

# Condensed Consolidated Interim Financial Statements and Notes

## Condensed Consolidated Interim Balance Sheets

As at	Note*	June 30, 2019	December 31, 2018
(CDN 000s) (unaudited)		(\$)	(\$)
<b>Assets</b>			
Current			
Cash and cash equivalents	9,12	189,133	203,838
Trade and other receivables		72,713	80,020
Income tax recoverable other	10	15,304	15,304
Prepaid expenses		2,847	3,934
Income taxes recoverable		4,957	6,203
<b>Total current assets</b>		<b>284,954</b>	<b>309,299</b>
Non-current			
Property, plant and equipment	3	123,876	120,417
Intangible assets and goodwill		28,416	32,000
<b>Total non-current assets</b>		<b>152,292</b>	<b>152,417</b>
<b>Total assets</b>		<b>437,246</b>	<b>461,716</b>
<b>Liabilities and equity</b>			
Current			
Trade payables and accruals		25,857	34,229
Income taxes payable other	10	—	15,304
Stock-based compensation liability	6	6,016	3,301
Lease liability	3	2,722	312
<b>Total current liabilities</b>		<b>34,595</b>	<b>53,146</b>
Non-current			
Deferred tax liabilities	11	7,838	17,060
Lease liability	3	12,531	2,233
Stock-based compensation liability	6	5,216	3,200
<b>Total non-current liabilities</b>		<b>25,585</b>	<b>22,493</b>
<b>Equity</b>			
Share capital	6	167,550	164,723
Share-based benefits reserve		28,789	27,287
Foreign currency translation reserve		60,962	63,574
Retained earnings		119,765	130,493
<b>Total equity</b>		<b>377,066</b>	<b>386,077</b>
<b>Total liabilities and equity</b>		<b>437,246</b>	<b>461,716</b>

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

## Condensed Consolidated Interim Statements of Operations

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note*	2019	2018	2019	2018
(CDN 000s, except per share data) (unaudited)		(\$)	(\$)	(\$)	(\$)
<b>Revenue</b>		<b>72,894</b>	68,271	<b>155,037</b>	142,084
<b>Operating expenses</b>					
Rental services		27,264	25,209	54,058	51,248
Local administration		3,399	3,147	6,710	6,004
Depreciation and amortization		9,978	9,220	20,200	18,395
		<b>40,641</b>	37,576	<b>80,968</b>	75,647
<b>Gross profit</b>		<b>32,253</b>	30,695	<b>74,069</b>	66,437
<b>Other expenses</b>					
Research and development		7,661	6,617	15,405	12,976
Corporate services		3,895	3,840	7,548	7,645
Stock-based compensation expense	6	3,089	3,855	6,913	6,389
Other expense	8	4,894	5,844	5,052	8,377
		<b>19,539</b>	20,156	<b>34,918</b>	35,387
<b>Income before income taxes</b>		<b>12,714</b>	10,539	<b>39,151</b>	31,050
Income tax provision		3,469	5,060	10,862	13,212
<b>Net income</b>		<b>9,245</b>	5,479	<b>28,289</b>	17,838
<b>Income per share</b>	7				
Basic		0.11	0.06	0.33	0.21
Diluted		0.11	0.06	0.33	0.21

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## Condensed Consolidated Interim Statements of Other Comprehensive Income

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note*	2019	2018	2019	2018
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
<b>Net income</b>		<b>9,245</b>	5,479	<b>28,289</b>	17,838
Items that may be reclassified subsequently to net income:					
Tax recovery (expense) on net investment in foreign operations related to an inter-company financing	11	9,690	(777)	10,481	(1,766)
Foreign currency translation adjustment		(5,567)	8,874	(13,093)	18,654
<b>Other comprehensive (loss) gain</b>		<b>4,123</b>	8,097	<b>(2,612)</b>	16,888
<b>Total comprehensive income</b>		<b>13,368</b>	13,576	<b>25,677</b>	34,726

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## Condensed Consolidated Interim Statements of Changes in Equity

	Note*	Share Capital	Share-Based Benefits Reserve	Foreign Currency Translation Reserve	Retained Earnings	Total Equity
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)	(\$)
Balance at January 1, 2018		150,887	24,425	40,358	131,816	347,486
Net income		—	—	—	17,838	17,838
Dividends		—	—	—	(28,971)	(28,971)
Other comprehensive loss		—	—	16,888	—	16,888
Exercise of stock options	6	4,388	(716)	—	—	3,672
Expense related to vesting of options		—	2,292	—	—	2,292
<b>Balance at June 30, 2018</b>		<b>155,275</b>	<b>26,001</b>	<b>57,246</b>	<b>120,683</b>	<b>359,205</b>
Net income		—	—	—	45,106	45,106
Dividends		—	—	—	(30,814)	(30,814)
Other comprehensive loss		—	—	6,328	—	6,328
Exercise of stock options		8,466	(1,126)	—	—	7,340
Expense related to vesting of options		—	2,412	—	—	2,412
Prior years business acquisition		1,500	—	—	—	1,500
Shares cancelled under Normal Course Issuer Bid		(95)	—	—	(826)	(921)
Liability for automatic share purchase plan commitment pursuant to NCIB		(423)	—	—	(3,656)	(4,079)
<b>Balance at December 31, 2018</b>		<b>164,723</b>	<b>27,287</b>	<b>63,574</b>	<b>130,493</b>	<b>386,077</b>
Net income		—	—	—	28,289	28,289
Dividends		—	—	—	(30,856)	(30,856)
Other comprehensive income	11	—	—	(2,612)	—	(2,612)
Exercise of stock options	6	3,706	(579)	—	—	3,127
Expense related to vesting of options		—	2,081	—	—	2,081
Shares cancelled under Normal Course Issuer Bid	6	(1,100)	—	—	(10,019)	(11,119)
Liability reversal for automatic share purchase plan commitment pursuant to NCIB	6	423	—	—	3,656	4,079
Liability for automatic share purchase plan commitment pursuant to NCIB	6	(202)	—	—	(1,798)	(2,000)
<b>Balance at June 30, 2019</b>		<b>167,550</b>	<b>28,789</b>	<b>60,962</b>	<b>119,765</b>	<b>377,066</b>

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# Condensed Consolidated Interim Statements of Cash Flows

		Three Months Ended June 30,		Six Months Ended June 30,	
	Note*	2019	2018	2019	2018
(CDN 000s) (unaudited)		(\$)	(\$)	(\$)	(\$)
<b>Cash from (used in) operating activities</b>					
Net income		9,245	5,479	28,289	17,838
Adjustment for non-cash items:					
Depreciation and amortization		9,978	9,220	20,200	18,395
Stock-based compensation	6	3,089	3,855	6,913	6,389
Deferred income taxes		(1,356)	3,361	1,419	10,664
Derecognition of lease receivable	8	4,289	—	4,289	—
Unrealized foreign exchange (gain) loss and other		(1,451)	5,921	(1,417)	8,508
<b>Funds flow from operations</b>		<b>23,794</b>	<b>27,836</b>	<b>59,693</b>	<b>61,794</b>
Movements in non-cash working capital items:					
Decrease (increase) in trade and other receivables		13,353	2,150	4,099	(6,747)
Decrease in prepaid expenses		742	794	1,021	1,275
(Decrease) increase in income taxes		(2,302)	1,205	1,223	1,270
Increase (decrease) in trade payables, accruals and stock-based compensation liability		834	387	(6,164)	(978)
Effects of exchange rate changes		1,661	76	1,588	310
<b>Cash generated from operating activities</b>		<b>38,082</b>	<b>32,448</b>	<b>61,460</b>	<b>56,924</b>
Income tax paid	10	(144)	(4,831)	(15,080)	(4,963)
<b>Net cash from operating activities</b>		<b>37,938</b>	<b>27,617</b>	<b>46,380</b>	<b>51,961</b>
<b>Cash flows from (used in) financing activities</b>					
Proceeds from issuance of common shares	6	1,114	3,444	3,127	3,672
Payment of dividends	6	(15,417)	(14,491)	(30,856)	(28,971)
Repurchase and cancellation of shares under Normal Course Issuer Bid	6	(9,097)	—	(11,119)	—
Repayment of lease liability	3	(382)	—	(1,053)	—
<b>Net cash used in financing activities</b>		<b>(23,782)</b>	<b>(11,047)</b>	<b>(39,901)</b>	<b>(25,299)</b>
<b>Cash flows (used in) from investing activities</b>					
Additions to property, plant and equipment		(4,335)	(3,514)	(14,084)	(8,325)
Development costs		119	(1,257)	(449)	(2,243)
Proceeds on disposal of investment and property, plant and equipment		508	76	618	96
Purchase of short-term investments		—	(65,840)	—	(65,840)
Changes in non-cash working capital		(1,683)	211	467	550
<b>Net cash used in investing activities</b>		<b>(5,391)</b>	<b>(70,324)</b>	<b>(13,448)</b>	<b>(75,762)</b>
Effect of exchange rate on cash and cash equivalents		(3,563)	2,254	(7,736)	6,313
<b>Net increase (decrease) in cash and cash equivalents</b>		<b>5,202</b>	<b>(51,500)</b>	<b>(14,705)</b>	<b>(42,787)</b>
<b>Cash and cash equivalents, beginning of period</b>		<b>183,931</b>	<b>162,842</b>	<b>203,838</b>	<b>154,129</b>
<b>Cash and cash equivalents, end of period</b>	9	<b>189,133</b>	<b>111,342</b>	<b>189,133</b>	<b>111,342</b>

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

# Notes to Condensed Consolidated Interim 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. and its wholly owned subsidiaries.

## 2. Basis of Preparation

### Statement of compliance

These unaudited condensed Consolidated Interim Financial Statements have been prepared in accordance with the requirements of International Accounting Standard ("IAS") 34, Interim Financial Reporting and include the accounts of Pason and its wholly owned subsidiaries. All significant inter-company balances and transactions including revenue and expenses have been eliminated. These unaudited condensed Consolidated Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2018.

## 3. Significant Accounting Policies

### Adoption of new standard

#### 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

(000s)	(\$)
Right of use assets - real estate	9,307
Right of use assets - other	457
<b>Right of use asset as at January 1, 2019</b>	<b>9,764</b>

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

##### Liability

(000s)	(\$)
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)
<b>Gross lease liability as at January 1, 2019</b>	<b>11,116</b>
Discounting	(1,352)
<b>Lease liability as at January 1, 2019</b>	<b>9,764</b>

## 4. Seasonality

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

Consequently, the performance of the Company may not be comparable quarter to consecutive quarter, but should be considered on the basis of results for the whole year, or by comparing results in a quarter with results in the same quarter for the previous year.

## 5. 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.

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

<b>Three Months Ended June 30, 2019</b>	<b>Canada</b>	<b>United States</b>	<b>International</b>	<b>Total</b>
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	3,642	29,242	6,385	39,269
Mud Management and Safety	2,296	17,038	1,808	21,142
Communications	1,060	3,101	421	4,582
Drilling Intelligence	1,179	3,128	281	4,588
Analytics and Other	1,038	1,122	1,153	3,313
<b>Total Revenue</b>	<b>9,215</b>	<b>53,631</b>	<b>10,048</b>	<b>72,894</b>
Rental services and local administration	4,873	20,250	5,540	30,663
Depreciation and amortization	3,824	5,062	1,092	9,978
Segment gross profit	518	28,319	3,416	32,253
Research and development				7,661
Corporate services				3,895
Stock-based compensation				3,089
Other expense				4,894
Income tax expense				3,469
Net Income				9,245
Capital expenditures	592	2,390	1,234	4,216
<b>As at June 30, 2019</b>				
Property plant and equipment	41,013	67,824	15,039	123,876
Goodwill	1,259	7,468	2,600	11,327
Intangible assets	17,089	—	—	17,089
Segment assets	106,984	276,687	53,575	437,246
Segment liabilities	28,337	25,623	6,220	60,180

<b>Three Months Ended June 30, 2018</b>	<b>Canada</b>	<b>United States</b>	<b>International</b>	<b>Total</b>
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	4,180	26,973	4,267	35,420
Mud Management and Safety	2,962	14,643	1,699	19,304
Communications	1,506	4,200	405	6,111
Drilling Intelligence	1,117	2,909	348	4,374
Analytics and Other	900	1,553	609	3,062
<b>Total Revenue</b>	<b>10,665</b>	<b>50,278</b>	<b>7,328</b>	<b>68,271</b>
Rental services and local administration	6,136	17,455	4,765	28,356
Depreciation and amortization	4,223	4,100	897	9,220
<b>Segment gross profit</b>	<b>306</b>	<b>28,723</b>	<b>1,666</b>	<b>30,695</b>
Research and development				6,617
Corporate services				3,840
Stock-based compensation				3,855
Other expense				5,844
Income tax expense				5,060
<b>Net income</b>				<b>5,479</b>
Capital expenditures	1,087	3,537	147	4,771
<b>As at</b>				
Property plant and equipment	40,312	68,432	14,903	123,647
Goodwill	1,259	7,342	2,600	11,201
Intangible assets	21,952	—	—	21,952
<b>Segment assets</b>	<b>110,409</b>	<b>272,311</b>	<b>41,703</b>	<b>424,423</b>
<b>Segment liabilities</b>	<b>45,763</b>	<b>14,713</b>	<b>4,742</b>	<b>65,218</b>

<b>Six Months Ended June 30, 2019</b>	<b>Canada</b>	<b>United States</b>	<b>International</b>	<b>Total</b>
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	11,734	58,418	12,370	82,522
Mud Management and Safety	6,979	34,255	3,582	44,816
Communications	3,352	6,330	857	10,539
Drilling Intelligence	3,669	6,280	612	10,561
Analytics and Other	1,994	2,813	1,792	6,599
<b>Total Revenue</b>	<b>27,728</b>	<b>108,096</b>	<b>19,213</b>	<b>155,037</b>
Rental services and local administration	10,582	39,340	10,846	60,768
Depreciation and amortization	8,379	9,836	1,985	20,200
<b>Segment gross profit</b>	<b>8,767</b>	<b>58,920</b>	<b>6,382</b>	<b>74,069</b>
Research and development				15,405
Corporate services				7,548
Stock-based compensation				6,913
Other expense				5,052
Income tax expense				10,862
<b>Net Income</b>				<b>28,289</b>
Capital expenditures	1,496	11,172	1,865	14,533
<b>As at June 30, 2019</b>				
Property plant and equipment	41,013	67,824	15,039	123,876
Goodwill	1,259	7,468	2,600	11,327
Intangible assets	17,089	—	—	17,089
<b>Segment assets</b>	<b>106,984</b>	<b>276,687</b>	<b>53,575</b>	<b>437,246</b>
<b>Segment liabilities</b>	<b>28,337</b>	<b>25,623</b>	<b>6,220</b>	<b>60,180</b>



<b>Six Months Ended June 30, 2018</b>	<b>Canada</b>	<b>United States</b>	<b>International</b>	<b>Total</b>
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Revenue				
Drilling Data	14,100	50,671	7,944	72,715
Mud Management and Safety	9,623	27,879	3,062	40,564
Communications	5,275	7,898	736	13,909
Drilling Intelligence	3,235	5,053	667	8,955
Analytics and Other	1,856	2,885	1,200	5,941
<b>Total Revenue</b>	<b>34,089</b>	<b>94,386</b>	<b>13,609</b>	<b>142,084</b>
Rental services and local administration	13,464	34,340	9,448	57,252
Depreciation and amortization	8,608	7,928	1,859	18,395
<b>Segment gross profit</b>	<b>12,017</b>	<b>52,118</b>	<b>2,302</b>	<b>66,437</b>
Research and development				12,976
Corporate services				7,645
Stock-based compensation				6,389
Other expense				8,377
Income tax expense				13,212
<b>Net Income</b>				<b>17,838</b>
Capital expenditures	3,050	6,800	718	10,568
<b>As at</b>				
Property plant and equipment	40,312	68,432	14,903	123,647
Goodwill	1,259	7,342	2,600	11,201
Intangible assets	21,952	—	—	21,952
<b>Segment assets</b>	<b>110,409</b>	<b>272,311</b>	<b>41,703</b>	<b>424,423</b>
<b>Segment liabilities</b>	<b>45,763</b>	<b>14,713</b>	<b>4,742</b>	<b>65,218</b>

## 6. Share Capital

Common Shares				
	Six Months Ended June 30, 2019		Year Ended December 31, 2018	
	(\$)	(#)	(\$)	(#)
<b>Balance, beginning of period</b>	<b>164,723</b>	<b>85,783</b>	150,887	85,158
Exercise of stock options	3,706	183	12,854	595
Previous business acquisition	—	—	1,500	80
Shares repurchased and cancelled under Normal Course Issuer Bid (NCIB)	(1,100)	(573)	(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	(202)	—	(423)	—
<b>Balance, end of period</b>	<b>167,550</b>	<b>85,393</b>	164,723	85,783

### Common shares

At June 30, 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.

### 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 June 30, 2019, 5,202 (2018: 5,225) stock options were outstanding for common shares at exercise prices ranging from \$15.94 to \$26.68 per share, expiring between 2019 and 2024 as follows:

	Six Months Ended June 30, 2019		Six Months Ended June 30, 2018	
	Share Options	Weighted Average Exercise Price	Share Options	Weighted Average Exercise Price
	(#)	(\$)	(#)	(\$)
<b>Outstanding, beginning of period</b>	<b>5,534</b>	<b>20.00</b>	5,514	20.06
Granted	40	18.85	—	—
Equity settled	(184)	17.02	(220)	16.74
Expired or forfeited	(188)	22.75	(69)	18.93
<b>Outstanding, end of period</b>	<b>5,202</b>	<b>20.00</b>	5,225	20.21
<b>Exercisable, end of period</b>	<b>2,546</b>	<b>21.17</b>	2,475	22.81
<b>Available for grant, end of period</b>	<b>775</b>		751	

### 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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
	(\$)	(\$)	(\$)	(\$)
Stock options	1,009	1,168	2,082	2,291
RSUs	602	1,104	1,600	1,603
DSUs	93	593	414	585
PSUs	1,312	720	2,671	1,370
Deferred compensation expense	73	270	146	540
Stock-based compensation	3,089	3,855	6,913	6,389

#### Liability

As at	June 30, 2019	December 31, 2018
	(\$)	(\$)
RSUs	2,010	1,109
PSUs	3,277	1,609
Deferred compensation expense	729	583
Current portion of stock-based compensation liability	6,016	3,301
RSUs	940	341
DSUs	2,770	2,355
PSUs	1,506	504
Non-current portion of stock-based compensation liability	5,216	3,200
Total stock-based compensation liability	11,232	6,501

#### Common share dividends

During the quarter ended June 30, 2019, the Company declared and paid dividends of \$15,417 (2018: \$14,491) or \$0.18 per common share (2018: \$0.17).

#### Normal Course Issuer Bid (NCIB)

During the fourth quarter of 2018, the Company implemented a NCIB program. Under the NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 6,556 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 32 common shares.

The NCIB commenced on December 18, 2018 and expires on December 17, 2019. In the second quarter of 2019, the Company purchased 473 common shares for cancellation, for a total cash consideration of \$9,097. On a year to date basis, the Company purchased 573 common shares for cancellation, for a total cash consideration of \$11,119.

Under an automatic purchase plan with an independent broker (APP), the Company recorded a liability of \$2,000 for share repurchases that could take place during its internal blackout period. The total accrual is included in the Consolidated Balance Sheet under trade payables and accruals.

<b>As at</b>	<b>June 30, 2019</b>	December 31, 2018
	(\$)	(\$)
Amounts charged to		
Share capital	<b>202</b>	423
Retained earnings	<b>1,798</b>	3,656
Liability for automatic share purchase plan commitment	<b>2,000</b>	4,079

## 7. 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:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	(#)	(#)	(#)	(#)
Issued common shares outstanding, beginning of period	<b>85,801</b>	85,172	<b>85,783</b>	85,158
Effect of exercised options and NCIB	<b>(151)</b>	70	<b>(60)</b>	50
Weighted average number of common shares outstanding for the period	<b>85,650</b>	85,242	<b>85,723</b>	85,208

### 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:

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2019</b>	2018	<b>2019</b>	2018
	(#)	(#)	(#)	(#)
Weighted average number of common shares (basic)	<b>85,650</b>	85,242	<b>85,723</b>	85,208
Effect of share options	<b>294</b>	496	<b>327</b>	413
Weighted average number of common shares (diluted)	<b>85,944</b>	85,738	<b>86,050</b>	85,621

Options totaling 2,789 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.

## 8. Other Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	2019	2018
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Foreign exchange loss	553	5,787	654	8,191
Net interest expense - lease liabilities	108	—	245	—
Interest income - short term investments	(283)	—	(468)	—
Derecognition of lease receivable	4,289	—	4,289	—
Other	227	57	332	186
Other expense	4,894	5,844	5,052	8,377

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 \$4,289 in the second quarter of 2019.

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

The Company recorded a significant unrealized foreign exchange loss in the second quarter of 2018 on inter-company advances made to the Company's Argentinian subsidiary as a result of a significant devaluation of the Argentina peso relative to the Canadian dollar.

## 9. Cash and Cash Equivalents

As at	June 30, 2019	December 31, 2018
(CDN 000s) (unaudited)	(\$)	(\$)
Cash	116,293	57,819
Cash equivalents	72,840	146,019
Cash and cash equivalents	189,133	203,838

Cash equivalents are made up of cash invested in money market funds with interest rates of approximately 1.75%, and maturities from 1–30 days.

## 10. Income Tax Payable - 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 has recorded an amount under current income tax recoverable - other which represents a corresponding amount owing from the IRS.

## 11. Deferred Tax Liabilities

During the second quarter of 2019 the inter-company financing, which was initially put in place in 2012, expired. The Company refinanced 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. To complete the internal financing the Company borrowed \$124,420 against a new day-light loan facility which it repaid the same day.

## 12. Financial Instruments

The carrying values of financial assets and liabilities approximate their fair value due to the short-term nature of these items. Pason'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 at Fair Value				
	Level 1	Level 2	Level 3	June 30, 2019
(CDN 000s) (unaudited)	(\$)	(\$)	(\$)	(\$)
Cash and cash equivalents	189,133	—	—	<b>189,133</b>
Total financial assets at fair value	189,133	—	—	<b>189,133</b>

## 13. Approval of Financial Statements

The condensed unaudited Consolidated Interim Financial Statements were approved by the Board of Directors on August 8, 2019.

## 14. Events After the Reporting Period

On August 8, 2019, the Company announced a quarterly dividend of \$0.19 per share on the Company's common shares. The dividend will be paid on September 27, 2019 to shareholders of record at the close of business on September 13, 2019.

# Corporate Information

## Directors

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

**James B. Howe**<sup>(1)(4)(6)(7)</sup>  
President  
Bragg Creek Financial  
Consultants Ltd.  
Calgary, Alberta

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

**T. Jay Collins**<sup>(2)(3)(6)</sup>  
Director  
Oceaneering International Inc.  
Houston, Texas

**Judi Hess**<sup>(2)(4)(5)</sup>  
CEO & Director  
Copperleaf Technologies Inc.  
Vancouver, British Columbia

**Laura Schwinn**  
President Specialty Catalysts  
W. R. Grace & Co.  
Columbia, Maryland

(1) Audit Committee Chairman

(2) Audit Committee Member

(3) HR and Compensation Committee  
Chairman

(4) HR and Compensation Committee  
Member

(5) Corporate Governance and Nominations  
Committee Chairman

(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**  
Vice President, New Ventures

**Natalie Fenez**  
General Counsel

## Corporate Head Office

Pason Systems Inc.  
6130 Third Street SE  
Calgary, Alberta  
T2H 1K4  
T: 403-301-3400  
F: 403-301-3499  
InvestorRelations@pason.com  
[www.pason.com](http://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.