Press Release

Pason Reports Third Quarter 2019 Results

FOR IMMEDIATE RELEASE

CALGARY, Alberta (November 6, 2019) – Pason Systems Inc. (TSX:PSI) announced today its 2019 third quarter results.

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.

Condensed Consolidated Interim Balance Sheets

As at	September 30, 2019	December 31, 2018
(CDN 000s) (unaudited)	($)	($)
Assets		
Current		
Cash and cash equivalents	**180,865**	203,838
Trade and other receivables	**65,903**	80,020
Income tax recoverable - other	**15,304**	15,304
Prepaid expenses	**3,813**	3,934
Income taxes recoverable	**1,937**	6,203
Total current assets	**267,822**	309,299
Non-current		
Property, plant and equipment	**122,471**	120,417
Intangible assets and goodwill	**55,869**	32,000
Total non-current assets	**178,340**	152,417
Total assets	**446,162**	461,716
Liabilities and equity		
Current		
Trade payables and accruals	**27,768**	34,229
Income taxes payable - other	**—**	15,304
Stock-based compensation liability	**6,918**	3,301
Lease liability	**2,926**	312
Total current liabilities	**37,612**	53,146
Non-current		
Deferred tax liabilities	**10,008**	17,060
Lease liability	**12,297**	2,233
Stock-based compensation liability	**5,580**	3,200
Gross obligation under put option	**9,923**	—
Total non-current liabilities	**37,808**	22,493
Equity		
Share capital	**167,827**	164,723
Share-based benefits reserve	**29,922**	27,287
Foreign currency translation reserve	**61,781**	63,574
Equity reserve	**(9,079)**	—
Retained earnings	**119,047**	130,493
Total equity attributable to shareholders	**369,498**	386,077
Non-controlling interest	**1,244**	—
Total equity	**370,742**	386,077
Total liabilities and equity	**446,162**	461,716

Condensed Consolidated Interim Statements of Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Revenue	**72,195**	82,344	**227,232**	224,428
Operating expenses				
Rental services	**25,779**	25,648	**79,837**	76,896
Local administration	**3,430**	3,149	**10,140**	9,153
Depreciation and amortization	**9,917**	8,904	**30,117**	27,299
	39,126	37,701	**120,094**	113,348
Gross profit	**33,069**	44,643	**107,138**	111,080
Other expenses				
Research and development	**7,564**	6,711	**22,969**	19,687
Corporate services	**3,865**	4,363	**11,413**	12,008
Stock-based compensation expense	**2,446**	2,589	**9,359**	8,978
Other expense	**(1,709)**	(2,160)	**3,343**	6,217
	12,166	11,503	**47,084**	46,890
Income before income taxes	**20,903**	33,140	**60,054**	64,190
Income tax provision	**5,485**	8,754	**16,347**	21,966
Net income	**15,418**	24,386	**43,707**	42,224
Income per share				
Basic	**0.18**	0.29	**0.51**	0.50
Diluted	**0.18**	0.28	**0.51**	0.49

Condensed Consolidated Interim Statements of Other Comprehensive Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Net income	**15,418**	24,386	**43,707**	42,224
Items that may be reclassified subsequently to net income:				
Tax recovery (expense) on net investment in foreign operations related to an inter-company financing	**—**	632	**10,481**	(1,134)
Foreign currency translation adjustment	**819**	(9,813)	**(12,274)**	8,841
Other comprehensive gain (loss)	**819**	(9,181)	**(1,793)**	7,707
Total comprehensive income	**16,237**	15,205	**41,914**	49,931

Condensed Consolidated Interim Statements of Cash Flows

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Cash from (used in) operating activities				
Net income	**15,418**	24,386	**43,707**	42,224
Adjustment for non-cash items:				
Depreciation and amortization	**9,917**	8,904	**30,117**	27,299
Stock-based compensation	**2,446**	2,589	**9,359**	8,978
Deferred income taxes	**2,101**	1,328	**3,520**	11,992
Derecognition of lease receivable	**—**	—	**4,289**	**—**
Unrealized foreign exchange loss (gain) and other	**1,523**	(1,168)	**106**	7,340
Hyperinflationary adjustment	**(1,506)**	—	**(1,506)**	**—**
Funds flow from operations	**29,899**	36,039	**89,592**	97,833
Movements in non-cash working capital items:				
Decrease (increase) in trade and other receivables	**4,922**	(11,941)	**9,021**	(18,688)
Decrease in prepaid expenses	**(1,066)**	(1,374)	**(45)**	(99)
Increase in income taxes	**3,476**	10,324	**4,699**	11,594
Increase (decrease) in trade payables, accruals and stock-based compensation liability	**2,270**	2,989	**(3,894)**	2,011
Effects of exchange rate changes	**(1,850)**	(75)	**(262)**	235
Cash generated from operating activities	**37,651**	35,962	**99,111**	92,886
Income tax paid	**(198)**	(4,153)	**(15,278)**	(9,116)
Net cash from operating activities	**37,453**	31,809	**83,833**	83,770
Cash flows from (used in) financing activities				
Proceeds from issuance of common shares	**239**	993	**3,366**	4,665
Payment of dividends	**(16,199)**	(15,378)	**(47,055)**	(44,349)
Repurchase and cancellation of shares under Normal Course Issuer Bid	**(1,944)**	**—**	**(13,063)**	**—**
Repayment of lease liability	**(840)**	**—**	**(1,893)**	**—**
Net cash used in financing activities	**(18,744)**	(14,385)	**(58,645)**	(39,684)
Cash flows (used in) from investing activities				
Acquisition	**(23,830)**	—	**(23,830)**	—
Additions to property, plant and equipment	**(3,398)**	(3,819)	**(17,482)**	(12,144)
Development costs	**(660)**	(1,039)	**(1,109)**	(3,282)
Proceeds on disposal of investment and property, plant and equipment	**188**	92	**806**	188
Purchase of short-term investments	**—**	—	**—**	(65,840)
Changes in non-cash working capital	**(516)**	(163)	**(49)**	387
Net cash used in investing activities	**(28,216)**	(4,929)	**(41,664)**	(80,691)
Effect of exchange rate on cash and cash equivalents	**1,239**	(4,075)	**(6,497)**	2,238
Net (decrease) increase in cash and cash equivalents	**(8,268)**	8,420	**(22,973)**	(34,367)
Cash and cash equivalents, beginning of period	**189,133**	111,342	**203,838**	154,129
Cash and cash equivalents, end of period	**180,865**	119,762	**180,865**	119,762

Operating Segments

The Company operates in three geographic segments: Canada, the United States, and International (Latin America, Offshore, the Eastern Hemisphere, and the Middle East). The following table represents a disaggregation of revenue from contracts with customers along with the reportable segment for each category:

Three Months Ended September 30, 2019	**Canada**	**United States**	**International**	**Total**
(CDN 000s) (unaudited)	**($)**	**($)**	**($)**	**($)**
Revenue				
Drilling Data	**5,581**	**26,980**	**5,210**	**37,771**
Mud Management and Safety	**3,498**	**15,918**	**1,827**	**21,243**
Communications	**1,752**	**2,712**	**319**	**4,783**
Drilling Intelligence	**2,012**	**2,773**	**356**	**5,141**
Analytics and Other	**1,003**	**1,417**	**837**	**3,257**
Total Revenue	**13,846**	**49,800**	**8,549**	**72,195**
Rental services and local administration	**5,301**	**19,383**	**4,525**	**29,209**
Depreciation and amortization	**4,285**	**4,535**	**1,097**	**9,917**
Segment gross profit	**4,260**	**25,882**	**2,927**	**33,069**
Research and development				**7,564**
Corporate services				**3,865**
Stock-based compensation				**2,446**
Other income				**(1,709)**
Income tax expense				**5,485**
Net Income				**15,418**
Capital expenditures	**1,042**	**2,125**	**891**	**4,058**
As at September 30, 2019				
Property plant and equipment	**40,759**	**66,396**	**15,316**	**122,471**
Intangible assets and goodwill	**17,148**	**36,121**	**2,600**	**55,869**
Segment assets	**112,971**	**278,619**	**54,572**	**446,162**
Segment liabilities	**28,321**	**41,033**	**6,066**	**75,420**

Three Months Ended September 30, 2018	Canada	United States	International	Total
(CDN 000s) (unaudited)	($)	($)	($)	($)
Revenue				
Drilling Data	7,804	29,640	4,646	42,090
Mud Management and Safety	5,333	15,274	1,692	22,299
Communications	3,028	4,099	377	7,504
Drilling Intelligence	2,869	3,774	468	7,111
Analytics and Other	981	1,382	977	3,340
Total Revenue	20,015	54,169	8,160	82,344
Rental services and local administration	6,046	18,317	4,434	28,797
Depreciation and amortization	3,900	4,200	804	8,904
Segment gross profit	10,069	31,652	2,922	44,643
Research and development				6,711
Corporate services				4,363
Stock-based compensation				2,589
Other income				(2,160)
Income tax expense				8,754
Net income				24,386
Capital expenditures	1,285	2,298	1,275	4,858
As at September 30, 2018				
Property plant and equipment	38,216	65,503	13,604	117,323
Intangible assets and goodwill	22,349	7,428	2,600	32,377
Segment assets	112,550	271,754	45,380	429,684
Segment liabilities	48,696	15,145	4,575	68,416

Nine Months Ended September 30, 2019	Canada	United States	International	Total
(CDN 000s) (unaudited)	($)	($)	($)	($)
Revenue				
Drilling Data	**17,315**	**85,398**	**17,580**	**120,293**
Mud Management and Safety	**10,477**	**50,173**	**5,409**	**66,059**
Communications	**5,104**	**9,042**	**1,176**	**15,322**
Drilling Intelligence	**5,681**	**9,053**	**968**	**15,702**
Analytics and Other	**2,997**	**4,230**	**2,629**	**9,856**
Total Revenue	**41,574**	**157,896**	**27,762**	**227,232**
Rental services and local administration	**15,883**	**58,723**	**15,371**	**89,977**
Depreciation and amortization	**12,664**	**14,371**	**3,082**	**30,117**
Segment gross profit	**13,027**	**84,802**	**9,309**	**107,138**
Research and development				**22,969**
Corporate services				**11,413**
Stock-based compensation				**9,359**
Other expense				**3,343**
Income tax expense				**16,347**
Net Income				**43,707**
Capital expenditures	**2,538**	**13,297**	**2,756**	**18,591**
As at September 30, 2019				
Property plant and equipment	**40,759**	**66,396**	**15,316**	**122,471**
Intangible assets and goodwill	**17,148**	**36,121**	**2,600**	**55,869**
Segment assets	**112,971**	**278,619**	**54,572**	**446,162**
Segment liabilities	**28,321**	**41,033**	**6,066**	**75,420**

Nine Months Ended September 30, 2018	Canada	United States	International	Total
(CDN 000s) (unaudited)	($)	($)	($)	($)
Revenue				
Drilling Data	21,904	80,311	12,590	114,805
Mud Management and Safety	14,956	43,153	4,754	62,863
Communications	8,303	11,997	1,113	21,413
Drilling Intelligence	6,104	8,827	1,135	16,066
Analytics and Other	2,837	4,267	2,177	9,281
Total Revenue	54,104	148,555	21,769	224,428
Rental services and local administration	19,510	52,657	13,882	86,049
Depreciation and amortization	12,508	12,128	2,663	27,299
Segment gross profit	22,086	83,770	5,224	111,080
Research and development				19,687
Corporate services				12,008
Stock-based compensation				8,978
Other expense				6,217
Income tax expense				21,966
Net Income				42,224
Capital expenditures	4,336	9,097	1,993	15,426
As at September 30, 2018				
Property plant and equipment	38,216	65,503	13,604	117,323
Intangible assets and goodwill	22,349	7,428	2,600	32,377
Segment assets	112,550	271,754	45,380	429,684
Segment liabilities	48,696	15,145	4,575	68,416

Other (Income) Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Foreign exchange loss (gain)	**615**	(1,516)	**1,269**	6,675
Net interest expense - lease liabilities	**159**	—	**404**	—
Interest income - short term investments	**(258)**	—	**(726)**	—
Derecognition of lease receivable	**—**	—	**4,289**	—
Net monetary gain	**(2,376)**	—	**(2,376)**	—
Other	**151**	(644)	**483**	(458)
Other (income) expense	**(1,709)**	(2,160)	**3,343**	6,217

Net interest expense - lease liabilities is a result of 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 in the second quarter of 2019.

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

Acquisition

On September 10, 2019, a US subsidiary of the Company, Pason US Holdings Corp. ("Holdco") entered into an agreement with Energy Toolbase LLC (ETB LLC), whereby Holdco and ETB LLC formed Energy Toolbase Software Inc (ETB Inc). ETB LLC is a private, US-based software-as-a-service (SaaS) company in the software development of a platform that specializes in modeling and proposing the economics of solar PV and energy storage projects.

For further details on the acquisition, see note 7 of the Company's Condensed Consolidated Interim Financial Statements.

Events After the Reporting Period

On October 2, 2019 the Company announced that it has entered into an agreement to invest $25,000 to acquire a minority interest in Intelligent Wellhead Systems Inc. (IWS). IWS is a privately-owned oil and gas technology and service company that provides proprietary and unique surface control systems for various markets globally, including unconventional shale, subsea intervention, critical well intervention, and offshore operations.

On November 6, 2019, the Company announced a quarterly dividend of $0.19 per share on the Company's common shares. The dividend will be paid on December 30, 2019 to shareholders of record at the close of business on December 16, 2019.

Third Quarter Conference Call

Pason will be conducting a conference call for interested analysts, brokers, investors and media representatives to review its third quarter 2019 results at 9:00 am (Calgary time) on Thursday, November 7, 2019. The conference call dial-in number is 1-888-231-8191 or 1-647-427-7450. You can access the seven-day replay by dialing 1-855-859-2056 or 1-416-849-0833, using password 5875214.

Pason Systems Inc. is a leading global provider of specialized data management systems for drilling rigs. Our solutions, which include data acquisition, wellsite reporting, remote communications, web-based information management, and analytics, enable collaboration between the rig and the office. Pason's common shares trade on the Toronto Stock Exchange under the symbol PSI.

Additional information, including the Company's Annual Report and Annual Information Form for the year ended December 31, 2018, is available on SEDAR at www.sedar.com or on the Company's website at www.pason.com.

Pason Systems Inc.

Pason Systems Inc. is a leading global provider of specialized data management systems for drilling rigs. Our solutions, which include data acquisition, wellsite reporting, remote communications, and web-based information management, enable collaboration between the rig and the office. Pason's common shares trade on the Toronto Stock Exchange under the symbol PSI.TO.

For more information about Pason Systems Inc., visit the company's website at www.pason.com or contact:

Marcel Kessler	**Jon Faber**
President and CEO	Chief Financial Officer
403-301-3400	403-301-3400

Certain information regarding the Company contained herein may constitute forward-looking information under applicable securities law. The words “anticipate”, “expect”, “believe”, “may”, “should”, “will”, “estimate”, “project”, “outlook”, “forecast” or other similar words are used to identify such forward-looking information and statements. Forward-looking statements in this document may include statements, express or implied regarding the anticipated business prospects and financial performance of Pason; expectations or projections about future strategies and goals for growth and expansion; expected and future cash flows and revenues; and expected impact of future commitments. These forward-looking statements are based upon various underlying factors and assumptions, including the state of the economy and the oil and gas exploration and production business, in particular; the Company's business prospects and opportunities; and estimates of the financial and operational performance of Pason.

Forward-looking information and 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 information and statements. Risk factors that could cause actual results or events to differ materially from current expectations include, among others, the ability of Pason to successfully implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of Pason's assets and businesses, the price of energy commodities, competitive factors in the energy industry, changes in laws and regulations affecting Pason's businesses, technological developments, and general economic conditions.

Readers are cautioned not to place undue reliance on forward-looking statements as there can be no assurance that the plans, intentions or expectations upon which they are placed will occur. Such forward looking statements, although considered reasonable by management as of the date hereof, may prove to be incorrect and actual results may differ materially from those anticipated. Forward-looking statements contained in this press release are expressly qualified by this cautionary statement.

Additional information on risks and uncertainties and other factors that could affect Pason's operations or financial results are included in Pason's reports 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). Furthermore, any forward looking statements contained in this news release are made as of the date of this news release, and Pason does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by securities law.