Highlights

	Three Months Ended December 31,			Year Ended December 31,		
	2020	2019	Change	**2020**	2019	Change
(CDN 000s, except per share data)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**32,758**	68,410	(52)	**156,636**	295,642	(47)
EBITDA (1)	**8,300**	25,555	(68)	**48,388**	124,763	(61)
Adjusted EBITDA (1)	**8,201**	26,615	(69)	**39,540**	129,644	(70)
As a % of revenue	**25.0**	38.9	(1,390) bps	**25.2**	43.9	(1,870) bps
Funds flow from operations	**8,939**	22,126	(60)	**40,560**	111,718	(64)
Per share – basic	**0.11**	0.26	(58)	**0.48**	1.31	(63)
Per share – diluted	**0.11**	0.26	(58)	**0.48**	1.30	(63)
Cash from operating activities	**(2,717)**	24,714	nmf	**58,583**	108,547	(46)
Capital expenditures	**465**	5,587	(92)	**5,159**	24,178	(79)
Free cash flow (1)	**(3,100)**	19,955	nmf	**53,864**	85,954	(37)
Cash dividends declared (per share)	**0.05**	0.19	(74)	**0.48**	0.74	(35)
Net (loss) income	**(2,662)**	10,096	nmf	**5,134**	53,803	(90)
Net (loss) income attributable to Pason	**(2,166)**	10,405	nmf	**6,568**	54,112	(88)
Per share – basic	**(0.03)**	0.12	nmf	**0.08**	0.63	(88)
Per share – diluted	**(0.03)**	0.12	nmf	**0.08**	0.63	(88)
Total interest bearing debt	**—**	—	—	**—**	—	—
Shares outstanding end of period (#000's)	**83,089**	84,538	(2)	**83,089**	84,538	(2)

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

Pason's financial results for the year ended December 31, 2020, were significantly impacted by the impacts of the COVID-19 pandemic on global oil and gas demand, and the related reduction in drilling activity in all of the Company's end markets. As a result, revenue of $156.6 million and Adjusted EBITDA of $39.5 million for the twelve months ended December 31, 2020, represent decreases over prior year results. During the year, Pason took necessary cost rationalization and restructuring measures to reflect lower industry activity levels, which allowed the Company to minimize losses while retaining technology development and service capabilities as industry rig counts reached historic lows in the third quarter of 2020, and furthermore, demonstrate the Company's strong operating leverage as North American and International rig counts began to improve throughout the fourth quarter.

In the fourth quarter, Pason generated consolidated revenue of $32.8 million, a decrease of 52% from the corresponding period in 2019, but a 42% increase from $23.1 million in the third quarter of 2020. Adjusted EBITDA was $8.2 million in the fourth quarter, a decrease of 69% or $18.4 million from the corresponding period in 2019, but a significant increase from an Adjusted EBITDA loss of $1.1 million in the third quarter of 2020 as the Company began to absorb its fixed cost base with improving activity levels. While the Company continued to defend and grow its competitive positioning in key markets, the year over year decline in revenue and Adjusted EBITDA is reflective of the challenging industry conditions that persisted throughout 2020.

Despite these challenging conditions, Pason continued to maintain a strong balance sheet with no interest bearing debt and $149.3 million in cash and cash equivalents as at December 31, 2020 (2019: $161.0 million). The Company generated $8.9 million in funds flow from operations in the fourth quarter (2019: $22.1 million), which was offset by investments in working capital to meet improving industry activity levels, resulting in a net cash outflow from operating activities of $2.7 million (2019: inflow of $24.7 million). Year-over-year, funds flow from operations and cash from operating activities was negatively impacted by the reduction in gross profit, offset by the Company receiving government wage subsidies and cost savings resulting from the 2020 restructuring.

Free cash flow was a loss of $3.1 million in the fourth quarter of 2020, compared to $20.0 million from the corresponding period in 2019. This decrease is due to the year-over-year reduction in cash from operating activities, partially offset by a 92% reduction in capital expenditures as part of the Company's ongoing efforts to remain disciplined with capital spending.

The Company recorded a net loss attributable to Pason of $2.2 million ($0.03 per share) in the fourth quarter of 2020 compared to net income attributable to Pason of $10.4 million ($0.12 per share) recorded in the corresponding period in 2019. The year-over-year decline is due to the factors outlined above, and furthermore, the fourth quarter results of 2020 include a charge resulting from the revaluation of a put option and an increase in stock-based compensation expense.

President's Message

Throughout the fourth quarter of 2020, industry conditions continued to gradually improve from the low points they had reached during the third quarter. While North American drilling activity was down 58% year-over-year from the fourth quarter of 2019, it improved by 34% sequentially from the third quarter. The ongoing impacts of the COVID-19 pandemic are severe for our industry and our world and significant uncertainties remain, particularly around the spread of new virus variants and supply chain interruptions in the delivery of vaccines.

Pason's financial results in the fourth quarter reflected the continued challenging industry conditions. Consolidated revenue for the quarter of $32.8 million was down 52% from 2019 levels and Adjusted EBITDA of $8.2 million was 69% lower than the prior year. Sequentially, the benefits of Pason's operating leverage in periods of increasing industry activity were evident as Adjusted EBITDA improved by $9.3 million from the third quarter on a $9.7 million increase in revenue. Free cash flow was negative $3.1 million, driven by working capital requirements as the business recovered in the quarter.

For the full year, consolidated revenue of $156.6 million represented a 47% decrease from 2019 and Adjusted EBITDA of $39.5 million was 70% lower. Capital expenditures were reduced by 79% in 2020 to $5.2 million in response to dramatically lower activity levels. Free Cash Flow of $53.9 million was driven by stronger operating results in the first quarter before the full effects of the pandemic, a significant working capital recovery and lower levels of capital expenditures.

The company returned $50 million to shareholders in 2020 through a combination of dividends and share repurchases. Our balance sheet remains strong with positive working capital of $167.4 million, including $149.3 million of cash and cash equivalents. We are maintaining our quarterly dividend at $0.05 per share, and will continue to prudently deploy capital while protecting our balance sheet.

In the midst of ongoing public health guidelines and restrictions, our employees continue to balance the delivery of best-in-class service and new technologies for customers with ensuring the continued safety of themselves, their loved ones, and the people they encounter in their work. Momentum continues to build for our newest product offerings, including increasing demand for our data delivery services and a wider range of integrations for the Drilling Advisory System (DAS), as customers look to technology solutions to help drive further improvements in the efficiency and effectiveness of their drilling operations.

Through Energy Toolbase (ETB), we continue to advance the development of our product offering in the solar and energy storage market. ETB has maintained a strong subscriber base for its industry-leading economic analysis and proposal generation software, and additional bookings for installations of our control system continue to validate our belief that providing an integrated platform, which allows customers to model, control, and monitor energy storage systems provides a compelling value proposition.

Entering 2021, there is growing optimism as leading indicators point to a continued recovery in drilling activity. After hovering around US$40 per barrel for the first half of the fourth quarter, WTI oil prices have steadily climbed past US$50 per barrel. US oil production remains at levels approximately 15% below pre-pandemic levels. The inventory of drilled but uncompleted wells (DUCs) has been steadily decreasing since the summer. Crude oil and refined product storage levels have returned to their five-year historical range for the first time since the spring of 2020. The most recent Energy Information Administration (EIA) forecast calls for 5.4 million barrels per day of global oil demand growth in 2021, and a full recovery to 2019 demand levels by 2022.

Increasing demand will need to be met by additional supply and as storage levels decrease and production levels remain below historical norms, new drilling will be required. Pason's competitive position remains strong in each of our operating regions and we expect to fully participate in the continued recovery of industry activity. When we adjusted our cost structure to expected medium-term activity levels, we retained the required technology and service capabilities to maintain our competitive position and fully serve that level of activity. As such, we do not anticipate significant increases in our cost base in the medium-term. Incremental margins are expected to remain strong through 2021, but will fluctuate as the industry recovers and as the company begins to incur certain activity-related costs in anticipation of further revenue growth.

Continued consolidation of the North American E&P sector is likely to result in a smaller number of companies with a heighted focus on technology. We are prepared to increase our investments in technology development in order to meet the growing demands of these customers. Our capital expenditures will also begin to trend toward normalized levels with activity increases and as we continually refresh parts of our technology platform. We currently expect capital expenditures of up to $15 million in 2021.

Pason is committed to providing unmatched service quality and leadership in technology innovations and, with the dedicated efforts of our exceptional employees, we intend to deliver on these commitments to earn the continued support of our customers, suppliers, and shareholders.

Jon Faber

President and Chief Executive Officer
February 24, 2021

Management’s Discussion and Analysis

The following discussion and analysis has been prepared by management as of February 24, 2021, 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 for the twelve months ended December 31, 2020 and 2019, and accompanying notes, and Pason's Annual Information Form dated March 17, 2020.

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

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

Changes in Reportable Segments

Prior to the third quarter of 2020, the Company presented three operating segments, based upon the geographic segments of the Company's core business of servicing the oil and gas industry, consisting of Canada, the United States, and International. The United States segment included Energy Toolbase Software Inc, which is the operating entity of the Company's solar and energy storage business.

In response to ongoing low activity levels across the North American land drilling market, the Company streamlined its structure and operations in the third quarter by consolidating its core US and Canadian operations. As a result of this consolidation, along with the continued investment in solar and energy storage business, the Company determined that the prior operating segments no longer reflected how management monitored and evaluated operating results. This conclusion was reached in part due to the fact that solar and energy storage business is distinct from its core business and that anticipated future operating results will be significant enough to warrant a distinct segment, as well as the consolidation of management of North American operations. These new reportable segments reflect how the Chief Executive Officer and management allocate resources and assess the performance of the Company.

All comparative figures have been reclassified to conform to the new presentation.

Impact of Hyperinflation

Due to various qualitative and quantitative factors, Argentina has been designated a hyper-inflationary economy as of the second quarter of 2018 for accounting purposes. As such, the Company has applied accounting standards IAS 21, The Effects of Changes in Foreign Exchange, and IAS 29, Financial Reporting in Hyper-Inflationary Economies to these Consolidated Financial Statements for its Argentinian operating subsidiary. These Consolidated Financial Statements are based on the historical cost approach in IAS 29.

The impact of applying IAS 21 to the operating results of the Argentina subsidiary for the fourth quarter of 2020 was to decrease revenue by $276 and reduce segment gross profit by $571. The impact of applying IAS 29 to the non-monetary assets and liabilities, and shareholders' equity of the Argentina subsidiary resulted in a non-cash net monetary adjustment of $594 for the fourth quarter of 2020.

Impact on IFRS Measures

	Three Months Ended December 31,			Year Ended December 31,		
	2020	2019	Change	**2020**	2019	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
(Decrease) increase in revenue	**(276)**	792	nmf	**(745)**	(955)	(22)
Decrease (increase) in rental services and local administration expenses	**283**	(493)	nmf	**652**	562	16
(Increase) in depreciation expense	**(578)**	(340)	70	**(1,347)**	(598)	125
(Decrease) in segment gross profit	**(571)**	**(41)**	1293	**(1,440)**	**(991)**	45
Net monetary gain presented in other expenses	**594**	212	180	**1,874**	2,588	(28)
(Increase) decrease in income tax provision	**—**	(40)	nmf	**—**	40	nmf
Increase in net income	**23**	**131**	(82)	**434**	**1,637**	(73)

Impact on Non-IFRS Measures

	Three Months Ended December 31,			Year Ended December 31,		
	2020	2019	Change	**2020**	2019	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
(Decrease) increase in revenue	**(276)**	792	nmf	**(745)**	(955)	(22)
Decrease (increase) in rental services and local administration expenses	**283**	(493)	nmf	**652**	562	16
Net monetary gain presented in other expenses	**594**	212	180	**1,874**	2,588	(28)
Increase in EBITDA	**601**	511	18	**1,781**	2,195	(19)
(Elimination) of net monetary gain presented in other expenses	**(594)**	(212)	180	**(1,874)**	(2,588)	(28)
Increase (decrease) in Adjusted EBITDA	**7**	299	(98)	**(93)**	(393)	(76)

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 operating performance, and ability to generate funds to finance its operations, fund its research and development and capital expenditure program, and pay dividends.

Revenue per Industry day

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

EBITDA and Adjusted EBITDA

EBITDA is defined as net income before interest income and expense, income taxes, stock-based compensation expense, and depreciation and amortization expense.

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

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

Free cash flow

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

Overall Performance

	Three Months Ended December 31,			Year Ended December 31,		
	2020	2019	Change	**2020**	2019	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**17,099**	35,915	(52)	**82,081**	156,208	(47)
Mud Management and Safety	**8,893**	19,768	(55)	**45,025**	85,827	(48)
Communications	**1,859**	4,438	(58)	**8,839**	19,760	(55)
Drilling Intelligence	**2,108**	4,619	(54)	**9,765**	20,321	(52)
Analytics and Other	**2,799**	3,670	(24)	**10,926**	13,526	(19)
Total revenue	**32,758**	68,410	(52)	**156,636**	295,642	(47)

The Pason Electronic Drilling Recorder (EDR) remains the Company's primary product for the North American and International business unit. The EDR provides a complete drilling data acquisition system, 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.

As a result of the change in reportable segments described previously, the Company, effective from the third quarter of 2020, reports on three strategic business units: The North American (Canada and the United States) and International (Latin America, including Mexico, Offshore, the Eastern Hemisphere, and the Middle East) business units, all of which offer services to the oil and gas industry, and the Solar and Energy Storage business unit, which provides services to solar and energy storage developers. Revenue associated with the Solar and Energy Storage business unit is reported in analytics and other.

Throughout 2020, the COVID-19 pandemic continued to have a significant negative impact on the demand for fossil fuels, which combined with a supply imbalance led to a decline in commodity prices. As a result, oil and gas operators took a very cautious approach to capital spending and the global drilling industry saw a significant decline in the active rig counts in all major markets the Company operates in.

Total revenue decreased by 52% in the fourth quarter of 2020 compared to the corresponding period in 2019 due to the decrease in industry activity in the North American and International operating segments, partially offset by an increase in North American Revenue per Industry Day as the Company continued to defend and grow its leading market share position.

Discussion of Operations

North American Operations

	Three Months Ended December 31,			Year Ended December 31,		
	2020	2019	Change	**2020**	2019	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**13,940**	29,877	(53)	**69,861**	132,590	(47)
Mud Management and Safety	**7,460**	17,610	(58)	**38,848**	78,260	(50)
Communications	**1,677**	4,000	(58)	**8,083**	18,146	(55)
Drilling Intelligence	**2,022**	4,252	(52)	**9,263**	18,986	(51)
Analytics and Other	**1,219**	1,704	(28)	**5,324**	8,721	(39)
Total revenue	**26,318**	57,443	(54)	**131,379**	256,703	(49)
Rental services and local administration	**11,099**	22,833	(51)	**57,132**	96,238	(41)
Depreciation and amortization	**6,509**	9,406	(31)	**30,037**	36,421	(18)
Segment gross profit	**8,710**	25,204	(65)	**44,210**	124,044	(64)

	Three Months Ended December 31,			Year Ended December 31,		
	2020	2019	Change	**2020**	2019	Change
	($)	($)	(%)	**($)**	($)	(%)
Revenue per Industry day	**721**	669	8	**706**	665	6

Although North American industry activity throughout the fourth quarter improved from the lows experienced in the third quarter, challenging industry conditions remained. Revenue in the North American business unit was $26.3 million during the fourth quarter of 2020, a decrease of 54% from the comparable period in 2019, while average North American land rig count fell 58% during the same comparative periods. Despite the challenging industry conditions, Pason managed to increase its North American Revenue per Industry Day to $721 during the fourth quarter of 2020, an increase of 8% from the comparable period in 2019. The increase in Revenue per Industry Day was primarily achieved through market share growth and favourable geographic sales mix within North America, offsetting selective price concessions and a weaker US dollar. As certain regions within the North American segment experience fluctuations in activity levels due to seasonality, Pason expects Revenue per Industry Day to fluctuate with the relative revenue levels associated within North American regions.

Rental services and local administration decreased by 51% in the fourth quarter of 2020 over the 2019 comparative period. The decrease in operating costs is attributable to the Company's restructuring efforts to support lower levels of current and anticipated activity levels.

Depreciation and amortization decreased by 31% down in the fourth quarter of 2020 over the 2019 comparative period. The decrease is due to a combination of lower capital expenditures in recent years, along with several development projects becoming fully amortized at the beginning of 2020.

Segment gross profit was $8.7 million during the fourth quarter of 2020 compared to $25.2 million in the 2019 comparative period, representing a 65% decline year-over-year, due to the factors outlined above.

International Operations

	Three Months Ended December 31,			Year Ended December 31,		
	2020	2019	Change	**2020**	2019	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**3,159**	6,038	(48)	**12,220**	23,618	(48)
Mud Management and Safety	**1,433**	2,158	(34)	**6,177**	7,567	(18)
Communications	**182**	438	(58)	**756**	1,614	(53)
Drilling Intelligence	**86**	367	(77)	**502**	1,335	(62)
Analytics and Other	**878**	971	(10)	**2,248**	3,600	(38)
Total revenue	**5,738**	9,972	(42)	**21,903**	37,734	(42)
Rental services and local administration	**3,160**	5,942	(47)	**14,626**	21,313	(31)
Depreciation and amortization	**1,374**	1,302	6	**4,357**	4,384	(1)
Segment gross profit	**1,204**	2,728	(56)	**2,920**	12,037	(76)

The International business unit's revenue decreased by 42% in the fourth quarter of 2020 over the 2019 comparative period as activity levels in the Company's major international markets also experienced a significant reduction in activity, as was witnessed in North America.

Rental services and local administration decreased by 47% in the fourth quarter of 2020 over the 2019 comparative period. The decrease in operating costs is attributable to the Company's restructuring efforts to support lower levels of current and anticipated activity levels.

Segment gross profit was $1.2 million during the fourth quarter of 2020 compared to $2.7 million in the 2019 comparative period, due to the factors outlined above.

Solar and Energy Storage Operations

	Three Months Ended December 31,			Year Ended December 31,		
	2020	2019	Change	**2020**	2019	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Analytics and Other	**702**	995	(29)	**3,354**	1,205	178
Total revenue	**702**	995	(29)	**3,354**	1,205	178
Operating expenses and local administration (1)	**1,471**	1,240	19	**6,058**	2,441	148
Depreciation and amortization	**5**	5	—	**23**	25	(8)
Segment gross (loss)	**(774)**	(250)	210	**(2,727)**	(1,261)	116

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

Revenue generated by the Solar and Energy Storage business unit was $0.7 million in the fourth quarter of 2020 compared to $1.0 million during the 2019 comparative period, for which the majority continues to be comprised of subscription based software licenses for solar energy planning tools. The reduction in revenue in the fourth quarter is primarily due to the recognition of deferred revenue for contracts extending into 2021. Operating expenses and local administration was $1.5 million during the fourth quarter of 2020 compared to $1.2 million during the comparable period. Segment gross loss was $0.8 million for the fourth quarter of 2020 compared to a segment gross loss of $0.3 million during the 2019 comparable period.

Results in 2020 for the Solar and Energy Storage segment reflect results generated from Energy Toolbase Inc, the Company formed through the amalgamation of the former Pason Power entity and Energy Toolbase LLC (ETB), which was acquired on September 10, 2019. Comparatively, results in 2019 only reflect activity from the amalgamated ETB from September 10, 2019, onwards.

The Solar and Energy Storage business unit incurred the following research and development costs, which are included in research and development in the Consolidated Statement of Operations. These costs are excluded from the segment gross loss table above.

	Three Months Ended December 31,			Year Ended December 31,		
	2020	2019	Change	**2020**	2019	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Research and development	**838**	504	66	**3,372**	2,470	37

Corporate Expenses

	Three Months Ended December 31,			Year Ended December 31,		
	2020	2019	Change	**2020**	2019	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Research and development	**5,941**	7,470	(20)	**26,977**	30,439	(11)
Corporate services	**2,294**	4,240	(46)	**11,275**	15,653	(28)
Stock-based compensation	**2,818**	1,481	90	**4,840**	10,840	(55)
Total corporate expenses	**11,053**	13,191	(16)	**43,092**	56,932	(24)

During the second quarter of 2020, the Company initiated cost reduction initiatives to address the anticipated prolonged downturn in oil and gas drilling activity in all of its markets, which included headcount reductions. Accordingly, the Company recorded reorganization costs of $5.6 million within other (income) expenses, which is comprised of termination and other staff related costs. The Company also reversed certain discretionary compensation accruals in the fourth quarter. As a result, research and development and corporate service expenses have declined compared to 2019 levels.

The change in stock-based compensation expense for both the three and twelve months ended December 31, 2020, versus the 2019 comparative periods is largely attributable to the respective changes in the Company's share price performance.

Other (Income) Expenses

	Three Months Ended December 31,			Year Ended December 31,		
	2020	2019	Change	**2020**	2019	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Other (income) expenses						
Government wage assistance	**(2,244)**	—	—	**(9,941)**	—	—
Derecognition of onerous lease	**—**	—	—	**(5,757)**	4,289	*nmf*
Net monetary gain	**(594)**	(511)	16	**(1,874)**	(2,887)	(35)
Interest income	**(99)**	(755)	(87)	**(1,219)**	(1,481)	(18)
Net interest expense - lease liability	**73**	174	(58)	**352**	578	(39)
Equity loss (income)	**592**	70	746	**1,028**	(86)	*nmf*
Foreign exchange loss	**968**	930	4	**1,113**	2,199	(49)
Put option revaluation	**1,812**	—	—	**1,812**	—	—
Reorganization costs	**—**	—	—	**5,554**	—	—
Other	**(41)**	641	*nmf*	**245**	1,280	(81)
Total other (income) expenses	**467**	549	(15)	**(8,687)**	3,892	(323)

During 2020, the Company was eligible to participate in the Canada Emergency Wage Subsidy (CEWS) program. As a result, a CEWS benefit of $2.2 million and $9.9 million was recorded as government wage assistance in the three and twelve months ended December 31, 2020, respectively.

During 2019, the Company was notified that the tenant 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. During the second quarter of 2020, the Company entered into an agreement to terminate the lease. As a result, a recovery of $5.8 million was recorded as other income which represents the derecognition of the previously outstanding lease liability, offset by a termination payment.

In the fourth quarter of 2020, the Company recorded a $1.8 million increase to the obligation under put option associated with the purchase of ETB to reflect the change in the fair value of the outstanding obligation. This increase was recorded within other (income) expenses as outlined above.

Net monetary gain included in other (income) expenses is a result of applying hyperinflation accounting to the Company's Argentinian subsidiary. The equity loss is a result of the Company using the equity method of accounting to account for its investment in Intelligent Wellhead Systems Inc. and reflects the current period change in the value of the Company's equity investment.

Q4 2020 vs Q3 2020

Following the historic lows in industry activity in Q3 2020, North America and International rig counts increased throughout the fourth quarter. Consolidated revenue was $32.8 million in the fourth quarter of 2020, a 42% increase compared to consolidated revenue of $23.1 million in the third quarter of 2020.

Revenue in the North American business unit was $26.3 million in the fourth quarter of 2020, a 44% increase compared to revenue of $18.3 million in the third quarter of 2020. The increase in revenue is attributable to an increase in the North American industry activity, as well as an increase in Revenue per Industry Day.

The International business unit reported revenue of $5.7 million in the fourth quarter of 2020, a 48% increase compared to revenue of $3.9 million in the third quarter of 2020. The increase in revenue is attributable to the easing of COVID-19 related restrictions in certain markets, most notably in Argentina and Australia.

Gross profit was $9.1 million in the fourth quarter of 2020, an increase of $8.7 million compared to the third quarter of 2020. Adjusted EBITDA was $8.2 million in the fourth quarter of 2020 compared to a loss of $1.1 million during the third quarter of 2020. The increase in gross profit and Adjusted EBITDA is mainly due to the $9.7 million increase in revenue, and continues to demonstrate Pason's operating leverage as the Company began to absorb its fixed cost base with improving activity levels.

Cash from operating activities was a loss of $2.7 million in the fourth quarter of 2020, compared to a cash inflow of $5.8 million in the third quarter of 2020, with the decrease primarily due to the working capital investments required to meet increased activity levels quarter-over-quarter.

The Company recorded a net loss attributable to Pason in the fourth quarter of 2020 of $2.2 million ($0.03 per share) compared to a net loss attributable to Pason of $3.7 million ($0.04 per share) in the third quarter of 2020. The 2020 fourth quarter results benefited from the increased activity levels as noted above, but also include a charge resulting from the revaluation of a put option and an increase in stock-based compensation expense.

Summary of Quarterly Results

Three Months Ended	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	**Dec 31, 2020**
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	82,143	72,894	72,195	68,410	73,962	26,848	23,068	**32,758**
EBITDA [(1)]	40,435	25,606	33,167	25,555	33,469	4,271	2,348	**8,300**
Adjusted EBITDA [(1)]	40,799	30,741	31,489	26,615	33,305	(848)	(1,118)	**8,201**
Funds flow from operations	35,899	23,794	29,899	22,126	26,722	134	4,765	**8,939**
Per share – basic	0.42	0.28	0.35	0.26	0.32	0.00	0.06	**0.11**
Per share – diluted	0.42	0.28	0.35	0.26	0.32	0.00	0.06	**0.11**
Cash from operating activities	8,442	37,938	37,453	24,714	25,593	29,953	5,754	**(2,717)**
Free cash flow [(1)]	385	32,547	33,067	19,955	22,935	29,888	4,141	**(3,100)**
Net income (loss)	19,044	9,245	15,418	10,096	16,552	(4,799)	(3,957)	**(2,662)**
Net income (loss) attributable to Pason	19,044	9,245	15,418	10,405	16,919	(4,487)	(3,698)	**(2,166)**
Per share – basic	0.22	0.11	0.18	0.12	0.20	(0.05)	(0.04)	**(0.03)**
Per share – diluted	0.22	0.11	0.18	0.12	0.20	(0.05)	(0.04)	**(0.03)**

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

Reconcile Income to EBITDA

Three Months Ended	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	**Dec 31, 2020**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Net income (loss)	19,044	9,245	15,418	10,096	16,552	(4,799)	(3,957)	**(2,662)**
Add:								
Income taxes	7,393	3,469	5,485	3,846	7,023	(1,072)	(1,369)	**282**
Depreciation and amortization	10,222	9,978	9,917	10,713	10,414	8,612	7,503	**7,888**
Stock-based compensation	3,824	3,089	2,446	1,481	(122)	1,868	276	**2,818**
Net interest income	(48)	(175)	(99)	(581)	(398)	(338)	(105)	**(26)**
EBITDA [(1)]	40,435	25,606	33,167	25,555	33,469	4,271	2,348	**8,300**

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

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	**Dec 31, 2020**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	40,435	25,606	33,167	25,555	33,469	4,271	2,348	**8,300**
Add:								
Foreign exchange loss (gain)	101	553	615	930	(47)	79	113	**968**
Derecognition of onerous lease	—	4,289	—	—	—	(5,757)	—	**—**
Government wage assistance	—	—	—	—	—	(4,363)	(3,334)	**(2,244)**
Reorganization costs	—	—	—	—	—	5,554	—	**—**
Put option revaluation	—	—	—	—	—	—	—	**1,812**
Net monetary gain	—	—	(2,376)	(511)	(419)	(396)	(465)	**(594)**
Other	263	293	83	641	302	(236)	220	**(41)**
Adjusted EBITDA [(1)]	40,799	30,741	31,489	26,615	33,305	(848)	(1,118)	**8,201**

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

Reconcile cash from operating activities to free cash flow

Three Months Ended	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 31, 2020	Jun 30, 2020	Sep 30, 2020	**Dec 31, 2020**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	8,442	37,938	37,453	24,714	25,593	29,953	5,754	**(2,717)**
Less:								
Net additions to property, plant and equipment	(7,489)	(5,510)	(3,726)	(4,143)	(2,236)	(644)	(1,282)	**(66)**
Deferred development costs	(568)	119	(660)	(616)	(422)	579	(331)	**(317)**
Free cash flow [(1)]	385	32,547	33,067	19,955	22,935	29,888	4,141	**(3,100)**

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

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

The overall seasonality of the Company’s operations has, and will continue to become less pronounced as a result of market share growth internationally and in the US, along with increased diversification of operations with the Company's Solar and Energy Storage business units. Furthermore as noted herein and specifically as it relates to results starting in Q2 2020, quarterly results will vary significantly due to the drastic impacts of the global COVID-19 pandemic on the oil and gas industry.

Liquidity and Capital Resources

As at December 31,	2020	2019	Change
(000s)	($)	($)	(%)
Cash and cash equivalents	**149,282**	161,016	(7)
Working capital	**167,366**	183,769	(9)
Funds flow from operations (1)	**40,560**	111,718	(64)
Capital expenditures (1)	**5,159**	24,178	(79)
As a % of funds flow (1) (2)	**12.7 %**	21.6 %	(890) bps

(1) Figures are for the twelve months ended December 31.
(2) Calculated by dividing capital expenditures by funds flow from operations.

Throughout 2020, Pason was able to preserve its strong balance sheet with no interest bearing debt and $149.3 million in cash and cash equivalents as at December 31, 2020 (2019: $161.0 million). Furthermore, as industry conditions became increasingly challenging starting in the second quarter, Pason maintained a disciplined focus on working capital management, specifically as it relates to strong credit review processes and ensuring timely collection of receivables, resulting in a $34.3 million cash inflow in 2020 through accounts receivable collections compared to $14.1 million in 2019.

The Company has available a $5.0 million demand revolving credit facility. At December 31, 2020, no amount had been drawn on the facility.

Dividend

In 2020, the Company declared and paid dividends to holders of common shares totaling $40.4 million (2019 - $63.1 million), or $0.48 per share (2019 - $0.74 per share). In light of the COVID-19 pandemic and related uncertainty surrounding the outlook for industry activity, on August 6, 2020, Pason announced a reduced quarterly dividend from an annualized $0.76 per share to $0.20 per share, preserving approximately $46.5 million in cash on an annualized basis.

Normal Course Issuer Bid (NCIB)

In 2019, the Company had an NCIB in place, which expired on December 17, 2020, and allowed the Company to repurchase for cancellation, from time to time, as the Company considered advisable, up to a maximum of 6,777 common shares, which represented 10% of the applicable public float. On December 15, 2020, the Company announced the renewal of its previous NCIB commencing December 18, 2020 and expiring on December 17, 2021. Under the current NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 4,149 common shares, which represents 10% of the applicable public float.

Under the renewed NCIB program, the actual number of common shares that may be purchased for cancellation and the timing of any such purchases will be determined by the Company, subject to a maximum daily purchase limitation of 83 common shares. The Company may make one block purchase per calendar week which exceeds the daily purchase restriction.

For the year ended December 31, 2020, the Company purchased 1,449 common shares for cancellation (2019: 1,538), for a total cash consideration of $9.5 million (2019: $24.0 million) at an average price per share of $6.54. The total consideration is allocated between share capital and retained earnings.

Pason continues to assess capital allocation on an ongoing basis taking into account, among other considerations, the Company’s financial position, operating results, and industry outlook. Pason will continue to balance the Company's commitment to shareholder returns while preserving financial strength to support long-term success.

Contractual Obligations

As at December 31, 2020	Less than 1 year	1–3 years	Thereafter	**Total**
(000s)	($)	($)	($)	**($)**
Operating leases and other contracts	4,293	6,720	2,336	**13,349**

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

Disclosure of Outstanding Share and Options Data

As at December 31, 2020, there were 83,089 common shares and 4,278 options issued and outstanding. As at February 24, 2021, there were 83,089 common shares and 4,217 options issued and outstanding.

SEDAR

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

Critical Accounting Estimates

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

As the impacts of the COVID-19 pandemic on the oil and gas industry continue, management cannot reasonably estimate the resulting length or severity impacting the Company. As such, actual results may differ significantly from estimates made within the Consolidated Financial Statements for the year ended December 31, 2020.

Allowance for Doubtful Accounts

Amounts included in allowance for doubtful accounts reflect the expected credit losses for the Company's trade receivables. The Company determines the allowance amount based on management's best estimate of expected losses, considering actual loss history as well as current and projected economic and industry activity. Significant or unexpected changes in economic conditions could significantly impact the Company's future expected credit losses.

Depreciation & Amortization

When calculating depreciation of property, plant and equipment, and amortization of intangible assets, the Company estimates the useful lives and residual values of the related assets. The estimates made by management regarding the useful lives and residual values affect the carrying amounts of the property and equipment and intangible assets on the balance sheet and the related depreciation and amortization expenses recognized in the statement of operations. Assessing the reasonableness of the estimated useful lives of property and equipment and intangible assets requires judgment and is based on available information. The Company periodically, and at least annually, evaluates its depreciation and amortization methods and rates for consistency against those methods and rates used by its peers, or may revise initial estimates for changes in circumstances, such as technological advancements. A change in the estimated remaining useful life or the residual value will affect the depreciation or amortization expense prospectively.

Carrying Value of Assets

For purposes of reviewing whether goodwill impairment exists, the Group has determined that the assets of each of its operating segments are an appropriate basis for its cash generating units (CGUs). The Company uses judgment in the determination of the CGUs.

At each reporting period, management assesses whether there are indicators of impairment of the Company's property and equipment, intangible assets, and goodwill. If an indication of impairment exists, the property and equipment, intangible assets, and goodwill are tested for impairment. If not, goodwill is tested for impairment at least annually. In order to determine if impairment exists and to measure the potential impairment charge, the carrying amounts of the Company's CGUs are compared to their recoverable amounts, which is the greater of fair value less costs to sell and value in use (VIU). An impairment charge is recognized to the extent the carrying amount exceeds the recoverable amount. VIU is calculated as the present value of the expected future cash flows specific to each CGU. In calculating VIU, significant judgments are required in making assumptions with respect to discount rates, the market outlook, and future cash flows associated with the CGU. Any changes in these assumptions will have an impact on the measurement of the recoverable amount and could result in adjustments to impairment charges already recorded.

At December 31, 2020, the Company performed an impairment test on its goodwill and concluded that there was no impairment.

Business Combinations

Accounting for business combinations involves the allocation of the cost of an acquisition to the underlying net assets acquired based on estimated fair values. As part of this allocation process, the Company identifies and attributes values and estimated lives to identifiable intangible assets acquired. These determinations involve significant estimates and assumptions regarding cash flow projections, economic risk, and the weighted average cost of capital used by a market participant. These estimates and assumptions determine the amount allocated to identifiable separable intangible assets and goodwill, as well as the amortization period for identifiable intangible assets with finite lives. If future events or results differ adversely from these estimates and assumptions, the Company could record increased amortization or impairment charges. In conjunction with the ETB Inc. acquisition, the Company determines the obligation under the put option based upon certain assumptions and estimates, which could differ significantly from actual results.

Provisions and Contingencies

The Company recognizes provisions based on an assessment of its obligations and available information. Any matters not included as provisions are uncertain in nature and cannot be reasonably estimated.

The Company makes assumptions to determine whether obligations exist and to estimate the amount of obligations that we believe exist. In estimating the final outcome of litigation, assumptions are made about factors including experience with similar matters, past history, precedents, relevant financial, scientific, and other evidence and facts specific to the matter. This determines whether a provision or disclosure in the financial statements is needed.

Development Costs

New product development projects that meet the capitalization criteria are capitalized, and include the cost of materials and direct labour costs that are directly attributable to preparing the asset for its intended use. Subsequent changes in facts or circumstances could result in the balance of the related deferred costs being expensed in profit or loss. Results could differ due to changes in technology or if actual future economic benefit differs materially from what was expected.

Stock-Based Compensation

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

The fair value of PSUs is calculated using management's best estimate of the Company's ability to achieve certain performance measures and objectives as set out by the Board of Directors, considering historical and expected performance. Changes in these estimates and future events could alter the calculation of the provision for such compensation.

Income Taxes

The Company operates in multiple jurisdictions with complex legal and tax regulatory environments. In certain of these jurisdictions, the Company has taken income tax positions that management believes are supportable and are intended to withstand challenge by tax authorities. Some of these positions are inherently uncertain and include those relating to transfer pricing matters and the interpretation of income tax laws applied to complex transactions as the tax positions taken by the Company rely on the exercise of judgment and it is frequently possible for there to be a range of legitimate and reasonable views.

The Company has adopted certain transfer pricing (TP) policies and methodologies to value inter-company transactions that occur in the normal course of business. The value placed on such transactions must meet certain guidelines that have been established by the tax authorities in the jurisdictions in which the Company operates. The Company believes that its TP methodologies are in accordance with such guidelines. The Company entered into a Bilateral Advanced Pricing Arrangement (APA) with the Canada Revenue Agency (CRA) and the Internal Revenue Service (IRS) (collectively, the Parties) covering the taxation years ended December 31, 2013, through to December 31, 2021. The purpose of this APA was for the Company to obtain agreement among the Parties on the TP methodology applied to the material inter-company transactions between Pason Systems Corp. (Pason Canada) and Pason Systems USA and Petron (collectively Pason USA) (the covered transactions).

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

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

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

Risk and Uncertainties

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

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

COVID-19

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. COVID-19’s negative impact on the demand for oil has been significant and this combined with an over-supply of oil has led to a decline in oil prices. As a result, Pason customers reduced their capital expenditure programs which led to a precipitous fall in the active rig count in Pason’s major markets, starting in the second quarter of 2020. This supply / demand imbalance is having a direct impact on Pason’s revenue. The ultimate impact of COVID-19 on future oil demand is unknown at the present time and thus it is not possible to predict the long-term effects of COVID-19 on the Company’s operating results. The current economic climate has or may have significant adverse impacts to Pason, including but not limited to: material declines in revenue and cash flows due to reduced drilling and demand for associated products and services, increased risk of non-payment of accounts receivable, potential for impairment charges on long-term assets, and additional reorganization costs, if deemed required in the context of Pason's ongoing efforts to reduce its cost structure.

Operationally, the Company experienced minimal adverse impacts to its business operations and workforce throughout the COVID-19 pandemic. With the exception of certain international regions that experienced temporary country-wide economic shutdowns, Pason's operations have been and continue to remain open and fully operating. In response to the pandemic, additional safety measures have been implemented throughout the Company's operations, both in the field and in office / warehouse settings, to ensure the ongoing safety of our employees and our customers' employees, and to maintain delivery of products and services to customers while complying with recommendations from global and local health authorities.

Operating Risks

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

Commodity Prices

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

Seasonality

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

Proprietary Rights

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

Litigation

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

Credit Risk

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

Qualified Personnel

Due to the specialized and technical nature of Pason's business, Pason is highly dependent on attracting and retaining qualified or key personnel. There is competition for qualified personnel in the areas where Pason operates, and there can be no assurance that qualified personnel can be attracted or retained to meet the growth needs of the business. Further, the Company does not carry "key person" insurance on any of its key employees. As such, the unexpected loss of a key employee could have an adverse effect on Pason's results. To mitigate these risks, Pason has a human resources department in each significant business unit that is focused on recruiting and retention initiatives. In addition, the Company has deployed necessary equipment and technology to enable remote work for employees impacted by COVID-19 restrictions.

Alternative Energies

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

International Operations

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

Foreign Exchange Exposure

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

Adjustments arising when translating the foreign subsidiaries into Canadian dollars are reflected in the Consolidated Statements of Operations and Other Comprehensive Income as unrealized foreign currency translation adjustments.

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

Major Customers

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

Dividends

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

Taxation

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

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

Information Security

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

Forward Looking Information

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

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

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

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

These risks, uncertainties and assumptions include but are not limited to those discussed in Pason's Annual Information Form under the heading, "Risk and Uncertainty" and in the Company's other filings with Canadian securities regulators. These documents are on file with the Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or through Pason's website (www.pason.com).

Forward-looking statements contained in this document are expressly qualified by this cautionary statement. Except to the extent required by applicable law, Pason assumes no obligation to publicly update or revise any forward-looking statements made in this document or otherwise, whether as a result of new information, future events or otherwise.

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

The preparation and presentation of the Company's Consolidated Financial Statements and the overall reasonableness of the Company's financial reporting are the responsibility of management. The Board of Directors is responsible for overseeing management's performance of its responsibilities for financial reporting and internal control. The Board of Directors exercises this responsibility with the assistance of the Audit Committee of the Board of Directors.

Management’s Report on Disclosure Controls and Procedures (DC&P)

Disclosure controls and procedures within the Company have been designed to provide reasonable assurance that all relevant information is identified to the President and Chief Executive Officer (CEO), Chief Financial Officer (CFO), and Board of Directors to ensure appropriate and timely decisions are made regarding public disclosure.

For the year ended December 31, 2020, an evaluation of the Company’s Disclosure Controls and Procedures was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that our DC&P, as defined in National Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings (NI 52-109), was effective to ensure that the information required by Canadian Securities regulatory authorities will be recorded, processed, and reported within the prescribed timelines.

Management’s Report on Internal Control over Financial Reporting (ICFR)

Management, under the supervision and participation of the Company’s CEO and CFO, is responsible for establishing and maintaining a system of internal controls over financial reporting to provide reasonable assurance that assets are safeguarded and that reliable financial information is produced for preparation of financial statements in accordance with International Financial Reporting Standards. The assessment has been based on criteria established in the Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Due to its inherent limitations, internal control over financial reporting may not prevent or detect misstatements on a timely basis. Also, projections of any evaluation of the effectiveness of internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

An evaluation of the Company’s ICFR was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2020, our ICFR, as defined in NI 52-109, was effective. There were no changes in our ICFR during the year ended December 31, 2020, that have materially affected, or are reasonably likely to affect, our ICFR.

Corporate Information

Directors

Marcel Kessler
Chairman of the Board
Pason Systems Inc.
Calgary, Alberta

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

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

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

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

Laura Schwinn(2)(4)(6)
President Specialty Catalysts
W. R. Grace & Co.
Columbia, Maryland

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

Officers & Key Personnel

Jon Faber
President
& Chief Executive Officer

Celine Boston
Chief Financial Officer

David Elliott
Vice President, Finance

Kevin Boston
Vice President, Commercial

Natalie Fenez
Vice President, Legal & Corporate Secretary

Bryce McLean
Vice President, Operations

Fiona Mueller-Thode
President, Verdazo Analytics Inc.

Lars Olesen
Vice President, Product & Technology

Russell Smith
Vice President, International

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

Reid Wuntke
President, Energy Toolbase Software Inc.

Corporate Head Office

Pason Systems Inc.
6130 Third Street SE
Calgary, Alberta
T2H 1K4
T: 403-301-3400
F: 403-301-3499
InvestorRelations@pason.com
www.pason.com

Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI.TO

Eligible Dividend Designation

Pursuant to the Canadian Income Tax Act, dividends paid by the Company to Canadian residents are considered to be "eligible" dividends.

Annual Meeting

Shareholders are invited to attend the Company's Annual General and Special Meeting on Thursday, April 29, 2021 at 3:30pm to be held virtually.

Historical Review

Selected Financial Data

Years Ended December 31,

	2020	**2019**	2018	2017	2016	2015	2014	2013	2012	2011
(CDN 000s, except per share data)	**($)**	**($)**	($)	($)	($)	($)	($)	($)	($)	($)
Operating Results										
Revenue	**156,636**	295,642	306,393	245,643	160,446	285,148	499,272	403,088	386,514	346,158
Expenses										
Rental services	**66,695**	105,496	104,398	95,912	80,115	120,445	153,151	134,874	125,269	113,568
Corporate services	**11,275**	15,653	15,905	15,141	16,758	20,040	22,243	17,373	15,723	12,975
Research and development	**26,977**	30,439	26,997	25,219	22,848	31,733	35,427	27,252	22,467	17,366
Stock-based compensation	**4,840**	10,840	12,313	11,762	6,195	7,398	19,471	32,511	23,792	1,309
Depreciation and amortization	**34,417**	40,830	34,588	45,681	55,384	81,381	69,201	62,171	68,213	58,565
Adjusted EBITDA(1)(2)	**39,540**	129,644	146,004	98,224	31,005	96,460	251,623	136,647	151,753	171,661
As a % of revenue	**25.2**	43.9	48.1	40.0	19.3	33.8	50.4	33.9	39.3	49.6
Funds flow from operations	**40,560**	111,718	128,544	87,121	26,815	94,263	224,204	134,930	158,948	145,358
Per share – basic	**0.48**	1.31	1.51	1.03	0.32	1.13	2.71	1.64	1.94	1.78
Net income (loss) attributable to Pason	**6,568**	54,112	62,944	25,190	(41,792)	(7,917)	114,637	25,458	39,895	86,223
Per share – basic	**0.08**	0.63	0.74	0.30	(0.49)	(0.09)	1.39	0.31	0.49	1.05
Capital expenditures	**5,159**	24,178	23,876	20,764	12,856	50,811	121,188	70,664	71,424	78,357
Financial Position										
Total assets	**361,416**	437,841	461,716	398,446	435,251	529,625	570,066	445,876	488,378	455,901
Working capital	**167,366**	183,769	256,153	193,692	198,419	244,972	206,571	127,933	163,371	126,605
Total equity	**305,283**	346,454	386,077	347,486	386,651	489,448	483,523	366,469	368,696	367,269
Common Share Data										
Common shares outstanding (#)										
At December 31	**83,089**	84,538	85,783	85,158	84.628	84,063	83,363	82,158	82,049	81,904
Weighted average	**83,956**	85,409	85,357	84,821	84.365	83,675	82,647	82,098	81,968	81,851
Dividends ($)	**0.48**	0.74	0.70	0.68	0.68	0.68	0.64	0.53	0.46	0.38

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

(2) Prior to 2015, Adjusted EBITDA was defined as EBITDA.