Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") has been prepared by management as of August 10, 2023, 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 six months ended June 30, 2023, the Consolidated Financial Statements for the twelve months ended December 31, 2022 and 2021, accompanying notes, and Pason's Annual Information Form dated March 15, 2023.

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

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

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

Company Profile

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

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

For a complete description of services provided by the Company, please refer to the headings 'General Development of the Business' and 'General Description of Business' in Pason's Annual Information Form dated March 15, 2023.

Highlights

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Change	**2023**	2022	Change
(CDN 000s, except per share data)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**84,691**	73,608	15	**182,920**	148,076	24
EBITDA (1)	**37,822**	31,673	19	**89,577**	66,359	35
Adjusted EBITDA (1)	**37,887**	30,962	22	**90,297**	64,335	40
As a % of revenue	**44.7**	42.1	260 bps	**49.4**	43.4	600 bps
Funds flow from operations	**33,111**	27,242	22	**76,784**	52,946	45
Per share – basic	**0.41**	0.33	24	**0.95**	0.64	47
Per share – diluted	**0.41**	0.33	24	**0.95**	0.64	47
Cash from operating activities	**29,658**	25,679	15	**75,923**	53,729	41
Net capital expenditures (2)	**11,670**	6,544	78	**23,225**	11,012	111
Free cash flow (1)	**17,988**	19,135	(6)	**52,698**	42,717	23
Cash dividends declared (per share)	**0.12**	0.08	50	**0.24**	0.16	50
Net income	**24,962**	17,992	39	**60,416**	35,993	68
Net income attributable to Pason	**25,470**	18,540	37	**61,312**	37,113	65
Per share – basic	**0.32**	0.23	40	**0.76**	0.45	68
Per share – diluted	**0.32**	0.22	41	**0.76**	0.45	68

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

(2) Includes additions to property, plant, and equipment and development costs, net of proceeds on disposal from Pason's Condensed Consolidated Interim Statement of Cash Flows

As at	**June 30, 2023**	December 31, 2022	Change
(CDN 000s)	**($)**	($)	(%)
Cash and cash equivalents	**134,721**	132,057	2
Short-term investments	**39,860**	40,377	(1)
Total Cash (1)	**174,581**	172,434	1
Working capital	**213,714**	213,899	nmf
Total interest bearing debt	**—**	—	—
Shares outstanding end of period (#)	**80,207,268**	81,526,954	(2)

(1) Total Cash is defined as total cash and cash equivalents and short-term investments from Pason's Condensed Consolidated Interim Balance Sheets

Pason’s financial results for the three and six months ended June 30, 2023 reflect the Company’s strong competitive positioning, prudent balance sheet, and continued ability to outpace underlying industry activity.

Industry activity levels in North America, the Company's largest end market, were slightly down year over year. However, North American revenue increased by 13% from the second quarter of 2022 to the second quarter of 2023. Strong product adoption and pricing improvements resulted in a 14% increase in Revenue per Industry Day year over year. International revenue increased by 22% from Q2 2022 to Q2 2023 with improvements in industry activity and higher levels of revenue generated per drilling day. Resulting consolidated revenue for Pason was $84.7 million in the second quarter of 2023, representing a 15% increase from the $73.6 million generated in the second quarter of 2022. With this increase in revenue, Pason generated $37.9 million in Adjusted EBITDA, or 44.7% of revenue in the second quarter of 2023, compared to $31.0 million in the second quarter of 2022, or 42.1% of revenue.

Pason's balance sheet remains strong, with no interest bearing debt and $174.6 million in Total Cash as at June 30, 2023, compared to $172.4 million at December 31, 2022. During the second quarter of 2023, Pason generated $29.7 million in net cash from operating activities, a 15% increase from the $25.7 million generated in the second quarter of 2022 while the Company managed required investments in working capital on higher levels of revenue generated.

During the second quarter of 2023, Pason incurred $11.7 million of net capital expenditures, an increase from the $6.5 million incurred in the second quarter of 2022. Pason's Q2 2022 capital expenditure levels reflect a more challenging global supply chain environment, while 2023 capital expenditures reflect moderately improved conditions. As such, capital expenditures in 2023 represent an element of catch up from previous years, rental equipment replacements and additions, as well as investments associated with ongoing refresh of the Company's fleet and technology platform. Resulting Free Cash Flow generated in Q2 2023 was $18.0 million compared to $19.1 million generated in the second quarter of 2022.

In the second quarter of 2023, Pason returned $16.6 million to shareholders, through the Company's quarterly dividend of $9.6 million, and $7.0 million in share repurchases. Also in the second quarter of 2023, the Company approved and funded $5.0 million of the $15.0 million in available preferred share subscriptions for its non-controlling investment in Intelligent Wellhead Systems Inc. ("IWS"). Subsequent to June 30, 2023, the Company approved and funded another $5.0 million of the remaining available preferred share subscriptions.

The Company recorded net income attributable to Pason of $25.5 million ($0.32 per share) in the second quarter of 2023, compared to net income attributable to Pason of $18.5 million ($0.23 per share) recorded in the corresponding period in 2022 despite the modest slowdown in North American industry conditions outlined above.

President’s Message

Pason’s operational and financial results in the second quarter of 2023 again demonstrated our ability to outpace underlying drilling industry activity. Compared to the same quarter of 2022, consolidated revenue increased by 15% and Adjusted EBITDA increased by 22%, while North American industry activity declined by 1% from the prior year period. These results highlight our continued strong competitive position, coupled with growing demand for drilling data to be used in automation and analytics technologies.

Consolidated revenue totaled $84.7 million in the quarter. Our North American business unit generated Revenue per Industry Day of $910, a 14% increase from the second quarter of 2022, driven by higher product adoption and improved price realization. Our International business unit grew its revenue by 22% due to higher activity levels in the markets in which the company operates, as well as increased revenue per drilling day. The majority of our operating costs are fixed in nature and reflect the investments we continue to make in our field service, support functions and technology development to ensure we are able to continue outpacing industry conditions.

Energy Toolbase, which participates in the solar and energy storage markets, generated revenue of $2.4 million in the second quarter, up 44% from the same period in 2022, while operating costs in the segment increased by only 4% year-over-year. The business unit saw growth both in subscription revenue for its economic modelling tool, as well as an increasing number of control systems commissioned during the quarter.

Second quarter net capital expenditures of $11.7 million were up $5.1 million from the second quarter of 2022, and free cash flow of $18.0 million represented a $1.1 million decrease comparatively. Net income attributable to Pason increased 37% year-over-year to $25.5 million.

For the six-month period ended June 30, consolidated revenue of $182.9 million represented a 24% year-over-year increase, compared to an 8% increase in North American land drilling activity over the same period. Adjusted EBITDA of $90.3 million was up 40% year-over-year, while free cash flow of $52.7 million and net income attributable to Pason of $61.3 million represented 23% and 65% increases, respectively.

We allocate capital in three important areas: (1) supporting and strengthening our core, drilling-related business; (2) investing in growth opportunities beyond the core; and (3) returning capital to shareholders. In the first half of 2023, net capital expenditures were $23.2 million and we continue to expect to spend approximately $45 million in capital expenditures in 2023. During the second quarter, we funded an additional $5 million of growth capital for Intelligent Wellhead Systems under our previously announced preferred share financing agreement, with a further $5 million funded subsequent to the end of the quarter. In the six month period ended June 30, we returned $36.4 million to shareholders, with $19.4 million paid in dividends and $17.0 million in share repurchases.

Our balance sheet allows us to withstand slowdowns in industry activity while making growth-related investments. At June 30th, we had cash and short-term investments of $174.6 million and positive working capital of $213.7 million.

After declining steadily through much of the first half of the year, we expect North American land rig counts to plateau near current levels in the near term before beginning to steadily increase through the end of 2023 and into 2024. Oil prices have risen above US$80 per barrel as supply measures come into greater focus. With production, crude oil and product inventories and the inventory of drilled but uncompleted wells (DUCs) all below pre-pandemic levels, any efforts to increase supply will require additional drilling activity.

Pason remains well equipped to deliver exceptional operational and financial results, and to capitalize on increasing levels of drilling activity.

Jon Faber
President and Chief Executive Officer
August 10, 2023

Discussion of Operations

Overall Performance

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**47,752**	40,017	19	**100,860**	79,630	27
Mud Management and Safety	**23,681**	20,665	15	**51,123**	40,872	25
Communications	**3,650**	3,959	(8)	**8,815**	8,439	4
Drilling Intelligence	**4,626**	4,460	4	**11,237**	10,462	7
Analytics and Other	**4,982**	4,507	11	**10,885**	8,673	26
Total revenue	**84,691**	73,608	15	**182,920**	148,076	24
Operating expenses						
Rental services	**29,333**	26,275	12	**58,588**	51,447	14
Local administration	**3,450**	2,907	19	**6,821**	6,025	13
Depreciation and amortization	**5,815**	4,696	24	**12,431**	11,010	13
	38,598	33,878	14	**77,840**	68,482	14
Gross profit	**46,093**	39,730	16	**105,080**	79,594	32
Other expenses						
Research and development	**10,315**	9,294	11	**20,487**	18,138	13
Corporate services	**4,033**	3,951	2	**8,180**	7,439	10
Stock-based compensation expense	**1,986**	2,514	(21)	**1,904**	8,069	(76)
Other income	**(3,109)**	(1,210)	157	**(6,187)**	(2,563)	141
	13,225	14,549	(9)	**24,384**	31,083	(22)
Income before income taxes	**32,868**	25,181	31	**80,696**	48,511	66
Income tax provision	**7,906**	7,189	10	**20,280**	12,518	62
Net income	**24,962**	17,992	39	**60,416**	35,993	68
Adjusted EBITDA [1]	**37,887**	30,962	22	**90,297**	64,335	40

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

The Company reports on three strategic business units: The North American (Canada and the United States) and International (Latin America, including Mexico, Offshore, the Eastern Hemisphere, and the Middle East) business units, all of which offer technology services to the oil and gas industry, and the Solar and Energy Storage business unit, which provides technology services to solar and energy storage developers.

North American Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**38,708**	32,660	19	**82,781**	65,686	26
Mud Management and Safety	**20,420**	18,068	13	**44,471**	35,945	24
Communications	**2,836**	3,457	(18)	**7,197**	7,458	(3)
Drilling Intelligence	**4,255**	4,107	4	**10,416**	9,802	6
Analytics and Other	**1,099**	1,345	(18)	**2,228**	2,746	(19)
Total revenue	**67,318**	59,637	13	**147,093**	121,637	21
Rental services and local administration	**23,169**	20,507	13	**45,852**	40,818	12
Depreciation and amortization	**5,083**	4,001	27	**10,877**	9,850	10
Segment gross profit	**39,066**	35,129	11	**90,364**	70,969	27

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Change	**2023**	2022	Change
	($)	($)	(%)	**($)**	($)	(%)
Revenue per Industry Day	**910**	801	14	**917**	818	12

Industry drilling activity in North America fell by 1% from Q2 of 2022 to Q2 of 2023. Despite this decrease, the North American business unit grew revenue year over year by 13%, from $59.6 million in the second quarter of 2022 to $67.3 million in the second quarter of 2023. Revenue per Industry Day was $910 in Q2 2023, a 14% increase from the comparable period in 2022. The year over year increase is due to a combination of factors, including increased adoption of certain products, and improvement in pricing conditions.

As certain regions within the North American segment experience fluctuations in activity levels due to seasonality, Revenue per Industry Day and revenue categories will fluctuate with the relative revenue levels associated within the North American regions.

Rental services and local administration increased by 13% in the second quarter of 2023 over the 2022 comparative period. The increase in operating costs is primarily attributable to the investments made in the Company's fixed cost base to service higher levels of activity seen throughout the second half of 2022 and beginning of 2023. This primarily includes costs associated with the Company's field service presence throughout North America, as well as support functions. Further, rental services continues to be impacted by inflationary effects on certain field related expenses, such as the cost of fuel and supplies.

Depreciation and amortization increased by 27% in the second quarter of 2023 over the 2022 comparative period. The increase is primarily due to higher capital expenditures in recent quarters.

Segment gross profit was $39.1 million during the second quarter of 2023 compared to $35.1 million in the comparative period of 2022, an increase of 11% with similar activity levels year over year.

Year-to-date, revenue of $147.1 million and segment gross profit of $90.4 million both reflect increases from the prior year comparative results, largely driven by the 12% improvement in Revenue per Industry Day year to date, and improved industry conditions in the first quarter.

International Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**9,044**	7,357	23	**18,079**	13,944	30
Mud Management and Safety	**3,261**	2,597	26	**6,652**	4,927	35
Communications	**814**	502	62	**1,618**	981	65
Drilling Intelligence	**371**	353	5	**821**	660	24
Analytics and Other	**1,490**	1,502	(1)	**3,400**	2,490	37
Total revenue	**14,980**	12,311	22	**30,570**	23,002	33
Rental services and local administration	**7,074**	6,244	13	**14,092**	11,907	18
Depreciation and amortization	**727**	690	5	**1,544**	1,150	34
Segment gross profit	**7,179**	5,377	34	**14,934**	9,945	50

The International business unit generated $15.0 million of revenue in the second quarter of 2023 compared to $12.3 million in the comparative period of 2022. The 22% increase is due to higher levels of industry activity in the international markets that the company serves and improvements in revenue generated per drilling day through product adoption and pricing. Further, revenue generated where contracts are linked to the US dollar benefited from a stronger US dollar in Q2 2023 compared to the prior year period.

Rental services and local administration expenses were $7.1 million in the second quarter of 2023, an increase of 13% compared to $6.2 million in the comparative period of 2022. As activity levels improve, the International business unit incurs certain variable costs, including repair costs and growth in field related headcount to support higher levels of revenue generated.

Depreciation and amortization increased by 5% in the second quarter of 2023 over the 2022 comparative period. The increase is primarily due to the impacts of hyperinflationary accounting on the Company's Argentinian operations and also reflects increased capital expenditures in recent quarters.

For the three months ended June 30, 2023, resulting segment gross profit was $7.2 million, or 48% of revenue, compared to $5.4 million, or 44% of revenue in the 2022 comparative period due to the factors outlined above, and demonstrating strong operating leverage with increasing revenue.

Year-to-date, revenue of $30.6 million and segment gross profit of $14.9 million both represent significant increases from the prior year levels, given improved industry conditions, increased revenue per day and strong operating leverage.

Solar and Energy Storage Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Analytics and Other	**2,393**	1,660	44	**5,257**	3,437	53
Total revenue	**2,393**	1,660	44	**5,257**	3,437	53
Operating expenses and local administration [(1)]	**2,540**	2,431	4	**5,465**	4,747	15
Depreciation and amortization	**5**	5	—	**10**	10	—
Segment gross loss	**(152)**	(776)	(80)	**(218)**	(1,320)	(83)

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

Revenue generated by the Solar and Energy Storage business unit was $2.4 million, an increase of 44% from the comparative period in 2022. The business unit continues to grow revenue associated with its economic modelling tool, while also increasing the number of control systems commissioned. Quarterly revenue for the Solar and Energy Storage business unit will fluctuate with timing of delivery and commissioning of control system projects.

Operating expenses and local administration expenses only increased 4% from $2.4 million during the second quarter of 2022 to $2.5 million during the comparable period in 2023. Segment gross loss was $0.2 million for the second quarter of 2023, a decrease of $0.6 million from the comparable period in 2022.

Year to date, revenue generated by the segment totaled $5.3 million, a 53% increase over the comparative period in 2022, demonstrating increased control system sales. Segment gross loss decreased from $1.3 million during the six months ended June 30, 2022 to $0.2 million in the 2023 current period.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Research and development	**1,207**	1,368	(12)	**2,430**	2,620	(7)

Corporate Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Research and development	**10,315**	9,294	11	**20,487**	18,138	13
Corporate services	**4,033**	3,951	2	**8,180**	7,439	10
Stock-based compensation	**1,986**	2,514	(21)	**1,904**	8,069	(76)
Total corporate expenses	**16,334**	15,759	4	**30,571**	33,646	(9)

Second quarter research and development and corporate service expenses increased 11% and 2%, respectively, from the comparative period in 2022. Throughout 2022 and continuing in 2023, Pason has made additional investments in research and development, further improving the Company's ability to defend its leading market position with current activity levels and ongoing product enhancements.

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 June 30,			Six Months Ended June 30,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Foreign exchange (gain) loss	**1,597**	(1,054)	nmf	**1,830**	(651)	nmf
Net interest income	**(2,847)**	(718)	297	**(5,454)**	(1,231)	343
Equity (income) loss	**(327)**	220	nmf	**(1,453)**	692	nmf
Net monetary (gain) loss	**(1,196)**	268	nmf	**(1,355)**	67	nmf
Other (income) expenses	**(336)**	74	nmf	**245**	(1,440)	nmf
Total other income	**(3,109)**	(1,210)	157	**(6,187)**	(2,563)	141

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 increase year over year is a reflection of the higher levels of cash invested and the increased interest rate environment.

Equity (income) 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 investments.

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

Income Tax Provision

During the second quarter of 2023, the Company recorded an income tax expense of $7.9 million, compared to an income tax expense of $7.2 million during the comparative period in 2022. The increase is attributable to the improvement in income before income taxes, in light of improved operating performance year over year, as further outlined herein.

Investments

As at June 30, 2023, the Company holds $55.1 million on its Condensed Consolidated Interim Balance Sheets relating to the carrying value of investments accounted for using the equity method (December 31, 2022: $47.8 million). This balance is comprised of investments in Intelligent Wellhead Systems Inc. ("IWS") and a 50% interest in Rawabi Pason Company ("Rawabi JV"). 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. Rawabi JV is a provider of specialized data management systems for drilling rigs in the Kingdom of Saudi Arabia.

The Company's initial investment in IWS was made in 2019, and consisted of consideration of $25.0 million, with initial cash consideration of $10.0 million and $15.0 million payable in three separate $5.0 million put options, which were exercised throughout 2021 and 2022.

During the second quarter of 2021, the Company increased its investment in IWS and acquired a portion of outstanding common shares for total cash consideration of $7.1 million. During the fourth quarter of 2022, Pason further increased its non-controlling investment in IWS and acquired a portion of outstanding common shares for total cash consideration of $7.9 million. Also in the fourth quarter of 2022, the Company entered into a preferred share subscription agreement with IWS with an initial subscription of $10.0 million, and up to $15.0 million in additional subscriptions exercisable by IWS, but subject to the Company's approval. No additional voting rights were granted as part of this preferred share subscription.

In the second quarter of 2023, the Company approved and funded $5.0 million of the $15.0 million then available preferred share subscriptions. Subsequent to June 30, 2023, the Company approved and funded another $5.0 million of the remaining available preferred share subscriptions.

Put Obligation

As at June 30, 2023, the Company holds a $6.3 million obligation under put option on its Condensed Consolidated Interim Balance Sheets (December 31, 2022: $6.5 million). The put obligation is a contractual obligation whereby the non-controlling shareholders of ETB have a put option to exercise for cash their 20% shareholdings of ETB starting in 2023 with reference to the fair value of ETB shares at the date the put option can be exercised. This put option gives rise to a financial liability and is calculated at each annual reporting period using a discounted cash flow model of the estimated future cash flows of the obligation.

Summary of Quarterly Results

Three Months Ended	Jun 30, 2021	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	**Jun 30, 2023**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	43,593	57,705	62,833	74,468	73,608	92,502	94,420	98,229	**84,691**
EBITDA [(1)]	14,984	24,870	26,874	34,686	31,673	50,659	53,248	51,755	**37,822**
Adjusted EBITDA [(1)]	12,786	22,356	24,208	33,373	30,962	46,231	48,944	52,410	**37,887**
As a % of revenue	29.3	38.7	38.5	44.8	42.1	50.0	51.8	53.4	**44.7**
Funds flow from operations	14,662	19,983	19,353	25,704	27,242	35,968	45,971	43,673	**33,111**
Per share – basic	0.18	0.24	0.23	0.31	0.33	0.44	0.56	0.54	**0.41**
Per share – diluted	0.18	0.24	0.23	0.31	0.33	0.43	0.56	0.53	**0.41**
Cash from operating activities	9,841	17,074	27,061	28,050	25,679	30,743	19,942	46,265	**29,658**
Free cash flow [(1)]	5,684	16,261	23,990	23,582	19,135	24,047	3,709	34,710	**17,988**
Net income (loss)	4,880	12,775	10,279	18,001	17,992	33,739	35,994	35,454	**24,962**
Net income (loss) attributable to Pason	5,307	13,074	11,149	18,573	18,540	34,246	36,257	35,842	**25,470**
Per share – basic	0.06	0.16	0.14	0.23	0.23	0.42	0.44	0.44	**0.32**
Per share – diluted	0.06	0.16	0.14	0.23	0.22	0.41	0.44	0.44	**0.32**

(1)Non-GAAP financial measures are defined in Non-GAAP Financial Measures section.

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

The overall seasonality of the Company’s operations has, and will continue to become less pronounced as a result of market share growth internationally and in the US, along with increased diversification of operations with the Company's Solar and Energy Storage business units.

Q2 2023 vs Q1 2023

Pason recognized $84.7 million of revenue in the second quarter of 2023, a 14% reduction compared to consolidated revenue of $98.2 million in the first quarter of 2023.

Revenue in the North American business unit was $67.3 million in the second quarter of 2023 compared to revenue of $79.8 million in the first quarter of 2023. The decrease is as a result of the effects of the seasonal slowdown in Canadian drilling activity seen in the second quarter coupled with slightly lower US industry activity. Despite these reductions in activity levels, Revenue per Industry Day only declined by 1% sequentially as the Company defended its leading competitive position, pricing and strong product adoption.

The International business unit reported revenue of $15.0 million in the second quarter of 2023 compared to $15.6 million in the first quarter of 2023. The slight decrease in revenue was primarily attributable to the impacts of hyperinflationary accounting for the Company's Argentinian subsidiary. Excluding these adjustments in both periods, revenue for the business unit would have increased slightly sequentially with activity level improvements.

The Solar and Energy Storage business unit generated $2.4 million of revenue in the second quarter of 2023 compared to revenue of $2.9 million in the first quarter of 2023. Quarterly revenue for the business unit will fluctuate with timing of the commissioning of control system projects.

Following the reduction in revenue with the Company's mostly fixed cost structure, gross profit was $46.1 million in the second quarter of 2023 compared to gross profit of $59.0 million in the first quarter of 2023. Similarly, Adjusted EBITDA was $37.9 million in the second quarter of 2023, compared to $52.4 million in the first quarter of 2023.

The Company recorded net income attributable to Pason in the second quarter of 2023 of $25.5 million ($0.32 per share) compared to net income attributable to Pason of $35.8 million ($0.44 per share) in the first quarter of 2023. The decrease is primarily due to lower levels of revenue as outlined above.

Cash from operating activities was $29.7 million in the second quarter of 2023, compared to $46.3 million in the first quarter of 2023, for which the decrease is primarily driven by the reduction in Adjusted EBITDA sequentially. Similarly, Free Cash Flow generated by the Company in Q2 2023 was $18.0 million compared to $34.7 million in Q1 2023.

Liquidity and Capital Resources

As at	**June 30, 2023**	December 31, 2022	Change
(000s)	**($)**	($)	(%)
Cash and cash equivalents	**134,721**	132,057	2
Short-term investments	**39,860**	40,377	(1)
Total Cash (1)	**174,581**	172,434	1
Working capital	**213,714**	213,899	nmf
Total assets	**489,766**	469,928	4
Total interest bearing debt	**—**	—	—

Pason's balance sheet remains strong with no interest bearing debt and as at June 30, 2023, $174.6 million in Total Cash, and $213.7 million in working capital.

The Company has an undrawn $5.0 million demand revolving credit facility available as at June 30, 2023, consistent with December 31, 2022.

Cash Flow Statement Summary

	Three Months Ended June 30,			**Six Months Ended June 30,**		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Funds flow from operations	**33,111**	27,242	22	**76,784**	52,946	45
Cash from operating activities	**29,658**	25,679	15	**75,923**	53,729	41
Cash used in financing activities	**(17,368)**	(8,423)	106	**(37,331)**	(15,794)	136
Cash used in investing activities	**(16,670)**	(6,544)	155	**(28,665)**	(11,012)	160
Net capital expenditures (1)	**11,670**	6,544	78	**23,225**	11,012	111
As a % of funds flow (2)	**35.2 %**	24.0 %	1,120 bps	**30.2 %**	20.8 %	940 bps

(1) Includes additions to property, plant, and equipment, proceeds on disposals, changes in non-cash working capital, and development costs from Pason's Condensed Consolidated Interim Statement of Cash Flows.

(2) Defined within Supplementary Financial Measures under Non-GAAP Financial Measures

Cash from operating activities

Funds flow from operations increased by 22% in the second quarter of 2023 from Q2 2022 primarily due to the improvement in gross profit experienced by the Company. As a result, cash generated from operating activities increased 15% and was $29.7 million in the second quarter of 2023 compared to $25.7 million in the comparative period of 2022.

Cash used in financing activities

Cash used in financing activities was $17.4 million during the second quarter of 2023, compared to $8.4 million during the comparative quarter of 2022, for which the increase reflects increased returns to shareholders.

Dividend

During the three month period ended June 30, 2023, the Company paid dividends to holders of common shares totaling $9.6 million, or $0.12 per share, compared to $6.6 million, or $0.08 per share in the comparative quarter of 2022.

For the six month period ended June 30, 2023, the Company declared and paid dividends of 19.4 million (2022: $13.2 million) or $0.24 per common share (2022: $0.16).

On August 10, 2023, the Company declared a quarterly dividend of $0.12 per share on the Company's common shares. The dividend will be paid on September 29, 2023, to shareholders of record at the close of business on September 15, 2023.

Normal Course Issuer Bid ("NCIB")

In 2022, the Company renewed its NCIB commencing on December 20, 2022, and expiring on December 19, 2023. Under the current NCIB, the Company may purchase for cancellation, as the Company considers advisable, up to a maximum of 8,105,236 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 54,996 common shares. The Company may make one block purchase per calendar week which exceeds the daily purchase restriction.

For the three-month period ended June 30, 2023, the Company repurchased 591,100 (Q2 2022 - 93,000) shares for cancellation for total cash consideration of $7.0 million (Q2 2022 - $1.5 million).

For the six month period ended June 30, 2023, the Company repurchased 1,358,600 shares for cancellation for a total cash consideration of $17.0 million. For the six month period ended June 30, 2022, the Company repurchased 206,900 common shares for cancellation for a total cash consideration of $2.9 million.

Cash used in investing activities

During the second quarter, Pason used $16.7 million for investing activities compared to $6.5 million in the comparative period in 2022. Investing activities were comprised of $11.7 million in net capital expenditures as well as a $5.0 million preferred share subscription in the Company's non-controlling investment in IWS. Capital expenditures in the current quarter represent rental equipment replacements and additions, as well as investments associated with ongoing refresh of the Company's fleet and technology platform. The Company's 2023 capital expenditure program continues to incorporate an element of catch up on prior year plans given the recent global supply chain challenges.

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.

Contractual Obligations

As at June 30, 2023	Less than 1 year	1–3 years	Thereafter	**Total**
(000s)	($)	($)	($)	**($)**
Leases and other operating contracts	7,490	8,514	14,789	**30,793**
Capital commitments	17,760	—	—	**17,760**
Total contractual obligations	25,250	8,514	14,789	**48,553**

Leases and other operating contracts relate primarily to minimum future lease payments for facility leases, commitments associated with ongoing repair costs of the Company's equipment and technology, and commitments to purchase hardware associated with ETB's control system sales offering. A portion of these commitments have been recognized on the balance sheet as a leased asset with a corresponding liability, in accordance with IFRS 16, Leases.

During the first quarter of 2023, the Company extended the Canadian head office lease to 2032. This extension resulted in a $7.7 million increase in the Company's right of use asset balance recorded within Property, Plant and Equipment as well as a corresponding increase in lease liability on the Company's Condensed Consolidated Interim Balance Sheets as at June 30, 2023.

Capital commitments relate to contracts to purchase property, plant and equipment in the normal course of business.

Disclosure of Outstanding Share and Options Data

As at June 30, 2023, there were 80,207,268 common shares and 2,558,896 options issued and outstanding. As at August 10, 2023, there were 80,069,168 common shares and 2,557,896 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 six months ended June 30, 2023, are detailed as follows:

Impact on IFRS Measures

	Three Months Ended June 30,		**Six Months Ended June 30,**	
	2023	2022	**2023**	2022
(000s)	**($)**	($)	**($)**	($)
(Decrease) increase in revenue	**(673)**	240	**(624)**	129
Decrease (increase) in rental services and local administration expenses	**267**	(124)	**247**	(76)
Decrease (increase) in depreciation expense	**2**	(62)	**(170)**	(170)
(Decrease) increase in segment gross profit	**(404)**	54	**(547)**	(117)
Net monetary gain (loss) presented in other expenses	**1,196**	(268)	**1,355**	(67)
(Increase) in other income	**(16)**	(47)	**(23)**	(34)
Decrease (increase) in income tax provision	**170**	(36)	**161**	(14)
Increase (decrease) in net income	**946**	(297)	**946**	(232)

Impact on Non-GAAP Measures

	Three Months Ended June 30,		Six Months Ended June 30,	
	2023	2022	**2023**	2022
(000s)	**($)**	($)	**($)**	($)
(Decrease) increase in revenue	**(673)**	240	**(624)**	129
Decrease (increase) in rental services and local administration expenses	**267**	(124)	**247**	(76)
Net monetary gain (loss) presented in other expenses	**1,196**	(268)	**1,355**	(67)
(Increase) in other income	**(16)**	(47)	**(23)**	(34)
Increase (decrease) in EBITDA	**774**	(199)	**955**	(48)
Elimination of net monetary gain presented in other expenses	**(1,196)**	268	**(1,355)**	67
Elimination of other income	**16**	47	**23**	34
(Decrease) increase in Adjusted EBITDA	**(406)**	116	**(377)**	53

Additional IFRS Measures

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

Funds flow from operations

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

Cash from operating activities

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

Non-GAAP Financial Measures

A non-GAAP financial measure has the definition set out in National Instrument 52-112 "Non-GAAP and Other Financial Measures Disclosure".

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

EBITDA and Adjusted EBITDA

EBITDA is defined as net income before interest income and expense, income taxes, stock-based compensation expense, and depreciation and amortization expense. Adjusted EBITDA is defined as EBITDA, adjusted for foreign exchange, impairment of property, plant, and equipment, restructuring costs, net monetary adjustments, government wage assistance, revaluation of put obligation, and other items, which the Company does not consider to be in the normal course of continuing operations.

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

Reconcile Net Income to EBITDA

Three Months Ended	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	**Jun 30, 2023**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Net income	12,775	10,279	18,001	17,992	33,739	35,994	35,454	**24,962**
Add:								
Income taxes	5,239	3,240	5,329	7,189	11,482	9,405	12,374	**7,906**
Depreciation and amortization	5,530	6,172	6,314	4,696	4,433	5,399	6,616	**5,815**
Stock-based compensation	1,611	5,094	5,555	2,514	2,032	5,129	(82)	**1,986**
Net interest income	(285)	2,089	(513)	(718)	(1,027)	(2,679)	(2,607)	**(2,847)**
EBITDA	24,870	26,874	34,686	31,673	50,659	53,248	51,755	**37,822**

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	**Jun 30, 2023**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	24,870	26,874	34,686	31,673	50,659	53,248	51,755	**37,822**
Add:								
Foreign exchange (gain) loss	(204)	(2,980)	403	(1,054)	(3,332)	1,959	233	**1,597**
Government wage assistance	(2,190)	(128)	—	—	—	—	—	**—**
Put option revaluation	—	381	—	—	—	(5,815)	—	**—**
Net monetary (gain) loss	(190)	(246)	(202)	268	(1,380)	(536)	(159)	**(1,196)**
Other (income) expenses	70	307	(1,514)	75	284	88	581	**(336)**
Adjusted EBITDA	22,356	24,208	33,373	30,962	46,231	48,944	52,410	**37,887**

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	Sep 30, 2021	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	**Jun 30, 2023**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	17,074	27,061	28,050	25,679	30,743	19,942	46,265	**29,658**
Less:								
Net additions to property, plant and equipment	(1,258)	(2,803)	(4,334)	(6,412)	(6,590)	(16,112)	(11,404)	**(11,303)**
Deferred development costs	445	(268)	(134)	(132)	(106)	(121)	(151)	**(367)**
Free cash flow	16,261	23,990	23,582	19,135	24,047	3,709	34,710	**17,988**

Supplementary Financial Measures

A supplementary financial measure: (a) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of the Company; (b) is not presented in the financial statements of the Company; (c) is not a non-GAAP financial measure; and (d) is not a non-GAAP ratio. Supplementary financial measures found within this MD&A are as follows:

Revenue per Industry Day

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

Adjusted EBITDA as a percentage of revenue

Calculated as adjusted EBITDA divided by revenue.

Net capital expenditures as a percentage of funds flow from operations

Calculated as net capital expenditures divided by funds flow from operations.

Total Cash

Calculated as the sum of cash and cash equivalents, and short-term investments from the Company's Condensed Consolidated Interim Balance Sheets. The Company's short term-investments are comprised of twelve-month term deposits.

Critical Accounting Estimates

The preparation of the Company's Condensed Consolidated Interim Financial Statements requires that certain estimates and judgements be made with respect to the reported amounts of revenue and expenses and the carrying value of assets and liabilities. These estimates are based on historical experience and management’s judgements based on information available as at the financial statement date, and, as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired. As such, actual results may differ significantly from estimates made within the Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2023. Significant estimates made by the Company have most recently been set out in the Company's MD&A for the year ended December 31, 2022, and its consolidated financial statements and note disclosures for the year ended December 31, 2022, and within Note 2 of the Company's Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2023.

Significant Accounting Policies

The Company's significant accounting policies have been disclosed within the Consolidated Financial Statements for the year ended December 31, 2022 and within Note 2 of the Company's Condensed Consolidated Interim Financial Statements for the three and six months ended June 30, 2023.

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 six months ended June 30, 2023, that would materially affect, or is reasonably likely to materially affect, the Company's controls and processes over financial reporting.

Risks and Uncertainties

The following information is a summary of certain risk factors relating to Pason. This section does not describe all risks applicable to the Company, its industry or its business, and is intended only as a summary of certain material risks. Investors should also consider the other risks described throughout the Company's public disclosure documents on file with the Canadian securities regulatory authorities available on SEDAR at www.sedar.com. Additional risks and uncertainties not currently known to Pason, or that Pason currently considers remote or immaterial, may also impair the operations of the Company. Should any such risks actually occur, Pason's business, financial condition, operating results or price and liquidity of Pason's securities could be materially harmed.

Commodity Prices and Drilling Activity Levels

Pason derives most of its revenue from the rental of instrumentation and data services to Operators and Contractors in Canada, the US, Australia, Latin America and the Middle East during drilling activity. The success of the Company's business depends on the level of industry activity for oil and natural gas exploration and development in the markets in which Pason operates. The level of oil and natural gas industry activity has seen significant volatility in recent years and is influenced by numerous factors over which the Company has no control. One of the primary factors is prevailing oil and natural gas commodity prices, which fluctuate in response to factors beyond Pason's control. Such factors could include, but may not be limited to: global supply and demand for crude oil and natural gas; the cost of exploring for, producing and delivering oil and natural gas; pipeline availability and the capacity of other oil and natural gas transportation and processing systems; the actions of the Organization of Petroleum Exporting Countries and other major petroleum exporting countries; global political, military, regulatory, economic and social conditions; government regulation; political stability in the Middle East and elsewhere; the price of foreign imports; the availability of alternate fuel sources; and prevailing weather conditions.

From 2014 to 2020, global commodity prices were negatively affected by a combination of factors including increased production, decisions of OPEC and Russia, and the impact of the COVID-19 pandemic on overall demand for oil and gas. These headwinds drove significant pressure on commodity prices, and adversely impacted the level of capital spending by our customers on exploration and production activities and could continue to do so. Concurrently, Operators navigated ongoing pressure from the investment community to constrain spending within cash flows and further allocate a significant portion of cash flow generation to returns to shareholders, impacting the amount of drilling-related capital expenditures.

Throughout 2021, commodity prices and global drilling activity began to recover from the lows experienced in 2020, as the demand for oil and gas neared pre-pandemic levels, while supply lagged significantly. Throughout 2022 and into 2023, global macroeconomic conditions proved challenging with central banks aggressively increasing interest rates to address high prevailing levels of inflation, certain bank failures, and growing concerns around economic recession. Further, Operators and Contractors grappled with global supply chain bottlenecks and faced equipment availability challenges. These factors, coupled with geopolitical instability with ongoing conflict between Russia and Ukraine, have driven commodity price volatility. Despite these headwinds, global drilling activity remains strong as the sizeable gap between global energy supply and demand remains and there is an increasing emphasis on global energy security as many countries face energy shortages.

These aforementioned factors could continue to put pressure on commodity prices, adversely impacting the level of drilling activity in the regions in which Pason operates, which could have a materially adverse effect on Pason's business, financial condition, results of operations and cash flows. Pason does not have any operations or revenue generated in Russia or the Ukraine, however, ongoing conflict may negatively impact commodity price volatility and global financial conditions, which could have an indirect adverse effect on Pason's business and financial condition.

Seasonal Factors

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

Credit and Liquidity

Pason is exposed to credit risk to the extent that its customers, operating primarily in the oil and natural gas industry, may experience financial difficulty and be unable to meet their obligations. During times of depressed oil and gas markets or wider economic uncertainty, customers may experience financial constraints. Further, many of our customers require reasonable access to credit facilities and debt capital markets to finance their oil and natural gas drilling activity. If the availability of credit to our customers is reduced, they may reduce their drilling expenditures, reducing the demand for the Company's products and services. While Pason monitors its exposure to credit risk and has a large customer base, which minimizes Pason's risk exposure to the financial concerns of any single customer, lack of payment from multiple clients may have a material adverse effect on the Company's financial condition.

Customers

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

Competition

Pason's main source of competition in the North American Operations and International Operations segments remains the instrumentation divisions of large US service companies. Potential actions taken by competitors such as pricing changes and new products and technologies could affect the Company's leading market share or competitive position. In addition, while the Company continues to make investments in R&D to provide innovative technologies for customers, management cannot reasonably predict whether these investments will result in increased levels of product adoption, market share or pricing. These factors could materially affect our business, financial condition, results of operations and cash flows.

Qualified Personnel and Access to Talent

Due to the specialized and technical nature of Pason's business, Pason is highly dependent on attracting and retaining qualified, key employees, which involves compensating them appropriately. The shift to remote work in some roles, particularly since the start of the COVID-19 pandemic, has expanded the job market beyond traditional geographic boundaries. Employers must now compete for talent not only locally, but within a greater global market. Due to high levels of competition for qualified personnel, there can be no assurance that qualified personnel will be attracted or retained to meet the growth needs of the business. Further, Pason does not carry "key person" insurance on any of its key employees. In addition, Pason's ability to meet activity levels and customer demand for the Company's products and services will depend on the ability to attract qualified personnel as needed, which may be more difficult in periods of rapidly accelerated growth in activity levels.

The inability to recruit or retain skilled personnel or their inability to perform their duties could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. To mitigate these risks, Pason has a dedicated HR department in each significant business unit that is focused on proactive recruiting and retention initiatives.

Intellectual Property

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

Despite these precautions, it may be possible for third parties to attempt to infringe the Company's intellectual property and Pason could incur substantial costs to protect and enforce its intellectual property rights. Moreover, from time to time third parties may assert patent, trademark, copyright and other intellectual property rights to technologies that are important to the Company. In such an event, the Company may be required to incur significant costs in litigating a resolution to the asserted claim. There can be no assurance that such a resolution would not require that the Company pay damages or obtain a license of a third party's proprietary rights in order to continue to provide its products as currently offered, or, if such a license is required, that it will be available on terms acceptable to the Company.

Cyber Security

The Company takes measures and makes meaningful investments to protect the security and integrity of its IT infrastructure and data, however, there is a risk that these measures may not fully protect against a potential security breach, which could have a negative impact on the Company's ability to operate or its reputation. Natural disasters, energy blackouts, operating malfunction, viruses or malware, cyber security attacks, theft, computer or telecommunication errors, human error, internal or external misconduct or other unknown disruptive events could result in the temporary or permanent loss of any or all parts of the IT infrastructure or data. There is a risk the data and other electronic information stored in Pason's IT infrastructure could be accessed, publicly disclosed, lost, or stolen. Such occurrences could negatively affect Pason's business and financial performance in the form of loss of revenue, increased operational costs, reputational damage or litigation.

Availability of Raw Materials, Parts, or Finished Products

Pason purchases many materials, components and finished products in connection with its operations. Some of the components and finished products are obtained from a single source or a limited group of suppliers. While Pason makes it a priority to maintain and enhance these strategic relationships, there can be no assurance that these relationships will continue and reliance on these suppliers involves risks, including price increases, inferior component quality, unilateral termination, and a potential inability to obtain an adequate supply of required components or finished products in a timely manner. While Pason has long standing relationships with recognized and reputable suppliers, it does not have long-term contracts with all of its suppliers, and the partial or complete loss of certain of these sources could have a negative impact on the Company's operations and could damage customer relationships. Further, a significant increase in the price of one or more of these components could have a negative impact on Pason's cost structure.

The Company's ability to provide services to its customers is also dependent upon the ongoing refresh of existing hardware within its technology offering, which requires purchases of materials, components and finished products. While Pason has a dedicated procurement team that proactively manages required equipment and hardware needs, the availability and supply of these items may be impacted in periods of high or recovering activity levels, such as those seen recently. Supply chain disruptions, including those caused as a result of COVID-19, may result in timing delays on expected deliveries for certain components of the Company's product offering and may impact the Company's cost structure and ability to meet rising activity levels.

Geopolitical Risk

Assets outside of Canada and the US may be adversely affected by changes in governmental policy, social instability, or other political or economic developments beyond Pason's control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and warranted. Most of Pason's revenues are generated in Canada and the US, which limits exposure to risks and uncertainties in foreign countries. Pason does not have any operations or revenue generated in Russia or the Ukraine. The Company's Argentinian subsidiary is operating in a highly inflationary economy and its operating results are being impacted by a weakening Argentina peso relative to the Canadian dollar, the details of which are outlined in this MD&A under the title Impact of Hyperinflation.

Foreign Exchange Risk

The Company operates internationally and is primarily exposed to exchange risk relative to the US dollar. The Canadian operations are exposed to currency risk on US denominated financial assets and liabilities with fluctuations in the rate recognized as foreign exchange gains or losses in the consolidated financial statements. The Company's self-sustaining foreign subsidiaries expose the Company to exchange rate risk on the translation of their financial assets and liabilities to Canadian dollars for public reporting purposes. Adjustments arising when translating the foreign subsidiaries into Canadian dollars are reflected in the consolidated financial statements as unrealized foreign currency translation adjustments. The Company does not employ any financial instruments to manage foreign exchange risk at this time. Most of the Company's activities are conducted in Canada and the US, where local revenue is earned against local expenses, and the Company is therefore naturally hedged.

Climate Change Risks

Regulatory and Policy Risks

There is an increasing trend in public and government support of climate change initiatives across the regions in which Pason operates. Governmental authorities are strengthening existing environmental regulations and introducing new climate change measures, such as emission caps, reduction targets, taxes and penalties, efficiency standards, and alternative energy incentives and mandates. In addition, concerns about climate change have resulted in many environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Pason is not a large-scale emitter of greenhouse gases or other emissions and does not anticipate the impact of these regulations to be material to its operations; however, present and future environmental regulations and other developments could have a material impact on Pason's client base, which is primarily comprised of operators and contractors. While it is not possible at this time to predict how such regulations or developments would impact the Company's business, any future environmental requirements could result in reduced demand for hydrocarbons, as well as increased capital expenditures, operating costs and project delays for our customers, which in turn could have a material adverse effect on the business, financial condition, results of operations, and prospects for the Company.

Physical Risks

There is growing evidence that climate change is causing the increased frequency and severity of extreme weather events as well as longer-term changes in climate patterns. As a result, the physical impacts of such increasingly volatile weather conditions may have an adverse effect on the operations of the Company. These include more frequent and extreme weather events, natural disasters such as flooding and forest fires, shifts in temperature and precipitation, and changing sea levels, which could cause damage to key corporate assets. Climate change may have similar impacts on the Company's major customers, reducing demand for Pason's products and services, and may also impact suppliers, which could result in shortages in certain consumables and the supply of products that are required to maintain the Company's operations. While the Company takes such risks into consideration and implements mitigation strategies to address, where possible, the risks associated with the impacts of extreme weather events, the frequency and severity of such events can vary widely and cannot be predicted. This uncertainty, in turn, could have a material adverse effect on the Company's ability to operate in certain jurisdictions and its projections, business operations and financial condition. Pason maintains a corporate insurance program consistent with industry practice that protects the Company from liabilities due to environmental accidents and disruptions and has operational and emergency response procedures and safety and environmental programs in place to reduce potential loss exposure.

Alternative Energies Risk

The focus of governments, businesses and consumers on transitioning to a low-carbon economy was accelerated by the COVID-19 pandemic, resulting in increased policies and initiatives designed to shift resources and investment away from fossil fuels towards low carbon energy sources. This shift, combined with technological advances and cost declines in alternative energy sources, could reduce consumer demand for, and result in a reduction in the global economy's reliance on, oil and natural gas; which in turn could decrease demand for the Company's drilling oriented products and services. While Pason believes energy supply and demand fundamentals continue to support hydrocarbon resources forming a meaningful component of ongoing energy supply, the Company considers opportunities to diversify its business to mitigate this risk. This includes exploring new opportunities to apply the Company's expertise in instrumentation and data services to markets beyond of oil and gas drilling, such as recent investments made in supporting ETB in the solar energy and storage market. However, there is no guarantee that Pason would be successful in these ventures should there be a significant reduction in global demand for oil and gas.

Investor Sentiment

Investor sentiment towards the oil and natural gas industry has evolved in recent years and some institutional investors have announced that they are no longer willing to fund or invest in companies in the oil and natural gas industry, or are reducing such investment over time. While Pason believes it operates its business sustainably, the Company's ability to access capital and the price and liquidity of its securities may be adversely impacted by investors' perceptions of the sector in which it generates the majority of its revenue.

Insurance

Pason's operations are subject to risks inherent in the oil and natural gas services industry, such as hardware or software defects, malfunctions and failures, human error, and natural disasters. These risks could expose Pason to substantial liability for personal injury, loss of life, business interruption, property damage, pollution, and other liabilities. Pason carries prudent levels of insurance to protect the Company against these unforeseen events, subject to appropriate deductibles and the availability of coverage. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives.

Extreme weather conditions, natural occurrences, and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage. It is anticipated that the Company will continue to maintain appropriate insurance coverage, but there can be no assurance that such insurance coverage will be available on commercially reasonable terms or on terms as favourable as Pason's current arrangements. The occurrence of a significant event outside of the scope of coverage of Pason's insurance policies could also have a material adverse effect on the results of the organization.

Payment of Future Cash Dividends

The decision to pay dividends and the amount paid is at the discretion of the Board, which regularly reviews the Company's financial position, operating results, and industry outlook, all of which could impact Pason's dividend policy. The amount of cash available for future dividends will be dependent on a number of factors including, but not limited to, the Company's ability to generate cash flow in excess of its operating and investment needs, its overall financial position, and its capital allocation priorities.

Taxation

Pason and its subsidiaries are subject to income and other forms of taxation in the various jurisdictions in which they operate. Pason structures its operations in a tax efficient manner in compliance with all prevailing tax regimes. Any adverse change to existing taxation measures, policies or regulations, or the introduction of new taxation measures, policies or regulations in any of the jurisdictions in which Pason operates could have a negative impact on its business, operating results, or financial condition. The management of Pason believes that the Company's provision for income taxes is adequate and in accordance with both generally accepted accounting principles and appropriate regulations. However, the tax filing positions of the Company are subject to review and audit by tax authorities who may challenge, and possibly succeed in challenging, management's interpretation of the applicable tax legislation.

Litigation and Legal Claims

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

SEDAR

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

Forward Looking Information

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

Without limiting the foregoing, this document includes, but is not limited to, the following forward-looking statements: the Company's growth strategy and related schedules; divergence in activity levels between the geographic regions in which we operate; demand fluctuations for our products and services; the Company's ability to increase or maintain market share; projected future value, forecast operating and financial results; planned capital expenditures; expected product performance and adoption, including the timing, growth and profitability thereof; potential dividends and dividend growth strategy; future use and development of technology; our financial ability to meet long-term commitments not included in liabilities; the collectability of accounts receivable; the application of critical accounting estimates and judgements; treatment under governmental regulatory and taxation regimes; and projected increasing shareholder value.

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

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

These risks, uncertainties and assumptions include but are not limited to those discussed in Pason's Annual Information Form for the year ended December 31, 2022 under the heading, "Risk and Uncertainty," in our management's discussion and analysis for the year ended December 31, 2022, 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.

Corporate Information

Directors

Marcel Kessler[(1)]
President & CEO
GrafTech International Ltd.
Victoria, British Columbia

T. Jay Collins[(3)(4)]
Director
Murphy Oil Corporation
Houston, Texas

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

Judi Hess[(3)(5)(7)]
Vice Chair & Chief Strategist
Copperleaf Technologies Inc.
Vancouver, British Columbia

Laura Schwinn[(5)(6)(8)]
President, Specialty Catalysts
W. R. Grace & Co.
Columbia, Maryland

Ken Mullen[(2)(7)]
Director
Melamaken Adventures Inc.
Calgary, Alberta

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

Officers & Key Personnel

Jon Faber
President
& Chief Executive Officer

Celine Boston
Chief Financial Officer

Kevin Boston
Vice President, Commercial

Craig Bye
Vice President, R&D - Cloud Platforms and Applications

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

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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.