2019, both ETB LLC and Power were amalgamated into ETB Inc.

ETB LLC was a private, US-based software-as-a-service (SaaS) company in the software development of a platform that specializes in modeling and proposing the economics of solar PV and energy storage projects.

The purchase agreement includes various put and call provisions which provide a certain amount of liquidity to both parties, including a put option for ETB LLC shareholders to exercise for cash their shareholdings of ETB Inc. starting in 2022 with reference to the fair value of ETB Inc. shares at the date the put option can be exercised (the Put Option).

The acquisition was accounted for as a business combination using the acquisition method whereby the net assets acquired and liabilities assumed are recorded at fair value. The Company elected to recognize the non-controlling interest of ETB Inc. at its proportionate share of the acquired net identifiable assets.

The consideration transferred consists of cash and the fair value of the put options of \$1,323.

A portion of the consideration, \$2,694, has been withheld and is payable in 2020 in accordance with the terms of the holdback provisions contained in the purchase agreement, such terms being customary post-closing conditions. This holdback is recorded under trade payables and accruals in the Consolidated Balance Sheets.

Since the Put Option is a contractual obligation it gives rise to a financial liability which is initially recognized at the present value of the estimated redemption amount (obligation under put option). The estimated liability has been calculated with reference to the agreement and is discounted to its present value at each reporting date with subsequent changes recognized through the income statement. The significant unobservable inputs include the put being exercised in 2022 at a notional aggregate fair value of \$11,233 using a discount rate of 6%.

At the acquisition date and at December 31, 2019, the obligation under the put option was estimated to be \$9,540 and is recorded separately in the Consolidated Balance Sheets as a non-current liability with a corresponding amount recorded as an equity reserve.

As at	December 31, 2019	December 31, 2018
	(\$)	(\$)
Principal amount	11,233	—
Discount	(1,693)	—
	9,540	—

The agreement contains other various put and call options, and rights, which provide a certain amount of liquidity to both parties, customary to these types of agreements. The fair value of these provisions are immaterial.

The preliminary allocation of the purchase price is as follows:

Net Assets Acquired

	(\$)
Net identifiable assets (liabilities)	(101)
Customer relationships	1,503
Trademarks and brand name	1,298
Technology	2,491
Goodwill	22,424
Net assets acquired	27,615
Non-controlling interest	62
Consideration net of cash received ⁽¹⁾	27,677

(1) Cash of \$310 was acquired as part of the acquisition.

Consideration

	(\$)
Cash consideration paid in 2019	23,970
Cash consideration to be paid in 2020	2,694
Fair value of put option	1,323
Total consideration	27,987

The goodwill balance is attributable to the acquisition of an existing operating business with access to an assembled workforce and operating synergies anticipated from the integration of the operations of ETB LLC and the Company. The goodwill is deductible for tax purposes.

The purchase price allocation is based upon management's best estimate of fair values as of the acquisition date, although future adjustments to these estimates may be necessary. The purchase price allocation adjustments can be made throughout the end of the Company's measurement period, which is not to exceed one year from the acquisition date.

The equity reserve balance on the Consolidated Balance Sheets consists of the redemption value of the obligation under the put option less the fair value assigned to the put option.

The financial results of ETB will be included in the US segment. The amount of revenue and net income the acquired Company contributed from September 10 to December 31, 2019 is approximately \$610 and \$(107) respectively. If the acquisition had occurred on January 1, 2019, revenue and net income would have increased approximately \$2,950 and \$(7) respectively.

All transaction costs have been expensed and recorded in other expenses.

10. Intangible Assets and Goodwill

	Goodwill	Research & Development	Technology	Customer Relationships	Other	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Intangible assets						
Balance at January 1, 2018	11,615	30,938	2,842	11,245	4,168	60,808
Internally developed	—	4,506	—	—	16	4,522
Investment tax credits received	—	(1,751)	—	—	—	(1,751)
Derecognition of assets	—	(13,506)	—	—	(422)	(13,928)
Effects of exchange rate	678	—	—	169	26	873
Balance at December 31, 2018	12,293	20,187	2,842	11,414	3,788	50,524
Internally developed	—	2,447	—	—	—	2,447
Investment tax credits received	—	(721)	—	—	—	(721)
Acquisition	22,424	—	2,491	1,503	1,298	27,716
Effects of exchange rate	(595)	—	(44)	(127)	(51)	(817)
Balance at December 31, 2019	34,122	21,913	5,289	12,790	5,035	79,149
Amortization						
Balance at January 1, 2018	598	16,379	474	7,307	2,977	27,735
Amortization	—	3,725	474	788	752	5,739
Derecognition of assets	—	(13,506)	—	—	(422)	(13,928)
Effects of exchange rate	52	—	—	169	2	223
Balance at December 31, 2018	650	6,598	948	8,264	3,309	19,769
Amortization	—	6,484	612	871	578	8,545
Effects of exchange rate	(38)	—	—	(142)	—	(180)
Balance at December 31, 2019	612	13,082	1,560	8,993	3,887	28,134
Carrying amounts						
At December 31, 2018	11,643	13,589	1,894	3,150	479	30,755
At December 31, 2019	33,510	8,831	3,729	3,797	1,148	51,015

Derecognition of Intangible Assets

Included in the amounts recorded as derecognition of intangible assets in the above table are the costs and accumulated depreciation of fully depreciated research and development costs that have been removed from the Company's books. In 2018, these amounts were \$13,928.

Intangible Assets and Goodwill

The carrying value of goodwill is regularly tested for impairment. In assessing these assets for impairment at December 31, 2019 and 2018, the Company compared the aggregate recoverable

amount of the assets included in the respective CGUs. Intangible assets and goodwill acquired as part of the ETB acquisition have been assigned to the US CGU.

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

For periods beyond the budget period, cash flows were extrapolated using growth rates that do not exceed the long-term average for these segments.

Key assumptions are as follows:

	Canada	United States	International
	(%)	(%)	(%)
Weighted average growth rate	3	1	5
Terminal growth rate	2.0	2.0	2.0
Pre-tax discount rate	13	13	15

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

11. Trade Payables, Accruals and Provisions

As at December 31,	Note	2019	2018
		(\$)	(\$)
Trade payables		8,546	10,921
Non-trade payables and accrued expenses		20,874	19,541
Liability for automatic share purchase plan commitment pursuant to NCIB	12	5,000	4,079
		34,420	34,541

The Group's exposure to currency and liquidity risk related to trade and other payables is disclosed in Note 19.

12. Share Capital

Common Shares				
Years Ended December 31,	2019		2018	
	(\$)	(#)	(\$)	(#)
Balance, beginning of period	164,723	85,783	150,887	85,158
Exercise of stock options	3,990	198	12,854	595
Previous business acquisition	1,250	95	1,500	80
Shares repurchased and cancelled under Normal Course Issuer Bid (NCIB)	(2,953)	(1,538)	(95)	(50)
Prior period liability for automatic share purchase plan commitment pursuant to NCIB	423	—	—	—
Liability for automatic share purchase plan commitment pursuant to NCIB	(732)	—	(423)	—
Balance, end of period	166,701	84,538	164,723	85,783

Common shares

At December 31, 2019, 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, 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.

During the year ended December 31, 2019, 95 (2018 - 80) common shares were issued in accordance with the terms of a previous business acquisition.

Stock option plan

The Group has a stock option plan that entitles qualified employees to purchase shares in the Company. Options, which are issued at market price, vest over three years and expire after five years.

At December 31, 2019, 5,111 (2018: 5,534) stock options were outstanding for common shares at exercise prices ranging from \$12.90 to \$20.62 per share, expiring between 2020 and 2024 as follows:

Years Ended December 31,	2019		2018	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
Outstanding, beginning of period	5,534	20.00	5,514	20.07
Granted	842	13.18	1,281	20.22
Equity settled	(198)	16.98	(595)	18.52
Expired or forfeited	(1,067)	25.39	(666)	22.18
Outstanding, end of period	5,111	17.87	5,534	20.00
Exercisable, end of period	3,007	18.46	2,788	21.10
Available for grant, end of period	807		471	

The following table summarizes information about stock options outstanding at December 31, 2019:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Options Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable (Vested)	Weighted Average Exercise Price
(\$)	(#)	(Years)	(\$)	(#)	(\$)
12.90 – 16.90	1,743	3.30	14.54	942	15.94
16.91 – 20.62	3,368	2.83	19.60	2,065	19.61
	5,111	2.99	17.87	3,007	18.46

All stock options are accounted for using the Black-Scholes option pricing model.

Weighted average assumptions for options granted in the year are as follows:

Years Ended December 31,	2019	2018
Fair value of stock options (\$)	1.61	3.72
Forfeiture rate (%)	11.17	11.39
Risk-free interest rate (%)	1.54	2.17
Expected option life (years)	3.43	3.41
Expected volatility (%)	28.54	31.42
Expected annual dividends per share (%)	5.89	3.61

Stock-based compensation expense arising from the Stock option plan of \$4,200 (2018: \$4,704) was recorded in the Consolidated Statements of Operations under stock-based compensation.

Restricted share units plan

At December 31, 2019, 650 (2018: 319) RSUs were outstanding. All RSUs vest over three years and will result in a cash payment to holders based upon the corresponding future market value of the Company's common shares. Stock-based compensation expense arising from the RSU plan of \$1,927 (2018: \$2,481) was recorded in the Consolidated Statements of Operations under stock-based compensation. The corresponding liability is recorded in the Consolidated Balance Sheets.

The outstanding RSUs can be summarized as follows:

Years Ended December 31,	2019	2018
	(#)	(#)
RSUs, beginning of year	319	258
Granted	502	191
Vested and paid	(140)	(116)
Forfeited	(31)	(14)
RSUs, end of year	650	319

Deferred share units plan

The DSUs are awarded annually to non-management members of the Board of Directors and represent rights to share values based on the number of DSUs issued. DSUs are credited evenly following the year in which they are awarded. DSUs vest and are paid upon the retirement of the Director. There were 170 DSUs credited as at December 31, 2019 (2018:129). Stock-based compensation recovery arising from the DSU plan of \$127 (2018: \$404) was recorded in the Consolidated Statements of Operations under stock-based compensation. The corresponding liability is recorded in the Consolidated Balance Sheets.

The outstanding DSUs can be summarized as follows:

Years Ended December 31,	2019	2018
	(#)	(#)
DSUs, beginning of year	129	107
Credited	41	22
DSUs, end of year	170	129

Performance share units plan

Under the terms of the PSU Plan, the number of PSUs awarded to an employee shall be equal to one PSU for each \$1.00 of Grant Value awarded on such date. All PSUs vest over three years and will result in a cash payment to holders based upon the total shareholder return on the Company's common shares relative to two prescribed benchmark indices. There were 4,561 PSUs outstanding at December 31, 2019 (2018: 4,571). Stock-based compensation expense arising from the PSU plan of \$4,548 (2018: \$3,645) was recorded in the Consolidated Statements of Operations under stock-based compensation. The corresponding liability is recorded in the Consolidated Balance Sheets.

The outstanding PSUs can be summarized as follows:

Years Ended December 31,	2019	2018
	(#)	(#)
PSUs, beginning of year	4,571	4,240
Granted	2,363	2,368
Vested and paid	(2,253)	(2,037)
Forfeited	(120)	—
PSUs, end of year	4,561	4,571

Stock-based compensation expense and liability

The stock option, restricted share unit (RSU), deferred share unit (DSU), and performance share unit (PSU) plans expense can be summarized as follows:

Expense

Years Ended December 31,	2019	2018
	(\$)	(\$)
Stock options	4,200	4,704
RSUs	1,927	2,481
DSUs	(127)	404
PSUs	4,548	3,645
Deferred compensation expense	292	1,079
Stock-based compensation	10,840	12,313

In 2016, the Company purchased all of the existing and outstanding shares of Verdazo Analytics, Inc. (Verdazo). A portion of the total consideration was deferred and is payable over three years. In accordance with IFRS 3, a portion of this deferred consideration was not part of the purchase price but is accounted for as future compensation expense. This amount is included in deferred compensation expense

Liability

As at	December 31, 2019	December 31, 2018
	(\$)	(\$)
RSUs	739	1,109
PSUs	1,703	1,609
Deferred compensation expense	—	583
Current portion of stock-based compensation liability	2,442	3,301
RSUs	710	341
DSUs	2,228	2,355
PSUs	541	504
Non-current portion of stock-based compensation liability	3,479	3,200
Total stock-based compensation liability	5,921	6,501

Common share dividends

During 2019, the Company declared and paid dividends of \$63,100 (2018: \$59,785) or \$0.74 per common share (2018: \$0.70).

Normal Course Issuer Bid (NCIB)

In 2018, the Company implemented an NCIB which ended on December 17, 2019. The Company renewed the expiring NCIB, which commenced on December 18, 2019 and expires on December 17, 2020. Under the new NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 6,777 common shares, which represent 10% of the public float.

The actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 44 common shares. The Company may make one block purchase per calendar week which exceeds the daily purchase restriction.

For the year ended December 31, 2019, the Company purchased 1,538 common shares for cancellation (2018: 50), for a total cash consideration of \$24,040 (2018: \$921). The total consideration is allocated between share capital and retained earnings.

Under an automatic purchase plan with an independent broker (APP), the Company recorded a liability of \$5,000 at December 31, 2019 (2018: \$4,079) for share repurchases that could take place during its internal blackout period. The total accrual is included in the Consolidated Balance Sheets under trade payables and accruals.

As at	December 31, 2019	December 31, 2018
	(\$)	(\$)
Amounts charged to		
Share capital	732	423
Retained earnings	4,268	3,656
Liability for automatic share purchase plan commitment	5,000	4,079

13. Operating Segments

The Company operates in three geographic segments: Canada, the United States, and International (Latin America, Offshore, the Eastern Hemisphere, and the Middle East). The three geographic segments are considered strategic business units. The strategic business units offer the same services, but are managed separately. For each of the strategic business units, the Group's senior management reviews internal management reports on a monthly basis.

Performance is measured based on gross profit as included in the internal management reports. Segment gross profit is used to measure performance, as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm's length basis. Intra-company balances and transactions are eliminated.

In 2018, management concluded that its Argentinian subsidiary is operating in a hyperinflationary economy. As a result of applying hyperinflation accounting to the operating results of this subsidiary, revenue and segment gross profit for the year ended December 31, 2019, was reduced by approximately \$955 and \$991 respectively. The 2018 impact was not material.

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

Year Ended December 31, 2019	Canada	United States	International	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	23,108	109,482	23,618	156,208
Mud Management and Safety	14,071	64,189	7,567	85,827
Communications	6,807	11,339	1,614	19,760
Drilling Intelligence	7,828	11,158	1,335	20,321
Analytics and Other	3,980	5,946	3,600	13,526
Total Revenue	55,794	202,114	37,734	295,642
Rental services and local administration	21,226	77,453	21,313	119,992
Depreciation and amortization	17,071	19,375	4,384	40,830
Segment gross profit	17,497	105,286	12,037	134,820
Research and development				30,439
Corporate services				15,653
Stock-based compensation				10,840
Other expense				3,892
Income tax expense				20,193
Net income				53,803
Net income attributable to Pason				54,112
Capital expenditures	4,009	16,940	3,229	24,178
As at December 31, 2019				
Property plant and equipment	40,082	64,127	14,313	118,522
Intangible assets	15,497	2,233	—	17,730
Goodwill	1,259	29,426	2,600	33,285
Segment assets	105,769	279,228	52,844	437,841
Segment liabilities	49,787	36,113	5,487	91,387

Year Ended December 31, 2018	Canada	United States	International	Total
	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	29,095	110,229	17,838	157,162
Mud Management and Safety	19,722	59,421	6,809	85,952
Communications	10,944	15,730	1,503	28,177
Drilling Intelligence	8,623	12,693	1,470	22,786
Analytics and Other	3,613	5,813	2,890	12,316
Total Revenue	71,997	203,886	30,510	306,393
Rental services and local administration	26,374	72,021	19,109	117,504
Depreciation and amortization	15,027	16,249	3,579	34,855
Segment gross profit	30,596	115,616	7,822	154,034
Research and development				26,997
Corporate services				15,905
Stock-based compensation				12,313
Other expense				6,717
Income tax expense				29,158
Net income				62,944
Net income attributable to Pason				62,944
Capital expenditures	7,710	12,849	3,317	23,876
As at December 31, 2018				
Property plant and equipment	37,511	68,122	14,784	120,417
Intangible assets	19,071	41	—	19,112
Goodwill	1,259	7,784	2,600	11,643
Segment assets	117,510	297,173	47,033	461,716
Segment liabilities	53,034	16,367	6,238	75,639

14. Other Expenses

Years Ended December 31,	2019	2018
	(\$)	(\$)
Foreign exchange loss	2,199	7,682
Net interest expense - lease liabilities	578	—
Interest income - short term investments	(1,481)	(935)
Derecognition of lease receivable	4,289	—
Net monetary gain	(2,887)	—
Equity income	(86)	(17)
Other	1,280	(13)
Other expenses	3,892	6,717

The majority of the foreign exchange loss recorded in the year ending December 31, 2019, and the previous year relate to unrealized foreign exchange losses on inter-company advances made to the Company's Argentinian subsidiary as a result of the devaluation of the Argentina peso relative to the Canadian dollar.

Net interest expense - lease liabilities is a result of the adoption of the new lease accounting standard.

In July 2019, the Company was notified that the tenant that was leasing the Company's previous office space in Colorado, USA filed for Chapter 7 bankruptcy. As a result, the Company derecognized the lease receivable that it had previously recorded and reported a non-cash charge in the second quarter of 2019.

In 2018, the Company commenced applying IAS 29, Financial Reporting in Hyperinflationary Economies for its Argentina subsidiary. Accordingly, the application of hyperinflation accounting has been applied to the non-monetary assets and liabilities, and shareholders' equity of the Argentina subsidiary. In 2019, a non-cash net monetary gain of \$2,887 was recorded. The impact of applying this accounting standard on 2018 amounts was not material.

15. Income Tax

The major components of income tax expense are as follows:

Years Ended December 31,	2019	2018
	(\$)	(\$)
Current tax expense	18,008	19,362
Deferred tax expense	2,185	9,796
Total tax provision	20,193	29,158

The provision for income taxes, including deferred taxes, reflects an effective income tax rate that differs from the actual combined Canadian federal and provincial statutory rates of 26.5% for 2019 and 27% for 2018.

The Company's US subsidiaries (US Consolidated Group) were subject to federal and state statutory tax rates of approximately 25% for both 2019 and 2018.

The main differences are as follows:

Years Ended December 31,	2019	2018
	(\$)	(\$)
Income before income taxes	73,996	92,102
Expected income tax at statutory rate	19,609	24,868
Increase (decrease) resulting from:		
Tax rates in other jurisdictions and impact of not recognizing deferred tax assets on previous net operating losses	(542)	895
Non-deductible portion of stock-based compensation	1,134	2,814
Prior years reassessments and adjustments	(1,023)	192
Non-taxable items not deductible for tax purposes and other items	1,015	389
Income tax expense	20,193	29,158

Advanced Pricing Arrangement (APA)

In 2018, the Company entered into a Bilateral APA with the Canada Revenue Agency (CRA) and the Internal Revenue Service (IRS) (collectively, the Parties) covering the taxation years ended December 31, 2013 through to December 31, 2021. The purpose of this APA is for the Company to obtain agreement among the Parties on the Transfer Pricing (TP) methodology applied to the material inter-company transactions between Pason Systems Corp. (Pason Canada) and Pason Systems USA and Petron (collectively Pason USA) (the covered transactions).

In addition to the TP methodology, the Parties settled on the applicable withholding tax on the covered transactions. Pason USA will recover previously remitted withholding taxes of \$15,304 from the IRS while Pason Canada was required to remit a corresponding amount to the CRA in 2019.

Deferred tax assets and liabilities are comprised of the following:

As at December 31,	2019	2018
	(\$)	(\$)
Inter-company transactions	4,267	11,037
Share-based payments	1,308	1,597
Other	2,501	(8,799)
Property, plant and equipment	(10,756)	(13,060)
Intangible assets	(5,886)	(7,835)
	(8,566)	(17,060)
Deferred tax asset	—	—
Deferred tax liability	(8,566)	(17,060)
	(8,566)	(17,060)

Inter-company transactions represent amounts owing to Canada from the US Consolidated Group that are not deductible for US tax purposes until paid.

Other is comprised mostly of the onerous lease obligation recorded in a prior year. The significant change in other was as a result of the Company, during the second quarter of 2019, refinancing an inter-company financing which expired. The Company replaced the internal structure and as a result of the restructuring a previously recorded deferred tax liability of \$9,690 was derecognized through the statement of Other Comprehensive Income.

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

As at	Tax loss carry forwards	Inter-company transactions	Share-based payments	Other	Property, plant and equipment	Intangible assets	Total
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
January 1, 2018	15,809	4,367	2,701	(7,109)	(10,702)	(8,191)	(3,125)
Recognized in income	(15,813)	6,533	(1,103)	1,018	(969)	538	(9,796)
Recognized in Other Comprehensive Income	—	—	—	(3,110)	—	—	(3,110)
Foreign exchange differences	4	137	(1)	402	(1,389)	(182)	(1,029)
December 31, 2018	—	11,037	1,597	(8,799)	(13,060)	(7,835)	(17,060)
Recognized in income	—	(6,648)	(289)	1,614	1,189	1,949	(2,185)
Recognized in Other Comprehensive Income (OCI)	—	—	—	9,690	—	—	9,690
Foreign exchange differences	—	(122)	—	(4)	1,115	—	989
December 31, 2019	—	4,267	1,308	2,501	(10,756)	(5,886)	(8,566)

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

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

tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

Tax loss carry-forwards

At December 31, 2017, after giving effect to the APA adjustment referred to above, the Company had available Canadian net operating losses (NOLs) for federal purposes of \$31,968 and \$23,382 for Alberta purposes, and US NOLs of USD \$24,803, the benefits all of which were recognized in the Consolidated Financial Statements as at December 31, 2017. These losses were utilized in 2018 to reduce current income tax owing.

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

16. Income Per Share

Basic income per share

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

Years Ended December 31,	2019	2018
	(#)	(#)
Issued common shares outstanding, beginning of period	85,783	85,158
Effect of exercised options and NCIB	(374)	199
Weighted average number of common shares outstanding for the period	85,409	85,357

For the year ended December 31, 2019, 198 (2018: 595) common shares were issued as a result of the exercise of vested options. Options were exercised at an average price of \$16.98 per option. All issued shares are fully paid.

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:

	2019	2018
	(#)	(#)
Weighted average number of common shares (basic)	85,409	85,357
Effect of share options	244	301
Weighted average number of common shares (diluted)	85,653	85,658

Options totaling 3,368 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.

17. Financial Instruments

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

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

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

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

Financial Assets and Liabilities at Fair Value				December 31, 2019
	Level 1	Level 2	Level 3	
	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	161,016	—	—	161,016

18. Credit Facility

The Company has a \$5,000 demand revolving credit facility. Interest is payable monthly and is based on either the lender's prime rate, US base rate loans, Bankers' Acceptance rates, or the London Inter-Bank Offered Rate (LIBOR), plus applicable margins.

The credit facility is used by the Company for working capital purposes, and accordingly, amounts drawn against it are recorded as bank indebtedness offset by any excess cash balances.

The Company can repay, without penalty, advances under the facility. The facility is secured by a general security agreement on all of the assets of the Company, Pason Systems Corp. and Pason Systems USA Corp. Throughout the reporting year, no amounts were drawn on this facility.

The Company is subject to the following financial covenants:

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

Both covenants have been met throughout the reporting period.

19. Financial Risk Management and Financial Instruments Overview

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

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

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

Risk management framework

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

Credit risk

(a) Trade and other receivables

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

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

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

(b) Exposure to credit risk

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

As at December 31,	2019	2018
	(\$)	(\$)
Trade and other receivables, net of allowance for doubtful accounts	59,716	80,020

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

As at December 31,	2019	2018
	(\$)	(\$)
Canada	9,894	13,229
United States	36,384	54,341
International	13,438	12,450
	59,716	80,020

The Company does not have any customers that comprised greater than 10% of total revenue.

(c) Allowance for doubtful accounts

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

As at December 31,	2019		2018	
	Gross	Allowance	Gross	Allowance
	(\$)	(\$)	(\$)	(\$)
Current	40,769	—	54,229	—
31–60 days	11,318	—	15,149	—
61–90 days	4,661	(34)	8,698	(10)
Greater than 90 days	4,642	(1,640)	4,156	(2,202)
	61,390	(1,674)	82,232	(2,212)

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

As at December 31,	2019	2018
	(\$)	(\$)
Opening balance	2,212	3,894
Expected credit loss	618	10
Accounts collected, previously allowed for	96	14
Write-off of uncollectible accounts	(1,187)	(1,868)
Effects of exchange rate changes	(65)	162
Ending balance	1,674	2,212

Liquidity risk

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

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

Cash flow forecasting is performed in the operating entities of the Company and aggregated in head office, which monitors rolling forecasts of the Company's liquidity requirements to ensure it has sufficient

cash to meet operational needs at all times. Such forecasting takes into consideration the Company's debt financing plans and compliance with internal balance sheet ratio targets.

Surplus cash held by the operating entities over and above balances required for working capital management are invested in interest bearing short-term deposits which are selected with appropriate maturities or sufficient liquidity to provide sufficient room as determined by the above-mentioned forecasts.

December 31, 2019							
	Carrying amount	Contractual cash flows	6 months or less	6–12 months	1–2 years	2–5 years	More than 5 years
	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Non-derivative liabilities:							
Trade payables and accruals	34,420	34,420	34,420	—	—	—	—
Stock-based compensation	5,921	5,921	—	2,442	3,479	—	—
Obligation under put option	9,540	9,540	—	—	—	9,540	—
	49,881	49,881	34,420	2,442	3,479	9,540	—

For trade payables and accruals and amounts owing on business acquisition, it is not expected that the cash flows included in the maturity analysis could occur significantly earlier, or at significantly different amounts.

For stock-based compensation liabilities, the timing and amounts could differ significantly as a result of changes in the Company's share price.

Market and foreign exchange risk

The Group has not entered into any hedging arrangements.

The Group's exposure to foreign currency risk relates to the US dollar is as follows:

As at December 31,	2019	2018
	USD	USD
Cash	139,727	131,505
Trade and other receivables	29,348	41,853
Trade payables, accruals and other provisions	(13,137)	(9,771)
Obligation under put option	(7,345)	—
Balance sheet exposure	148,593	163,587
CDN\$ Equivalent	192,993	223,165

(a) Sensitivity analysis

A strengthening of the Canadian dollar against the US dollar by 1% at December 31, 2019 would have decreased net income and equity for the year by \$114 and \$6,341, respectively. This analysis is based on foreign currency exchange rate variance that the Group considered to be reasonably possible at the end of the reporting year. The analysis assumes that all other variables remain constant. A weakening of the Canadian dollar at December 31, 2019 would have had the equal but opposite effect.

(b) Interest rate risk

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

(c) Fair values versus carrying amounts

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

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

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

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

Financial Assets at Fair Value				
	Level 1	Level 2	Level 3	December 31, 2019
	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	161,016	—	—	161,016
Total financial assets at fair value	161,016	—	—	161,016

(d) Capital risk

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

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

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

There were no changes in the Company's approach to capital management during the year.

As the Group has no debt, a debt to capital ratio is not presented.

(e) Industry and seasonality risk

The major area of uncertainty for the Company is that the demand for its services is directly related to the strength of its customers' capital expenditure programs. The level of capital programs is strongly affected by the level and stability of commodity prices, which can be extremely difficult to predict and beyond the control of the Company and its customers. During periods of uncertainty, oil and gas companies tend to bias their capital decisions on conservative outlooks for commodity prices.

In addition to the cyclical nature of its business, the Company is also subject to risks and uncertainties associated with weather and seasonality. The Company continues to react to unfavourable weather conditions and spring breakup, which limit well access in Canada, through

diversification into geographic regions such as the United States and internationally, where these factors are less likely to influence activity.

(f) **Commodity risk**

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

20. Operating Commitments

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

As at December 31,	2019	2018
	(\$)	(\$)
Less than one year	6,847	5,579
Between one and three years	10,577	9,447
More than three years	4,653	3,235
	22,077	18,261

Contractual obligations relate to minimum future payments required primarily for leases of certain facilities. A portion of these future obligations have been recognized on the balance sheet as a leased asset and a corresponding liability, in accordance with IRFS 16, Leases.

21. Capital Commitments

At December 31, 2019, the Group has entered into contracts to purchase property, plant, and equipment for \$3,094 (2018: \$8,152), the majority of which relates to the purchase of rental assets in the normal course of business.

22. Related Party Transactions and Key Management Compensation

Transactions with key management personnel and directors

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

Executive management personnel and director compensation is comprised of:

Years Ended December 31,	2019	2018
	(\$)	(\$)
Compensation, including bonuses	3,634	3,365
Share-based payments	5,082	4,628
	8,716	7,993

The majority of these costs are included either in corporate services or stock-based compensation expense in the Consolidated Statements of Operations.

Key management and directors of the Company control approximately 10% of the voting shares of the Company. No balances are owing from any employees or directors.

23. Contingencies

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

24. Events After the Reporting Period

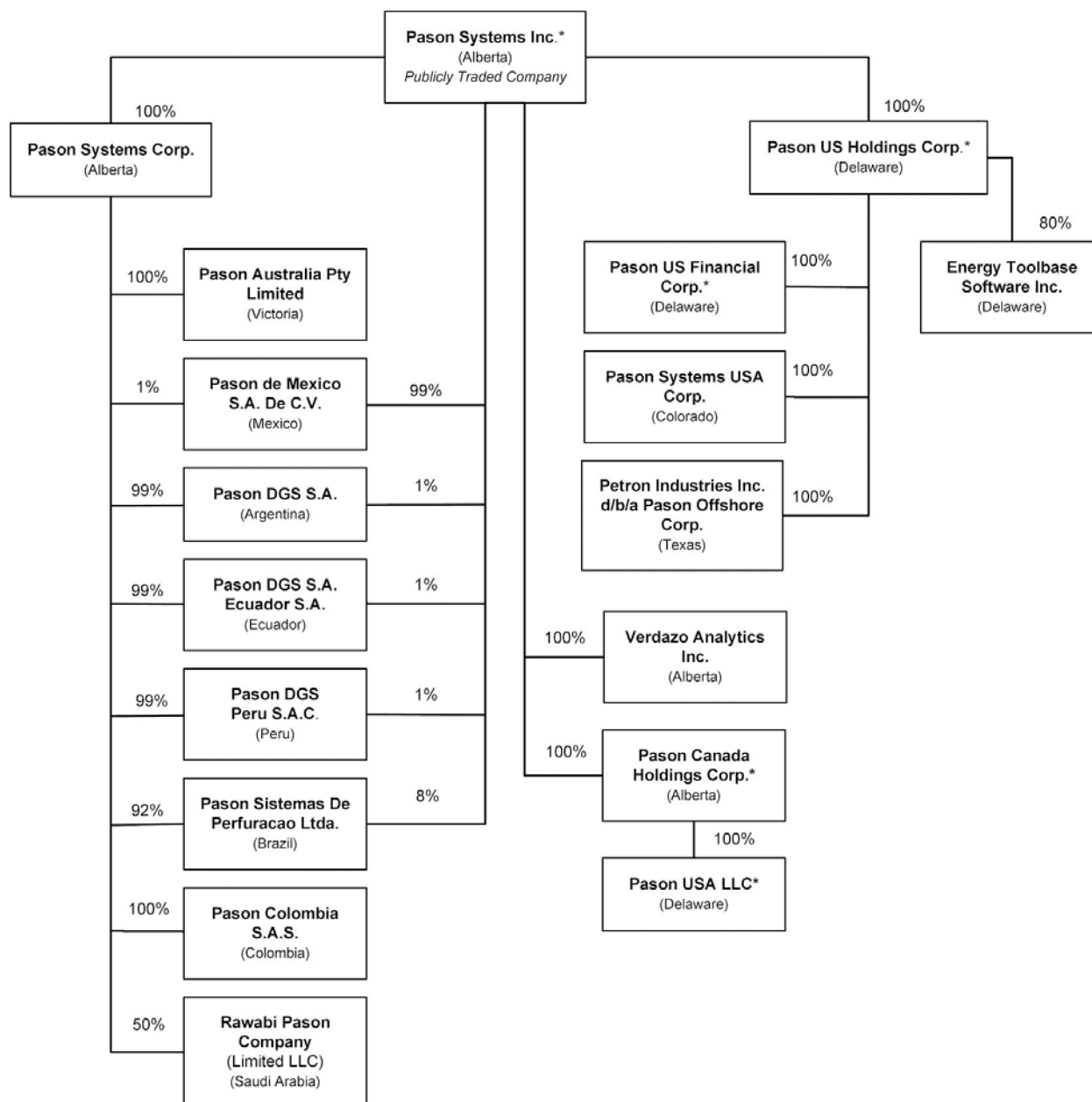
On February 26, 2020, the Company announced a quarterly dividend of \$0.19 per share on the Company's common shares. The dividend will be paid on March 30, 2020 to shareholders of record at the close of business on March 16, 2020.

In February 2020, the Company received the first put option notice from IWS and will be making a cash payment of \$5.0 million in March, 2020. As at December 31, 2019, the liability is included in the Consolidated Balance Sheets under "Investment - put option".

25. Organizational Structure

PASON SYSTEMS INC. - GLOBAL ORGANIZATIONAL CHART

(Majority owned entities and Joint Venture)



*Non-operating entity

Corporate Information

Directors

James D. Hill
Chairman of the Board
Pason Systems Inc.
Calgary, Alberta

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

Marcel Kessler
President & CEO
Pason Systems Inc.
Calgary, Alberta

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

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

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

(1) Audit Committee Chair

(2) Audit Committee Member

(3) HR and Compensation Committee Chair

(4) HR and Compensation Committee Member

(5) Corporate Governance and Nominations Committee Chair

(6) Corporate Governance and Nomination Committee Member

(7) Lead Director

Officers & Key Personnel

Marcel Kessler
President
& Chief Executive Officer

Jon Faber
Chief Financial Officer

David Elliott
Vice President, Finance

Timur Kuru
Vice President, Operations – United States

Bryce McLean
Vice President, Operations – Canada

Russell Smith
Vice President, Operations – International & Offshore

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

Lars Olesen
Vice President, Product Management

Kevin Boston
Vice President, Business Development

Reid Wuntke
President, Energy Toolbase Software Inc.

Natalie Fenez
Vice President, Legal

Fiona Mueller-Thode
President, Verdazo Analytics Inc.

Corporate Head Office

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InvestorRelations@pason.com
www.pason.com

Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI.TO

Eligible Dividend Designation

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

Annual Meeting

Shareholders are invited to attend the Company's Annual General Meeting on Thursday, April 30, 2020 at 3:30 pm at the offices of Pason Systems Inc., 6120 Third Street SE, Calgary, Alberta.

Historical Review

Selected Financial Data

Years Ended December 31,

	2019	2018	2017	2016	2015	2014	2013	2012	2011	2010
(CDN 000s, except per share data) (unaudited)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)	(\$)
Operating Results										
Revenue	295,642	306,393	245,643	160,446	285,148	499,272	403,088	386,514	346,158	260,397
Expenses										
Rental services	105,496	104,398	95,912	80,115	120,445	153,151	134,874	125,269	113,568	94,299
Corporate services	15,653	15,905	15,141	16,758	20,040	22,243	17,373	15,723	12,975	17,770
Research and development	30,439	26,997	25,219	22,848	31,733	35,427	27,252	22,467	17,366	16,472
Stock-based compensation	10,840	12,313	11,762	6,195	7,398	19,471	32,511	23,792	1,309	11,233
Depreciation and amortization	40,830	34,588	45,681	55,384	81,381	69,201	62,171	68,213	58,565	49,108
EBITDA ⁽¹⁾	124,763	138,335	96,663	3,472	71,920	251,623	136,647	151,753	171,661	110,867
As a % of revenue	42.2	45.5	39.4	2.2	25.2	50.4	33.9	39.3	49.6	47.1
Funds flow from operations	111,718	128,544	87,121	26,815	94,263	224,204	134,930	158,948	145,358	93,973
Per share – basic	1.31	1.51	1.03	0.32	1.13	2.71	1.64	1.94	1.78	1.15
Income (loss)	53,803	62,944	25,190	(41,792)	(7,917)	114,637	25,458	39,895	86,223	36,474
Per share – basic	0.63	0.74	0.30	(0.49)	(0.09)	1.39	0.31	0.49	1.05	0.45
Capital expenditures	24,178	23,876	20,764	12,856	50,811	121,188	70,664	71,424	78,357	50,164
Financial Position										
Total assets	437,841	461,716	398,446	435,251	529,625	570,066	445,876	488,378	455,901	402,082
Working capital	183,769	256,153	193,692	198,419	244,972	206,571	127,933	163,371	126,605	105,815
Total equity	346,454	386,077	347,486	386,651	489,448	483,523	366,469	368,696	367,269	309,684
Return on total equity % ⁽²⁾	28	17	7	(9)	(3)	26	6	11	25	12
Common Share Data										
Common shares outstanding (#)										
At December 31	84,538	85,783	85,158	84,628	84,063	83,363	82,158	82,049	81,904	81,714
Weighted average	85,409	85,357	84,821	84,365	83,675	82,647	82,098	81,968	81,851	81,525
Share trading										
High (\$)	21.31	24.57	22.36	20.29	23.10	35.51	23.77	18.12	16.53	14.82
Low (\$)	12.45	16.05	16.65	14.46	16.51	20.82	15.74	12.04	11.53	10.31
Close (\$)	13.11	18.29	18.19	19.64	19.39	21.89	22.98	17.15	12.00	13.96
Volume (#)	40,952	31,598	24,503	42,898	37,476	37,538	24,105	25,053	24,658	23,793
Dividends (\$)	0.74	0.70	0.68	0.68	0.68	0.64	0.53	0.46	0.38	0.33

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

(2) Return on total equity is calculated as earnings over the simple average of the beginning and ending total equity.

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.





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