Press Release

Pason Reports Second Quarter 2020 Results

FOR IMMEDIATE RELEASE

CALGARY, Alberta (August 6, 2020) – Pason Systems Inc. (TSX:PSI) announced today its 2020 second quarter results.

Performance Data

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	**2020**	2019	Change
(CDN 000s, except per share data) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**26,848**	72,894	(63)	**100,810**	155,037	(35)
EBITDA (1,2)	**4,271**	25,606	(83)	**37,740**	66,041	(43)
Adjusted EBITDA (1,2)	**(848)**	30,741	—	**32,457**	71,540	(55)
As a % of revenue	**(3.2)**	42.2	—	**32.2**	46.1	(1,390) bps
Funds flow from operations	**134**	23,794	(99)	**26,856**	59,693	(55)
Per share – basic	**0.00**	0.28	(100)	**0.32**	0.70	(54)
Per share – diluted	**0.00**	0.28	(100)	**0.32**	0.69	(54)
Cash from operating activities	**29,953**	37,938	(21)	**55,546**	46,380	20
Capital expenditures	**799**	4,216	(81)	**3,887**	14,533	(73)
Free cash flow (1)	**29,888**	32,547	(8)	**52,823**	32,932	60
Cash dividends declared	**0.19**	0.18	6	**0.38**	0.36	6
Net (loss) income	**(4,799)**	9,245	—	**11,753**	28,289	(58)
Net (loss) income attributable to Pason	**(4,487)**	9,245	—	**12,432**	28,289	(56)
Per share – basic	**(0.05)**	0.11	—	**0.15**	0.33	(55)
Per share – diluted	**(0.05)**	0.11	—	**0.15**	0.33	(55)
Total interest bearing debt	**—**	—	—	**—**	—	—
Shares outstanding end of period (#000's)	**84,096**	85,393	(2)	**84,096**	85,393	(2)

(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.

Q2 2020 vs Q2 2019

The COVID-19 pandemic has had a significant negative impact on demand for fossil fuels, and this, combined with an over-supply of oil, resulted in an unprecedented drop in drilling rig activity during the second quarter of 2020. This lower level of drilling activity, combined with a drop in Revenue per EDR day, due in most part to a change in the mix of customers, and selected price concessions, resulted in consolidated revenue of $26.8 million in the second quarter of 2020, a decrease of $46.1 million from the corresponding period in 2019.

Adjusted EBITDA decreased to a loss of $0.8 million in the second quarter, a decrease of $31.6 million from the corresponding period in 2019. The decrease in adjusted EBITDA was driven entirely by a $31.8 million reduction in gross profit.

Cash from operating activities was $30.0 million in the second quarter of 2020, a decrease of 21% from the corresponding period in 2019. Cash from operating activities was negatively impacted by the reduction in gross profit and the payment of reorganization costs, offset by the release of $29.6 million of working capital.

Free cash flow was $29.9 million in the second quarter of 2020, compared to $32.5 million from the corresponding period in 2019. This decrease is due to the decrease in cash from operating activities combined with an 81% decrease in capital expenditures.

The Company recorded a net loss attributable to Pason of $4.5 million ($0.05 per share) in the second quarter of 2020 compared to net income attributable to Pason of $9.2 million ($0.11 per share) recorded in the corresponding period in 2019. In the second quarter of 2020, the Company recorded several unusual or one-time items impacting net income, including government wage assistance, reorganization costs, and a derecognition of an onerous lease.

President’s Message

As the global economy was slowing down towards the end of the first quarter 2020 due to the unprecedented impact of COVID-19, a disagreement between Russia and Saudi Arabia over proposed production cuts led to an increase in crude oil supply at the worst possible time. The simultaneous drop in demand and increase in supply led to a dramatic decline in oil prices. As a result, we saw large cuts to E&P capital expenditures, with disproportionally higher cuts for drilling and completions. Oil drilling came to a screeching halt and the number of land rigs active across North America dropped by three quarters in just three months. Activity drops across Latin America mirrored those in North America, while activity in Australia and the Middle East was somewhat more resilient.

Pason’s second quarter results reflect this extraordinarily challenging environment. Revenue for the quarter was $26.8 million, a decrease of 63% from the second quarter of 2019, the Company posted an Adjusted EBITDA loss of $848 thousand, and free cash flow decreased 8% to $30.0 million. Pason recorded a net loss for the period of $4.5 million or $0.05 per share.

In response to market conditions and the uncertainty regarding the trajectory of our industry, Pason reduced capital expenditures by 81% in the second quarter compared to the previous year, and we expect to spend up to $10 million in 2020 compared to $24 million in 2019. In addition, we executed significant operating expense reductions during the period. Operating expenses are down 43% in our U.S. operations, 42% in Canada, 39% internationally and corporate service expenses decreased by 27%.

Pason’s balance sheet remains in pristine condition. As a result of the significant reduction in capital expenditures, and the release of working capital as the business shrank during the period, cash and short-term investments increased from the first quarter and stood at $176 million on June 30, 2020. There is no interest-bearing debt on our balance sheet.

Pason’s capital allocation strategy aims to balance the Company’s commitment to shareholder returns while preserving its financial strength. Considering the uncertainties related to COVID-19 and the significant negative impact that a weakened demand environment has on the outlook for industry activity, we will reduce the quarterly dividend payable on September 30, 2020 to $0.05 per share, as communicated at the end of the first quarter.

We expect that oilfield activity will remain very low in the second half of 2020 before a slow recovery starts in 2021. We are fully prepared for that. With our leaner organization and clean balance sheet, Pason is well positioned to weather this storm. We will continue to allocate capital to safeguard the long-term prospects of Pason’s core drilling-related business and of Energy Toolbase, our foothold in the solar and energy storage market.

Our EDR market share in the United States is now firmly over 65%, a great base to build from when the industry recovers. On the product side, customers continue to be impressed with Pason DAS, our drilling automation package. Drilling performance improves 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 PVT Smart Alarms are gaining traction with key customers and the new DataHub Dashboard has been introduced with great feedback from users.

Energy Toolbase has made good progress with positive momentum on software subscriptions and new battery control systems sold. With the industry-leading software package to model the economics and build proposals for solar and energy storage (battery) projects, combined with the iEMS control system and Energy DataHub products, Energy Toolbase is well positioned for meaningful long-term growth in this promising market.

We continue to invest significant resources in R&D, IT, and technical support to respond to customer requests, improve existing products and develop new products. We believe that this environment provides an opportunity for Pason to become even stronger by leapfrogging competition in terms of technology and service.

On July 22, 2020 we announced that I will retire as President and CEO effective October 1, 2020 and I will succeed Jim Hill as chair of the board of directors. Jon Faber has been appointed to succeed me. Jon joined Pason as Chief Financial Officer in 2014. Over the past six years, in addition to the finance function, Jon has successfully led supply chain, IT and important elements of software development. I am confident that with our passionate employees under Jon's tenacious leadership, our unique platform, capabilities, and financial strength, Pason will achieve long-term success.

Pason's Board of Directors, management and employees would like to thank Jim Hill for his invaluable contributions and leadership in building Pason over the past 33 years. Jim acquired Pason in 1987 and the Company went public in 1996. Under his leadership, Pason developed revolutionary new products, including the PVT and EDR, which remain core to the Company's offering to this day.

I am humbled and grateful for the nine years I was able to serve Pason as President and Chief Executive Officer, and I look forward to continuing to support our great company as Chair of the Board.

Marcel Kessler
President and Chief Executive Officer
August 6, 2020

Management’s Discussion and Analysis

The following discussion and analysis has been prepared by management as of August 6, 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 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 second quarter of 2020 was to decrease revenue by $389 and reduce segment gross profit by $391. 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 $396 for the second quarter of 2020. The impact of applying these two standards on the comparative period in 2019 was not material.

Impact on IFRS Measures

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
(000s) (unaudited)	($)	($)
(Decrease) in revenue	(389)	(296)
Decrease in rental services and local administration expenses	265	210
(Increase) in depreciation expense	(267)	(411)
(Decrease) in segment gross profit	**(391)**	**(497)**
Net monetary gain presented in other expenses	396	815
Decrease in other expenses	11	—
Decrease in income tax provision	13	1
Increase in net income	**29**	**319**

Impact on Non-IFRS Measures

	Three Months Ended June 30, 2020	Six Months Ended June 30, 2020
(000s) (unaudited)	($)	($)
(Decrease) in revenue	(389)	(296)
Decrease in rental services and local administration expenses	265	210
Net monetary gain presented in other expenses	396	815
Decrease in other expenses	11	—
Increase in EBITDA	**283**	**729**
(Elimination) of net monetary gain presented in other expenses	(396)	(815)
(Elimination) of other expenses	(11)	—
(Decrease) in Adjusted EBITDA	**(124)**	**(86)**

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, and depreciation and amortization expense.

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 June 30,			Six Months Ended June 30,		
	2020	2019	Change	**2020**	2019	Change
(000s) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**14,093**	39,269	(64)	**52,764**	82,522	(36)
Mud Management and Safety	**8,220**	21,142	(61)	**29,617**	44,816	(34)
Communications	**937**	4,582	(80)	**6,015**	10,539	(43)
Drilling Intelligence	**1,210**	4,588	(74)	**6,605**	10,561	(37)
Analytics and Other	**2,388**	3,313	(28)	**5,809**	6,599	(12)
Total revenue	**26,848**	72,894	(63)	**100,810**	155,037	(35)

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.

The COVID-19 pandemic has had a significant negative impact on the demand for fossil fuels and this combined with an over-supply of oil has led to a decline in oil prices. As a result, the Company's customers have reduced their capital expenditure programs which has led to a precipitous fall in the active rig count in all major markets the Company operates in, which has had a significant impact on the Company's revenue.

The US business unit experienced a decline in industry activity of 63% in the second quarter of 2020 compared to the corresponding period in 2019. For the second quarter of 2020, industry activity in the Canadian market decreased by 73% compared to the corresponding period in 2019. The International business unit experienced similar decreases in activity.

Total revenue decreased by 63% in the second quarter of 2020 compared to the corresponding period in 2019. The decrease is attributable to the decrease in industry activity as well as a decrease in revenue per EDR day in all three operating segments.

The decrease in analytics and other revenue of 28% in the second quarter of 2020 compared to the corresponding period in 2019 is less than the other categories predominantly as a result of the revenue generated from the acquisition of Energy Toolbase Software Inc.

US EDR days decreased by 61% in the second quarter of 2020 compared to the corresponding period in 2019, while Canadian EDR days, which includes non-oil and gas-related activity, decreased by 72% in the second quarter of 2020 compared to the corresponding period in 2019.

In the second quarter of 2020, the Pason EDR was installed on 65% of the land rigs in the US market, an increase of 300bps over the same period in 2019.

In the second quarter of 2020, the Pason EDR was installed on 94% of the land rigs in the Canadian market, an increase of 700bps over the same period in 2019. In calculating market share, the Company uses the number of EDR days billed and oil and gas drilling days as reported by accepted industry sources. The market share in the second quarter was impacted by higher than normal non-conventional rigs (e.g. crossing rigs) operating relative to conventional oil and gas rigs.

Discussion of Operations

United States Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	**2020**	2019	Change
(000s) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**11,672**	29,242	(60)	**36,382**	58,418	(38)
Mud Management and Safety	**6,344**	17,038	(63)	**20,427**	34,255	(40)
Communications	**714**	3,101	(77)	**2,988**	6,330	(53)
Drilling Intelligence	**913**	3,128	(71)	**3,030**	6,280	(52)
Analytics and Other	**1,477**	1,122	32	**3,280**	2,813	17
Total revenue	**21,120**	53,631	(61)	**66,107**	108,096	(39)
Rental services and local administration	**11,610**	20,250	(43)	**29,662**	39,340	(25)
Depreciation and amortization	**4,344**	5,062	(14)	**8,923**	9,836	(9)
Segment gross profit	**5,166**	28,319	(82)	**27,522**	58,920	(53)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	**2020**	2019	Change
(unaudited)	**(#)**	(#)	(%)	**(#)**	(#)	(%)
Electronic Drilling Recorder (EDR) Rental Days	**20,900**	53,600	(61)	**64,600**	109,300	(41)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	**2020**	2019	Change
(unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue per EDR day - USD	**695**	745	(7)	**732**	736	(1)
Revenue per EDR day - CAD	**963**	996	(3)	**999**	981	2

Industry activity in the US market decreased by 63% in the second quarter of 2020 over the 2019 comparable period. The US rig count dropped throughout the second quarter of 2020, falling from approximately 790 rigs at the start of the second quarter to approximately 260 rigs at quarter-end. The drop in US rig count contributed to a 61% decrease in revenue for the second quarter of 2020 over the 2019 comparable period (64% when measured in USD).

Analytics and other revenue increased 32% in the second quarter of 2020 over the 2019 comparable period predominantly due to the revenue generated from the Energy Toolbase Software Inc. acquisition in the third quarter of 2019.

US market share was 65% for the second quarter of 2020 compared to 62% during the same period in 2019.

EDR rental days decreased by 61% in the second quarter of 2020 over the 2019 comparable period. Revenue per EDR day decreased by 7% to US$695 in the second quarter of 2020, a decrease of US$50 over the same period in 2019. The decrease in revenue per EDR day is predominately due to change in mix of active customers, and to a lesser extent price concessions provided to customers.

Rental services and local administration decreased by 43% in the second quarter of 2020 over the 2019 comparative period. The decrease in operating costs is attributable to the Company managing field and office staff levels to support the current level of activity. Included in the US business segment are the results of Energy Toolbase Software Inc.

Canadian Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	**2020**	2019	Change
(000s) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**982**	3,642	(73)	**9,439**	11,734	(20)
Mud Management and Safety	**589**	2,296	(74)	**5,670**	6,979	(19)
Communications	**176**	1,060	(83)	**2,531**	3,352	(24)
Drilling Intelligence	**223**	1,179	(81)	**3,200**	3,669	(13)
Analytics and Other	**720**	1,038	(31)	**1,576**	1,994	(21)
Total revenue	**2,690**	9,215	(71)	**22,416**	27,728	(19)
Rental services and local administration	**2,828**	4,873	(42)	**8,647**	10,582	(18)
Depreciation and amortization	**3,268**	3,824	(15)	**8,064**	8,379	(4)
Segment gross (loss) profit	**(3,406)**	518	—	**5,705**	8,767	(35)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	**2020**	2019	Change
(unaudited)	**(#)**	(#)	(%)	**(#)**	(#)	(%)
Electronic Drilling Recorder (EDR) Rental Days	**1,800**	6,400	(72)	**17,300**	21,900	(21)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	**2020**	2019	Change
(unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue per EDR day - CAD	**1,060**	1,290	(18)	**1,210**	1,185	2

Second quarter drilling activity in the WCSB was the lowest in almost four decades, and unlike in previous years, the industry did not see an uptick after spring breakup. Canadian drilling activity in the second quarter of 2020 decreased by 73% relative to the same period in 2019, while EDR rental days decreased by 72%.

The Canadian business unit's revenue decreased by 71% in the second quarter of 2020 over the 2019 comparative period.

Canadian market share was 94% for the second quarter of 2020 compared to a market share of 87% in the comparative period in 2019. Revenue per EDR day decreased by $230 to $1,060 during the second quarter of 2020 over the 2019 comparative period. As previously mentioned, the market share in the second quarter, as well as revenue per EDR day, was impacted by higher than normal non-conventional rigs operating relative to conventional oil and gas rigs. In addition, revenue per EDR day was affected by select price concessions provided to customers and a reduction in adoption on certain products.

Depreciation and amortization decreased by 15% in the second quarter of 2020 over the 2019 comparative period. Included in this category is the amortization of previously deferred research and development costs. The drop in these costs is attributable to research and development projects that are now fully amortized.

Segment gross profit was a loss for the second quarter of 2020 of $3.4 million compared to a gross profit of $0.5 million in the 2019 comparative period.

International Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	**2020**	2019	Change
(000s) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**1,439**	6,385	(77)	**6,943**	12,370	(44)
Mud Management and Safety	**1,287**	1,808	(29)	**3,520**	3,582	(2)
Communications	**47**	421	(89)	**496**	857	(42)
Drilling Intelligence	**74**	281	(74)	**375**	612	(39)
Analytics and Other	**191**	1,153	(83)	**953**	1,792	(47)
Total revenue	**3,038**	10,048	(70)	**12,287**	19,213	(36)
Rental services and local administration	**3,371**	5,540	(39)	**8,654**	10,846	(20)
Depreciation and amortization	**1,000**	1,092	(8)	**2,039**	1,985	3
Segment gross (loss) profit	**(1,333)**	3,416	—	**1,594**	6,382	(75)

Revenue in the International business unit decreased by 70% in the second quarter of 2020 compared to the same period in 2019. Activity levels in most all of the Company's major international markets experienced the significant reduction in activity that was witnessed in North America, except for Australia, which realized only a modest decline in activity compared to second quarter 2019 levels.

Segment gross profit was a loss of $1.3 million for the second quarter of 2020, an decrease of $4.7 million compared to the same period in 2019.

Corporate Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	**2020**	2019	Change
(000s) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Research and development	**6,737**	7,661	(12)	**14,799**	15,405	(4)
Corporate services	**2,827**	3,895	(27)	**6,512**	7,548	(14)
Stock-based compensation	**1,868**	3,089	(40)	**1,746**	6,913	(75)
Other (income) expenses						
Derecognition of onerous lease	**(5,757)**	—	—	**(5,757)**	—	—
Government wage assistance	**(4,363)**	—	—	**(4,363)**	—	—
Reorganization costs	**5,554**	—	—	**5,554**	—	—
Derecognition of lease receivable	**—**	4,289	—	**—**	4,289	—
Foreign exchange loss	**79**	553	(86)	**32**	654	(95)
Net interest expense - lease liability	**68**	108	(37)	**246**	245	—
Interest income - short term investments	**(406)**	(283)	43	**(982)**	(468)	110
Net monetary gain	**(396)**	—	—	**(815)**	—	—
Equity loss (income)	**323**	(66)	—	**79**	(224)	—
Other	**(236)**	293	—	**66**	556	(88)
Total corporate expenses	**6,298**	19,539	(68)	**17,117**	34,918	(51)

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

During the second quarter of 2020, as a result of the decline in revenue of the Canadian business unit, the Company was eligible for the Canada Emergency Wage Subsidy (CEWS) program. As a result, a CEWS benefit of $4.4 million was recorded as government wage assistance.

During the second quarter of 2020, the Company initiated staff reduction initiatives to address the anticipated prolonged downturn in oil and gas drilling activity in all of its markets. Accordingly, the Company recorded reorganization expense of $5.6 million, which is comprised of termination and other staff related costs. This reorganization led to a decline in corporate service expenses compared to the second quarter of 2019.

During the second quarter of 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 and reported $4.3 million in other expenses.

Net monetary gain is as a result of applying hyperinflation accounting to the Company's Argentinian subsidiary.

Q2 2020 vs Q1 2020

The COVID-19 pandemic has had a significant negative impact on the demand for fossil fuels and this combined with an over-supply of oil has led to a decline in oil prices. As a result, the Company's customers have reduced their capital expenditure programs which has led to a precipitous fall in the active rig count in all major markets the Company operates in, which has had a significant impact on the Company's revenue.

Consolidated revenue was $26.8 million in the second quarter of 2020 compared to $74.0 million in the first quarter of 2020, a decrease of $47.2 million.

Revenue in the US business unit was $21.1 million in the second quarter of 2020 compared to $45.0 million in the first quarter of 2020. The decrease is attributable to a 52% decrease in industry activity as well as a 7% decrease (when measured in USD) in revenue per EDR day.

Revenue in the Canadian business unit was $2.7 million in the second quarter of 2020 compared to $19.7 million in the first quarter of 2020. The decrease is attributable to a 89% decrease in industry activity as well as a 14% decrease to revenue per EDR day.

The International business unit reported revenue of $3.0 million in the second quarter of 2020 compared to $9.2 million in the first quarter of 2020. The drop in revenue is attributable to a general decrease in industry activity in most markets.

Adjusted EBITDA, which adjusts EBITDA for foreign exchange and certain non-recurring charges, was a loss of $0.8 million in the second quarter of 2020 compared to $33.3 million in the first quarter of 2020.

Cash from operating activities was $30.0 million in the second quarter of 2020, compared to $27.6 million in the first quarter of 2020. Cash from operating activities was positively impacted by the release of $30.0 of working capital, reduced by a reduction in gross profit, and the payment of reorganization costs.

The Company recorded a net loss attributable to Pason in the second quarter of 2020 of $4.5 million ($0.05 per share) compared to net income attributable to Pason of $16.9 million ($0.20 per share) in the first quarter of 2020. The decrease is attributable to the drop in operating results and reorganization costs, partially offset by government wage assistance and the derecognition of an onerous lease liability.

Condensed Consolidated Interim Balance Sheets

As at	June 30, 2020	December 31, 2019
(CDN 000s) (unaudited)	($)	($)
Assets		
Current		
Cash and cash equivalents	**176,486**	161,016
Trade and other receivables	**24,854**	59,716
Income taxes recoverable - other	**15,304**	15,304
Prepaid expenses	**1,805**	3,621
Income taxes recoverable	**3,017**	2,382
Total current assets	**221,466**	242,039
Non-current		
Property, plant and equipment	**111,041**	118,522
Investments	**26,186**	26,265
Intangible assets and goodwill	**48,694**	51,015
Total non-current assets	**185,921**	195,802
Total assets	**407,387**	437,841
Liabilities and equity		
Current		
Trade payables and accruals	**18,800**	34,420
Income taxes payable	**5,722**	3,133
Stock-based compensation liability	**2,513**	2,442
Lease liability	**2,380**	3,275
Investment - put option	**10,000**	15,000
Total current liabilities	**39,415**	58,270
Non-current		
Deferred tax liabilities	**8,513**	8,566
Lease liability	**5,024**	11,532
Stock-based compensation liability	**4,131**	3,479
Obligation under put option	**10,010**	9,540
Total non-current liabilities	**27,678**	33,117
Equity		
Share capital	**166,561**	166,701
Share-based benefits reserve	**31,869**	30,863
Foreign currency translation reserve	**70,067**	57,830
Equity reserve	**(8,375)**	(8,375)
Retained earnings	**81,231**	99,806
Total equity attributable to equity holders of the Company	**341,353**	346,825
Non-controlling interest	**(1,059)**	(371)
Total equity	**340,294**	346,454
Total liabilities and equity	**407,387**	437,841

Condensed Consolidated Interim Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
(CDN 000s, except per share data) (unaudited)	**($)**	($)	**($)**	($)
Revenue	**26,848**	72,894	**100,810**	155,037
Operating expenses				
Rental services	**15,554**	27,264	**40,335**	54,058
Local administration	**2,255**	3,399	**6,628**	6,710
Depreciation and amortization	**8,612**	9,978	**19,026**	20,200
	26,421	40,641	**65,989**	80,968
Gross profit	**427**	32,253	**34,821**	74,069
Other expenses				
Research and development	**6,737**	7,661	**14,799**	15,405
Corporate services	**2,827**	3,895	**6,512**	7,548
Stock-based compensation expense	**1,868**	3,089	**1,746**	6,913
Other (income) expenses	**(5,134)**	4,894	**(5,940)**	5,052
	6,298	19,539	**17,117**	34,918
(Loss) income before income taxes	**(5,871)**	12,714	**17,704**	39,151
Income tax provision	**(1,072)**	3,469	**5,951**	10,862
Net (loss) income	**(4,799)**	9,245	**11,753**	28,289
Net (loss) income attributable to:				
Shareholders of Pason	**(4,487)**	9,245	**12,432**	28,289
Non-controlling interest	**(312)**	—	**(679)**	—
Net (loss) income	**(4,799)**	9,245	**11,753**	28,289
(Loss) Income per share				
Basic	**(0.05)**	0.11	**0.15**	0.33
Diluted	**(0.05)**	0.11	**0.15**	0.33

Condensed Consolidated Interim Statements of Other Comprehensive Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Net (loss) income	**(4,799)**	9,245	**11,753**	28,289
Items that may be reclassified subsequently to net income:				
Tax recovery on net investment in foreign operations related to an inter-company financing	**—**	9,690	**—**	10,481
Foreign currency translation adjustment	**(11,660)**	(5,567)	**12,228**	(13,093)
Other comprehensive (loss) gain	**(11,660)**	4,123	**12,228**	(2,612)
Total comprehensive (loss) income	**(16,459)**	13,368	**23,981**	25,677
Total comprehensive (loss) income attributed to:				
Shareholders of Pason	**(16,178)**	13,368	**24,669**	25,677
Non-controlling interest	**(281)**	—	**(688)**	—
Total comprehensive (loss) income	**(16,459)**	13,368	**23,981**	25,677

Condensed Consolidated Interim Statements of Cash Flows

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Cash from (used in) operating activities				
Net (loss) income	**(4,799)**	9,245	**11,753**	28,289
Adjustment for non-cash items:				
Depreciation and amortization	**8,612**	9,978	**19,026**	20,200
Stock-based compensation	**1,868**	3,089	**1,746**	6,913
Deferred income taxes	**(285)**	(1,356)	**(278)**	1,419
Derecognition of onerous lease	**(5,757)**	—	**(5,757)**	**—**
Derecognition of lease receivable	**—**	4,289	**—**	4,289
Hyperinflation adjustment	**(287)**	—	**(731)**	**—**
Unrealized foreign exchange loss and other	**782**	(1,451)	**1,097**	(1,417)
Funds flow from operations	**134**	23,794	**26,856**	59,693
Movements in non-cash working capital items:				
Decrease in trade and other receivables	**36,301**	13,353	**35,941**	4,099
Decrease in prepaid expenses	**770**	742	**1,869**	1,021
(Decrease) in income taxes	**(2,208)**	(2,302)	**4,423**	1,223
(Decrease) increase in trade payables, accruals and stock-based compensation liability	**(3,679)**	834	**(11,142)**	(6,164)
Effects of exchange rate changes	**(640)**	1,661	**(143)**	1,588
Cash generated from operating activities	**30,678**	38,082	**57,804**	61,460
Income tax paid	**(725)**	(144)	**(2,258)**	(15,080)
Net cash from operating activities	**29,953**	37,938	**55,546**	46,380
Cash flows from (used in) financing activities				
Proceeds from issuance of common shares	**—**	1,114	**—**	3,127
Payment of dividends	**(16,038)**	(15,417)	**(32,064)**	(30,856)
Repurchase and cancellation of shares under NCIB	**(263)**	(9,097)	**(4,083)**	(11,119)
Repayment of lease liability	**(658)**	(382)	**(1,243)**	(1,053)
Net cash used in financing activities	**(16,959)**	(23,782)	**(37,390)**	(39,901)
Cash flows (used in) from investing activities				
Payment on investment - put option	**—**	—	**(5,000)**	—
Additions to property, plant and equipment	**(1,378)**	(4,335)	**(4,044)**	(14,084)
Development costs	**579**	119	**157**	(449)
Proceeds on disposal of investment and property, plant and equipment	**393**	508	**807**	618
Changes in non-cash working capital	**341**	(1,683)	**357**	467
Net cash used in investing activities	**(65)**	(5,391)	**(7,723)**	(13,448)
Effect of exchange rate on cash and cash equivalents	**(6,773)**	(3,563)	**5,037**	(7,736)
Net increase (decrease) in cash and cash equivalents	**6,156**	5,202	**15,470**	(14,705)
Cash and cash equivalents, beginning of period	**170,330**	183,931	**161,016**	203,838
Cash and cash equivalents, end of period	**176,486**	189,133	**176,486**	189,133

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 June 30, 2020	**Canada**	**United States**	**International**	**Total**
(CDN 000s) (unaudited)	**($)**	**($)**	**($)**	**($)**
Revenue				
Drilling Data	**982**	**11,672**	**1,439**	**14,093**
Mud Management and Safety	**589**	**6,344**	**1,287**	**8,220**
Communications	**176**	**714**	**47**	**937**
Drilling Intelligence	**223**	**913**	**74**	**1,210**
Analytics and Other	**720**	**1,477**	**191**	**2,388**
Total Revenue	**2,690**	**21,120**	**3,038**	**26,848**
Rental services and local administration	**2,828**	**11,610**	**3,371**	**17,809**
Depreciation and amortization	**3,268**	**4,344**	**1,000**	**8,612**
Segment gross (loss) profit	**(3,406)**	**5,166**	**(1,333)**	**427**
Research and development				**6,737**
Corporate services				**2,827**
Stock-based compensation				**1,868**
Other (income)				**(5,134)**
Income tax provision				**(1,072)**
Net (loss)				**(4,799)**
Net (loss) attributable to Pason				**(4,487)**
Capital expenditures	**452**	**347**	**—**	**799**
As at June 30, 2020				
Property plant and equipment	**37,684**	**59,673**	**13,684**	**111,041**
Intangible assets	**12,011**	**1,928**	**—**	**13,939**
Goodwill	**1,259**	**30,896**	**2,600**	**34,755**
Segment assets	**99,927**	**255,897**	**51,563**	**407,387**
Segment liabilities	**36,374**	**26,240**	**4,479**	**67,093**

Three Months Ended June 30, 2019	Canada	United States	International	Total
(CDN 000s) (unaudited)	($)	($)	($)	($)
Revenue				
Drilling Data	3,642	29,242	6,385	39,269
Mud Management and Safety	2,296	17,038	1,808	21,142
Communications	1,060	3,101	421	4,582
Drilling Intelligence	1,179	3,128	281	4,588
Analytics and Other	1,038	1,122	1,153	3,313
Total Revenue	9,215	53,631	10,048	72,894
Rental services and local administration	4,873	20,250	5,540	30,663
Depreciation and amortization	3,824	5,062	1,092	9,978
Segment gross profit	518	28,319	3,416	32,253
Research and development				7,661
Corporate services				3,895
Stock-based compensation				3,089
Other expenses				4,894
Income tax provision				3,469
Net income				9,245
Net income attributable to Pason				9,245
Capital expenditures	592	2,390	1,234	4,216
As at June 30, 2019				
Property plant and equipment	41,013	67,824	15,039	123,876
Intangible assets	17,089	—	—	17,089
Goodwill	1,259	7,468	2,600	11,327
Segment assets	106,984	276,687	53,575	437,246
Segment liabilities	28,337	25,623	6,220	60,180

Six Months Ended June 30, 2020	**Canada**	**United States**	**International**	**Total**
(CDN 000's) (unaudited)	**($)**	**($)**	**($)**	**($)**
Revenue				
Drilling Data	**9,439**	**36,382**	**6,943**	**52,764**
Mud Management and Safety	**5,670**	**20,427**	**3,520**	**29,617**
Communications	**2,531**	**2,988**	**496**	**6,015**
Drilling Intelligence	**3,200**	**3,030**	**375**	**6,605**
Analytics and Other	**1,576**	**3,280**	**953**	**5,809**
Total Revenue	**22,416**	**66,107**	**12,287**	**100,810**
Rental services and local administration	**8,647**	**29,662**	**8,654**	**46,963**
Depreciation and amortization	**8,064**	**8,923**	**2,039**	**19,026**
Segment gross profit	**5,705**	**27,522**	**1,594**	**34,821**
Research and development				**14,799**
Corporate services				**6,512**
Stock-based compensation				**1,746**
Other (income)				**(5,940)**
Income tax provision				**5,951**
Net income				**11,753**
Net income attributable to Pason				**12,432**
Capital expenditures	**2,506**	**1,031**	**350**	**3,887**
As at June 30, 2020				
Property plant and equipment	**37,684**	**59,673**	**13,684**	**111,041**
Intangible assets	**12,011**	**1,928**	**—**	**13,939**
Goodwill	**1,259**	**30,896**	**2,600**	**34,755**
Segment assets	**99,927**	**255,897**	**51,563**	**407,387**
Segment liabilities	**36,374**	**26,240**	**4,479**	**67,093**

Six Months Ended June 30, 2019	**Canada**	**United States**	**International**	**Total**
(CDN 000's) (unaudited)	($)	($)	($)	($)
Revenue				
Drilling Data	11,734	58,418	12,370	82,522
Mud Management and Safety	6,979	34,255	3,582	44,816
Communications	3,352	6,330	857	10,539
Drilling Intelligence	3,669	6,280	612	10,561
Analytics and Other	1,994	2,813	1,792	6,599
Total Revenue	27,728	108,096	19,213	155,037
Rental services and local administration	10,582	39,340	10,846	60,768
Depreciation and amortization	8,379	9,836	1,985	20,200
Segment gross profit	8,767	58,920	6,382	74,069
Research and development				15,405
Corporate services				7,548
Stock-based compensation				6,913
Other expenses				5,052
Income tax provision				10,862
Net income				28,289
Net income attributable to Pason				28,289
Capital expenditures	1,496	11,172	1,865	14,533
As at June 30, 2019				
Property plant and equipment	41,013	67,824	15,039	123,876
Intangible assets	17,089	—	—	17,089
Goodwill	1,259	7,468	2,600	11,327
Segment assets	106,984	276,687	53,575	437,246
Segment liabilities	28,337	25,623	6,220	60,180

Other (Income) Expenses

	Three Months Ended June 30,		Six Months Ended June 30,	
	2020	2019	**2020**	2019
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Derecognition of onerous lease	**(5,757)**	—	**(5,757)**	—
Government wage assistance	**(4,363)**	—	**(4,363)**	—
Reorganization costs	**5,554**	—	**5,554**	—
Derecognition of lease receivable	**—**	4,289	**—**	4,289
Foreign exchange (gain) loss	**79**	553	**32**	654
Net interest expense - lease liabilities	**68**	108	**246**	245
Interest income - short term investments	**(406)**	(283)	**(982)**	(468)
Net monetary gain	**(396)**	—	**(815)**	—
Equity loss (income)	**323**	(66)	**79**	(224)
Other	**(236)**	293	**66**	556
Other (income) expenses	**(5,134)**	4,894	**(5,940)**	5,052

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

During the second quarter of 2020, as a result of the decline in revenue of the Canadian business unit, the Company was eligible for the Canada Emergency Wage Subsidy (CEWS) program. As a result, a CEWS benefit of $4,363 was recorded as government wage assistance.

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

During the second quarter of 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 and reported $4,289 in other expenses.

Net monetary gain is as a result of applying hyperinflation accounting to the Company's Argentinian subsidiary.

Events After the Reporting Period

On August 6, 2020, the Company announced a quarterly dividend of $0.05 per share on the Company's common shares. The dividend will be paid on September 30, 2020 to shareholders of record at the close of business on September 16, 2020.

Second Quarter Conference Call

Pason will be conducting a conference call for interested analysts, brokers, investors and media representatives to review its second quarter 2020 results at 9:00 am (Calgary time) on Friday, August 7, 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 1264338.

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.

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

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.