THIRD QUARTER INTERIM REPORT

For the three and nine months ended September 30, 2019

Performance Data

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	**2019**	2018	Change
(CDN 000s, except per share data)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**72,195**	82,344	(12)	**227,232**	224,428	1
EBITDA (1)	**33,167**	44,633	(26)	**99,208**	100,467	(1)
Adjusted EBITDA (1)	**31,557**	42,473	(26)	**102,873**	106,684	(4)
As a % of revenue	**43.7**	51.6	(790) bps	**45.3**	47.5	(220) bps
Funds flow from operations	**29,899**	36,039	(17)	**89,592**	97,833	(8)
Per share – basic	**0.35**	0.42	(17)	**1.04**	1.15	(10)
Per share – diluted	**0.35**	0.42	(17)	**1.04**	1.13	(8)
Cash from operating activities	**37,453**	31,809	18	**83,833**	83,770	—
Capital expenditures	**4,058**	4,858	(16)	**18,591**	15,426	21
Free cash flow (1)	**33,067**	26,880	23	**65,999**	68,919	(4)
Cash dividends declared	**0.19**	0.18	6	**0.55**	0.52	6
Net Income	**15,418**	24,386	(37)	**43,707**	42,224	4
Per share – basic	**0.18**	0.29	(37)	**0.51**	0.50	3
Per share – diluted	**0.18**	0.28	(36)	**0.51**	0.49	3
Total interest bearing debt	**—**	—	—	**—**	—	—
Shares outstanding end of period (#000's)	**85,299**	85,431	—	**85,299**	85,431	—

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

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

Q3 2019 vs Q3 2018

The Company generated consolidated revenue of $72.2 million in the third quarter of 2019, a decrease of 12% from the same period in 2018. The decrease is attributable to a drop in North American drilling activity, offset by a slight increase in activity in the International business unit, increased market share in the US business unit , and continued increases in product penetration in all major business units, leading to increases in Revenue per EDR day.

Adjusted EBITDA decreased to $31.6 million in the third quarter, a decrease of 26% from the same period in 2018. The decrease in adjusted EBITDA was driven by the decrease in consolidated gross profit and an increase in research and development expense.

Funds flow from operations was $29.9 million in the third quarter, a decrease of 17% from the same period in 2018. Cash from operating activities was $37.5 million in the third quarter of 2019, an increase of 18% from the same period in 2018. This financial metric was significantly impacted by movements in working capital, mostly due to the release of trade and other receivables.

Free cash flow was $33.1 million in the third quarter of 2019, an increase of 23% from the same period in 2018. The increase was driven by the increase in cash from operating activities and a decline in capital expenditures.

The Company recorded net income of $15.4 million ($0.18 per share) in the third quarter of 2019, compared to net income of $24.4 million ($0.28 per share) recorded in the same period in 2018. Net income was negatively impacted by the drop in drilling activity, and this combined with the Company's fixed cost structure led to a drop in consolidated gross profit of $11.6 million. In addition, higher research and development costs and an increase in foreign exchange losses contributed to the decline in net income. These negative factors were off-set by recording a non-cash net monetary gain of $2.4 million as a result of applying hyperinflationary accounting to the Company's Argentina subsidiary.

President's Message

Pason's operating environment across North America has deteriorated in the third quarter. Industry activity in Canada remains at low levels as transportation constraints collide with political intransigence to sap E&P producers' confidence to increase spending levels. As a result, third quarter industry activity in Canada decreased 37% compared to the previous year. The situation in the United States is also challenging with drilling activity down 14% driven by the industry facing pressure from equity and debt investors to constrain spending within cash flows.

These headwinds were partially offset by higher activity in Pason's international markets, market share increases in the United States, and continued growth in product penetration in all geographies, leading to higher Revenue per EDR Day. Leading the increase in Revenue per EDR Day were the higher adoption of data delivery and certain other peripheral products.

The company generated revenue of $72.2 million in the period, a decrease of 12% compared to the same quarter last year, and essentially unchanged from the second quarter. Adjusted EBITDA was $31.6 million for the quarter, a decrease of 26% compared to the prior year, and up slightly from the second quarter. Adjusted EBITDA as a percentage of revenue was 44% compared to 52% one year ago. Pason recorded net income for the quarter of $15.4 million ($0.18 per share) compared to $24.4 million ($0.28 per share) in the prior year quarter, and up from $9.2 million ($0.11 per share) in the second quarter.

At September 30, 2019, our working capital position stood at $230 million, including cash and short-term investments of $181 million. We are maintaining our quarterly dividend at $0.19 share.

With drilling activity levels declining since the second quarter and operators maintaining disciplined spending levels, visibility remains poor with respect to operator budgets as we move into 2020. There is a chance that rig counts will bottom in the fourth quarter and they may stay low for some time. As a result, we are likely to see further oilfield services industry consolidation; the industry simply has too many assets and too much debt.

However, we believe that there are good reasons for optimism regarding drilling activity in the medium term. Demand for oil continues to increase each year. Consumption of oil-based products has gone from 75 million barrels per day in 1999 to 101 million barrels per day this year. The industry needs to add more than 1 million barrels per year of new supply each year. The world relies on hydrocarbons and there is nothing on the horizon that can replace it. Fears that the trade war between the US and China will significantly reduce oil demand seem overblown and the International Energy Agency has reduced their oil demand forecast by only a hundred thousand barrels per day. It is not possible for US oil production to keep increasing, or even stay flat, if drilling activity is low and dropping. Oil prices must go higher at some point to avoid a supply shortage.

In this environment, we are keeping our fixed costs low and maintaining flexibility for our go-forward plans, which gives us the means and confidence to address any activity scenario. We do not plan to reduce our R&D efforts. Our capital expenditures will be relatively modest going forward with a larger portion of development efforts focused on software and analytics. We continue to intend to spend up to $30 million in capital expenditures in 2019 and expect capital spending levels to be up to $25 million in 2020.

Our highly capable and flexible IT and communications platform can host additional new Pason and third-party software at the rigsite and in the cloud. Our market positions remain strong, and we expect to be able to deliver growth in our international markets and through higher product adoption going forward. We are the service provider of choice for many leading operators and drilling contractors with Pason equipment installed on over 65% of all active land drilling rigs in the Western Hemisphere.

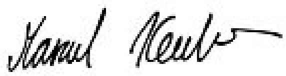
Pason recently made two investments which provide avenues for us to deploy our distinctive capabilities in two additional end markets.

In September, we announced the acquisition of a majority interest of Energy Toolbase LLC ("ETB"), a private US-based software-as-a-service company, for US$20 million. ETB provides an industry-leading software package to model the economics and build proposals for solar and energy storage (battery) projects. The

ETB product is utilized by a significant number of distributed energy project developers across the United States. Building on Pason's deep data management expertise, we are combining the capabilities of Pason Power and ETB. Over the last two years, Pason Power has been building a foundation in the solar and energy storage market through its iEMS control system and Energy DataHub products. With this investment, we are positioning ourselves for meaningful long-term growth in the solar and energy storage market.

In October, we announced a C$25 million investment to acquire a minority interest in Intelligent Wellhead Solutions ("IWS"). IWS is a privately-owned oilfield technology and service company that provides unique surface control systems for well completions and workover operations. Pason has been looking to enter the completions space for several years and IWS represents the first truly compelling opportunity we have seen where we believe we can build on Pason's expertise in end-to-end data management and ruggedized field technologies. We are excited to play a role in IWS' continued growth.

The timing of these two investments close each other was coincidental. We had been investigating opportunities to make an investment in the completions space, as well as to accelerate our efforts in the solar and energy storage market, for several years. There are no additional investments planned in the short term in either area. However, we will continue to scan the drilling, completions and power markets for attractive long-term growth opportunities.



Marcel Kessler
President and Chief Executive Officer
November 6, 2019

Management’s Discussion and Analysis

The following discussion and analysis has been prepared by management as of November 6, 2019, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the Consolidated Financial Statements and accompanying notes.

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

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

Impact of IFRS 16

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

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

Impact on IFRS Measures

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
(000s)	($)	($)
Reduction in rental services and local administration expenses	270	827
Reduction in research and development expenses	99	234
Reduction in corporate services costs	324	916
(Increase) in depreciation of right of use assets	(653)	(1,933)
(Increase) in net interest expense on lease liabilities	(115)	(345)
Reduction in Income tax provision	20	81
(Decrease) in net income	**(55)**	**(220)**
Increase in depreciation of right of use assets	653	1,933
(Reduction) in Income tax provision	(20)	(81)
Total increase in funds flow from operations and cash from operating activities	**578**	**1,632**

Impact on Non-IFRS Measures

	Three Months Ended September 30, 2019	Nine Months Ended September 30, 2019
(000s)	($)	($)
Decrease in rental services and local administration - Canada operating segment	40	120
Decrease in rental services and local administration - United States operating segment	200	596
Decrease in rental services and local administration - International operating segment	30	111
Decrease in research and development expenses	99	234
Decrease in corporate services costs	324	916
Total increase in EBITDA and Adjusted EBITDA	**693**	**1,977**

Impact of Hyperinflation

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

The impact of applying IAS 21 to the operating results of Argentina subsidiary for the three and nine months ended September 30, 2019 was to reduce revenue and segment gross profit by approximately $1,747 and $950 respectively.

The impact of applying ISA 29 to the non-monetary assets and liabilities, and shareholders' equity of the Argentina subsidiary was to recorded a non-cash net monetary gain of $2,376 for the three and nine months ended September 30, 2019.

Impact on IFRS Measures

	Three and Nine Months Ended September 30, 2019
(000s)	($)
Reduction in revenue	(1,747)
Reduction in rental services and local administration expenses	1,055
Increase in depreciation expense	(258)
(Decrease) in segment gross profit	**(950)**
Reduction in other expense	2,376
Reduction in Income tax provision	80
Increase in net income	**1,506**

Impact on Non-IFRS Measures

	Three and Nine Months Ended September 30, 2019
(000s)	($)
Reduction in revenue income	(1,747)
Reduction in rental services and local administration expenses	1,055
Reduction in other expense	2,376
Increase in EBITDA	**1,684**
(Reduction) in other expense	(2,376)
Decrease in Adjusted EBITDA	**(692)**

Additional IFRS Measures

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

Funds flow from operations

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

Cash from operating activities

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

Non-IFRS Financial Measures

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

Revenue per EDR day

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

EBITDA

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

Adjusted EBITDA

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

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

Free cash flow

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

Overall Performance

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	**2019**	2018	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**37,771**	42,090	(10)	**120,293**	114,805	5
Mud Management and Safety	**21,243**	22,299	(5)	**66,059**	62,863	5
Communications	**4,783**	7,504	(36)	**15,322**	21,413	(28)
Drilling Intelligence	**5,141**	7,111	(28)	**15,702**	16,066	(2)
Analytics and Other	**3,257**	3,340	(2)	**9,856**	9,281	6
Total revenue	**72,195**	82,344	(12)	**227,232**	224,428	1

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

Total revenue decreased by 12% in the third quarter of 2019 compared to the corresponding period in 2018. This decrease is mostly attributable to a decline in Canada and US drilling activity, offset by a market share increase in the US combined with increases in revenue per EDR day in all three operating segments.

Industry activity in the US market decreased by 14% in the third quarter of 2019 compared to the corresponding period in 2018, while third quarter Canadian industry activity decreased by 37%.

US EDR days decreased by 12% in the third quarter of 2019 compared to the corresponding period in 2018, while Canadian EDR days, which includes non-oil and gas-related activity, decreased 39% from 2018 levels.

In the third quarter of 2019, the Pason EDR was installed on 63% of the land rigs in the US market, an increase of 200bps over the same time period in 2018.

In the third quarter of 2019, the Pason EDR was installed on 81% of the land rigs in the Canadian market, a decrease of 400bps over the same period in 2018. For the purposes of market share, the Company uses the number of EDR days billed and oil and gas drilling days as reported by accepted industry sources.

For the third quarter of 2019, the Company saw an increase in revenue in all major regions of the International business unit with the largest absolute increases in Australia.

Communication revenue decreased 36% in the third quarter of 2019 compared to the corresponding period in 2018. In the Company's major operating segments, wellsite communications have been transitioning from satellite to terrestrial bandwidth. The transition has resulted in a lower rental service cost to Pason with cost savings shared with its customers.

Drilling intelligence revenue decreased 28% in the third quarter of 2019 compared to the corresponding period in 2018 as a result of the decrease in drilling activity in the North American markets as well as the mix of rig types and customers which were active in the period.

Discussion of Operations

United States Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	**2019**	2018	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**26,980**	29,640	(9)	**85,398**	80,311	6
Mud Management and Safety	**15,918**	15,274	4	**50,173**	43,153	16
Communications	**2,712**	4,099	(34)	**9,042**	11,997	(25)
Drilling Intelligence	**2,773**	3,774	(27)	**9,053**	8,827	3
Analytics and Other	**1,417**	1,382	3	**4,230**	4,267	(1)
Total revenue	**49,800**	54,169	(8)	**157,896**	148,555	6
Rental services and local administration	**19,383**	18,317	6	**58,723**	52,657	12
Depreciation and amortization	**4,535**	4,200	8	**14,371**	12,128	18
Segment gross profit	**25,882**	31,652	(18)	**84,802**	83,770	1

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	(%)	**2019**	2018	(%)
(000s)	**(#)**	(#)		**(#)**	(#)	
Electronic Drilling Recorder (EDR) Rental Days	**50,800**	57,500	(12)	**160,100**	164,700	(3)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	(%)	**2019**	2018	(%)
	($)	($)		**($)**	($)	
Revenue per EDR day - USD	**736**	716	3	**736**	694	6
Revenue per EDR day - CAD	**972**	936	4	**978**	893	10

Revenue from the US operations decreased by 8% in the third quarter of 2019 over the 2018 comparable period (9% when measured in USD).

Industry activity in the US market decreased by 14% in the third quarter of 2019 over the 2018 comparable period as US producers continue to take a more conservative approach to the deployment of capital, with weakness accelerating during the latter part of the quarter. Active rig count declined in most major plays.

On a year to date basis, industry activity in the US market decreased by 4%.

US market share was 63% for the third quarter of 2019 compared to 61% during the same period in 2018.

EDR rental days decreased by 12% in the third quarter of 2019 over the 2018 comparable period. Revenue per EDR day increased to US$736 in the third quarter of 2019, an increase of US$20 over the same period in 2018. The increase in revenue per EDR day was driven by higher adoption of peripheral products.

Rental services and local administration increased by 6% in the third quarter of 2019 over the 2018 comparative period (7% when measured in USD). The increase in operating costs is attributable mostly to higher field staff levels to support the additional activity in the latter half of 2018 and the early stages of 2019 combined with repair costs which were previously committed. Included in these costs are administrative expenses relating to Pason Power, which increased approximately $0.3 million over 2018 levels

Depreciation expense increased by 8% in the third quarter of 2019 over the 2018 comparative period. The majority of the increase is due to the adoption of IFRS 16, Leases and an up-tick in capital expenditures.

Canadian Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	**2019**	2018	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**5,581**	7,804	(28)	**17,315**	21,904	(21)
Mud Management and Safety	**3,498**	5,333	(34)	**10,477**	14,956	(30)
Communications	**1,752**	3,028	(42)	**5,104**	8,303	(39)
Drilling Intelligence	**2,012**	2,869	(30)	**5,681**	6,104	(7)
Analytics and Other	**1,003**	981	2	**2,997**	2,837	6
Total revenue	**13,846**	20,015	(31)	**41,574**	54,104	(23)
Rental services and local administration	**5,301**	6,046	(12)	**15,883**	19,510	(19)
Depreciation and amortization	**4,285**	3,900	10	**12,664**	12,508	1
Segment gross profit	**4,260**	10,069	(58)	**13,027**	22,086	(41)

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

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018		**2019**	2018	
(000s)	**(#)**	(#)	(%)	**(#)**	(#)	(%)
Electronic Drilling Recorder (EDR) Rental Days	**9,800**	**16,100**	(39)	**31,700**	45,500	(30)

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018		**2019**	2018	Change
	($)	($)	(%)	**($)**	($)	(%)
Revenue per EDR day - CAD	**1,325**	1,191	11	**1,228**	1,133	8

Canadian drilling activity in the third quarter of 2019 decreased by 37% relative to the same period in 2018, while EDR rental days decreased 39% in the third quarter of 2019 compared to 2018. On a year to date basis, Canadian drilling activity has decreased 32%. The decrease in drilling activity was impacted by continued spending constraints and unfavourable weather in several regions. Third quarter 2019 activity is at the lowest levels in over 25 years.

Revenue in the Canadian business unit decreased by 31% in the third quarter of 2019 over the 2018 comparative period. Canadian market share was 81% for the third quarter of 2019 compared to 85% during the same period of 2018.

Revenue per EDR day increased by $134 to $1,325 during the third quarter of 2019 compared to the same period in 2018. The increase is driven by continued acceptance of drilling intelligence products and increased data delivery functionality.

Rental services and local administration decreased by 12% in the third quarter of 2019 relative to the same period in 2018, primarily due to the bandwidth cost savings the Company has achieved in its communications category and the implementation of cost saving measures.

Depreciation and amortization expense increased by 10% in the third quarter of 2019 over the 2018 comparative period. The majority of the increase is due to the adoption of IFRS 16, Leases and the Company initiating the amortization of previously deferred research and development projects.

Segment gross profit for the third quarter of 2019 decreased 58% to $4.3 million compared to $10.1 million in segment gross profit in the 2018 comparative period.

International Operations

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	**2019**	2018	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**5,210**	4,646	12	**17,580**	12,590	40
Mud Management and Safety	**1,827**	1,692	8	**5,409**	4,754	14
Communications	**319**	377	(15)	**1,176**	1,113	6
Drilling Intelligence	**356**	468	(24)	**968**	1,135	(15)
Analytics and Other	**837**	977	(14)	**2,629**	2,177	21
Total revenue	**8,549**	8,160	5	**27,762**	21,769	28
Rental services and local administration	**4,525**	4,434	2	**15,371**	13,882	11
Depreciation and amortization	**1,097**	804	36	**3,082**	2,663	16
Segment gross profit	**2,927**	2,922	—	**9,309**	5,224	78

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

In 2018, management concluded that its Argentinian subsidiary is operating in a hyperinflationary economy. As a result of applying hyperinflation accounting to the operating results of this subsidiary, revenue and segment gross profit for the three months and nine months ended September 30, 2019, was reduced by approximately $1,747 and $950 respectively. The 2018 impact was not material.

Drilling activity increased in Australia and the Andean region in the third quarter of 2019 over 2018 levels. Revenue increased in all of the Company's international markets, with the majority of the absolute gains seen in Australia.

Revenue in the International business unit increased by 5% in the third quarter of 2019 compared to the same period in 2018.

Rental services and local administration expenses increased by 2% in the third quarter of 2019 compared to the same period in 2018. Depreciation expense increased by 36% in the third quarter of 2019 compared to the same period in 2018 as a result of higher capital expenditures incurred to support additional activity.

Segment gross profit was $2.9 million for the third quarter of 2019, unchanged from the same period in 2018.

Corporate Expenses

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2019	2018	Change	**2019**	2018	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Other expenses						
Research and development	**7,564**	6,711	13	**22,969**	19,687	17
Corporate services	**3,865**	4,363	(11)	**11,413**	12,008	(5)
Stock-based compensation	**2,446**	2,589	(6)	**9,359**	8,978	4
Other						
Foreign exchange loss (gain)	**615**	(1,516)	(141)	**1,269**	6,675	(81)
Net interest expense - lease liability	**159**	—	—	**404**	—	—
Interest income - short term investments	**(258)**	—	—	**(726)**	—	—
Derecognition of lease receivable	**—**	—	—	**4,289**	—	—
Net monetary adjustment	**(2,376)**	—	—	**(2,376)**	—	—
Other	**151**	(644)	(123)	**483**	(458)	—
Total corporate expenses	**12,166**	11,503	6	**47,084**	46,890	—

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

Research and development expenses increased in the third quarter of 2019 over the 2018 comparative period. This is due to a greater proportion of research and development project costs being expensed for accounting purposes and the Company's continued transition towards more cloud-based IT infrastructure.

The majority of the decrease in corporate service costs is due to the adoption of IFRS 16, Leases.

In 2018, the Company commenced applying IAS 29, Financial Reporting in Hyperinflationary Economies for its Argentina subsidiary. Accordingly, the application of hyperinflation accounting has been applied to the non-monetary assets and liabilities, and shareholders' equity of the Argentina subsidiary. In the third quarter of 2019, a non-cash net monetary gain of $2,376 was recorded. The impact of applying this accounting standard on 2018 amounts was not material.

In July 2019, the Company was notified that the tenant that was leasing the Company’s previous office space in Colorado, USA filed for Chapter 7 bankruptcy. As a result, the Company derecognized the lease receivable that it had previously recorded and reported a non-cash charge of $4.3 million in the second quarter of 2019. Management intends to initiate the process of finding a tenant for the remaining lease term.

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

Q3 2019 vs Q2 2019

Consolidated revenue was $72.2 million in the third quarter of 2019 compared to $72.9 million in the second quarter of 2019, a decrease of $0.7 million. The second quarter of the year is typically the weakest for the Company due to the seasonality of Canadian drilling activity.

Revenue in the US business unit was $49.8 million in the third quarter of 2019 compared to $53.6 million in the second quarter of 2019. Sequentially, EDR rental days decreased 5% while industry activity declined 6%. Revenue per EDR day decreased slightly. US market share increased 100bps to 63%.

Revenue in the Canadian business unit was $13.8 million in the third quarter of 2019 compared to $9.2 million in the second quarter of 2019. Revenue per EDR day increased by $35.

The International business unit reported revenue of $8.5 million in the third quarter of 2019 compared to $10.0 million in the second quarter of 2019. Third quarter revenue was negatively impacted by a $1.7 million adjustment to the application of hyperinflation accounting in Argentina.

Adjusted EBITDA, which adjusts EBITDA for foreign exchange and certain non-recurring charges, was $31.6 million in the third quarter of 2019 compared to $30.7 million in the second quarter of 2019. Funds flow from operations was $29.9 million in the third quarter of 2019 compared to $23.8 million in the second quarter of 2019.

The Company recorded net income in the third quarter of 2019 of $15.4 million ($0.18 per share) compared to net income of $9.2 million ($0.11 per share) in the second quarter of 2019.

Summary of Quarterly Results

Three Months Ended	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	**Sept 30, 2019**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	66,226	73,813	68,271	82,344	81,965	82,143	72,894	**72,195**
EBITDA (1)	26,651	32,220	23,614	44,633	38,803	40,435	25,606	**33,167**
Adjusted EBITDA (1)	27,797	34,753	29,458	42,473	39,303	40,641	30,675	**31,557**
Funds flow from operations	27,356	33,958	27,836	36,039	30,711	35,899	23,794	**29,899**
Per share – basic	0.32	0.40	0.33	0.42	0.36	0.42	0.28	**0.35**
Per share – diluted	0.32	0.40	0.32	0.42	0.36	0.42	0.28	**0.35**
Cash from operating activities	16,637	24,344	27,617	31,809	23,407	8,442	37,938	**37,453**
Free cash flow (1)	6,690	18,906	23,133	26,880	16,603	385	32,547	**33,067**
Net Income	5,014	12,359	5,479	24,386	20,720	19,044	9,245	**15,418**
Per share – basic	0.06	0.15	0.06	0.29	0.24	0.22	0.11	**0.18**
Per share – diluted	0.06	0.14	0.06	0.28	0.24	0.22	0.11	**0.18**

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

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

Reconcile Income to EBITDA

Three Months Ended	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	**Sept 30, 2019**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Net Income	5,014	12,359	5,479	24,386	20,720	19,044	9,245	**15,418**
Add:								
Income taxes	7,043	8,152	5,060	8,754	7,192	7,393	3,469	**5,485**
Depreciation and amortization	11,701	9,175	9,220	8,904	7,556	10,222	9,978	**9,917**
Stock-based compensation	2,893	2,534	3,855	2,589	3,335	3,824	3,089	**2,446**
Net interest income	—	—	—	—	—	(48)	(175)	**(99)**
EBITDA (1)	26,651	32,220	23,614	44,633	38,803	40,435	25,606	**33,167**

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

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

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	**Sept 30, 2019**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	26,651	32,220	23,614	44,633	38,803	40,435	25,606	**33,167**
Add:								
Foreign exchange	1,459	2,404	5,787	(1,516)	1,007	101	553	**615**
Derecognition of lease	—	—	—	—	—	—	4,289	**—**
Net monetary gain	—	—	—	—	—	—	—	**(2,376)**
Other	(313)	129	57	(644)	(507)	105	227	**151**
Adjusted EBITDA (1)	27,797	34,753	29,458	42,473	39,303	40,641	30,675	**31,557**

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

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

Reconcile cash from operating activities to free cash flow

Three Months Ended	Dec 31, 2017	Mar 31, 2018	Jun 30, 2018	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	**Sept 30, 2019**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	16,637	24,344	27,617	31,809	23,407	8,442	37,938	**37,453**
Less:								
Net additions to property, plant and equipment	(8,749)	(4,452)	(3,227)	(3,890)	(5,621)	(7,489)	(5,510)	**(3,726)**
Deferred development costs	(1,198)	(986)	(1,257)	(1,039)	(1,183)	(568)	119	**(660)**
Free cash flow (1)	6,690	18,906	23,133	26,880	16,603	385	32,547	**33,067**

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

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

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

Liquidity and Capital Resources

As at September 30,	**2019**	2018	Change
(000s)	**($)**	($)	(%)
Cash and cash equivalents and short term investments [1]	**180,865**	184,487	(2)
Working capital [1]	**230,210**	234,771	(2)
Funds flow from operations [1]	**89,592**	97,833	(8)
Capital expenditures [1]	**18,591**	15,426	21
As a % of funds flow [1] [2]	**20.8%**	15.8%	500 bps

(1) Figures are for the nine months ended September 30.

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

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

Payment of Income Tax - Other

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

Income Tax Provision

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

Normal Course Issuer Bid (NCIB)

During the fourth quarter of 2018, the Company implemented a NCIB program. Under the NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 6,556 common shares, which represent 10% of the public float.

The actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 32 common shares.

The NCIB commenced on December 18, 2018 and expires on December 17, 2019. In the third quarter of 2019, the Company purchased 109 common shares for cancellation, for a total cash consideration of $1,944. On a year to date basis, the Company purchased 682 common shares for cancellation, for a total cash consideration of $13,063.

Acquisitions

In the third quarter of 2019, the Company made a US$20 million investment to acquire the majority interest in Energy Toolbase LLC (ETB), a private, US-based software-as-a-service (SaaS) company. A portion of the consideration is payable in 2020.

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

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s)	($)	($)	($)	($)
Operating leases and other contracts	6,724	8,454	3,325	18,503

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

The Company has available a $5.0 million demand revolving credit facility. At September 30, 2019, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at September 30, 2019, there were 85,299 common shares and 5,135 options issued and outstanding.

SEDAR

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

Critical Accounting Estimates

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

Depreciation and Amortization

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

Carrying Value of Assets

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

Stock-Based Payments

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

Income Taxes

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

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

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

Risk and Uncertainties

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

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

Operating Risks

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

Commodity Prices

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

Seasonality

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

Proprietary Rights

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

Litigation

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

Credit Risk

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

Availability of Qualified Personnel

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

Alternative Energies

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

International Operations

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

Foreign Exchange Exposure

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

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

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

Major Customers

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

Key Personnel

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

Dividends

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

Taxation

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

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

Information Security

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

Corporate Information

Directors

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

James B. Howe(1)(4)(6)(7)
President
Bragg Creek Financial
Consultants Ltd.
Calgary, Alberta

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

T. Jay Collins(2)(3)(6)
Director
Oceaneering International Inc.
Houston, Texas

Judi Hess(2)(4)(5)
CEO & Director
Copperleaf Technologies Inc.
Vancouver, British Columbia

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

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

Officers & Key Personnel

Marcel Kessler
President
& Chief Executive Officer

Jon Faber
Chief Financial Officer

David Elliott
Vice President, Finance

Timur Kuru
Vice President, Operations – United States

Bryce McLean
Vice President, Operations – Canada

Russell Smith
Vice President, Operations – International & Offshore

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

Lars Olesen
Vice President, Product Management

Kevin Boston
Vice President, Business Development

Reid Wuntke
Vice President, New Ventures

Natalie Fenez
General Counsel

Corporate Head Office

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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.