



MANAGEMENT'S DISCUSSION AND ANALYSIS



For the three and nine months ended September 30, 2021

Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") has been prepared by management as of November 3, 2021, and is a review of the financial condition and results of operations of Pason Systems Inc. ("Pason" or the "Company") based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the unaudited interim condensed consolidated financial statements and related notes for the three and nine months ended September 30, 2021, the Consolidated Financial Statements for the twelve months ended December 31, 2020 and 2019, accompanying notes, and Pason's Annual Information Form dated March 17, 2021.

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

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

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

Company Profile

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

Through Pason's subsidiary, Energy Toolbase ("ETB"), the Company also provides products and services for the solar power and energy storage industry. ETB's solutions enable solar and energy storage developers to model, control and measure economics and performance of solar energy and storage projects.

For a complete description of services provided by the Company, please refer to the headings 'General Development of the Business' and 'General Description of Business' in Pason's Annual Information Form for the year ended December 31, 2020.

Highlights

Three Months Ended September 30, Nine Months Ended September 30,

| | 2021 | 2020 | Change | 2021 | 2020 | Change |
|---|---------------|---------|--------|----------------|---------|---------|
| (CDN 000s, except per share data) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Revenue | 57,705 | 23,068 | 150 | 143,853 | 123,878 | 16 |
| EBITDA ⁽¹⁾ | 24,870 | 2,348 | 959 | 55,527 | 40,088 | 39 |
| Adjusted EBITDA ⁽¹⁾ | 22,356 | (1,118) | nmf | 48,312 | 31,339 | 54 |
| As a % of revenue | 38.7 | nmf | nmf | 33.6 | 25.3 | 830 bps |
| Funds flow from operations | 19,983 | 4,765 | 319 | 48,375 | 31,621 | 53 |
| Per share – basic | 0.24 | 0.06 | 326 | 0.59 | 0.38 | 57 |
| Per share – diluted | 0.24 | 0.06 | 326 | 0.59 | 0.38 | 57 |
| Cash from operating activities | 17,074 | 5,754 | 197 | 38,000 | 61,300 | (38) |
| Capital expenditures | 1,205 | 807 | 49 | 7,574 | 4,694 | 61 |
| Free cash flow ⁽¹⁾ | 16,261 | 4,141 | 293 | 31,121 | 56,964 | (45) |
| Cash dividends declared (per share) | 0.05 | 0.05 | — | 0.15 | 0.43 | (65) |
| Net income (loss) | 12,775 | (3,957) | nmf | 21,646 | 7,796 | 178 |
| Net income (loss) attributable to Pason | 13,074 | (3,698) | nmf | 22,696 | 8,734 | 160 |
| Per share – basic | 0.16 | (0.04) | nmf | 0.27 | 0.10 | 162 |
| Per share – diluted | 0.16 | (0.04) | nmf | 0.27 | 0.10 | 162 |

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

| As at | September 30, 2021 | December 31, 2020 | Change |
|----------------------------------|--------------------|-------------------|--------|
| (CDN 000s) | (\$) | (\$) | (%) |
| Cash and cash equivalents | 147,080 | 149,282 | (1) |
| Working capital | 179,675 | 167,366 | 7 |
| Total interest bearing debt | — | — | — |
| Shares outstanding end of period | 82,415,162 | 83,088,941 | (1) |

Pason's financial results for the three months ended September 30, 2021 reflect the Company's strong competitive positioning, prudent balance sheet, and operating leverage as industry conditions continued to improve from the lows experienced in 2020. In comparison to the third quarter of 2020, which reflected historically low activity levels due to the impacts of the COVID-19 pandemic, financial results in the third quarter of 2021 have improved significantly.

Pason generated \$57.7 million in revenue in the third quarter of 2021, which represents a 150% increase from the \$23.1 million generated in the third quarter of 2020 as drilling activity improved significantly in Pason's operating regions. Furthermore, the Company generated a record Revenue per Industry day in the North American business unit of \$765, an increase of 15% from the comparative period in 2020, resulting in improvements in revenue that outpaced underlying industry activity. With this increase in revenue, Pason generated \$22.4 million in Adjusted EBITDA, or 38.7% of revenue in the third quarter of 2021, compared to a \$1.1 million loss in the third quarter of 2020. While the Company incurred certain incremental expenses to support increased activity levels, such as equipment repairs, research and development costs and compensation expenses, third quarter results continue to demonstrate the Company's strong operating leverage through improved industry conditions.

Pason's balance sheet remains strong with no interest bearing debt and \$147.1 million in cash and cash equivalents as at September 30, 2021, compared to \$135.0 million as at June 30, 2021, and \$149.3 million as at December 31, 2020. During the third quarter of 2021, Pason generated \$17.1 million in net cash from operating activities (Q3 2020: \$5.8 million) as the Company's operating results improved and while the Company managed investments in working capital to meet increased revenue levels.

Pason remains disciplined on capital spending and during the third quarter of 2021, incurred \$1.2 million of capital expenditures which represents rental equipment additions to meet activity levels, partially offset

by the recognition of income tax credits for eligible development costs. Resulting Free Cash Flow generated in Q3 2021 was \$16.3 million compared to \$4.1 million generated in the third quarter of 2020.

The Company recorded net income attributable to Pason of \$13.1 million (\$0.16 per share) in the third quarter of 2021 compared to a net loss attributable to Pason of \$3.7 million (\$0.04 per share) recorded in the corresponding period in 2020 due to the improving industry conditions outlined above.

Pason's results to date in 2021 continue to reinforce the decision to retain critical technology and service capabilities through the downturn, putting the Company in a position of strength with a prudent balance sheet and significant operating leverage as activity levels recover.

President's Message

What a difference a year makes. A year ago, North American land drilling activity troughed at the lowest level in Pason's history as the world grappled with the effects of the COVID-19 pandemic. Since that time, industry activity has shown continued signs of recovery each quarter. As a result, industry activity in the third quarter of 2021 was 124% higher than the low point marked in the same quarter of 2020. As we navigated those challenging quarters, we maintained our conviction that making the necessary investments to defend and grow our service and technology advantages would position the Company to outperform as the industry recovered.

Pason's third quarter 2021 results reflect the positive impacts of both the improved industry environment in which we operate and our strengthened competitive position.

Consolidated revenue of \$57.7 million represented an increase of 150% from the third quarter of 2020. Our ability to outpace the underlying growth in North American land drilling activity was primarily a function of a 15% increase in Revenue per Industry Day in North America and significant growth from our International operations. Our growth in Revenue per Industry Day continues to be driven by market share gains, strong product adoption and a more favourable pricing environment.

Adjusted EBITDA of \$22.4 million in the third quarter increased by \$23.5 million from a loss of \$1.1 million in the prior year period. In our second quarter 2021 report, we noted that we anticipated that certain operating cost categories, notably product repairs and staffing, would increase as we continued to scale our operations to meet growing industry activity and also as a result of higher prevailing rates of inflation. These increases, coupled with strategic decisions to make additional investments in research and development, will continue to put some pressure on incremental margins, at least in the short term, but will position Pason to fully participate in improving industry conditions.

Free cash flow increased by 293% from the third quarter of 2020, to \$16.3 million and net income attributable to Pason of \$13.1 million (\$0.16 per share) compared to a \$3.7 million loss (\$0.04 per share) in the prior year period.

During the third quarter of 2021 Energy Toolbase ("ETB"), our subsidiary in solar and energy storage markets, posted a 28% increase in revenue from the corresponding quarter of 2020 as bookings from the sale of control systems and associated hardware are now beginning to translate into revenue and add to the base provided by subscription-based licenses for the company's economic modeling and proposal generation software.

We continue to balance three priorities in our approach to capital allocation: ensuring continued growth in our drilling-related business, establishing additional sources of revenue not directly tied to North American land drilling for longer term growth, and maintaining a disciplined return of capital to shareholders. Capital expenditures in the third quarter totaled \$1.2 million. While we continue to expect to spend up to \$15 million in capital expenditures in 2021 before returning toward a more sustainable level of capital expenditures of approximately \$25 million in 2022, the timing of capital expenditures will be heavily influenced by the ongoing global supply chain challenges. We will continue to make investments to ensure the success of ETB, as well as Intelligent Wellhead Systems, an early-stage company in which

Pason holds a minority interest and which is focused on the completions segment of the oil and gas industry. Consistent with the second quarter, we returned \$7.1 million to shareholders through a combination of dividends and share repurchases in the third quarter and we are maintaining our quarterly dividend at \$0.05 per share.

Our balance sheet remains strong, allowing us to both withstand the inevitable volatility of land drilling activity and make growth-related investments. We ended the third quarter with \$147 million in cash and cash equivalents and \$180 million in positive working capital.

The prospects for continued growth in industry activity remain strong over the medium term. Global demand for oil has nearly recovered to pre-pandemic levels, yet most supply sources continue to significantly lag. US land production remains approximately 10% below 2019 levels, and the total US inventory of crude and refined products is at a level last witnessed in early 2015. The current inventory of drilled but uncompleted wells ("DUCs") in the US is now near its minimum sustainable level in the view of industry observers. WTI oil prices recently traded above US\$85 per barrel for the first time in seven years. While the prospects of supply increases from OPEC+ nations and a potential nuclear pact between the US and Iran weigh on oil markets, oil traders continue to expect prices to trade higher for longer. As oil and gas producers build their 2022 capital plans, there may be the opportunity for them to increase spending, while maintaining discipline to operate within cash flow and return capital to shareholders. That said, growth in short term industry activity may be muted as the industry contends with the challenges of labour availability and supply chain shortages.

Against this backdrop, Pason is poised to further strengthen our position. Our product and service offerings remain squarely aligned with the increased efforts of customers to more fully utilize technology to increase operational performance and are supported by our unmatched service quality.

Jon Faber

A handwritten signature in black ink, appearing to read 'Jon Faber', with a stylized, cursive script.

President and Chief Executive Officer
November 3, 2021

Discussion of Operations

Overall Performance

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------------|----------------------------------|---------------|--------|---------------------------------|---------|--------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Revenue | | | | | | |
| Drilling Data | 30,504 | 12,218 | 150 | 76,936 | 64,982 | 18 |
| Mud Management and Safety | 14,959 | 6,515 | 130 | 38,622 | 36,132 | 7 |
| Communications | 3,495 | 965 | 262 | 9,954 | 7,657 | 30 |
| Drilling Intelligence | 4,348 | 1,052 | 313 | 8,304 | 6,980 | 19 |
| Analytics and Other | 4,399 | 2,318 | 90 | 10,037 | 8,127 | 24 |
| Total revenue | 57,705 | 23,068 | 150 | 143,853 | 123,878 | 16 |
| Operating expenses | | | | | | |
| Rental services | 19,962 | 12,956 | 54 | 53,624 | 53,291 | 1 |
| Local administration | 2,765 | 2,167 | 28 | 7,862 | 8,795 | (11) |
| Depreciation and amortization | 5,530 | 7,503 | (26) | 19,517 | 26,529 | (26) |
| | 28,257 | 22,626 | 25 | 81,003 | 88,615 | (9) |
| Gross profit | 29,448 | 442 | 6,562 | 62,850 | 35,263 | 78 |
| Other expenses | | | | | | |
| Research and development | 8,951 | 6,237 | 44 | 23,916 | 21,036 | 14 |
| Corporate services | 3,856 | 2,469 | 56 | 9,801 | 8,981 | 9 |
| Stock-based compensation expense | 1,611 | 276 | 484 | 6,429 | 2,022 | 218 |
| Other income | (2,984) | (3,214) | (7) | (7,440) | (9,154) | (19) |
| | 11,434 | 5,768 | 98 | 32,706 | 22,885 | 43 |
| Income before income taxes | 18,014 | (5,326) | nmf | 30,144 | 12,378 | 144 |
| Income tax provision | 5,239 | (1,369) | nmf | 8,498 | 4,582 | 85 |
| Net income | 12,775 | (3,957) | nmf | 21,646 | 7,796 | 178 |
| Adjusted EBITDA ⁽¹⁾ | 22,356 | (1,118) | nmf | 48,312 | 31,339 | 54 |

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

North American Operations

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|----------------------------------|---------------|--------------|---------------------------------|----------------|-------------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Revenue | | | | | | |
| Drilling Data | 24,629 | 10,100 | 144 | 61,970 | 55,921 | 11 |
| Mud Management and Safety | 12,848 | 5,291 | 143 | 33,272 | 31,388 | 6 |
| Communications | 3,059 | 887 | 245 | 7,247 | 6,406 | 13 |
| Drilling Intelligence | 4,061 | 1,011 | 302 | 9,212 | 7,241 | 27 |
| Analytics and Other | 1,509 | 991 | 52 | 3,912 | 4,105 | (5) |
| Total revenue | 46,106 | 18,280 | 152 | 115,613 | 105,061 | 10 |
| Rental services and local administration | 16,504 | 10,948 | 51 | 44,460 | 46,033 | (3) |
| Depreciation and amortization | 4,763 | 6,554 | (27) | 17,393 | 23,528 | (26) |
| Segment gross profit | 24,839 | 778 | 3,093 | 53,760 | 35,500 | 51 |

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--------------------------|----------------------------------|------|--------|---------------------------------|------|--------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Revenue per Industry day | 765 | 667 | 15 | 740 | 704 | 5 |

Industry conditions in North America continued to improve in the third quarter of 2021, with a 124% increase in industry activity compared to the pandemic lows experienced in the comparative prior year period. Outpacing the improvement in industry activity, the North American business unit generated \$46.1 million of revenue in the third quarter of 2021, a 152% increase from \$18.3 million in the comparative period of 2020. Revenue per Industry day was \$765 in Q3 2021, an increase of 15% from the comparable period in 2020 and a record level for the Company. The year over year increase is due to increased market share and also reflects the very challenging pricing environment experienced in the third quarter of 2020.

As certain regions within the North American segment experience fluctuations in activity levels due to seasonality, Pason expects Revenue per Industry day to fluctuate with the relative revenue levels associated within the North American regions.

Rental services and local administration increased by 51% in the third quarter of 2021 over the 2020 comparative period. The increase in operating costs is attributable to variable expenses incurred to support higher activity levels, such as repair costs on higher levels of equipment deployed, along with headcount increases in anticipation of continued growth in industry activity.

Depreciation and amortization decreased by 27% in the third quarter of 2021 over the 2020 comparative period. The decrease is due to a combination of lower capital expenditures in recent quarters, certain development projects becoming fully amortized in 2020, and the impact of foreign exchange.

Segment gross profit was \$24.8 million during the third quarter of 2021 compared to \$0.8 million in the 2020 comparative period, representing a significant increase due to the factors outlined above, and demonstration of strong operating leverage in the context of improving activity levels.

On a year to date basis, revenue of \$115.6 million represents a 10% increase from \$105.1 million during the first three quarters of 2020. Segment gross profit for the nine months ended September 30, 2021 was \$53.8 million, a 51% increase from \$35.5 million during the comparative 2020 period. The year over year improvements in Pason's financial results are a reflection of the improved industry conditions, increased Revenue per Industry day, and strong operating leverage.

International Operations

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---|----------------------------------|--------------|--------------|---------------------------------|---------------|-------------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Revenue | | | | | | |
| Drilling Data | 5,875 | 2,118 | 177 | 14,966 | 9,061 | 65 |
| Mud Management and Safety | 2,111 | 1,224 | 72 | 5,350 | 4,744 | 13 |
| Communications | 436 | 78 | 459 | 1,057 | 574 | 84 |
| Drilling Intelligence | 287 | 41 | 600 | 742 | 416 | 78 |
| Analytics and Other | 1,725 | 417 | 314 | 3,192 | 1,370 | 133 |
| Total revenue | 10,434 | 3,878 | 169 | 25,307 | 16,165 | 57 |
| Rental services and local administration | 4,703 | 2,812 | 67 | 12,855 | 11,466 | 12 |
| Depreciation and amortization | 762 | 944 | (19) | 2,109 | 2,983 | (29) |
| Segment gross profit | 4,969 | 122 | 3,973 | 10,343 | 1,716 | 503 |

The International business unit generated \$10.4 million of revenue in the third quarter of 2021 compared to \$3.9 million in the comparative period of 2020. The year over year increase is due to increased industry activity in the international markets that the company serves, and higher levels of revenue generated per drilling day with improved product adoption. Further, in the third quarter of 2021, the Company recognized a \$0.6 million increase to revenue relating to a contractual foreign exchange and inflationary related adjustment clause with one of its major customers. This amount is recorded in Analytics and Other in the above table.

Rental services and local administration expense was \$4.7 million in the third quarter of 2021, an increase of 67% compared to \$2.8 million in the comparative period of 2020. As activity levels improve, certain variable costs such as repair costs are incurred to support the additional deployment of equipment.

Depreciation and amortization decreased by 19% in the third quarter of 2021 over the 2020 comparative period. The decrease is due to a combination of lower capital expenditures in recent years and the impacts of foreign exchange.

Segment gross profit was \$5.0 million during the third quarter of 2021 compared to \$0.1 million in the 2020 comparative period due to the factors outlined above.

On a year to date basis, the International business unit generated revenue of \$25.3 million and segment gross profit of \$10.3 million, 57% and 503% increases respectively compared to the corresponding period in 2020, which further reflects the improvement in industry conditions year over year.

Solar and Energy Storage Operations

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--|----------------------------------|--------------|-------------|---------------------------------|----------------|-------------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Revenue | | | | | | |
| Analytics and Other | 1,165 | 910 | 28 | 2,933 | 2,652 | 11 |
| Total revenue | 1,165 | 910 | 28 | 2,933 | 2,652 | 11 |
| Operating expenses and local administration⁽¹⁾ | 1,520 | 1,363 | 12 | 4,171 | 4,587 | (9) |
| Depreciation and amortization | 5 | 5 | — | 15 | 18 | (17) |
| Segment gross loss | (360) | (458) | (21) | (1,253) | (1,953) | (36) |

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

Revenue generated by the Solar and Energy Storage business unit was \$1.2 million, an increase of 28% from the comparative period in 2020 and represented the highest quarterly revenue level generated for the reporting segment. While this revenue continued to be primarily comprised of subscription-based software licenses for the Company's solar energy planning tools, sales of control systems and related hardware contributed to the increase in revenue.

Operating expenses and local administration were \$1.5 million during the third quarter of 2021, a 12% increase from \$1.4 million during the comparable period. As a result, segment gross loss was \$0.4 million for the third quarter of 2021, compared to a segment gross loss of \$0.5 million in the comparable 2020 period. On a year to date basis, segment gross loss was \$1.3 million, an improvement from \$2.0 million in the comparable period of 2020.

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

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--------------------------|----------------------------------|------|--------|---------------------------------|-------|--------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Research and development | 1,093 | 759 | 44 | 3,306 | 2,534 | 30 |

Corporate Expenses

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|---------------------------------|----------------------------------|-------|--------|---------------------------------|--------|--------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Research and development | 8,951 | 6,237 | 44 | 23,916 | 21,036 | 14 |
| Corporate services | 3,856 | 2,469 | 56 | 9,801 | 8,981 | 9 |
| Stock-based compensation | 1,611 | 276 | 484 | 6,429 | 2,022 | 218 |
| Total corporate expenses | 14,418 | 8,982 | 61 | 40,146 | 32,039 | 25 |

Research and development and corporate service expenses increased 44% and 56%, respectively from the comparative period in 2020. Throughout 2021, Pason has made additional investments in research and development, further improving the Company's ability to support increasing activity levels and product enhancements. In addition, corporate service and research and development expenses in the third quarter of 2021 reflect the impact of year to date accruals for performance based elements of the Company's compensation plan. In contrast, the comparative periods reflect the significant cost reduction measures taken due to the effects of the pandemic on 2020 operating performance.

The change in stock-based compensation expense is attributable to the change in the Company's share price performance and ongoing vesting of outstanding awards.

Other Income

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|--------------------------------|----------------------------------|---------|--------|---------------------------------|---------|--------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Government wage assistance | (2,190) | (3,334) | (34) | (8,080) | (7,697) | 5 |
| Net interest income | (285) | (105) | 171 | (563) | (841) | (33) |
| Foreign exchange (gain) loss | (204) | 113 | nmf | 969 | 145 | 568 |
| Net monetary gain | (190) | (465) | (59) | (250) | (1,280) | (80) |
| Equity (income) loss | (185) | 357 | nmf | 338 | 436 | (22) |
| Other | 70 | 220 | (68) | 146 | 286 | (49) |
| Derecognition of onerous lease | — | — | nmf | — | (5,757) | nmf |
| Reorganization costs | — | — | nmf | — | 5,554 | nmf |
| Total other income | (2,984) | (3,214) | (7) | (7,440) | (9,154) | (19) |

During the third quarter of 2021, Pason recognized \$2.2 million in government wage assistance, primarily related to the Canada Emergency Wage Subsidy ("CEWS") (Q3 2020: \$3.3 million). The Company intends to participate through the duration of this program, which ends in October of 2021.

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

Net interest income is primarily comprised of interest generated from the Company's invested cash and cash equivalents and will fluctuate as available yields fluctuate.

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

During the second quarter of 2020, the Company entered into an agreement to terminate the lease at its previous US head office in Golden, Colorado. As a result, a recovery of \$5.8 million was recorded, comprised of the derecognition of the previous recorded onerous lease liability, offset by a termination payment.

Also during the second quarter of 2020, the Company initiated staff reduction initiatives to address the anticipated downturn in oil and gas drilling activity in all of its markets as the COVID-19 pandemic began. Accordingly, the Company recorded reorganization expenses of \$5.6 million, which is comprised of termination and other staff related costs.

Income Tax Provision

During the third quarter of 2021, the Company recorded an income tax expense of \$5.2 million, compared to an income tax recovery of \$1.4 million during the comparative period in 2020. The increase is primarily attributable to the improvement in income before income taxes, in light of improved operating performance year over year, as further outlined herein.

Summary of Quarterly Results

| Three Months Ended | Dec 31, 2019 | Mar 31, 2020 | Jun 30, 2020 | Sep 30, 2020 | Dec 31, 2020 | Mar 31, 2021 | Jun 30, 2021 | Sep 30, 2021 |
|---|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| (000s, except per share data) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Revenue | 68,410 | 73,962 | 26,848 | 23,068 | 32,758 | 42,555 | 43,593 | 57,705 |
| EBITDA ⁽¹⁾ | 25,555 | 33,469 | 4,271 | 2,348 | 8,300 | 15,673 | 14,984 | 24,870 |
| Adjusted EBITDA ⁽¹⁾ | 26,615 | 33,305 | (848) | (1,118) | 8,201 | 13,170 | 12,786 | 22,356 |
| As a % of revenue | 38.9 | 45.0 | nmf | nmf | 25.0 | 30.9 | 29.3 | 38.7 |
| Funds flow from operations | 22,126 | 26,722 | 134 | 4,765 | 8,939 | 13,730 | 14,662 | 19,983 |
| Per share – basic | 0.26 | 0.32 | 0.00 | 0.06 | 0.11 | 0.17 | 0.18 | 0.24 |
| Per share – diluted | 0.26 | 0.32 | 0.00 | 0.06 | 0.11 | 0.17 | 0.18 | 0.24 |
| Cash from operating activities | 24,714 | 25,593 | 29,953 | 5,754 | (2,717) | 11,085 | 9,841 | 17,074 |
| Free cash flow ⁽¹⁾ | 19,955 | 22,935 | 29,888 | 4,141 | (3,100) | 9,176 | 5,684 | 16,261 |
| Net income (loss) | 10,096 | 16,552 | (4,799) | (3,957) | (2,662) | 3,991 | 4,880 | 12,775 |
| Net income (loss) attributable to Pason | 10,405 | 16,919 | (4,487) | (3,698) | (2,166) | 4,315 | 5,307 | 13,074 |
| Per share – basic | 0.12 | 0.20 | (0.05) | (0.04) | (0.03) | 0.05 | 0.06 | 0.16 |
| Per share – diluted | 0.12 | 0.20 | (0.05) | (0.04) | (0.03) | 0.05 | 0.06 | 0.16 |

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

Pason's quarterly financial results vary quarter to quarter due in part to the seasonality of the oil and gas industry in the North American business unit, which is somewhat offset by the less seasonal nature of the International and Solar and Energy Storage business units. The first quarter is generally the strongest quarter for the North American business unit due to strong activity in Canada, where location access is best during the winter. The second quarter is typically the slowest due to spring break-up in Canada, when many areas are not accessible due to ground conditions, and, therefore, do not permit the movement of heavy equipment. Activity generally increases in the third quarter, depending on the year, as ground conditions have often improved and location access becomes available; however, a rainy summer can have a significant adverse effect on drilling activity. By the fourth quarter, access to most areas in Canada becomes available when the ground freezes. Consequently, the performance of the Company may not be comparable quarter to consecutive quarter, but should be considered on the basis of results for the whole year, or by comparing results in a quarter with results in the corresponding quarter for the previous year.

The overall seasonality of the Company's operations has, and will continue to become less pronounced as a result of market share growth internationally and in the US, along with increased diversification of operations with the Company's Solar and Energy Storage business units. Furthermore, as noted herein and specifically as it relates to results starting in Q2 2020, quarterly results will vary significantly due to the drastic impacts of the global COVID-19 pandemic on the oil and gas industry.

Q3 2021 vs Q2 2021

Following the historic lows in industry activity in Q3 2020, North American and International rig counts have continued to steadily improve into the third quarter of 2021. Consolidated revenue was \$57.7 million in the third quarter of 2021, a 32% increase compared to consolidated revenue of \$43.6 million in the second quarter of 2021.

Revenue in the North American business unit was \$46.1 million in the third quarter of 2021, a 32% increase compared to revenue of \$34.9 million in the second quarter of 2021. While this increase is primarily driven by the increase in North American industry days of 26%, North American revenue in Q3 2021 was also bolstered by an increase in Revenue per Industry day of \$765 versus \$728 in Q2 2021. Both industry activity and Revenue per Industry day in Q3 2021 benefited from the expected sequential increase in Canadian drilling activity coming out of spring break-up in the second quarter.

The International business unit reported revenue of \$10.4 million in the third quarter of 2021, a 33% increase compared to \$7.8 million in the second quarter of 2021. The increase in revenue is primarily attributable to improvements in drilling activity in Pason's international end markets and is further impacted by a hyperinflation adjustment recognized in the Company's Argentinian subsidiary.

Sequential increases in rental services and local administrative expenses of 15% are attributable to variable expenses incurred to support higher activity levels, such as repair costs on higher levels of equipment deployed, along with staffing increases in anticipation of continued growth in industry activity.

The Company's gross profit was \$29.4 million in the third quarter of 2021, a 67% increase compared to gross profit of \$17.6 million in the second quarter of 2021, due to the factors outlined above and lower depreciation and amortization.

Research and development and corporate service expenses increased sequentially with increased staffing levels and the impact of year to date accruals for the Company's performance based elements of the Company's compensation plan.

Adjusted EBITDA was \$22.4 million in the third quarter of 2021, a 75% increase from \$12.8 million in the second quarter. The Company's cost structure remains primarily fixed and Pason continues to demonstrate its operating leverage with 68% incremental Adjusted EBITDA margins generated sequentially.

Cash from operating activities was \$17.1 million in the third quarter of 2021, compared to \$9.8 million in the second quarter of 2021, for which the increase is primarily driven by the improvement in activity levels and operating results as outlined above.

The Company recorded net income attributable to Pason in the third quarter of 2021 of \$13.1 million (\$0.16 per share) compared to net income attributable to Pason of \$5.3 million (\$0.06 per share) in the second quarter of 2021. Third quarter net income benefited from the increased activity levels and operating results, as noted above.

Liquidity and Capital Resources

| As at | September 30, 2021 | December 31, 2020 | Change |
|-----------------------------|--------------------|-------------------|--------|
| (000s) | (\$) | (\$) | (%) |
| Cash and cash equivalents | 147,080 | 149,282 | (1) |
| Working capital | 179,675 | 167,366 | 7 |
| Total assets | 377,553 | 361,416 | 4 |
| Total interest bearing debt | — | — | — |

Throughout the downturn, Pason managed to preserve its strong balance sheet with no interest bearing debt and as at September 30, 2021, had \$147.1 million in cash and cash equivalents. Working capital levels increased from December 31, 2020 to September 30, 2021, as the Company made investments in accounts receivable to meet increased revenue levels. As industry conditions improve, Pason remains focused on disciplined management of required investments in working capital.

The Company has an undrawn \$5.0 million demand revolving credit facility available as at September 30, 2021, consistent with December 31, 2020.

Cash Flow Statement Summary

| | Three Months Ended September 30, | | | Nine Months Ended September 30, | | |
|-------------------------------------|----------------------------------|---------|-------------|---------------------------------|----------|--------|
| | 2021 | 2020 | Change | 2021 | 2020 | Change |
| (000s) | (\$) | (\$) | (%) | (\$) | (\$) | (%) |
| Funds flow from operations | 19,983 | 4,765 | 319 | 48,375 | 31,621 | 53 |
| Cash from operating activities | 17,074 | 5,754 | 197 | 38,000 | 61,300 | (38) |
| Cash used in financing activities | (7,758) | (7,061) | 10 | (20,159) | (44,451) | (55) |
| Cash used in investing activities | (813) | (1,613) | (50) | (19,006) | (9,336) | 104 |
| Net capital expenditures | 1,205 | 807 | 49 | 7,574 | 4,694 | 61 |
| As a % of funds flow ⁽¹⁾ | 6.0 % | 16.9 % | (1,090) bps | 15.7 % | 14.8 % | 90 bps |

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

Cash from operating activities

As noted above, funds flow from operations increased significantly in the third quarter of 2021 from Q3 2020 due to the improvement in gross profit experienced by the Company year over year. Accordingly, cash from operating activities increased by 197% for the same comparable period.

In contrast, for the year to date periods, 2020 operating cash flows reflect the working capital release experienced in the second quarter of 2020 as activity levels fell with the effects of the pandemic, while 2021 reflects investments made in working capital to support higher revenue levels.

Cash used in financing activities

Cash used in financing activities was \$7.8 million during the third quarter of 2021, compared to \$7.1 million million during the third quarter of 2020.

Dividend

During the three month period ended September 30, 2021, the Company paid dividends to holders of common shares totaling \$4.1 million, or \$0.05 per share, compared to \$4.2 million, or \$0.05 per share in Q3 2020. In light of the COVID-19 pandemic and related uncertainty surrounding the outlook for industry activity, on August 6, 2020, Pason announced a reduced quarterly dividend from an annualized \$0.76 per share to \$0.20 per share, preserving approximately \$46.5 million in cash on an annualized basis.

On November 3, 2021, the Company declared a quarterly dividend of \$0.05 per share on the Company's common shares. The dividend will be paid on December 31, 2021, to shareholders of record at the close of business on December 15, 2021.

Normal Course Issuer Bid ("NCIB")

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

The actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 83,393

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

For the three month period ended September 30, 2021, the Company repurchased 359,878 (Q3 2020 - 405,200) shares for cancellation at an average price per share of \$8.25 (Q3 2020 - \$5.41) for total cash consideration of \$3.0 million (Q3 2020 - \$2.2 million). For the nine month period ended September 30, 2021, the Company repurchased 673,779 (year to date Q3 2020 - 847,800) common shares for cancellation at an average price per share of \$8.85 (year to date Q3 2020 - \$7.47) for a total cash consideration of \$6.0 million (year to date Q3 2020 - \$6.3 million). The total consideration is allocated between share capital and retained earnings during the respective periods.

Pason continues to assess capital allocation on an ongoing basis taking into account, among other considerations, the Company's financial position, operating results, and industry outlook. Pason will continue to balance the Company's commitment to shareholder returns while preserving financial strength to support long-term success.

Cash used in investing activities

During the third quarter, Pason used \$0.8 million for investing activities compared to \$1.6 million used in the comparative period in 2020. Investing activities was primarily comprised of \$1.7 million in additions to rental equipment to meet activity levels, offset by investment tax credits received in the quarter relating to the Company's eligible development costs, and proceeds received on the sale of Company fleet nearing mileage limits.

Contractual Obligations

| As at September 30, 2021 | Less than 1 year | 1–3 years | Thereafter | Total |
|--------------------------------------|------------------|-----------|------------|--------|
| (000s) | (\$) | (\$) | (\$) | (\$) |
| Operating leases and other contracts | 3,069 | 5,387 | 2,379 | 10,835 |

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

Disclosure of Outstanding Share and Options Data

As at September 30, 2021 and November 03, 2021, there were 82,415,162 common shares and 3,409,674 options issued and outstanding.

Impact of Hyperinflation

Due to various qualitative and quantitative factors, Argentina was designated a hyper-inflationary economy as of the second quarter of 2018 for accounting purposes. As such, the Company has applied accounting standards IAS 21, The Effects of Changes in Foreign Exchange, and IAS 29, Financial Reporting in Hyper-Inflationary Economies its Condensed Consolidated Interim Financial Statements for its Argentinian operating subsidiary. The Company's Condensed Consolidated Interim Financial Statements are based on the historical cost approach in IAS 29.

The impact of applying IAS 21 to the operating results of the Argentina subsidiary for the three and nine months ended September 30, 2021 are detailed as follows:

Impact on IFRS Measures

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|--------------|---------------------------------|--------------|
| | 2021 | 2020 | 2021 | 2020 |
| (000s) | (\$) | (\$) | (\$) | (\$) |
| Increase (decrease) in revenue | 521 | (173) | 796 | (469) |
| (Increase) decrease in rental services and local administration expenses | (210) | 159 | (340) | 369 |
| (Increase) in depreciation expense | (307) | (358) | (678) | (769) |
| Increase (decrease) in segment gross profit | 4 | (372) | (222) | (869) |
| Net monetary gain (loss) presented in other expenses | (190) | 465 | (250) | 1,280 |
| Other expenses | (40) | — | (67) | — |
| (Increase) decrease in income tax provision | (120) | (1) | (176) | — |
| (Decrease) increase in net income | (346) | 92 | (715) | 411 |

Impact on Non-GAAP Measures

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|-------------|---------------------------------|--------------|
| | 2021 | 2020 | 2021 | 2020 |
| (000s) | (\$) | (\$) | (\$) | (\$) |
| Increase (decrease) in revenue | 521 | (173) | 796 | (469) |
| (Increase) decrease in rental services and local administration expenses | (210) | 159 | (340) | 369 |
| Net monetary gain (loss) presented in other expenses | (190) | 465 | (250) | 1,280 |
| Increase in other expenses | (40) | — | (67) | — |
| Increase in EBITDA | 81 | 451 | 139 | 1,180 |
| Elimination of net monetary gain presented in other expenses | 190 | (465) | 250 | (1,280) |
| Elimination of other expenses | 40 | — | 67 | — |
| Increase (decrease) in Adjusted EBITDA | 311 | (14) | 456 | (100) |

Additional IFRS Measures

In its Condensed Consolidated Interim Financial Statements, the Company uses certain additional IFRS measures. Management believes these measures provide useful supplemental information to readers.

Funds flow from operations

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

Cash from operating activities

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

Non-GAAP Financial Measures

These definitions are not recognized measures under IFRS, and accordingly, may not be comparable to measures used by other companies. Management believes these non-GAAP measures provide readers with additional information regarding the Company's operating performance, and ability to generate funds to finance its operations, fund its research and development and capital expenditure program, and return capital to shareholders through dividends or share repurchases.

Revenue per Industry day

Revenue per Industry day is defined as the daily revenue generated from all products that the Company is renting over all active drilling rig days in the North American market. This metric provides a key measure of the Company's ability to evaluate and manage product adoption, pricing, and market share penetration. Drilling days are calculated by using accepted industry sources.

EBITDA and Adjusted EBITDA

EBITDA is defined as net income before interest income and expense, income taxes, stock-based compensation expense, and depreciation and amortization expense.

Adjusted EBITDA is defined as EBITDA, adjusted for foreign exchange, impairment of property, plant, and equipment, restructuring costs, net monetary adjustments, government wage assistance, revaluation of put obligation, and other items, which the Company does not consider to be in the normal course of continuing operations.

Management believes that EBITDA and Adjusted EBITDA are useful supplemental measures as they provide an indication of the results generated by the Company's principal business activities prior to the consideration of how these results are taxed in multiple jurisdictions, how the results are impacted by foreign exchange or how the results are impacted by the Company's accounting policies for equity-based compensation plans.

Reconcile Net Income to EBITDA

| Three Months Ended | Dec 31, 2019 | Mar 31, 2020 | Jun 30, 2020 | Sep 30, 2020 | Dec 31, 2020 | Mar 31, 2021 | Jun 30, 2021 | Sep 30, 2021 |
|-------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| (000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Net income (loss) | 10,096 | 16,552 | (4,799) | (3,957) | (2,662) | 3,991 | 4,880 | 12,775 |
| Add: | | | | | | | | |
| Income taxes | 3,846 | 7,023 | (1,072) | (1,369) | 282 | 1,257 | 2,002 | 5,239 |
| Depreciation and amortization | 10,713 | 10,414 | 8,612 | 7,503 | 7,888 | 7,831 | 6,156 | 5,530 |
| Stock-based compensation | 1,481 | (122) | 1,868 | 276 | 2,818 | 2,602 | 2,216 | 1,611 |
| Net interest income | (581) | (398) | (338) | (105) | (26) | (8) | (270) | (285) |
| EBITDA | 25,555 | 33,469 | 4,271 | 2,348 | 8,300 | 15,673 | 14,984 | 24,870 |

Reconcile EBITDA to Adjusted EBITDA

| Three Months Ended | Dec 31, 2019 | Mar 31, 2020 | Jun 30, 2020 | Sep 30, 2020 | Dec 31, 2020 | Mar 31, 2021 | Jun 30, 2021 | Sep 30, 2021 |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| (000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| EBITDA | 25,555 | 33,469 | 4,271 | 2,348 | 8,300 | 15,673 | 14,984 | 24,870 |
| Add: | | | | | | | | |
| Foreign exchange loss (gain) | 930 | (47) | 79 | 113 | 968 | 448 | 725 | (204) |
| Recognition of onerous lease | — | — | (5,757) | — | — | — | — | — |
| Government wage assistance | — | — | (4,363) | (3,334) | (2,244) | (2,924) | (2,966) | (2,190) |
| Reorganization costs | — | — | 5,554 | — | — | — | — | — |
| Put option revaluation | — | — | — | — | 1,812 | — | — | — |
| Net monetary gain | (511) | (419) | (396) | (465) | (594) | (49) | (11) | (190) |
| Other | 641 | 302 | (236) | 220 | (41) | 22 | 54 | 70 |
| Adjusted EBITDA | 26,615 | 33,305 | (848) | (1,118) | 8,201 | 13,170 | 12,786 | 22,356 |

Free cash flow

Free cash flow is defined as cash from operating activities plus proceeds on disposal of property, plant, and equipment, less capital expenditures (including changes to non-cash working capital associated with capital expenditures), and deferred development costs. This metric provides a key measure on the Company's ability to generate cash from its principal business activities after funding capital expenditure programs, and provides an indication of the amount of cash available to finance, among other items, the Company's dividend and other investment opportunities.

Reconcile cash from operating activities to free cash flow

| Three Months Ended | Dec 31, 2019 | Mar 31, 2020 | Jun 30, 2020 | Sep 30, 2020 | Dec 31, 2020 | Mar 31, 2021 | Jun 30, 2021 | Sep 30, 2021 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| (000s) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Cash from operating activities | 24,714 | 25,593 | 29,953 | 5,754 | (2,717) | 11,085 | 9,841 | 17,074 |
| Less: | | | | | | | | |
| Net additions to property, plant and equipment | (4,143) | (2,236) | (644) | (1,282) | (66) | (1,510) | (3,696) | (1,258) |
| Deferred development costs | (616) | (422) | 579 | (331) | (317) | (399) | (461) | 445 |
| Free cash flow | 19,955 | 22,935 | 29,888 | 4,141 | (3,100) | 9,176 | 5,684 | 16,261 |

Critical Accounting Estimates

The preparation of the Company's Condensed Consolidated Interim Financial Statements requires that certain estimates and judgements be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and management's judgements based on information available as at the financial statement date, and, as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired. Furthermore, as the impacts of the COVID-19 pandemic on the oil and gas industry continue, management cannot reasonably estimate the resulting length or severity of the impact on the Company. As such, actual results may differ significantly from estimates made within the Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2021. Significant estimates made by the Company have most recently been set out in the Company's MD&A for the year ended December 31, 2020, and its consolidated financial statements and note disclosures for the year ended December 31, 2020, and within Note 2 of the Company's Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2021.

Significant Accounting Policies

The Company's significant accounting policies have been disclosed within the Consolidated Financial Statements for the year ended December 31, 2020, and within Note 3 of these Condensed Consolidated Interim Financial Statements for the three and nine months ended September 30, 2021.

Internal Control over Financial Reporting

There have been no significant changes in the design of the Company's internal controls over financial reporting during the three and nine months ended September 30, 2021, that would materially affect, or is reasonably likely to materially affect, the Company's controls and processes over financial reporting.

Risk and Uncertainties

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

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

COVID-19

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. COVID-19's negative impact on the demand for oil has been significant and this combined with an over-supply of oil led to a decline in oil prices. As a result, Pason customers reduced their capital expenditure programs, which led to a precipitous fall in the active rig count in Pason's major markets, starting in the second quarter of 2020. This supply/demand imbalance is having a direct impact on Pason's revenue. The ultimate impact of COVID-19 on future oil demand is unknown at the present time and thus, it is not possible to predict the long-term effects of COVID-19 on the Company's operating results. The current economic climate has or may have significant adverse impacts to Pason, including but not limited to: material declines in revenue and cash flows due to reduced drilling and demand for associated products and services, increased risk of non-payment of accounts receivable, potential for impairment charges on long-term assets, and additional reorganization costs, if deemed required in the context of Pason's ongoing efforts to reduce its cost structure.

Operationally, the Company experienced minimal adverse impacts to its business operations and workforce throughout the COVID-19 pandemic. With the exception of certain international regions that experienced temporary country-wide economic shutdowns, Pason's operations have been and continue to remain open and fully operating. In response to the pandemic, additional safety measures have been implemented throughout the Company's operations, both in the field and in office/warehouse settings, to ensure the ongoing safety of our employees and our customers' employees, and to maintain delivery of products and services to customers while complying with recommendations from global and local health authorities.

Operating Risks

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

Commodity Prices

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

Seasonality

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

Proprietary Rights

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

Litigation

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

Credit Risk

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

Qualified Personnel

Due to the specialized and technical nature of Pason's business, Pason is highly dependent on attracting and retaining qualified or key personnel. There is competition for qualified personnel in the areas where Pason operates, and there can be no assurance that qualified personnel can be attracted or retained to meet the growth needs of the business. Further, the Company does not carry "key person" insurance on any of its key employees. As such, the unexpected loss of a key employee could have an adverse effect on Pason's results. To mitigate these risks, Pason has a human resources department in each significant business unit that is focused on recruiting and retention initiatives. In addition, the Company has deployed necessary equipment and technology to enable remote work for employees impacted by COVID-19 restrictions.

Alternative Energies

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

International Operations

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

Foreign Exchange Exposure

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

Adjustments arising when translating the foreign subsidiaries into Canadian dollars are reflected in the Consolidated Statements of Operations and Other Comprehensive Income as unrealized foreign currency translation adjustments.

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

Major Customers

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

Dividends

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

Taxation

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

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

Information Security

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

SEDAR

Additional information relating to the Company, including the Company's most recent Annual Information Form can be accessed on the Company's website at www.pason.com and on the Canadian Securities Administrators' System for Electronic Document Analysis and Retrieval ("SEDAR") at www.sedar.com.

Forward Looking Information

Certain statements contained herein constitute "forward-looking statements" and/or "forward-looking information" under applicable securities laws (collectively referred to as "forward-looking statements"). Forward-looking statements can generally be identified by the words "anticipate", "expect", "believe", "may", "could", "should", "will", "estimate", "project", "intend", "plan", "outlook", "forecast" or expressions of a similar nature suggesting a future outcome or outlook.

Without limiting the foregoing, this document includes, but is not limited to, the following forward-looking statements: the Company's growth strategy and related schedules; divergence in activity levels between the geographic regions in which we operate; demand fluctuations for our products and services; the Company's ability to increase or maintain market share; projected future value, forecast operating and

financial results; planned capital expenditures; expected product performance and adoption, including the timing, growth and profitability thereof; potential dividends and dividend growth strategy; future use and development of technology; our financial ability to meet long-term commitments not included in liabilities; the collectability of accounts receivable; the application of critical accounting estimates and judgements; treatment under governmental regulatory and taxation regimes; and projected increasing shareholder value.

These forward-looking statements reflect the current views of Pason with respect to future events and operating performance as of the date of this document. They are subject to known and unknown risks, uncertainties, assumptions, and other factors that could cause actual results to be materially different from results that are expressed or implied by such forward-looking statements.

Although we believe that these forward-looking statements are reasonable based on the information available on the date such statements are made and processes used to prepare the information, such statements are not guarantees of future performance and readers are cautioned against placing undue reliance on forward-looking statements. By their nature, these statements involve a variety of assumptions, known and unknown risks and uncertainties and other factors, which may cause actual results, levels of activity and achievements to differ materially from those expressed or implied by such statements. Such risks and uncertainties include, but are not limited to: the state of the economy; volatility in industry activity levels and resulting customer expenditures on exploration and production activities; customer demand for existing and new products; the industry shift towards more efficient drilling activity and technology to assist in that efficiency; the impact of competition; the loss of key customers; the loss of key personnel; cybersecurity risks; reliance on proprietary technology and ability to protect the Company's proprietary technologies; changes to government regulations (including those related to safety, environmental, or taxation); the impact of extreme weather events and seasonality on our suppliers and on customer operations; and war, terrorism, pandemics, social or political unrest that disrupts global markets.

These risks, uncertainties and assumptions include but are not limited to those discussed in Pason's Annual Information Form under the heading, "Risk and Uncertainty," in our management's discussion and analysis for the year ended December 31, 2020, and in our other filings with Canadian securities regulators. These documents are on file with the Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or through Pason's website (www.pason.com).

Forward-looking statements contained in this document are expressly qualified by this cautionary statement. Except to the extent required by applicable law, Pason assumes no obligation to publicly update or revise any forward-looking statements made in this document or otherwise, whether as a result of new information, future events or otherwise.

Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

| As at | Note* | September 30, 2021 | December 31, 2020 |
|---|-------|--------------------|-------------------|
| (CDN 000s) (unaudited) | | (\$) | (\$) |
| Assets | | | |
| Current | | | |
| Cash and cash equivalents | 4 | 147,080 | 149,282 |
| Trade and other receivables | | 47,129 | 25,747 |
| Income taxes recoverable - other | 6 | 15,162 | 15,304 |
| Prepaid expenses | | 4,285 | 2,973 |
| Income taxes recoverable | | 4,566 | 3,489 |
| Total current assets | | 218,222 | 196,795 |
| Non-current | | | |
| Property, plant and equipment | | 85,785 | 94,986 |
| Investments | 7 | 31,310 | 24,719 |
| Intangible assets and goodwill | | 42,236 | 44,916 |
| Total non-current assets | | 159,331 | 164,621 |
| Total assets | | 377,553 | 361,416 |
| Liabilities and equity | | | |
| Current | | | |
| Trade payables and accruals | | 25,984 | 14,035 |
| Income taxes payable | | 1,919 | 2,039 |
| Stock-based compensation liability | 9 | 4,188 | 1,426 |
| Lease liability | | 1,456 | 1,929 |
| Obligation under put option | 7 | 5,000 | 10,000 |
| Total current liabilities | | 38,547 | 29,429 |
| Non-current | | | |
| Deferred tax liabilities | | 8,124 | 7,927 |
| Lease liability | | 6,337 | 4,240 |
| Stock-based compensation liability | 9 | 6,116 | 3,384 |
| Obligation under put option | | 11,161 | 11,153 |
| Total non-current liabilities | | 31,738 | 26,704 |
| Equity | | | |
| Share capital | 8 | 163,234 | 164,568 |
| Share-based benefits reserve | | 34,077 | 33,170 |
| Foreign currency translation reserve | | 51,927 | 54,090 |
| Equity reserve | | (8,375) | (8,375) |
| Retained earnings | | 69,235 | 63,609 |
| Total equity attributable to equity holders of the Company | | 310,098 | 307,062 |
| Non-controlling interest | | (2,830) | (1,779) |
| Total equity | | 307,268 | 305,283 |
| Total liabilities and equity | | 377,553 | 361,416 |

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

Condensed Consolidated Interim Statements of Operations

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------|----------------------------------|---------|---------------------------------|---------|
| | Note* | 2021 | 2020 | 2021 | 2020 |
| (CDN 000s, except per share data) (unaudited) | | (\$) | (\$) | (\$) | (\$) |
| Revenue | | 57,705 | 23,068 | 143,853 | 123,878 |
| Operating expenses | | | | | |
| Rental services | | 19,962 | 12,956 | 53,624 | 53,291 |
| Local administration | | 2,765 | 2,167 | 7,862 | 8,795 |
| Depreciation and amortization | | 5,530 | 7,503 | 19,517 | 26,529 |
| | | 28,257 | 22,626 | 81,003 | 88,615 |
| Gross profit | | 29,448 | 442 | 62,850 | 35,263 |
| Other expenses | | | | | |
| Research and development | | 8,951 | 6,237 | 23,916 | 21,036 |
| Corporate services | | 3,856 | 2,469 | 9,801 | 8,981 |
| Stock-based compensation expense | 9 | 1,611 | 276 | 6,429 | 2,022 |
| Other income | 11 | (2,984) | (3,214) | (7,440) | (9,154) |
| | | 11,434 | 5,768 | 32,706 | 22,885 |
| Income (loss) before income taxes | | 18,014 | (5,326) | 30,144 | 12,378 |
| Income tax provision | | 5,239 | (1,369) | 8,498 | 4,582 |
| Net income (loss) | | 12,775 | (3,957) | 21,646 | 7,796 |
| Net income (loss) attributable to: | | | | | |
| Shareholders of Pason | | 13,074 | (3,698) | 22,696 | 8,734 |
| Non-controlling interest | | (299) | (259) | (1,050) | (938) |
| Net income (loss) | | 12,775 | (3,957) | 21,646 | 7,796 |
| Income (loss) per share | 12 | | | | |
| Basic | | 0.16 | (0.04) | 0.27 | 0.10 |
| Diluted | | 0.16 | (0.04) | 0.27 | 0.10 |

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

Condensed Consolidated Interim Statements of Other Comprehensive Income (Loss)

| Note* | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|----------------------------------|-----------------|---------------------------------|---------------|
| | 2021 | 2020 | 2021 | 2020 |
| (CDN 000s) (unaudited) | (\$) | (\$) | (\$) | (\$) |
| Net income (loss) | 12,775 | (3,957) | 21,646 | 7,796 |
| Items that may be reclassified subsequently to net income: | | | | |
| Foreign currency translation adjustment | 5,158 | (6,476) | (2,164) | 5,752 |
| Other comprehensive income (loss) | 5,158 | (6,476) | (2,164) | 5,752 |
| Total comprehensive income (loss) | 17,933 | (10,433) | 19,482 | 13,548 |
| Total comprehensive income (loss) attributed to: | | | | |
| Shareholders of Pason | 18,230 | (10,190) | 20,533 | 14,479 |
| Non-controlling interest | (297) | (243) | (1,051) | (931) |
| Total comprehensive income (loss) | 17,933 | (10,433) | 19,482 | 13,548 |

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

Condensed Consolidated Interim Statements of Changes in Equity

| | Note* | Share Capital | Share- Based Benefits Reserve | Foreign Currency Translation Reserve | Equity Reserve | Retained Earnings | Total Equity Attributable to Pason | Non- Controlling Interest | Total Equity |
|--|-------|------------------|--|---|-------------------|----------------------|--|---------------------------------|-----------------|
| (CDN 000s) (unaudited) | | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) | (\$) |
| Balance at January 1, 2020 | | 166,701 | 30,863 | 57,830 | (8,375) | 99,806 | 346,825 | (371) | 346,454 |
| Net income (loss) | | — | — | — | — | 8,734 | 8,734 | (938) | 7,796 |
| Dividends | | — | — | — | — | (36,265) | (36,265) | — | (36,265) |
| Other comprehensive income | | — | — | 5,745 | — | — | 5,745 | 7 | 5,752 |
| Expense related to stock options | | — | 1,673 | — | — | — | 1,673 | — | 1,673 |
| Shares cancelled under NCIB | 8 | (1,675) | — | — | — | (4,601) | (6,276) | — | (6,276) |
| Liability reversal for automatic share purchase plan commitment pursuant to NCIB | 8 | 732 | — | — | — | 4,268 | 5,000 | — | 5,000 |
| Liability for automatic share purchase plan commitment pursuant to NCIB | 8 | (2,960) | — | — | — | (5,040) | (8,000) | — | (8,000) |
| Balance at September 30, 2020 | | 162,798 | 32,536 | 63,575 | (8,375) | 66,902 | 317,436 | (1,302) | 316,134 |
| Net (loss) | | — | — | — | — | (2,166) | (2,166) | (496) | (2,662) |
| Dividends | | — | — | — | — | (4,155) | (4,155) | — | (4,155) |
| Other comprehensive income | | — | — | (9,485) | — | — | (9,485) | 19 | (9,466) |
| Expense related to stock options | | — | 634 | — | — | — | 634 | — | 634 |
| Liability reversal for automatic share purchase plan commitment pursuant to NCIB | | 2,960 | — | — | — | 5,040 | 8,000 | — | 8,000 |
| Shares cancelled under NCIB | | (1,190) | — | — | — | (2,012) | (3,202) | — | (3,202) |
| Balance at December 31, 2020 | | 164,568 | 33,170 | 54,090 | (8,375) | 63,609 | 307,062 | (1,779) | 305,283 |
| Net income (loss) | | — | — | — | — | 22,696 | 22,696 | (1,050) | 21,646 |
| Dividends | | — | — | — | — | (12,443) | (12,443) | — | (12,443) |
| Other comprehensive income | | — | — | (2,163) | — | — | (2,163) | (1) | (2,164) |
| Expense related to stock options | | — | 907 | — | — | — | 907 | — | 907 |
| Shares cancelled under NCIB | 8 | (1,334) | — | — | — | (4,627) | (5,961) | — | (5,961) |
| Balance at September 30, 2021 | | 163,234 | 34,077 | 51,927 | (8,375) | 69,235 | 310,098 | (2,830) | 307,268 |

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

Condensed Consolidated Interim Statements of Cash Flows

| | | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------|----------------------------------|----------------|---------------------------------|-----------------|
| | Note* | 2021 | 2020 | 2021 | 2020 |
| (CDN 000s) (unaudited) | | (\$) | (\$) | (\$) | (\$) |
| Cash from (used in) operating activities | | | | | |
| Net income | | 12,775 | (3,957) | 21,646 | 7,796 |
| Adjustment for non-cash items: | | | | | |
| Depreciation and amortization | | 5,530 | 7,503 | 19,517 | 26,529 |
| Stock-based compensation expense | 9 | 1,611 | 276 | 6,429 | 2,022 |
| Deferred income taxes | | 958 | 1,253 | 161 | 975 |
| Net monetary gain | | (530) | (451) | (588) | (1,182) |
| Derecognition of lease liability | | — | — | — | (5,757) |
| Unrealized foreign exchange loss and other | | (361) | 141 | 1,210 | 1,238 |
| Funds flow from operations | | 19,983 | 4,765 | 48,375 | 31,621 |
| Movements in non-cash working capital items: | | | | | |
| (Increase) decrease in trade and other receivables | | (8,940) | 3,955 | (20,844) | 39,896 |
| (Increase) decrease in prepaid expenses | | (1,698) | (561) | (1,290) | 1,308 |
| Increase (decrease) in income taxes payable/recoverable | | 3,122 | (3,063) | 5,950 | 1,360 |
| Increase (decrease) in trade payables, accruals and stock-based compensation liability | | 8,548 | 3,063 | 12,471 | (8,079) |
| Effects of exchange rate changes | | 591 | 82 | 312 | (61) |
| Cash generated from operating activities | | 21,606 | 8,241 | 44,974 | 66,045 |
| Income tax paid | | (4,532) | (2,487) | (6,974) | (4,745) |
| Net cash from operating activities | | 17,074 | 5,754 | 38,000 | 61,300 |
| Cash flows from (used in) financing activities | | | | | |
| Payment of dividends | 8 | (4,121) | (4,201) | (12,443) | (36,265) |
| Repurchase and cancellation of shares under NCIB | 8 | (2,970) | (2,193) | (5,961) | (6,276) |
| Repayment of lease liability | | (667) | (667) | (1,755) | (1,910) |
| Net cash used in financing activities | | (7,758) | (7,061) | (20,159) | (44,451) |
| Cash flows (used in) from investing activities | | | | | |
| Equity investments | 7 | — | — | (12,127) | (5,000) |
| Additions to property, plant and equipment | | (1,650) | (476) | (7,159) | (4,520) |
| Development costs, net of ITCs | | 445 | (331) | (415) | (174) |
| Proceeds on disposal of property, plant and equipment | | 632 | 81 | 975 | 888 |
| Changes in non-cash working capital | | (240) | (887) | (280) | (530) |
| Net cash used in investing activities | | (813) | (1,613) | (19,006) | (9,336) |
| Effect of exchange rate on cash and cash equivalents | | 3,544 | (4,312) | (1,037) | 725 |
| Net increase (decrease) in cash and cash equivalents | | 12,047 | (7,232) | (2,202) | 8,238 |
| Cash and cash equivalents, beginning | | 135,033 | 176,486 | 149,282 | 161,016 |
| Cash and cash equivalents, ending | 4 | 147,080 | 169,254 | 147,080 | 169,254 |

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

Notes to Condensed Consolidated Interim Financial Statements

(000s, except per share data)

1. Description of Business

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

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

2. Basis of Preparation

Statement of compliance

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

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

Key Sources of Estimation Uncertainty

The preparation of these Condensed Consolidated Interim Financial Statements in compliance with IAS 34 requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas where significant judgment and estimates have been made in preparing the financial statements and their effect are disclosed in Note 2 of the Company's 2020 consolidated annual financial statements. As the COVID-19 pandemic continues to have significant impacts on the global demand for fossil fuels, the impact on Pason's financial and operational performance remains uncertain at this time. The Company continues to closely monitor current developments as it relates to the COVID-19 pandemic and should the duration, spread, or intensity of the pandemic continue or worsen, further negative impacts on the Company's financial and operational performance can be expected. As such, actual results may differ significantly from estimates made within these Condensed Consolidated Interim Financial Statements.

3. Changes in Accounting Standards

Adoption of new standard

IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments; Disclosures, IFRS 4, Insurance Contracts, and IFRS 16, Leases, collectively named 'Interest Rate Benchmark Reform – Phase 2' (adopted January 1, 2021).

The amendments provide relief for modifications of financial contracts and leases and discontinuing hedge accounting required solely by Interest Rate Benchmark Reform. The amendments include a

practical expedient to apply the change in the basis for determining the contractual cash flows prospectively by revising the effective interest rate. A similar practical expedient is also provided for modifications of the cash flows of lease liabilities.

In relation to hedge accounting, the amendments introduce an exception to the existing requirements so that changes in the formal designation of a hedge accounting relationship that are needed to reflect the changes required by Interest Rate Benchmark Reform do not result in the discontinuation of hedge accounting or the designation of a new hedging relationship.

4. Cash and Cash Equivalents

| As at | September 30, 2021 | December 31, 2020 |
|---------------------------|--------------------|-------------------|
| | (\$) | (\$) |
| Cash | 41,012 | 41,124 |
| Cash equivalents | 106,068 | 108,158 |
| Cash and cash equivalents | 147,080 | 149,282 |

Cash equivalents are made up of cash invested in money market funds with interest rates of approximately 0.15% and maturities ranging from 1–90 days.

5. Seasonality

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

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

6. Income Taxes Recoverable - other

During the first quarter of 2019, the Company paid withholding tax owing to the Canada Revenue Agency ("CRA") of \$15,304 as part of a Bilateral Advanced Pricing Arrangement ("APA") entered into with the CRA and the Internal Revenue Service ("IRS"). As such, the Company recorded an amount under current income tax recoverable - other, which represents a corresponding amount owing from the IRS. During the first quarter of 2021, the Company collected \$142 from the IRS for one of the three years for which the withholding tax amount related to. The IRS has completed their audit on the remaining \$15,162 with no proposed adjustments, and the company currently awaits final processing of the refund amount owing.

7. Investments

Investments are comprised of the Company's investments in Intelligent Wellhead Systems Inc. ("IWS") and Rawabi Pason Company.

During the second quarter of 2021, Pason increased its minority investment in IWS and acquired a portion of outstanding common shares for total cash consideration of \$7,127. IWS is a privately-owned oil and gas technology and service company that provides engineered controls, data acquisition and software to automate workflows and processes at live well operations in the completions segment of the oil and gas industry. The Company's initial minority investment was made in 2019, and consisted of total consideration of \$25,000. The investment consisted of initial cash consideration of \$10,000 and \$15,000 payable in three separate \$5,000 put options, exercisable at IWS' discretion for a period of up to three years. The first \$5,000 put obligation was exercised in the first quarter of 2020, while the second was exercised during the second quarter of 2021 to fund IWS' recent growth.

Total cash outflow associated with the Company's minority investment in IWS for the three months ended September 30, 2021 is \$nil (2020: \$nil) and \$12,127 for the nine months ended September 30, 2021 (2020: \$5,000).

8. Share Capital

Common shares

| | Nine Months Ended September 30, 2021 | | Year ended December 31, 2020 | |
|--|---|-------------------|---------------------------------|-------------|
| | (\$) | (#) | (\$) | (#) |
| Balance, beginning | 164,568 | 83,088,941 | 166,701 | 84,538,241 |
| Shares repurchased and cancelled under NCIB | (1,334) | (673,779) | (2,865) | (1,449,300) |
| Reversal of prior period liability for APP commitment pursuant to NCIB | — | — | 732 | — |
| Balance, ending | 163,234 | 82,415,162 | 164,568 | 83,088,941 |

At September 30, 2021, the Company was authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

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

Common share dividends

For the three month period ended September 30, 2021, the Company declared and paid dividends of \$4,121 (2020: \$4,201) or \$0.05 per common share (2020: \$0.05).

For the nine month period ended September 30, 2021, the Company declared and paid dividends of \$12,443 (2020: \$36,265) or \$0.15 per common share (2020: \$0.43).

Normal Course Issuer Bid ("NCIB")

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

The actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 83,393 common shares. The Company may make one block purchase per calendar week which exceeds the daily purchase restriction.

For the three month period ended September 30, 2021, the Company repurchased 359,878 (Q3 2020 - 405,200) shares for cancellation for total cash consideration of \$2,970 (Q3 2020 - \$2,193).

For the nine month period ended September 30, 2021, the Company repurchased 673,779 (2020 - 847,800) shares for cancellation for a total cash consideration of \$5,961 (2020 - \$6,276). The total consideration is allocated between share capital and retained earnings.

9. Stock-Based Compensation

Stock option plan

The Group has a stock option plan that entitles qualified employees to purchase common shares in the Company. Options, which are issued at market price vest over three years and expire after five years. At September 30, 2021, there are 2,359,387 options available for grant calculated based on 7% of outstanding common shares. The outstanding stock options can be summarized as follows:

| | Nine Months Ended September 30, 2021 | | Twelve Months Ended December 31, 2020 | |
|------------------------------------|--------------------------------------|---------------------------------|---------------------------------------|---------------------------------|
| | Share Options | Weighted Average Exercise Price | Share Options | Weighted Average Exercise Price |
| | (#) | (\$) | (#) | (\$) |
| Outstanding, beginning | 4,277,601 | 15.96 | 5,111,355 | 17.87 |
| Granted | — | — | 635,910 | 7.33 |
| Expired or forfeited | (867,927) | 17.37 | (1,469,664) | 18.88 |
| Outstanding, ending | 3,409,674 | 15.60 | 4,277,601 | 15.96 |
| Exercisable, ending | 2,199,871 | 17.75 | 2,990,012 | 17.74 |
| Available for grant, ending | 2,359,387 | | 1,537,897 | |

Restricted share units plan

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

The outstanding RSUs can be summarized as follows:

| | Nine Months Ended | Twelve Months Ended |
|------------------------|--------------------|---------------------|
| | September 30, 2021 | December 31, 2020 |
| | (#) | (#) |
| RSUs, beginning | 1,111,190 | 650,055 |
| Granted | — | 806,548 |
| Vested and paid | (1,500) | (219,800) |
| Forfeited | (67,180) | (125,613) |
| RSUs, ending | 1,042,510 | 1,111,190 |

Deferred share units plan

DSUs are awarded annually to members of the Board of Directors and represent cash settled rights to share values based on the number of DSUs issued. DSUs are credited evenly following the year in which they are awarded. DSUs vest and are paid upon the retirement of the Director.

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

| | Nine Months Ended | Twelve Months Ended |
|------------------------|--------------------|---------------------|
| | September 30, 2021 | December 31, 2020 |
| | (#) | (#) |
| DSUs, beginning | 252,363 | 169,938 |
| Credited | 61,675 | 82,425 |
| DSUs, ending | 314,038 | 252,363 |

Performance share units plan

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

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

| | Nine Months Ended September 30, 2021 | Twelve Months Ended December 31, 2020 |
|------------------------|---|--|
| | (#) | (#) |
| PSUs, beginning | 2,332,028 | 4,561,167 |
| Granted | — | 1,085,250 |
| Vested and paid | — | (2,236,834) |
| Forfeited | — | (1,077,555) |
| PSUs, ending | 2,332,028 | 2,332,028 |

Stock-based compensation expense and liability

For the three month period ended September 30, 2021, the Company recorded \$1,611 of stock-based compensation expense for its equity and cash settled plans (third quarter of 2020: \$276). For the nine month period ended September 30, 2021, the Company recorded \$6,429 of stock-based compensation expense for its equity and cash settled plans (2020: \$2,022). As at September 30, 2021, the Company held \$4,188 in current stock-based compensation liability and \$6,116 in non-current stock-based compensation liability for its cash settled plans (as at December 31, 2020: \$1,426 and \$3,384 respectively).

10. Operating Segments

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

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

As a result of the change in reportable segments the Company now reports on three strategic business units: The North American (Canada and the United States) and International (Latin America, including Mexico, Offshore, the Eastern Hemisphere, and the Middle East) business units, all of which offer technology services to the oil and gas industry, and the Solar and Energy Storage business unit, which provides technology services to solar and energy storage developers. All comparative figures have been reclassified to conform to the new presentation.

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

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

| Three Months Ended September 30, 2020 | North America | International | Solar and Energy Storage | Total |
|--|----------------|---------------|--------------------------------|----------------|
| | (\$) | (\$) | (\$) | (\$) |
| Revenue | | | | |
| Drilling Data | 10,100 | 2,118 | — | 12,218 |
| Mud Management and Safety | 5,291 | 1,224 | — | 6,515 |
| Communications | 887 | 78 | — | 965 |
| Drilling Intelligence | 1,011 | 41 | — | 1,052 |
| Analytics and Other | 991 | 417 | 910 | 2,318 |
| Total Revenue | 18,280 | 3,878 | 910 | 23,068 |
| Rental services and local administration | 10,948 | 2,812 | 1,363 | 15,123 |
| Depreciation and amortization | 6,554 | 944 | 5 | 7,503 |
| Segment gross profit (loss) | 778 | 122 | (458) | 442 |
| Research and development | | | | 6,237 |
| Corporate services | | | | 2,469 |
| Stock-based compensation | | | | 276 |
| Other income | | | | (3,214) |
| Income tax provision (recovery) | | | | (1,369) |
| Net loss | | | | (3,957) |
| Net loss attributable to Pason | | | | (3,698) |
| Capital expenditures | 807 | — | — | 807 |
| As at September 30, 2020 | | | | |
| Property plant and equipment | 91,781 | 11,822 | 119 | 103,722 |
| Intangible assets | 8,986 | — | 4,395 | 13,381 |
| Goodwill | 8,871 | 2,600 | 22,629 | 34,100 |
| Segment assets | 362,464 | 26,273 | 566 | 389,303 |
| Segment liabilities | 68,032 | 4,183 | 954 | 73,169 |

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

| Nine months ended September 30, 2020 | North America | International | Solar and Energy Storage | Total |
|--|----------------|---------------|--------------------------|----------------|
| | | | (\$) | |
| Revenue | | | | |
| Drilling Data | 55,921 | 9,061 | — | 64,982 |
| Mud Management and Safety | 31,388 | 4,744 | — | 36,132 |
| Communications | 6,406 | 574 | — | 6,980 |
| Drilling Intelligence | 7,241 | 416 | — | 7,657 |
| Analytics and Other | 4,105 | 1,370 | 2,652 | 8,127 |
| Total Revenue | 105,061 | 16,165 | 2,652 | 123,878 |
| Rental services and local administration | 46,033 | 11,466 | 4,587 | 62,086 |
| Depreciation and amortization | 23,528 | 2,983 | 18 | 26,529 |
| Segment gross profit (loss) | 35,500 | 1,716 | (1,953) | 35,263 |
| Research and development | | | | 21,036 |
| Corporate services | | | | 8,981 |
| Stock-based compensation | | | | 2,022 |
| Other income | | | | (9,154) |
| Income tax provision | | | | 4,582 |
| Net income | | | | 7,796 |
| Net income attributable to Pason | | | | 8,734 |
| Capital expenditures | 4,694 | — | — | 4,694 |

11. Other Income

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------|----------------------------------|---------|---------------------------------|---------|
| | 2021 | 2020 | 2021 | 2020 |
| | (\$) | (\$) | (\$) | (\$) |
| Government wage assistance | (2,190) | (3,334) | (8,080) | (7,697) |
| Net interest income | (285) | (105) | (563) | (841) |
| Foreign exchange (gain) loss | (204) | 113 | 969 | 145 |
| Net monetary gain | (190) | (465) | (250) | (1,280) |
| Equity (income) loss | (185) | 357 | 338 | 436 |
| Other | 70 | 220 | 146 | 286 |
| Derecognition of onerous lease | — | — | — | (5,757) |
| Reorganization costs | — | — | — | 5,554 |
| Other income | (2,984) | (3,214) | (7,440) | (9,154) |

During the third quarter of 2021, the Company recognized \$2,190 in government wage assistance, primarily related to the Canada Emergency Wage Subsidy (Q3 2020 - \$3,334).

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

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

During the second quarter of 2020, the Company entered into an agreement to terminate the lease at its previous US head office in Golden, Colorado. As a result, a recovery of \$5,757 was recorded, comprised of the derecognition of the previous recorded onerous lease liability, offset by a termination payment.

Also during the second quarter of 2020, the Company initiated staff reduction initiatives to address the anticipated prolonged downturn in oil and gas drilling activity in all of its markets. Accordingly, the Company recorded reorganization expenses of \$5,554, which is comprised of termination and other staff related costs.

12. Income Per Share

Basic income per share

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

| | Three Months Ended September | | Nine Months Ended September | |
|--|------------------------------|------------|-----------------------------|------------|
| | 2021 | 2020 | 2021 | 2020 |
| | (#) | (#) | (#) | (#) |
| Issued common shares outstanding, beginning | 82,775,041 | 84,095,641 | 83,088,941 | 84,538,241 |
| Effect of NCIB | (89,970) | (101,300) | (161,548) | (362,360) |
| Weighted average number of common shares (basic) | 82,685,071 | 83,994,341 | 82,927,393 | 84,175,881 |

Diluted income per share

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

| | Three Months Ended September | | Nine Months Ended September | |
|--|------------------------------|------------|-----------------------------|------------|
| | 2021 | 2020 | 2021 | 2020 |
| | (#) | (#) | (#) | (#) |
| Weighted average number of common shares (basic) | 82,685,071 | 83,994,341 | 82,927,393 | 84,175,881 |
| Effect of share options | 66,653 | — | 104,760 | — |
| Weighted average number of common shares (diluted) | 82,751,724 | 83,994,341 | 83,032,153 | 84,175,881 |

For the periods ended September 30, 2021, 2,796,564 (2020 - 4,546,742) options are excluded from the above calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices during the period.

13. Approval of Financial Statements

These unaudited Condensed Consolidated Interim Financial Statements were approved by the Board of Directors on November 3, 2021.

14. Events After the Reporting Period

On November 3, 2021, the Company declared a quarterly dividend of \$0.05 per share on the Company's common shares. The dividend will be paid on December 31, 2021, to shareholders of record at the close of business on December 15, 2021.

Corporate Information

Directors

Marcel Kessler
Chairman of the Board
Pason Systems Inc.
Calgary, Alberta

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

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

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

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

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

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

Officers & Key Personnel

Jon Faber
President
& Chief Executive Officer

Celine Boston
Chief Financial Officer

Kevin Boston
Vice President, Commercial

Natalie Fenez
Vice President, Legal & Corporate
Secretary

Heather Hantos
Vice President, Human Resources

Bryce McLean
Vice President, Operations

Lars Olesen
Vice President, Product & Technology

Russell Smith
Vice President, International

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

Reid Wuntke
President, Energy Toolbase Software Inc.

Corporate Head Office

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Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

**Computershare Trust Company
of Canada**
Calgary, Alberta

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI.TO

Eligible Dividend Designation

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