Press Release

Pason Reports Fourth Quarter 2019 Results

FOR IMMEDIATE RELEASE

CALGARY, Alberta (February 26, 2020) – Pason Systems Inc. (TSX:PSI) announced today its 2019 fourth quarter results.

Performance Data

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	**2019**	2018	Change
(CDN 000s, except per share data) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**68,410**	81,965	(17)	**295,642**	306,393	(4)
EBITDA (1,2)	**25,555**	38,418	(33)	**124,763**	138,335	(10)
Adjusted EBITDA (1.2)	**26,615**	39,415	(32)	**129,644**	146,004	(11)
As a % of revenue	**38.9**	48.1	(920) bps	**43.9**	47.7	(380) bps
Funds flow from operations	**22,126**	30,711	(28)	**111,718**	128,544	(13)
Per share – basic	**0.26**	0.36	(28)	**1.31**	1.51	(13)
Per share – diluted	**0.26**	0.36	(28)	**1.30**	1.50	(13)
Cash from operating activities	**24,714**	23,407	6	**108,547**	107,177	1
Capital expenditures	**5,587**	8,450	(34)	**24,178**	23,876	1
Free cash flow (1)	**19,955**	16,603	20	**85,954**	85,522	1
Cash dividends declared	**0.19**	0.18	6	**0.74**	0.70	6
Net income	**10,096**	20,720	(51)	**53,803**	62,944	(15)
Net income attributable to Pason	**10,405**	20,720	(50)	**54,112**	62,944	(14)
Per share – basic	**0.12**	0.24	(49)	**0.63**	0.74	(14)
Per share – diluted	**0.12**	0.24	(49)	**0.63**	0.73	(14)
Total interest bearing debt	**—**	—	—	**—**	—	—
Shares outstanding end of period (#000's)	**84,538**	85,783	(1)	**84,538**	85,783	(1)

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

(2) Prior period amounts have been restated to conform with current year's presentation.

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.

Q4 2019 vs Q4 2018

The Company generated consolidated revenue of $68.4 million in the fourth quarter of 2019, a decrease of 17% 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 $26.6 million in the fourth quarter, a decrease of 32% from the same period in 2018. The decrease in adjusted EBITDA was driven by the decrease in consolidated gross profit and a lower proportion of R&D costs being capitalized.

Funds flow from operations was $22.1 million in the fourth quarter, a decrease of 28% from the same period in 2018. Cash from operating activities was $24.7 million in the fourth quarter of 2019, an increase of 6%

from the same period in 2018. This financial metric was impacted by movements in working capital, mostly due to the release of trade and other receivables.

Free cash flow was $20.0 million in the fourth quarter of 2019, an increase of 20% 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 attributable to Pason of $10.4 million ($0.12 per share) in the fourth quarter of 2019, compared to net income of $20.7 million ($0.24 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. These factors were offset by a drop in stock-based compensation expense in the fourth quarter of 2019 compared to the 2018 comparative figure.

President’s Message

The price for a barrel of WTI crude oil remained between US$50 and US$60 for most of the fourth quarter of 2019 and many operators constrained E&P capital spending within cash flows. As a result, Pason’s operating environment across North America deteriorated further in the period. Drilling industry activity decreased by 24% in the United States and by 23% in Canada compared to the same period in 2018.

These headwinds were partially offset by higher activity in Pason’s international markets, market share gains in the United States, and continued growth in product penetration in all geographies. Revenue per EDR Day for the quarter was US$732 in the United States, a 4% increase from the fourth quarter of 2018, and C$1,292 in Canada, a 9% increase.

Pason generated revenue of $68.4 million in the period, a decrease of 17% compared to the same quarter of last year. Adjusted EBITDA was $26.6 million for the quarter, a decrease of 32%. Adjusted EBITDA as a percentage of revenue was 39% compared to 48% one year ago, highlighting our largely fixed cost structure. Pason recorded net income for the quarter of $10.4 million ($0.12 per share), down from $20.7 million ($0.24 per share) in the fourth quarter of 2018.

Capital expenditures for the quarter were $5.6 million and free cash flow was $20.0 million. At December 31, 2019, our working capital position stood at $184 million, including cash and short-term investments of $161 million. We are maintaining our quarterly dividend at $0.19 per share.

For the full year 2019 compared to 2018 revenue decreased 4% to $296 million, adjusted EBITDA decreased 11% to $130 million, net income decreased 14% to $54 million, and free cash flow grew 1% to $86 million.

We believe capital discipline by our customers will remain a prevailing theme in the North American land market. In the United States, we expect industry activity for the year to be similar to that experienced during the second half of 2019, which would imply a modest increase from current levels. Canadian drilling activity has started 2020 ahead of expectations.

Considering the uncertainty regarding potential demand impacts from the Covid-19 pandemic, some analysts have cut their oil price forecasts significantly. In this environment, we are maintaining flexibility for our go-forward plans, which gives us the means and confidence to address any activity scenario. Our capital expenditures will be relatively modest going forward with a large portion of development efforts focused on software. We intend to spend up to $25 million in capital expenditures in 2020, which includes the capitalized portion of R&D.

Our new product offerings continue to gain momentum with customers. DataLink, Pason’s Data Delivery solution for automated delivery of large, complex data sets from the field to corporate databases and applications is currently being utilized on over 300 active drilling rigs.

ExxonMobil DAS / AutoDriller, Pason’s drilling automation software package has been deployed on over 270 drilling rigs for construction of over 1,700 wells since launch. Drilling performance is improving considerably when the optimization system is used in terms of higher rate of penetration (faster drilling) and minimized damaging vibrations, leading to longer life of the drill bit.

Our market positions remain strong. 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. We expect to be able to deliver growth through higher product adoption going forward.

In September 2019, we announced the acquisition of a majority interest of Energy Toolbase (“ETB”), a US-based software-as-a-service company. 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 distributed energy project developers, primarily in the United States. There are currently 1,100 active ETB software licenses with 1,800 users and the numbers continue to grow. Over the past 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 the combined capabilities of Pason Power and ETB we are positioning ourselves for meaningful long-term growth in the solar and energy storage market.

We remain focused on maintaining our distinctive technology position and unique capability set. Pason's highly capable and flexible IT and communications platforms can host additional new Pason and third-party software in the field and in the cloud. Our service capabilities are unrivalled, as is our expertise for user interface design and ruggedization for field users. These strengths, along with our exceptional workforce and strong balance sheet, are the foundation for our ability to continue to deliver significant value to our customers and achieve long-term success.

Marcel Kessler
President and Chief Executive Officer
February 26, 2020

Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of February 26, 2020, 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 Consolidated 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 December 31, 2019	Year Ended December 31, 2019
(000s) (unaudited)	($)	($)
Reduction in rental services and local administration expenses	263	1,090
Reduction in research and development expenses	98	332
Reduction in corporate services costs	341	1,257
(Increase) in depreciation of right of use assets	(647)	(2,580)
(Increase) in net interest expense on lease liabilities	(112)	(457)
Reduction in Income tax provision	16	97
(Decrease) in net income	**(41)**	**(261)**
Increase in depreciation of right of use assets	647	2,580
(Reduction) in Income tax provision	(16)	(97)
Total increase in funds flow from operations and cash from operating activities	**590**	**2,222**

Impact on Non-IFRS Measures

(000s)	Three Months Ended December 31, 2019 ($)	Year Ended December 31, 2019 ($)
Reduction in rental services and local administration - Canada operating segment	40	160
Reduction in rental services and local administration - United States operating segment	198	794
Reduction in rental services and local administration - International operating segment	25	136
Reduction in research and development expenses	98	332
Reduction in corporate services costs	341	1,257
Total increase in EBITDA and Adjusted EBITDA	**702**	**2,679**

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 fourth quarter of 2019 was to increase revenue and reduce segment gross profit by $792 and $41 respectively. For the twelve months ending December 31, 2019, the impact was to reduce both revenue by $955 and segment gross profit by $991.

The impact of applying IAS 29 to the non-monetary assets and liabilities, and shareholders' equity of the Argentina subsidiary was to record a non-cash net monetary adjustment of $212 for the three months ended December 31, 2019. This non-cash net monetary adjustment for the 12 months ended December 31, 2019 was $2,588.

Impact on IFRS Measures

(000s)	Three Months Ended December 31, 2019 ($)	Year Ended December 31, 2019 ($)
Increase (decrease) in revenue	792	(955)
(Increase) decrease in rental services and local administration expenses	(493)	562
(Increase) in depreciation expense	(340)	(598)
(Decrease) in segment gross profit	**(41)**	**(991)**
Income inclusion presented in other expenses	212	2,588
(Increase) decrease in income tax expenses	(40)	40
Increase in net income	**131**	**1,637**

Impact on Non-IFRS Measures

(000s)	Three Months Ended December 31, 2019 ($)	Year Ended December 31, 2019 ($)
Increase (decrease) in revenue	792	(955)
(Increase) decrease in rental services and local administration expenses	(493)	562
Income inclusion presented in other expenses	212	2,588
Increase in EBITDA	**511**	**2,195**
(Elimination) of income inclusion presented in other expenses	(212)	(2,588)
Increase (decrease) in Adjusted EBITDA	**299**	**(393)**

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 income and 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 December 31,			Year Ended December 31,		
	2019	2018	Change	**2019**	2018	Change
(000s) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**35,915**	42,357	(15)	**156,208**	157,162	(1)
Mud Management and Safety	**19,768**	23,089	(14)	**85,827**	85,952	—
Communications	**4,438**	6,764	(34)	**19,760**	28,177	(30)
Drilling Intelligence	**4,619**	6,720	(31)	**20,321**	22,786	(11)
Analytics and Other	**3,670**	3,035	21	**13,526**	12,316	10
Total revenue	**68,410**	81,965	(17)	**295,642**	306,393	(4)

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 17% in the fourth quarter of 2019 compared to the corresponding period in 2018.

Communication revenue decreased 34% in the fourth 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 31% in the fourth 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.

Analytics and other revenue increased 21% in the fourth quarter of 2019 compared to the corresponding period in 2018 predominately as a result of the revenue generated from the ETB LLC acquisition.

Industry activity in the US market decreased by 24% in the fourth quarter of 2019 compared to the corresponding period in 2018, while fourth quarter Canadian industry activity decreased by 23%. The Canadian and US business units both experienced a decline in drilling activity as producers reduced capital spending. For the fourth quarter of 2019, the Company saw an increase in revenue in the International business unit with gains in all of its significant markets.

US EDR days decreased by 24% in the fourth quarter of 2019 compared to the corresponding period in 2018, while Canadian EDR days, which includes non-oil and gas-related activity, decreased 29% from 2018 levels.

In the fourth quarter of 2019, the Pason EDR was installed on 62% of the land rigs in the US market, an increase of 60bps over the same time period in 2018.

In the fourth quarter of 2019, the Pason EDR was installed on 85% of the land rigs in the Canadian market, a decrease of 600bps 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.

Discussion of Operations

United States Operations

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	**2019**	2018	Change
(000s) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**24,084**	29,918	(19)	**109,482**	110,229	(1)
Mud Management and Safety	**14,016**	16,268	(14)	**64,189**	59,421	8
Communications	**2,297**	3,733	(38)	**11,339**	15,730	(28)
Drilling Intelligence	**2,105**	3,866	(46)	**11,158**	12,693	(12)
Analytics and Other	**1,716**	1,546	11	**5,946**	5,813	2
Total revenue	**44,218**	55,331	(20)	**202,114**	203,886	(1)
Rental services and local administration	**18,730**	19,364	(3)	**77,453**	72,021	8
Depreciation and amortization	**5,004**	4,121	21	**19,375**	16,249	19
Segment gross profit	**20,484**	31,846	(36)	**105,286**	115,616	(9)

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 December 31,			Year Ended December 31,		
	2019	2018	Change	**2019**	2018	Change
(000s) (unaudited)	**(#)**	(#)	(%)	**(#)**	(#)	(%)
Electronic Drilling Recorder (EDR) Rental Days	**44,800**	58,900	(24)	**204,900**	223,500	(8)

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	**2019**	2018	Change
(unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue per EDR day - USD	**732**	705	4	**735**	697	5
Revenue per EDR day - CAD	**966**	932	4	**975**	903	8

Revenue from the US operations decreased by 20% in the fourth quarter of 2019 over the 2018 comparable period (21% when measured in USD).

Industry activity in the US market decreased by 24% in the fourth quarter of 2019 over the 2018 comparable period. For the year, industry activity in the US market decreased by 10%. Active rig count declined in most major plays.

US market share was 62% for the fourth quarter of 2019 compared to 61% during the same period in 2018.

EDR rental days decreased by 24% in the fourth quarter of 2019 over the 2018 comparable period. Revenue per EDR day increased to US$732 in the fourth quarter of 2019, an increase of US$27 over the same period in 2018. The increase in revenue per EDR day is due to increased adoption of certain products and select price increases initiated in 2019.

Rental services and local administration decreased by 3% in the fourth quarter of 2019 over the 2018 comparative period. Included in the US business segment are the results of both Pason Power and ETB LLC. When measured in USD, and excluding Pason Power and ETB LLC, expenses declined by 11%. The decrease in operating costs is attributable to the Company managing field and office staff levels to support the current level of activity.

Depreciation expense increased by 21% in the fourth quarter of 2019 over the 2018 comparative period. The majority of this increase is due to the amortization of intangibles associated with the Company's acquisition of ETB LLC.

Canadian Operations

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	**2019**	2018	Change
(000s) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**5,793**	7,191	(19)	**23,108**	29,095	(21)
Mud Management and Safety	**3,594**	4,766	(25)	**14,071**	19,722	(29)
Communications	**1,703**	2,641	(36)	**6,807**	10,944	(38)
Drilling Intelligence	**2,147**	2,519	(15)	**7,828**	8,623	(9)
Analytics and Other	**983**	776	27	**3,980**	3,613	10
Total revenue	**14,220**	17,893	(21)	**55,794**	71,997	(23)
Rental services and local administration	**5,343**	6,864	(22)	**21,226**	26,374	(20)
Depreciation and amortization	**4,407**	2,519	75	**17,071**	15,027	14
Segment gross profit	**4,470**	8,510	(47)	**17,497**	30,596	(43)

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 December 31,			Year Ended December 31,		
	2019	2018	Change	**2019**	2018	Change
(000s) (unaudited)	**(#)**	(#)	(%)	**(#)**	(#)	(%)
Electronic Drilling Recorder (EDR) Rental Days	**10,300**	**14,500**	(29)	**42,000**	60,000	(30)

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	**2019**	2018	Change
(unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue per EDR day - CAD	**1,292**	1,183	9	**1,244**	1,145	9

Canadian drilling activity in the fourth quarter of 2019 decreased by 23% relative to the same period in 2018, while EDR rental days decreased 29% in the fourth quarter of 2019 compared to 2018. For the year, Canadian drilling activity decreased 30% and EDR rental days declined a similar amount.

Revenue in the Canadian business unit decreased by 21% in the fourth quarter of 2019 over the 2018 comparative period. Canadian market share was 85% for the fourth quarter of 2019 compared to 91% in the comparative period in 2018.

Revenue per EDR day increased by $109 to $1,292 during the fourth quarter of 2019 compared to the same period in 2018. The increase is driven by increased usage of data drilling and drilling intelligence products.

Rental services and local administration decreased by 22% in the fourth 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.

Analytics and other increased 27% during the fourth quarter of 2019 compared to the same period in 2018 as a result of an increase in Verdazo revenue.

Depreciation and amortization expense increased by 75% in the fourth quarter of 2019 over the 2018 comparative period. 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 fourth quarter of 2019 decreased 47% to $4.5 million compared to $8.5 million in segment gross profit in the 2018 comparative period.

International Operations

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	**2019**	2018	Change
(000s) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**6,038**	5,248	15	**23,618**	17,838	32
Mud Management and Safety	**2,158**	2,055	5	**7,567**	6,809	11
Communications	**438**	390	12	**1,614**	1,503	7
Drilling Intelligence	**367**	335	10	**1,335**	1,470	(9)
Analytics and Other	**971**	713	36	**3,600**	2,890	25
Total revenue	**9,972**	8,741	14	**37,734**	30,510	24
Rental services and local administration	**5,942**	5,227	14	**21,313**	19,109	12
Depreciation and amortization	**1,302**	916	42	**4,384**	3,579	22
Segment gross profit	**2,728**	2,598	5	**12,037**	7,822	54

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. The impact of applying hyperinflation accounting to this subsidiary is provided above in the section called "***Impact of Hyperinflation***" . The impact for 2018 was not material.

Revenue in the International business unit increased by 14% in the fourth quarter of 2019 compared to the same period in 2018. Revenue increased in all of the Company's major international markets, with the majority of the absolute gains realized in Australia.

Rental services and local administration expenses increased by 14% in the fourth quarter of 2019 compared to the same period in 2018. Depreciation expense increased by 42% in the fourth quarter of 2019 compared to the same period in 2018.

Segment gross profit was $2.7 million for the fourth quarter of 2019, an increased of 5% compared to the same period in 2018. Hyperinflation accounting on the Argentinian subsidiary had a nominal effect on segment gross profit.

Corporate Expenses

	Three Months Ended December 31,			Year Ended December 31,		
	2019	2018	Change	**2019**	2018	Change
(000s) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Other expenses						
Research and development	**7,470**	7,310	2	**30,439**	26,997	13
Corporate services	**4,240**	3,897	9	**15,653**	15,905	(2)
Stock-based compensation	**1,481**	3,335	(56)	**10,840**	12,313	(12)
Other						
Foreign exchange loss	**930**	1,007	(8)	**2,199**	7,682	(71)
Net interest expense - lease liability	**174**	—	—	**578**	—	—
Interest income - short term investments	**(755)**	(385)	96	**(1,481)**	(935)	58
Derecognition of lease receivable	**—**	—	—	**4,289**	—	—
Net monetary gain	**(511)**	—	—	**(2,887)**	—	—
Equity income	**70**	(112)	—	**(86)**	(17)	406
Other	**641**	(10)	—	**1,280**	(13)	—
Total corporate expenses	**13,740**	15,042	(9)	**60,824**	61,932	(2)

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.

Stock-based compensation decreased 56% in the fourth quarter of 2019 over the 2018 comparative period due to the drop in the Company's stock price in the fourth quarter of 2019.

The majority of the foreign exchange loss recorded in the year ending December 31, 2019 and the previous year relate to unrealized foreign exchange losses on inter-company advances made to the Company's Argentinian subsidiary as a result of the devaluation of the Argentina peso relative to the Canadian dollar.

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

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 is researching various options to reduce the Company's future obligations.

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 fourth quarter of 2019, a non-cash net monetary gain of $0.5 million was recorded. The impact of applying this accounting standard on 2018 amounts was not material.

Q4 2019 vs Q3 2019

Consolidated revenue was $68.4 million in the fourth quarter of 2019 compared to $72.2 million in the third quarter of 2019, a decrease of $3.8 million.

Revenue in the US business unit was $44.2 million in the fourth quarter of 2019 compared to $49.8 million in the third quarter of 2019. Sequentially, both EDR rental days and industry activity decreased 11%.

Revenue in the Canadian business unit was $14.2 million in the fourth quarter of 2019 compared to $13.8 million in the third quarter of 2019.

The International business unit reported revenue of $10.0 million in the fourth quarter of 2019 compared to $8.5 million in the third quarter of 2019.

Adjusted EBITDA, which adjusts EBITDA for foreign exchange and certain non-recurring charges, was $26.6 million in the fourth quarter of 2019 compared to $31.6 million in the third quarter of 2019. The drop in this financial metric was mostly attributable to the drop in segment gross profit in the US business unit of $5.4 million.

Funds flow from operations was $22.1 million in the fourth quarter of 2019 compared to $29.9 million in the third quarter of 2019.

The Company recorded net income attributable to Pason in the fourth quarter of 2019 of $10.4 million ($0.12 per share) compared to net income of $15.4 million ($0.18 per share) in the third quarter of 2019.

Consolidated Balance Sheets

As at	December 31, 2019	December 31, 2018
(CDN 000s)	($)	($)
Assets		
Current		
Cash and cash equivalents	**161,016**	203,838
Trade and other receivables	**59,716**	80,020
Income taxes recoverable - other	**15,304**	15,304
Prepaid expenses	**3,621**	3,934
Income taxes recoverable	**2,382**	6,203
Total current assets	**242,039**	309,299
Non-current		
Property, plant and equipment	**118,522**	120,417
Investments	**26,265**	1,245
Intangible assets and goodwill	**51,015**	30,755
Total non-current assets	**195,802**	152,417
Total assets	**437,841**	461,716
Liabilities and equity		
Current		
Trade payables and accruals	**34,420**	34,229
Income taxes payable	**3,133**	—
Income taxes payable - other	**—**	15,304
Stock-based compensation liability	**2,442**	3,301
Lease liability	**3,275**	312
Investment - put option	**15,000**	—
Total current liabilities	**58,270**	53,146
Non-current		
Deferred tax liabilities	**8,566**	17,060
Lease liability	**11,532**	2,233
Stock-based compensation liability	**3,479**	3,200
Obligation under put option	**9,540**	—
Total non-current liabilities	**33,117**	22,493
Equity		
Share capital	**166,701**	164,723
Share-based benefits reserve	**30,863**	27,287
Foreign currency translation reserve	**57,830**	63,574
Equity reserve	**(8,375)**	—
Retained earnings	**99,806**	130,493
Total equity attributable to equity holders of the Company	**346,825**	386,077
Non-controlling interest	**(371)**	—
Total equity	**346,454**	386,077
Total liabilities and equity	**437,841**	461,716

Consolidated Statements of Operations

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Revenue	**68,410**	81,965	**295,642**	306,393
Operating expenses				
Rental services	**25,659**	27,502	**105,496**	104,398
Local administration	**4,356**	3,953	**14,496**	13,106
Depreciation and amortization	**10,713**	7,556	**40,830**	34,855
	40,728	39,011	**160,822**	152,359
Gross profit	**27,682**	42,954	**134,820**	154,034
Other expenses				
Research and development	**7,470**	7,310	**30,439**	26,997
Corporate services	**4,240**	3,897	**15,653**	15,905
Stock-based compensation expense	**1,481**	3,335	**10,840**	12,313
Other expense	**549**	500	**3,892**	6,717
	13,740	15,042	**60,824**	61,932
Income before income taxes	**13,942**	27,912	**73,996**	92,102
Income tax provision	**3,846**	7,192	**20,193**	29,158
Net income	**10,096**	20,720	**53,803**	62,944
Net income attributable to:				
Shareholders of Pason	**10,405**	20,720	**54,112**	62,944
Non-controlling interest	**(309)**	—	**(309)**	—
Net income	**10,096**	20,720	**53,803**	62,944
Income per share				
Basic	**0.12**	0.24	**0.63**	0.74
Diluted	**0.12**	0.24	**0.63**	0.73

Consolidated Statements of Other Comprehensive Income

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Net income	**10,096**	20,720	**53,803**	62,944
Items that may be reclassified subsequently to net income:				
Tax recovery (expense) on net investment in foreign operations related to an inter-company financing	**—**	(1,976)	**10,481**	(3,110)
Foreign currency translation adjustment	**(3,951)**	17,485	**(16,225)**	26,326
Other comprehensive (loss) gain	**(3,951)**	15,509	**(5,744)**	23,216
Total comprehensive income	**6,145**	36,229	**48,059**	86,160
Total comprehensive income (loss) attributed to:				
Shareholders of Pason	**6,454**	36,229	**48,368**	86,160
Non-controlling interest	**(309)**	—	**(309)**	—
	6,145	36,229	**48,059**	86,160

Consolidated Statements of Cash Flows

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Cash from (used in) operating activities				
Net income	**10,096**	20,720	**53,803**	62,944
Adjustment for non-cash items:				
Depreciation and amortization	**10,713**	7,556	**40,830**	34,855
Stock-based compensation	**1,481**	3,335	**10,840**	12,313
Deferred income taxes	**(1,335)**	(2,196)	**2,185**	9,796
Derecognition of lease receivable	**—**	—	**4,289**	**—**
Unrealized foreign exchange loss (gain) and other	**917**	1,296	**1,023**	8,636
Hyperinflationary adjustment	**254**	—	**(1,252)**	**—**
Funds flow from operations	**22,126**	30,711	**111,718**	128,544
Movements in non-cash working capital items:				
Decrease (increase) in trade and other receivables	**5,068**	(5,835)	**14,089**	(24,523)
Decrease in prepaid expenses	**209**	352	**164**	253
Increase in income taxes	**4,475**	2,460	**9,174**	14,054
(Decrease) increase in trade payables, accruals and stock-based compensation liability	**(4,646)**	2,357	**(8,540)**	4,368
Effects of exchange rate changes	**(435)**	295	**(697)**	530
Cash generated from operating activities	**26,797**	30,340	**125,908**	123,226
Income tax paid	**(2,083)**	(6,933)	**(17,361)**	(16,049)
Net cash from operating activities	**24,714**	23,407	**108,547**	107,177
Cash flows from (used in) financing activities				
Proceeds from issuance of common shares	**—**	6,347	**3,366**	11,012
Payment of dividends	**(16,045)**	(15,436)	**(63,100)**	(59,785)
Repurchase and cancellation of shares under Normal Course Issuer Bid	**(10,977)**	(921)	**(24,040)**	(921)
Repayment of lease liability	**(449)**	**—**	**(2,342)**	**—**
Net cash used in financing activities	**(27,471)**	(10,010)	**(86,116)**	(49,694)
Cash flows (used in) from investing activities				
Acquisition (net of cash)	**170**	—	**(23,660)**	—
Investment	**(10,000)**	—	**(10,000)**	—
Additions to property, plant and equipment	**(4,971)**	(7,267)	**(22,453)**	(19,411)
Development costs	**(616)**	(1,183)	**(1,725)**	(4,465)
Proceeds on disposal of investment and property, plant and equipment	**516**	1,355	**1,322**	1,543
Purchase of short-term investments	**—**	—	**—**	(65,840)
Maturity of short-term investment	**—**	65,650	**—**	65,650
Changes in non-cash working capital	**312**	291	**263**	678
Net cash (provided by) used in investing activities	**(14,589)**	58,846	**(56,253)**	(21,845)
Effect of exchange rate on cash and cash equivalents	**(2,503)**	11,833	**(9,000)**	14,071
Net (decrease) increase in cash and cash equivalents	**(19,849)**	84,076	**(42,822)**	49,709
Cash and cash equivalents, beginning of period	**180,865**	119,762	**203,838**	154,129
Cash and cash equivalents, end of period	**161,016**	203,838	**161,016**	203,838

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 December 31, 2019	**Canada**	**United States**	**International**	**Total**
(CDN 000s) (unaudited)	**($)**	**($)**	**($)**	**($)**
Revenue				
Drilling Data	**5,793**	**24,084**	**6,038**	**35,915**
Mud Management and Safety	**3,594**	**14,016**	**2,158**	**19,768**
Communications	**1,703**	**2,297**	**438**	**4,438**
Drilling Intelligence	**2,147**	**2,105**	**367**	**4,619**
Analytics and Other	**983**	**1,716**	**971**	**3,670**
Total Revenue	**14,220**	**44,218**	**9,972**	**68,410**
Rental services and local administration	**5,343**	**18,730**	**5,942**	**30,015**
Depreciation and amortization	**4,407**	**5,004**	**1,302**	**10,713**
Segment gross profit	**4,470**	**20,484**	**2,728**	**27,682**
Research and development				**7,470**
Corporate services				**4,240**
Stock-based compensation				**1,481**
Other income				**549**
Income tax expense				**3,846**
Net income				**10,096**
Net income attributable to Pason				**10,405**
Capital expenditures	**1,471**	**3,643**	**473**	**5,587**
As at December 31, 2019				
Property plant and equipment	**40,082**	**64,127**	**14,313**	**118,522**
Intangible assets	**15,497**	**2,233**	**—**	**17,730**
Goodwill	**1,259**	**29,426**	**2,600**	**33,285**
Segment assets	**105,769**	**279,228**	**52,844**	**437,841**
Segment liabilities	**49,787**	**36,113**	**5,487**	**91,387**

Three Months Ended December 31, 2018	Canada	United States	International	Total
(CDN 000s)	($)	($)	($)	($)
Revenue				
Drilling Data	7,191	29,918	5,248	42,357
Mud Management and Safety	4,766	16,268	2,055	23,089
Communications	2,641	3,733	390	6,764
Drilling Intelligence	2,519	3,866	335	6,720
Analytics and Other	776	1,546	713	3,035
Total Revenue	17,893	55,331	8,741	81,965
Rental services and local administration	6,864	19,364	5,227	31,455
Depreciation and amortization	2,519	4,121	916	7,556
Segment gross profit	8,510	31,846	2,598	42,954
Research and development				7,310
Corporate services				3,897
Stock-based compensation				3,335
Other income				500
Income tax expense				7,192
Net income				20,720
Net income attributable to Pason				20,720
Capital expenditures	3,374	3,752	1,324	8,450
As at December 31, 2018				
Property plant and equipment	37,511	68,122	14,784	120,417
Intangible assets	19,071	41	—	19,112
Goodwill	1,259	7,784	2,600	11,643
Segment assets	117,510	297,173	47,033	461,716
Segment liabilities	53,034	16,367	6,238	75,639

Year Ended December 31, 2019	**Canada**	**United States**	**International**	**Total**
(CDN 000s)	**($)**	**($)**	**($)**	**($)**
Revenue				
Drilling Data	**23,108**	**109,482**	**23,618**	**156,208**
Mud Management and Safety	**14,071**	**64,189**	**7,567**	**85,827**
Communications	**6,807**	**11,339**	**1,614**	**19,760**
Drilling Intelligence	**7,828**	**11,158**	**1,335**	**20,321**
Analytics and Other	**3,980**	**5,946**	**3,600**	**13,526**
Total Revenue	**55,794**	**202,114**	**37,734**	**295,642**
Rental services and local administration	**21,226**	**77,453**	**21,313**	**119,992**
Depreciation and amortization	**17,071**	**19,375**	**4,384**	**40,830**
Segment gross profit	**17,497**	**105,286**	**12,037**	**134,820**
Research and development				**30,439**
Corporate services				**15,653**
Stock-based compensation				**10,840**
Other expense				**3,892**
Income tax expense				**20,193**
Net income				**53,803**
Net income attributable to Pason				**54,112**
Capital expenditures	**4,009**	**16,940**	**3,229**	**24,178**
As at December 31, 2019				
Property plant and equipment	**40,082**	**64,127**	**14,313**	**118,522**
Intangible assets	**15,497**	**2,233**	**—**	**17,730**
Goodwill	**1,259**	**29,426**	**2,600**	**33,285**
Segment assets	**105,769**	**279,228**	**52,844**	**437,841**
Segment liabilities	**49,787**	**36,113**	**5,487**	**91,387**

Year Ended December 31, 2018	Canada	United States	International	Total
(CDN 000s)	($)	($)	($)	($)
Revenue				
Drilling Data	29,095	110,229	17,838	157,162
Mud Management and Safety	19,722	59,421	6,809	85,952
Communications	10,944	15,730	1,503	28,177
Drilling Intelligence	8,623	12,693	1,470	22,786
Analytics and Other	3,613	5,813	2,890	12,316
Total Revenue	71,997	203,886	30,510	306,393
Rental services and local administration	26,374	72,021	19,109	117,504
Depreciation and amortization	15,027	16,249	3,579	34,855
Segment gross profit	30,596	115,616	7,822	154,034
Research and development				26,997
Corporate services				15,905
Stock-based compensation				12,313
Other expense				6,717
Income tax expense				29,158
Net income				62,944
Net income attributable to Pason				62,944
Capital expenditures	7,710	12,849	3,317	23,876
As at December 31, 2018				
Property plant and equipment	37,511	68,122	14,784	120,417
Intangible assets	19,071	41	—	19,112
Goodwill	1,259	7,784	2,600	11,643
Segment assets	117,510	297,173	47,033	461,716
Segment liabilities	53,034	16,367	6,238	75,639

Other Expenses

	Three Months Ended December 31,		Year Ended December 31,	
	2019	2018	**2019**	2018
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Foreign exchange loss	**930**	1,007	**2,199**	7,682
Net interest expense - lease liabilities	**174**	—	**578**	—
Interest income - short term investments	**(755)**	(385)	**(1,481)**	(935)
Derecognition of lease receivable	**—**	—	**4,289**	—
Net monetary gain	**(511)**	—	**(2,887)**	—
Equity income	**70**	(112)	**(86)**	(17)
Other	**641**	(10)	**1,280**	(13)
Other expense	**549**	500	**3,892**	6,717

The majority of the foreign exchange loss recorded in the year ending December 31, 2019, and the previous year relate to unrealized foreign exchange losses on inter-company advances made to the Company's Argentinian subsidiary as a result of the devaluation of the Argentina peso relative to the Canadian dollar.

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

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.

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 2019, a non-cash net monetary gain of $2,887 was recorded. The impact of applying this accounting standard on 2018 amounts was not material.

Investment

Intelligent Wellhead Systems Inc.

In the fourth quarter of 2019, the Company entered into an agreement to invest CDN$25.0 million 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. The investment consists of an initial cash payment of $10.0 million, which mas made in the fourth quarter of 2019, and three put options, exercisable at the discretion of IWS, of $5.0 million each.

Events After the Reporting Period

On February 26, 2020, the Company announced a quarterly dividend of $0.19 per share on the Company’s common shares. The dividend will be paid on March 30, 2020 to shareholders of record at the close of business on March 16, 2020.

In February 2020, the Company received the first put option notice from IWS and will be making a cash payment of $5.0 million in March, 2020. As at December 31, 2019, the liability is included in the Consolidated Balance Sheets under "Investment - put option".

Fourth Quarter Conference Call

Pason will be conducting a conference call for interested analysts, brokers, investors and media representatives to review its fourth quarter 2019 results at 9:00 am (Calgary time) on Thursday, February 27, 2020. 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 5494458.

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, 2019, is available on SEDAR at www.sedar.com or on the Company's website at www.pason.com.

Shareholders are also invited to attend the Company's Annual General Meeting on Thursday, April 30, 2020, at 3:30 pm at the offices of Pason Systems Inc., 6120 Third Street SE, Calgary, Alberta.

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.