Press Release

Pason Reports Second Quarter 2019 Results

FOR IMMEDIATE RELEASE

CALGARY, Alberta (August 8, 2019) – Pason Systems Inc. (TSX:PSI) announced today its 2019 second quarter results.

Performance Data

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	**2019**	2018	Change
(CDN 000s, except per share data)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**72,894**	68,271	7	**155,037**	142,084	9
EBITDA (1)	**25,606**	23,614	8	**66,041**	55,834	18
Adjusted EBITDA (1)	**30,675**	29,458	4	**71,316**	64,211	11
As a % of revenue	**42.1**	43.1	(100) bps	**46.0**	45.2	80bps
Funds flow from operations	**23,794**	27,836	(15)	**59,693**	61,794	(3)
Per share – basic	**0.28**	0.33	(15)	**0.70**	0.73	(4)
Per share – diluted	**0.28**	0.32	(13)	**0.69**	0.72	(4)
Cash from operating activities	**37,938**	27,617	37	**46,380**	51,961	(11)
Capital expenditures	**4,216**	4,771	(12)	**14,533**	10,568	38
Free cash flow (1)	**32,547**	23,133	41	**32,932**	42,039	(22)
Cash dividends declared	**0.18**	0.17	6	**0.36**	0.34	6
Net Income	**9,245**	5,479	69	**28,289**	17,838	59
Per share – basic	**0.11**	0.06	83	**0.33**	0.21	57
Per share – diluted	**0.11**	0.06	83	**0.33**	0.21	57
Total interest bearing debt	**—**	—	—	**—**	—	—
Shares outstanding end of period (#000's)	**85,393**	85,378	—	**85,393**	85,378	—

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

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Q2 2019 vs Q2 2018

The Company generated consolidated revenue of $72.9 million in the second quarter of 2019, an increase of 7% from the same period in 2018. The increase is attributable to increased activity in the International business unit, increased market share and an increase in revenue per EDR day in the US and Canadian business units, offset by lower drilling activity in both of these units.

Adjusted EBITDA increased to $30.7 million in the second quarter, an increase of 4% from the same period in 2018. The increase in adjusted EBITDA was driven by the increase in consolidated gross profit offset by an increase in research and development expense.

Funds flow from operations was $23.8 million in the second quarter, a decrease of 15% from the same period in 2018. The decrease is driven by an increase in current tax expense as a result of the Company no longer having tax loss carry forwards to reduce current income tax expense.

Cash from operating activities was $37.9 million in the second quarter of 2019, an increase of 37% from the same period in 2018. The increase is attributable to movements in working capital.

Free cash flow was $32.5 million in the second quarter of 2019, an increase 41% from the same period in 2018. The increase is largely driven by the increase in cash from operating activities.

The Company recorded net income of $9.2 million ($0.11 per share) in the second quarter of 2019, compared to net income of $5.5 million ($0.06 per share) recorded in the same period in 2018. Net income was positively impacted by increased activity and profitability in the International business unit, a smaller foreign exchange loss, lower stock-based compensation expense, and a lower effective tax rate. These positive impacts were offset by higher research and development costs and a non-cash charge associated with the Chapter 7 bankruptcy filing by the Company's sub-lease tenant.

President’s Message

Pason continues to perform well despite that fact that we have witnessed decreases in industry activity in the second quarter in the United States and in Canada of 6% and 24%, respectively. The company generated revenue of $72.9 million in the period, an increase of 7% compared to the same quarter last year. The main drivers of revenue growth were higher activity levels in all of Pason’s international markets, and higher market share and an increase in revenue per EDR day in the US and Canadian business units.

Adjusted EBITDA was $30.7 million for the quarter, an increase of 4%. Adjusted EBITDA as a percentage of revenue was 42% compared to 43% one year ago. Pason recorded net income for the quarter of $9.2 million ($0.11 per share) compared to $5.5 million ($0.06 per share) in the prior year quarter.

Second quarter revenue, adjusted EBITDA, and net income were down from first the quarter 2019 due to the seasonality of Canadian drilling activity.

At June 30, 2019, our working capital position stood at $250 million, including cash and short-term investments of $189 million. Consistent growth in the regular dividend remains a priority within our capital allocation program and, as such, we are increasing our quarterly dividend to $0.19 per share.

Key developments in our five product categories were as follows:

- ***Drilling Data*** contains all products and services associated with acquiring, displaying, storing, and delivering drilling data. Revenue in this segment increased 11% in the second quarter compared to the prior year period and accounted for 54% of our total revenue. The increase was driven by an increase in international drilling activity, with the largest absolute increases in Australia and Argentina, EDR market share gains in North America and strong customer demand for data delivery products.

- ***Mud Management & Safety*** includes products such as the Pit Volume Totalizer, Smart Alarms, Gas Analyzer, Hazardous Gas Alarm, and the Electronic Choke Actuator. In the second quarter, Mud Management & Safety revenue increased 10% and generated 29% of total revenue.

- ***Drilling Intelligence*** bundles Pason’s product offerings targeted at enabling our customers’ drilling optimization and automation efforts. It contains products such as autodrillers, abbl Directional Advisor®, the ExxonMobil Drilling Advisory System® and Pivot, a pipe oscillation system for improving slide drilling. Drilling Intelligence increased 5% in the second quarter compared to the prior year and accounted for 6% of our total revenue.

- ***Communications*** includes satellite and terrestrial Internet bandwidth, Wireless Rigsite, VoIP and Intercom services and accounted for 6% of total revenue. Revenue in this segment is showing negative growth because of the transition from satellite to terrestrial bandwidth with lower pricing, but better user experience, for our customers.

- ***Analytics & Other*** includes our Verdazo Discovery Analytics product suite, various reports, and other revenue streams. This segment is not directly correlated to drilling activity, grew 8% and accounted for 5% of total revenue in the second quarter.

R&D and IT expenses grew 16% in the second quarter compared to the prior year period. The drivers of this growth were a greater proportion of project costs being expensed and the ongoing transition to a more cloud-based IT infrastructure, which implies lower capital spending but higher operating costs in the IT space.

From a macro perspective, oil demand forecasts have been reduced slightly on global trade fears and geopolitical tensions, but no change for the medium-term outlook is anticipated. On the supply side, we continue to see US shale oil as the only source of global production growth. These effects, combined with the recent decision by OPEC and Russia to extend production cuts through the first quarter of 2020, are likely to keep oil prices around present levels.

However, we believe that a paradigm shift is underway in North American land and the outlook for E&P investments has deteriorated. This ought to temper any enthusiasm around growing E&P capital expenditures in the near term. E&P drilling plans will likely be restrained as they focus on keeping capital spending levels within operating cash flows.

In contrast, international land E&P investment is expected to continue growing about 10% annually leading to further increases in international rig counts. Pason’s leading market positions in Latin America and Australia, and our growing presence in the Middle East, will allow us to generate profitable growth in our International business unit.

We are keeping our fixed costs low and maintain flexibility for our plans for 2019 and 2020, which gives us the means and confidence to address any activity scenario. Our capital expenditures will be relatively modest going forward with a larger portion of development efforts focused on software and analytics. We intend to spend up to $30 million in capital expenditures in 2019. Our highly capable and flexible IT and communications platform can host additional new Pason and third-party software at the rigsite and in the cloud.

Our market positions remain strong, and we expect to be able to deliver growth in our international markets and through higher product adoption going forward. We are the service provider of choice for many leading operators and drilling contractors with Pason equipment installed on over 65% of all active land drilling rigs in the Western Hemisphere.

Marcel Kessler
President and Chief Executive Officer
August 8, 2019

Management’s Discussion and Analysis

The following discussion and analysis has been prepared by management as of August 8, 2019, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the Consolidated Financial Statements and accompanying notes.

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

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

Impact of IFRS 16

The Company adopted IFRS 16, Leases, effective January 1, 2019, using the modified retrospective approach. This new standard supersedes IAS 17, Leases, and introduces a single lessee accounting model by eliminating a lessee's classification of leases as either operating leases or finance leases. Comparative figures have not been restated. Further disclosure is provided in Note 3 to the Condensed Consolidated Interim Financial Statements.

The impact of adopting this new standard on IFRS Measures and Non-IFRS Measures is described below. The figures presented below are the 2019 actual numbers that are classified differently than the 2018 comparative figures. Effectively, the operating expense line items recognized under the previous standard will be bifurcated between depreciation expense and interest expense.

Impact on IFRS Measures

	Three Months Ended June 30, 2019	Six Months Ended June 30, 2019
(000s)	($)	($)
Reduction in rental services and local administration expenses	285	557
(Increase) reduction in research and development expenses	(98)	135
Reduction in corporate services costs	296	592
(Increase) in depreciation of right of use assets	(481)	(1,280)
(Increase) in net interest expense on lease liabilities	(100)	(230)
Reduction in Income tax provision	29	61
(Decrease) in net income	**(69)**	**(165)**
Increase in depreciation of right of use assets	481	1,280
(Reduction) in Income tax provision	(29)	(61)
Total increase in funds flow from operations and cash from operating activities	**383**	**1,054**

Impact on Non-IFRS Measures

(000s)	Three Months Ended June 30, ($)	Six Months Ended June 30, ($)
Decrease in rental services and local administration - Canada operating segment	40	80
Decrease in rental services and local administration - United States operating segment	199	396
Decrease in rental services and local administration - International operating segment	46	81
(Increase) decrease in research and development expenses	(98)	135
Decrease in corporate services costs	296	592
Total increase in EBITDA and Adjusted EBITDA	**483**	**1,284**

Additional IFRS Measures

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

Funds flow from operations

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

Cash from operating activities

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

Non-IFRS Financial Measures

These definitions are not recognized measures under IFRS, and accordingly, may not be comparable to measures used by other companies. These Non-IFRS measures provide readers with additional information regarding the Company's ability to generate funds to finance its operations, fund its research and development and capital expenditure program, and pay dividends.

Revenue per EDR day

Revenue per EDR day is defined as the daily revenue generated from all products that the Company has on rent on a drilling rig that has the Company’s base EDR installed. This metric provides a key measure on the Company’s ability to increase production adoption and evaluate product pricing.

EBITDA

EBITDA is defined as net income before interest expense, income taxes, stock-based compensation expense, depreciation and amortization expense, and gains on disposal of investments.

Adjusted EBITDA

Adjusted EBITDA is defined as EBITDA, adjusted for foreign exchange, impairment of property, plant, and equipment, restructuring costs, 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,		
	2019	2018	Change	**2019**	2018	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**39,269**	35,420	11	**82,522**	72,715	13
Mud Management and Safety	**21,142**	19,304	10	**44,816**	40,564	10
Communications	**4,582**	6,111	(25)	**10,539**	13,909	(24)
Drilling Intelligence	**4,588**	4,374	5	**10,561**	8,955	18
Analytics and Other	**3,313**	3,062	8	**6,599**	5,941	11
Total revenue	**72,894**	68,271	7	**155,037**	142,084	9

The Pason Electronic Drilling Recorder (EDR) remains the Company's primary product. The EDR provides a complete system of drilling data acquisition, data networking, and drilling management tools and reports at both the wellsite and at customer offices. The EDR is the base product from which all other wellsite instrumentation products are linked. By linking these products, a number of otherwise redundant elements such as data processing, display, storage, and networking are eliminated. This ensures greater reliability and a more robust system of instrumentation for the customer.

Total revenue increased 7% in the second quarter of 2019 compared to the corresponding period in 2018. This increase is attributable to an increase in revenue per EDR day in all three operating segments combined with an increase in the activity in the International business unit.

Industry activity in the US market decreased by 6% in the second quarter of 2019 compared to the corresponding period in 2018, while second quarter Canadian industry activity decreased by 24%.

US EDR days decreased by 5% in the second quarter of 2019 compared to the corresponding period in 2018, while Canadian EDR days, which includes non-oil and gas-related activity, decreased 23% from 2018 levels.

In the second quarter of 2019, the Pason EDR was installed on 62% of the land rigs in the US market, an increase of 100bps over the same time period in 2018.

In the second quarter of 2019, the Pason EDR was installed on 87% of the land rigs in the Canadian market, an increase of 200bps over the same period in 2018. For the purposes of market share, the Company uses the number of EDR days billed and oil and gas drilling days as reported by accepted industry sources.

For the second quarter of 2019, the Company saw an increase in activity in all major regions of the International business unit with the largest absolute increases in Australia and Argentina.

Communication revenue decreased 25% in the second quarter of 2019 compared to the corresponding period in 2018. In the Company's major operating segments, wellsite communications have been transitioning from satellite to terrestrial bandwidth. The transition has resulted in a lower rental service cost to Pason with cost savings shared with its customers.

Discussion of Operations

United States Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	**2019**	2018	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**29,242**	26,973	8	**58,418**	50,671	15
Mud Management and Safety	**17,038**	14,643	16	**34,255**	27,879	23
Communications	**3,101**	4,200	(26)	**6,330**	7,898	(20)
Drilling Intelligence	**3,128**	2,909	8	**6,280**	5,053	24
Analytics and Other	**1,122**	1,553	(28)	**2,813**	2,885	(2)
Total revenue	**53,631**	50,278	7	**108,096**	94,386	15
Rental services and local administration	**20,250**	17,455	16	**39,340**	34,340	15
Depreciation and amortization	**5,062**	4,100	23	**9,836**	7,928	24
Segment gross profit	**28,319**	28,723	(1)	**58,920**	52,118	13

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	(%)	**2019**	2018	(%)
(000s)	**$**	$		**(#)**	(#)	
Electronic Drilling Recorder (EDR) Rental Days	**53,600**	56,300	(5)	**109,300**	107,200	2

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	(%)	**2019**	2018	(%)
	$	$		**($)**	($)	
Revenue per EDR day - USD	**745**	685	9	**736**	682	8
Revenue per EDR day - CAD	**996**	884	13	**981**	872	13

Revenue from the US operations increased by 7% in the second quarter of 2019 over the 2018 comparable period (4% when measured in USD).

Industry activity in the US market decreased by 6% in the second quarter of 2019 over the 2018 comparable period as US producers continue to restrict capital spending. On a year to date basis, industry activity in the US market increased by 1%. US market share was 62% for the second quarter of 2019 compared to 61% during the same period in 2018.

EDR rental days decreased by 5% in the second quarter of 2019 over the 2018 comparable period. Revenue per EDR day increased to US$745 in the second quarter of 2019, an increase of US$60 over the same period in 2018. The increase in revenue per EDR day was driven by higher adoption of data delivery, drilling intelligence products and other peripheral products and selective price increases on certain products.

Communication revenue decreased 26% in the second quarter of 2019 compared to the corresponding period in 2018. Wellsite communications have been transitioning from satellite to terrestrial bandwidth. The transition has resulted in a lower rental service cost to Pason with cost savings shared with its customers.

Rental services and local administration increased by 16% in the second quarter of 2019 over the 2018 comparative period (13% when measured in USD). The increase in operating costs is attributable to higher field staff levels, particularly in the Permian Basin, and higher direct costs to support additional activity. Included in these costs are administrative expenses relating to Pason Power.

Depreciation expense increased by 23% in the second quarter of 2019 over the 2018 comparative period. The increase is due to the adoption of IFRS 16, Leases, an increase in the capital program, and a stronger US dollar relative to the Canadian dollar.

Canadian Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	**2019**	2018	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**3,642**	4,180	(13)	**11,734**	14,100	(17)
Mud Management and Safety	**2,296**	2,962	(22)	**6,979**	9,623	(27)
Communications	**1,060**	1,506	(30)	**3,352**	5,275	(36)
Drilling Intelligence	**1,179**	1,117	6	**3,669**	3,235	13
Analytics and Other	**1,038**	900	15	**1,994**	1,856	7
Total revenue	**9,215**	10,665	(14)	**27,728**	34,089	(19)
Rental services and local administration	**4,873**	6,136	(21)	**10,582**	13,464	(21)
Depreciation and amortization	**3,824**	4,223	(9)	**8,379**	8,608	(3)
Segment gross profit	**518**	306	69	**8,767**	12,017	(27)

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018		**2019**	2018	
(000s)	**$**	$	(%)	**(#)**	(#)	(%)
Electronic Drilling Recorder (EDR) Rental Days	**6,400**	**8,300**	(23)	**21,900**	29,400	(26)

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018		**2019**	2018	Change
	$	$	(%)	**($)**	($)	(%)
Revenue per EDR day - CAD	**1,290**	1,184	9	**1,185**	1,102	8

Canadian drilling activity in the second quarter of 2019 decreased by 24% relative to the same period in 2018, while EDR rental days decreased 23% in the second quarter of 2019 compared to 2018. On a year to date basis, Canadian drilling activity has decreased 29%. The decrease in drilling activity was impacted by spending constraints, production curtailments, and wet weather in many parts of western Canada.

Revenue in the Canadian business unit decreased by 14% in the second quarter of 2019 over the 2018 comparative period. Canadian market share was 87% for the second quarter of 2019 compared to 85% during the same period of 2018.

Revenue per EDR day increased by $106 to $1,290 during the second quarter of 2019 compared to 2018. The increase is driven by the successful introduction of drilling intelligence products and increased data delivery functionality.

Rental services and local administration decreased by 21% in the second quarter of 2019 relative to the same period in 2018, primarily due to the bandwidth cost savings the Company has achieved in its communications category.

Depreciation and amortization expense decreased by 9% in the second quarter of 2019 over the 2018 comparative period. The decrease is due to a greater proportion of research and development project costs being expensed for accounting purposes, rather than being capitalized and amortized, and the recording of investment tax credits.

Segment gross profit for the second quarter of 2019 increased 69% to $0.5 million compared to $0.3 million in segment gross profit in the 2018 comparative period.

International Operations

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	**2019**	2018	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**6,385**	4,267	50	**12,370**	7,944	56
Mud Management and Safety	**1,808**	1,699	6	**3,582**	3,062	17
Communications	**421**	405	4	**857**	736	16
Drilling Intelligence	**281**	348	(19)	**612**	667	(8)
Analytics and Other	**1,153**	609	89	**1,792**	1,200	49
Total revenue	**10,048**	7,328	37	**19,213**	13,609	41
Rental services and local administration	**5,540**	4,765	16	**10,846**	9,448	15
Depreciation and amortization	**1,092**	897	22	**1,985**	1,859	7
Segment gross profit	**3,416**	1,666	105	**6,382**	2,302	177

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

Drilling activity increased in all of the Company's major international markets, although the majority of the absolute gains were seen in Australia, Argentina, and the Andean region.

Revenue in the International business unit increased by 37% in the second quarter of 2019 compared to the same period in 2018.

Rental services and local administration expenses increased by 16% in the second quarter of 2019 compared to the same period in 2018. Depreciation expense increased by 22% in the second quarter of 2019 compared to the same period in 2018. The increase operating costs is attributable higher field staff levels and capital expenditures incurred to support additional activity.

Segment gross profit was $3.4 million for the second quarter of 2019, an improvement from the $1.7 million profit recorded in the corresponding period in 2018.

Corporate Expenses

	Three Months Ended June 30,			Six Months Ended June 30,		
	2019	2018	Change	**2019**	2018	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Other expenses						
Research and development	**7,661**	6,617	16	**15,405**	12,976	19
Corporate services	**3,895**	3,840	1	**7,548**	7,645	(1)
Stock-based compensation	**3,089**	3,855	(20)	**6,913**	6,389	8
Other						
Foreign exchange loss	**553**	5,787	(90)	**654**	8,191	(92)
Net interest expense - lease liability	**108**	—	—	**245**	—	—
Interest income - short term investments	**(283)**	—	—	**(468)**	—	—
Derecognition of lease receivable	**4,289**	—	—	**4,289**	—	—
Other	**227**	57	298	**332**	186	78
Total corporate expenses	**19,539**	20,156	(3)	**34,918**	35,387	(1)

Current period amounts are in accordance with IFRS following the adoption of IFRS 16, Leases as discussed in Note 3 in the Consolidated Financial Statements. Prior periods have not been restated.

In July 2019, the Company was notified that the tenant that was leasing the Company's previous office space in Colorado, USA filed for Chapter 7 bankruptcy. As a result, the Company derecognized the lease receivable that it had previously recorded and reported a non-cash charge of $4.3 million in the second quarter of 2019. Management intends to initiate the process of finding a tenant for the remaining lease term.

Research and development expenses increased in the second quarter of 2019 over the 2018 comparative period. This is due to a greater proportion of research and development project costs being expensed for accounting purposes and the Company's continued transition towards more cloud-based IT infrastructure.

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

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

Q2 2019 vs Q1 2019

Consolidated revenue was $72.9 million in the second quarter of 2019 compared to $82.1 million in the first quarter of 2019, a decrease of $9.2 million. The second quarter of the year is typically the weakest for the Company due to the seasonality of Canadian drilling activity.

Revenue in the US business unit was $53.6 million in the second quarter of 2019 compared to $54.5 million in the first quarter of 2019. Sequentially, EDR rental days decreased by 4% which was partially offset by an increase in revenue per EDR days. US market share increased 100bps to 62%.

Revenue in the Canadian business unit was $9.2 million in the second quarter of 2019 compared to $18.5 million in the first quarter of 2019.

The International business unit earned revenue of $10.0 million in the second quarter of 2019 compared to $9.2 million in the first quarter of 2019. The Company participated in the increase in drilling activity in a number of international markets.

Adjusted EBITDA, which adjusts EBITDA for foreign exchange and certain non-recurring charges, was $30.7 million in the second quarter of 2019 compared to $40.6 million in the first quarter of 2019. Funds flow from operations was $23.8 million in the second quarter of 2019 compared to $35.9 million in the first quarter of 2019.

The Company recorded net income in the second quarter of 2019 of $9.2 million ($0.11 per share) compared to net income of $19.0 million ($0.22 per share) in the first quarter of 2019.

Condensed Consolidated Interim Balance Sheets

As at	June 30, 2019	December 31, 2018
(CDN 000s) (unaudited)	($)	($)
Assets		
Current		
Cash and cash equivalents	**189,133**	203,838
Trade and other receivables	**72,713**	80,020
Income tax recoverable other	**15,304**	15,304
Prepaid expenses	**2,847**	3,934
Income taxes recoverable	**4,957**	6,203
Total current assets	**284,954**	309,299
Non-current		
Property, plant and equipment	**123,876**	120,417
Intangible assets and goodwill	**28,416**	32,000
Total non-current assets	**152,292**	152,417
Total assets	**437,246**	461,716
Liabilities and equity		
Current		
Trade payables and accruals	**25,857**	34,229
Income taxes payable other	**—**	15,304
Stock-based compensation liability	**6,016**	3,301
Lease liability	**2,722**	312
Total current liabilities	**34,595**	53,146
Non-current		
Deferred tax liabilities	**7,838**	17,060
Lease liability	**12,531**	2,233
Stock-based compensation liability	**5,216**	3,200
Total non-current liabilities	**25,585**	22,493
Equity		
Share capital	**167,550**	164,723
Share-based benefits reserve	**28,789**	27,287
Foreign currency translation reserve	**60,962**	63,574
Retained earnings	**119,765**	130,493
Total equity	**377,066**	386,077
Total liabilities and equity	**437,246**	461,716

Condensed Consolidated Interim Statements of Operations

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Revenue	**72,894**	68,271	**155,037**	142,084
Operating expenses				
Rental services	**27,264**	25,209	**54,058**	51,248
Local administration	**3,399**	3,147	**6,710**	6,004
Depreciation and amortization	**9,978**	9,220	**20,200**	18,395
	40,641	37,576	**80,968**	75,647
Gross profit	**32,253**	30,695	**74,069**	66,437
Other expenses				
Research and development	**7,661**	6,617	**15,405**	12,976
Corporate services	**3,895**	3,840	**7,548**	7,645
Stock-based compensation expense	**3,089**	3,855	**6,913**	6,389
Other expense	**4,894**	5,844	**5,052**	8,377
	19,539	20,156	**34,918**	35,387
Income before income taxes	**12,714**	10,539	**39,151**	31,050
Income tax provision	**3,469**	5,060	**10,862**	13,212
Net income	**9,245**	5,479	**28,289**	17,838
Income per share				
Basic	**0.11**	0.06	**0.33**	0.21
Diluted	**0.11**	0.06	**0.33**	0.21

Condensed Consolidated Interim Statements of Other Comprehensive Income

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
(CDN 000s) (unaudited)	**($)**	**($)**	**($)**	($)
Net income	**9,245**	5,479	**28,289**	17,838
Items that may be reclassified subsequently to net				
Tax recovery (expense) on net investment in foreign operations related to an inter-company financing	**9,690**	(777)	**10,481**	(1,766)
Foreign currency translation adjustment	**(5,567)**	8,874	**(13,093)**	18,654
Other comprehensive gain (loss)	**4,123**	8,097	**(2,612)**	16,888
Total comprehensive income	**13,368**	13,576	**25,677**	34,726

Condensed Consolidated Interim Statements of Cash Flows

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
(CDN 000s) (unaudited)	**($)**		**($)**	($)
Cash from (used in) operating activities				
Net income	**9,245**	5,479	**28,289**	17,838
Adjustment for non-cash items:				
Depreciation and amortization	**9,978**	9,220	**20,200**	18,395
Stock-based compensation	**3,089**	3,855	**6,913**	6,389
Deferred income taxes	**(1,356)**	3,361	**1,419**	10,664
Derecognition of lease receivable	**4,289**	—	**4,289**	—
Unrealized foreign exchange (gain) loss and other	**(1,451)**	5,921	**(1,417)**	8,508
Funds flow from operations	**23,794**	27,836	**59,693**	61,794
Movements in non-cash working capital items:				
Decrease (increase) in trade and other receivables	**13,353**	2,150	**4,099**	(6,747)
Decrease in prepaid expenses	**742**	794	**1,021**	1,275
(Decrease) increase in income taxes	**(2,302)**	1,205	**1,223**	1,270
Increase (decrease) in trade payables, accruals and stock-based compensation liability	**834**	387	**(6,164)**	(978)
Effects of exchange rate changes	**1,661**	76	**1,588**	310
Cash generated from operating activities	**38,082**	32,448	**61,460**	56,924
Income tax paid	**(144)**	(4,831)	**(15,080)**	(4,963)
Net cash from operating activities	**37,938**	27,617	**46,380**	51,961
Cash flows from (used in) financing activities				
Proceeds from issuance of common shares	**1,114**	3,444	**3,127**	3,672
Payment of dividends	**(15,417)**	(14,491)	**(30,856)**	(28,971)
Repurchase and cancellation of shares under Normal Course Issuer Bid	**(9,097)**	—	**(11,119)**	—
Repayment of lease liability	**(382)**	—	**(1,053)**	—
Net cash used in financing activities	**(23,782)**	(11,047)	**(39,901)**	(25,299)
Cash flows (used in) from investing activities				
Additions to property, plant and equipment	**(4,335)**	(3,514)	**(14,084)**	(8,325)
Development costs	**119**	(1,257)	**(449)**	(2,243)
Proceeds on disposal of investment and property, plant and equipment	**508**	76	**618**	96
Purchase of short-term investments	**—**	(65,840)	**—**	(65,840)
Changes in non-cash working capital	**(1,683)**	211	**467**	550
Net cash used in investing activities	**(5,391)**	(70,324)	**(13,448)**	(75,762)
Effect of exchange rate on cash and cash equivalents	**(3,563)**	2,254	**(7,736)**	6,313
Net increase in cash and cash equivalents	**5,202**	(51,500)	**(14,705)**	(42,787)
Cash and cash equivalents, beginning of period	**183,931**	162,842	**203,838**	154,129
Cash and cash equivalents, end of period	**189,133**	111,342	**189,133**	111,342

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, 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 expense				4,894
Income tax expense				3,469
Net Income				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
Goodwill	1,259	7,468	2,600	11,327
Intangible assets	17,089	—	—	17,089
Segment assets	106,984	276,687	53,575	437,246
Segment liabilities	28,337	25,623	6,220	60,180

Three Months Ended June 30, 2018	Canada	United States	International	Total
(CDN 000s) (unaudited)	($)	($)	($)	($)
Revenue				
Drilling Data	4,180	26,973	4,267	35,420
Mud Management and Safety	2,962	14,643	1,699	19,304
Communications	1,506	4,200	405	6,111
Drilling Intelligence	1,117	2,909	348	4,374
Analytics and Other	900	1,553	609	3,062
Total Revenue	10,665	50,278	7,328	68,271
Rental services and local administration	6,136	17,455	4,765	28,356
Depreciation and amortization	4,223	4,100	897	9,220
Segment gross profit	306	28,723	1,666	30,695
Research and development				6,617
Corporate services				3,840
Stock-based compensation				3,855
Other expense				5,844
Income tax expense				5,060
Net income				5,479
Capital expenditures	1,087	3,537	147	4,771
As at				
Property plant and equipment	40,312	68,432	14,903	123,647
Goodwill	1,259	7,342	2,600	11,201
Intangible assets	21,952	—	—	21,952
Segment assets	110,409	272,311	41,703	424,423
Segment liabilities	45,763	14,713	4,742	65,218

Six Months Ended June 30, 2019	Canada	United States	International	Total
(CDN 000s) (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 expense				**5,052**
Income tax expense				**10,862**
Net Income				**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**
Goodwill	**1,259**	**7,468**	**2,600**	**11,327**
Intangible assets	**17,089**	**—**	**—**	**17,089**
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, 2018	Canada	United States	International	Total
(CDN 000s) (unaudited)	($)	($)	($)	($)
Revenue				
Drilling Data	14,100	50,671	7,944	72,715
Mud Management and Safety	9,623	27,879	3,062	40,564
Communications	5,275	7,898	736	13,909
Drilling Intelligence	3,235	5,053	667	8,955
Analytics and Other	1,856	2,885	1,200	5,941
Total Revenue	34,089	94,386	13,609	142,084
Rental services and local administration	13,464	34,340	9,448	57,252
Depreciation and amortization	8,608	7,928	1,859	18,395
Segment gross profit	12,017	52,118	2,302	66,437
Research and development				12,976
Corporate services				7,645
Stock-based compensation				6,389
Other expense				8,377
Income tax expense				13,212
Net Income				17,838
Capital expenditures	3,050	6,800	718	10,568
As at				
Property plant and equipment	40,312	68,432	14,903	123,647
Goodwill	1,259	7,342	2,600	11,201
Intangible assets	21,952	—	—	21,952
Segment assets	110,409	272,311	41,703	424,423
Segment liabilities	45,763	14,713	4,742	65,218

Other Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
	2019	2018	**2019**	2018
(CDN 000s) (unaudited)	**($)**	($)	**($)**	($)
Foreign exchange loss	**553**	5,787	**654**	8,191
Net interest expense - lease liabilities	**108**	—	**245**	—
Interest income - short term investments	**(283)**	—	**(468)**	—
Derecognition of lease receivable	**4,289**	—	**4,289**	—
Other	**227**	57	**332**	186
Other expense	**4,894**	5,844	**5,052**	8,377

Payment of Income Tax - Other

During the first quarter of 2019 the Company paid withholding tax owing to the Canada Revenue Agency (CRA) of $15,304 as part of the Bilateral Advanced Pricing Arrangement entered into with the CRA and the Internal Revenue Service (IRS). The Company will recover this amount from the IRS when its previous years US tax returns are reassessed.

Events After the Reporting Period

On August 8, 2019, the Company announced a quarterly dividend of $0.19 per share on the Company's common shares. The dividend will be paid on September 27, 2019 to shareholders of record at the close of business on September 13, 2019.

Second Quarter Conference Call

Pason will be conducting a conference call for interested analysts, brokers, investors and media representatives to review its second quarter 2019 results at 9:00 am (Calgary time) on Friday, August 9, 2019. The conference call dial-in number is 1-888-231-8191 or 1-647-427-7450. You can access the seven-day replay by dialing 1-855-859-2056 or 1-416-849-0833, using password 4267944.

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

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

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

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

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

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

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

Additional information on risks and uncertainties and other factors that could affect Pason's operations or financial results are included in Pason's reports on file with the Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or through Pason's website (www.pason.com). Furthermore, any forward looking statements contained in this news release are made as of the date of this news release, and Pason does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by securities law.