Condensed Consolidated Interim Financial Statements and Notes

Condensed Consolidated Interim Balance Sheets

As at	Note*	September 30, 2019	December 31, 2018
(CDN 000s) (unaudited)		($)	($)
Assets			
Current			
Cash and cash equivalents	5,13	**180,865**	203,838
Trade and other receivables		**65,903**	80,020
Income tax recoverable - other	6	**15,304**	15,304
Prepaid expenses		**3,813**	3,934
Income taxes recoverable		**1,937**	6,203
Total current assets		**267,822**	309,299
Non-current			
Property, plant and equipment	3	**122,471**	120,417
Intangible assets and goodwill	7	**55,869**	32,000
Total non-current assets		**178,340**	152,417
Total assets		**446,162**	461,716
Liabilities and equity			
Current			
Trade payables and accruals	7	**27,768**	34,229
Income taxes payable - other	6	**—**	15,304
Stock-based compensation liability	9	**6,918**	3,301
Lease liability	3	**2,926**	312
Total current liabilities		**37,612**	53,146
Non-current			
Deferred tax liabilities	8	**10,008**	17,060
Lease liability	3	**12,297**	2,233
Stock-based compensation liability	9	**5,580**	3,200
Gross obligation under put option	7	**9,923**	—
Total non-current liabilities		**37,808**	22,493
Equity			
Share capital	9	**167,827**	164,723
Share-based benefits reserve		**29,922**	27,287
Foreign currency translation reserve		**61,781**	63,574
Equity reserve	7	**(9,079)**	—
Retained earnings		**119,047**	130,493
Total equity attributable to shareholders		**369,498**	386,077
Non-controlling interest	7	**1,244**	—
Total equity		**370,742**	386,077
Total liabilities and equity		**446,162**	461,716

*The Notes are an integral part of these Consolidated Financial Statements.

Condensed Consolidated Interim Statements of Operations

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

*The Notes are an integral part of these Consolidated Financial Statements.

Condensed Consolidated Interim Statements of Other Comprehensive Income

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

*The Notes are an integral part of these Consolidated Financial Statements.

Condensed Consolidated Interim Statements of Changes in Equity

	Note*	Share Capital	Share-Based Benefits Reserve	Foreign Currency Translation Reserve	Equity Reserve	Retained Earnings	Total Equity Attributable to the Shareholders	Non-Controlling Interest	Total Equity
(CDN 000s) (unaudited)		($)	($)	($)	($)	($)	($)	($)	($)
Balance at January 1, 2018		150,887	24,425	40,358	—	131,816	347,486	—	347,486
Net income		—	—	—	—	42,224	42,224	—	42,224
Dividends		—	—	—	—	(44,349)	(44,349)	—	(44,349)
Other comprehensive income		—	—	7,707	—	—	7,707	—	7,707
Exercise of stock options	9	5,553	(888)	—	—	—	4,665	—	4,665
Expense related to vesting of options		—	3,535	—	—	—	3,535	—	3,535
Balance at September 30, 2018		156,440	27,072	48,065	—	129,691	361,268	—	361,268
Net income		—	—	—	—	20,720	20,720	—	20,720
Dividends					—	(15,436)	(15,436)	—	(15,436)
Other comprehensive income				15,509	—	—	15,509	—	15,509
Exercise of stock options		7,301	(954)		—	—	6,347	—	6,347
Expense related to vesting of options			1,169		—	—	1,169	—	1,169
Prior years business acquisition		1,500			—	—	1,500	—	1,500
Shares cancelled under Normal Course Issuer Bid		(95)	—	—	—	(826)	(921)	—	(921)
Liability for automatic share purchase plan commitment pursuant to NCIB		(423)	—	—	—	(3,656)	(4,079)	—	(4,079)
Balance at December 31, 2018		164,723	27,287	63,574	—	130,493	386,077	—	386,077
Net income		—	—	—	—	43,707	43,707	—	43,707
Dividends		—	—	—	—	(47,055)	(47,055)	—	(47,055)
Acquisition	7	—	—	—	(9,079)	—	(9,079)	1,244	(7,835)
Other comprehensive income	8	—	—	(1,793)	—	—	(1,793)	—	(1,793)
Exercise of stock options	9	3,990	(623)	—	—	—	3,367	—	3,367
Expense related to vesting of options		—	3,258	—	—	—	3,258	—	3,258
Shares cancelled under Normal Course Issuer Bid	9	(1,309)	—	—	—	(11,754)	(13,063)	—	(13,063)
Liability reversal for automatic share purchase plan commitment pursuant to NCIB	9	423	—	—	—	3,656	4,079	—	4,079
Balance at September 30, 2019		**167,827**	**29,922**	**61,781**	**(9,079)**	**119,047**	**369,498**	**1,244**	**370,742**

*The Notes are an integral part of these Consolidated Financial Statements.

Condensed Consolidated Interim Statements of Cash Flows

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Note*	**2019**	2018	**2019**	2018
(CDN 000s) (unaudited)		**($)**	($)	**($)**	($)
Cash from (used in) operating activities					
Net income		**15,418**	24,386	**43,707**	42,224
Adjustment for non-cash items:					
Depreciation and amortization		**9,917**	8,904	**30,117**	27,299
Stock-based compensation	9	**2,446**	2,589	**9,359**	8,978
Deferred income taxes		**2,101**	1,328	**3,520**	11,992
Derecognition of lease receivable	10	**—**	—	**4,289**	—
Unrealized foreign exchange loss (gain) and other		**1,523**	(1,168)	**106**	7,340
Hyperinflationary adjustment	10 12	**(1,506)**	—	**(1,506)**	—
Funds flow from operations		**29,899**	36,039	**89,592**	97,833
Movements in non-cash working capital items:					
Decrease (increase) in trade and other receivables		**4,922**	(11,941)	**9,021**	(18,688)
Decrease in prepaid expenses		**(1,066)**	(1,374)	**(45)**	(99)
Increase in income taxes		**3,476**	10,324	**4,699**	11,594
Increase (decrease) in trade payables, accruals and stock-based compensation liability		**2,270**	2,989	**(3,894)**	2,011
Effects of exchange rate changes		**(1,850)**	(75)	**(262)**	235
Cash generated from operating activities		**37,651**	35,962	**99,111**	92,886
Income tax paid	6	**(198)**	(4,153)	**(15,278)**	(9,116)
Net cash from operating activities		**37,453**	31,809	**83,833**	83,770
Cash flows from (used in) financing activities					
Proceeds from issuance of common shares	9	**239**	993	**3,366**	4,665
Payment of dividends	9	**(16,199)**	(15,378)	**(47,055)**	(44,349)
Repurchase and cancellation of shares under Normal Course Issuer Bid	9	**(1,944)**	—	**(13,063)**	—
Repayment of lease liability	3	**(840)**	—	**(1,893)**	—
Net cash used in financing activities		**(18,744)**	(14,385)	**(58,645)**	(39,684)
Cash flows (used in) from investing activities					
Acquisition	7	**(23,830)**	—	**(23,830)**	—
Additions to property, plant and equipment		**(3,398)**	(3,819)	**(17,482)**	(12,144)
Development costs		**(660)**	(1,039)	**(1,109)**	(3,282)
Proceeds on disposal of investment and property, plant and equipment		**188**	92	**806**	188
Purchase of short-term investments		**—**	—	**—**	(65,840)
Changes in non-cash working capital		**(516)**	(163)	**(49)**	387
Net cash used in investing activities		**(28,216)**	(4,929)	**(41,664)**	(80,691)
Effect of exchange rate on cash and cash equivalents		**1,239**	(4,075)	**(6,497)**	2,238
Net (decrease) increase in cash and cash equivalents		**(8,268)**	8,420	**(22,973)**	(34,367)
Cash and cash equivalents, beginning of period		**189,133**	111,342	**203,838**	154,129
Cash and cash equivalents, end of period	5	**180,865**	119,762	**180,865**	119,762

*The Notes are an integral part of these Consolidated Financial Statements.

Notes to Condensed Consolidated Interim Financial Statements
($CDN 000s, except per share data)

1. Description of Business

Pason Systems Inc. (the "Company") is a leading global provider of instrumentation and data management systems for drilling rigs.

The Company headquarters are located at 6130 Third Street SE, Calgary, Alberta, Canada. The Company is a publicly traded company listed on the Toronto Stock Exchange under the symbol PSI. The Consolidated Financial Statements of the Company are comprised of the Company and its subsidiaries (together referred to as the “Group” and individually as “Group entities”). The accompanying Consolidated Financial Statements include the accounts of Pason Systems Inc. and its wholly owned subsidiaries.

2. Basis of Preparation

Statement of compliance

These unaudited condensed Consolidated Interim Financial Statements have been prepared in accordance with the requirements of International Accounting Standard ("IAS") 34, Interim Financial Reporting and include the accounts of Pason and its wholly owned subsidiaries. All significant inter-company balances and transactions including revenue and expenses have been eliminated. These unaudited condensed Consolidated Interim Financial Statements do not include all of the information required for full annual financial statements and should be read in conjunction with the consolidated financial statements of the Company as at and for the year ended December 31, 2018.

3. Significant Accounting Policies

Adoption of new standard

IFRS 16, Leases

Effective January 1, 2019, the Company adopted IFRS 16, Leases. 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.

For the transition of this standard, the Company applied the modified retrospective approach with the recognition of the initial present value of fixed lease payments over the remaining lease term as a right of use asset and a corresponding lease liability on the Consolidated Balance Sheets as at January 2019, each totaling $9,764. The asset is disclosed as a right-of-use asset and the liability as a lease liability. The weighted average discount rate of 5% was used and is based on our estimated incremental borrowing rate. The prior year figures were not restated.

At the inception of a contract, the Company determines whether such a contract is or contains a lease under IFRS 16. Leased assets are capitalized at the date the lease commences and are comprised of the initial lease liability, less any lease incentives received. The lease term includes periods covered by any option to renew, where it is reasonably certain that the option will be exercised. The lease term will also include periods covered by any option to terminate, where it is reasonably certain that the option will not be exercised. The discount rate used will be the rate implicit in the lease if readily determinable. Depreciation is calculated based on the initial cost of the asset and recognized in net income on a straight line basis over the estimated useful life of the lease. The lease asset is included in property, plant, and equipment on the Consolidated Balance Sheets. Payments made related to the finance lease obligation are allocated between finance costs and the reduction of the outstanding liability. Finance costs are allocated to each period during the lease term using the effective interest rate method. Leases with durations of twelve months or less and leases for low-value assets are both exempted and in these cases the lease payments will be treated as an expense on the Consolidated Statement of Operations.

The cash flows of the total lease expense over the term of a lease will be unaffected by the new standard. However, the impact of the new standard on the Consolidated Statement of Operations results in the Company's lease expense being presented as depreciation of right of use assets and financing costs arising from lease liabilities rather than being a part of either rental services and local administration expense, research and development expenses, or corporate service costs.

The Company's actual cash flows will be unaffected, however relative to the prior year presentation and the prior standard, the Company's Consolidated Statement of Cash Flows will reflect an increase in net cash from operating activities offset by a corresponding decrease in financing activity cash flows due to the payment of the principal component of leases.

Under the new standard the onerous lease that the Company recorded previously has been segregated into two separate contracts, applying both the lessee and lessor accounting requirements. The sublease the Company entered into is classified as a finance lease for purposes of IFRS 16.

Balance sheet reconciliation as at January 1, 2019

Asset

(000s)	**($)**
Right of use assets - real estate	9,307
Right of use assets - other	457
Right of use asset as at January 1, 2019	**9,764**

The right of use assets are recorded as Property, plant, and equipment in the Condensed Consolidated Interim Balance Sheets.

Liability

(000s)	**($)**
Operating commitments as at December 31, 2018	18,261
Relief for short term leases and low value assets	(1,103)
New right of use asset entered into	485
Operating commitments not recognized as a lease liability	(6,527)
Gross lease liability as at January 1, 2019	**11,116**
Discounting	(1,352)
Lease liability as at January 1, 2019	**9,764**

Non-controlling interest

The Company recognizes non-controlling interest in an acquired entity either at fair value or at the minority interest's proportionate share of the acquired entity's net identifiable assets. This decision is made on an acquisition-by acquisition basis.

4. Seasonality

Pason's quarterly financial results vary quarter to quarter due in part to the seasonality of the oil and gas service industry in Canada, which is somewhat offset by the less seasonal nature of US and International operations. The first quarter is generally the strongest quarter for the Company 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, which, do not permit the movement of heavy equipment. Activity generally increases in the third quarter, depending on the year, as ground conditions often improve 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 same quarter for the previous year.

5. Cash and Cash Equivalents

As at	**September 30, 2019**	December 31, 2018
(CDN 000s) (unaudited)	**($)**	($)
Cash	**127,621**	57,819
Cash equivalents	**53,244**	146,019
Cash and cash equivalents	**180,865**	203,838

Cash equivalents are made up of cash invested in money market funds with interest rates of approximately 1.75% and maturities from 1–30 days.

6. Income Tax Recoverable - 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 has recorded an amount under current income tax recoverable - other which represents a corresponding amount owing from the IRS.

7. Acquisition

On September 10, 2019, a US subsidiary of the Company, Pason US Holdings Corp. ("Holdco") entered into an agreement with Energy Toolbase LLC (ETB LLC), whereby Holdco and ETB LLC formed Energy Toolbase Software Inc (ETB Inc). Holdco contributed 100% of the shares it held in Pason Power Inc. and $26,476 in return for an 80% interest in ETB Inc. ETB LLC owners contributed all of the ETB LLC partnership units in return for 20% of ETB Inc and $26,476 in cash.

ETB LLC is a private, US-based software-as-a-service (SaaS) company in the software development of a platform that specializes in modeling and proposing the economics of solar PV and energy storage projects.

The purchase agreement includes various put and call provisions which provide a certain amount of liquidity to both parties, including a put option for ETB LLC shareholders to exercise for cash their shareholdings of ETB Inc. starting in 2022 with reference to the fair value of ETB Inc. shares at the date the put option can be exercised (the “Put Option”).

The acquisition was accounted for as a business combination using the acquisition method whereby the net assets acquired and liabilities assumed are recorded at fair value.

The Company recorded the purchase price to intangible assets and goodwill of $28,564, with no further breakdown into the individual components due to the limited time between the closing of the acquisition and the preparation of these Interim Financial Statements. Management anticipates that the intangible assets will be comprised mostly of customer lists, licenses, technology and brand with the remainder allocated to goodwill. The goodwill balance is expected to be attributable to the acquisition of existing operating business with access to an assembled workforce and operating synergies anticipated from the integration of the operations of ETB LLC and the Company.

The acquisition date estimates for the consideration transferred consists of cash and the fair value of the options of $860 plus non-controlling interest of $1,244, which was determined as the present ownership instrument's share in recognized amounts of the ETB LLC's identifiable net assets.

A portion of the consideration, $2,646, has been withheld and is payable in 2020 in accordance with the terms of the hold-back provisions contained in the purchase agreement, such terms being customary post-closing conditions. This hold-back is recorded under trade payables and accruals in the condensed consolidated interim balance sheet.

As the Put Option is a contractual obligation to purchase its own equity instruments which gives rise to a financial liability, the financial liability is initially recognized at the present value of the estimated redemption amount (the "Gross obligation under put option"), and is reclassified from equity, with subsequent changes recognized through the income statement. At acquisition date and at September 30, 2019, the Gross obligation under the put option was estimated to be $9,923. The fair value of the call options are immaterial.

As of September 30, 2019, the Company had not yet completed the analysis to assign fair values to all assets acquired and liabilities assumed, and therefore the purchase price allocation, including the consideration transferred, for ETB LLC is preliminary. The preliminary purchase price allocation will be subject to further refinement and may result in material changes to the estimated fair value of assets acquired and liabilities assumed. The purchase price allocation adjustments can be made throughout the end of the Company's measurement period, which is not to exceed one year from the acquisition date.

The financial results of ETB will be included in the US segment. The amount of revenue and net income the acquired Company contributed from September 10 to September 30, 2019 is not material. If the acquisition had occurred on January 1, 2019, revenue and net income would have increased approximately $2,340 and $100 respectively.

All transaction costs have been expensed and are not significant.

8. Deferred Tax Liabilities

During the second quarter of 2019 an inter-company financing, which was initially put in place in 2012, expired. The Company refinanced the internal structure and as a result of the restructuring a previously recorded deferred tax liability of $9,690 was derecognized through the statement of Other Comprehensive Income.

9. Share Capital

	Common Shares			
	Nine Months Ended September 30, 2019		Year Ended December 31, 2018	
	($)	**(#)**	($)	(#)
Balance, beginning of period	**164,723**	**85,783**	150,887	85,158
Exercise of stock options	**3,990**	**198**	12,854	595
Previous business acquisition	**—**	**—**	1,500	80
Shares repurchased and cancelled under Normal Course Issuer Bid (NCIB)	**(1,309)**	**(682)**	(95)	(50)
Prior period liability for automatic share purchase plan commitment pursuant to NCIB	**423**	**—**	—	—
Liability for automatic share purchase plan commitment pursuant to NCIB	**—**	**—**	(423)	—
Balance, end of period	**167,827**	**85,299**	164,723	85,783

Common shares

At September 30, 2019, the Company was authorized to issue an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

The holders of common shares are entitled to receive dividends, as declared, and are entitled to one vote per share at meetings of the Company. All shares rank equally with regard to the Company's residual assets.

Stock option plan

The Group has a stock option plan that entitles qualified employees to purchase shares in the Company. Options, which are issued at market price, vest over three years and expire after five years.

At September 30, 2019, 5,135 (2018: 5,141) stock options were outstanding for common shares at exercise prices ranging from $15.94 to $26.68 per share, expiring between 2019 and 2024 as follows:

	Nine Months Ended September 30, 2019		Nine Months Ended September 30, 2018	
	Share Options	**Weighted Average Exercise Price**	Share Options	Weighted Average Exercise Price
	(#)	**($)**	(#)	($)
Outstanding, beginning of period	**5,534**	**20.00**	5,514	20.06
Granted	**40**	**18.85**	—	—
Equity settled	**(198)**	**16.98**	(273)	17.12
Expired or forfeited	**(241)**	**22.55**	(100)	19.43
Outstanding, end of period	**5,135**	**19.99**	5,141	20.22
Exercisable, end of period	**2,492**	**21.17**	2,411	22.89
Available for grant, end of period	**836**		839	

Stock-based compensation expense and liability

The stock option, restricted share unit (RSU), deferred share unit (DSU), and performance share unit (PSU) plans expense can be summarized as follows:

Expense

	Three Months Ended September 30, 2019		**Nine Months Ended September 30, 2019**	
	2019	2018	**2019**	2018
	($)	($)	**($)**	($)
Stock options	**1,177**	1,243	**3,259**	3,534
RSUs	**194**	369	**1,794**	1,972
DSUs	**(234)**	(122)	**180**	463
PSUs	**1,236**	829	**3,907**	2,199
Deferred compensation expense	**73**	270	**219**	810
Stock-based compensation	**2,446**	2,589	**9,359**	8,978

Liability

As at	**September 30, 2019**	December 31, 2018
	($)	($)
RSUs	**2,089**	1,109
PSUs	**4,027**	1,609
Deferred compensation expense	**802**	583
Current portion of stock-based compensation liability	**6,918**	3,301
RSUs	**1,052**	341
DSUs	**2,535**	2,355
PSUs	**1,993**	504
Non-current portion of stock-based compensation liability	**5,580**	3,200
Total stock-based compensation liability	**12,498**	6,501

Common share dividends

During the quarter ended September 30, 2019, the Company declared and paid dividends of $16,199 (2018: $15,378) or $0.19 per common share (2018: $0.18).

Normal Course Issuer Bid (NCIB)

During the fourth quarter of 2018, the Company implemented a NCIB program. Under the NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 6,556 common shares, which represent 10% of the public float.

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 32 common shares.

The NCIB commenced on December 18, 2018 and expires on December 17, 2019. In the third quarter of 2019, the Company purchased 109 common shares for cancellation, for a total cash consideration of $1,944. On a year to date basis, the Company purchased 682 common shares for cancellation, for a total cash consideration of $13,063.

Under an automatic purchase plan with an independent broker (APP), the Company recorded a liability of $4,079 at December 31, 2018 for share repurchases that could take place during its internal blackout period. The total accrual was included in the Consolidated Balance Sheet under trade payables and accruals. No APP was entered into at September 30, 2019.

As at	September 30, 2019	December 31, 2018
	($)	($)
Amounts charged to		
Share capital	—	423
Retained earnings	—	3,656
Liability for automatic share purchase plan commitment	—	4,079

10. Other Expense

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

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

In 2018, the Company commenced applying IAS 29, Financial Reporting in Hyperinflationary Economies for its Argentina subsidiary. Accordingly, the application of hyperinflation accounting has been applied to the non-monetary assets and liabilities, and shareholders' equity of the Argentina subsidiary. In the third quarter of 2019, a non-cash net monetary gain of $2,376 was recorded. The impact of applying this accounting standard on 2018 amounts was not material.

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

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

11. Income Per Share

Basic income per share

The calculation of basic income per share is based on the following weighted average number of common shares:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
	(#)	(#)	**(#)**	(#)
Issued common shares outstanding, beginning of period	**85,393**	85,378	**85,783**	85,158
Effect of exercised options and NCIB	**(61)**	32	**(60)**	114
Weighted average number of common shares outstanding for the period	**85,332**	85,410	**85,723**	85,272

Diluted income per share

The calculation of diluted income per share is based on a weighted average number of common shares outstanding after adjustment for the effects of all potential dilutive common shares calculated as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	**2019**	2018
	(#)	(#)	**(#)**	(#)
Weighted average number of common shares (basic)	**85,332**	85,410	**85,783**	85,272
Effect of share options	**67**	607	**28**	309
Weighted average number of common shares (diluted)	**85,399**	86,017	**85,811**	85,581

Options totaling 2,789 are excluded from the above calculation as their effect would have been anti-dilutive. The average market value of the Company's shares for purposes of calculating the dilutive effect of share options was based on quoted market prices during the period.

12. 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 three geographic segments are considered strategic business units. The strategic business units offer the same services, but are managed separately. For each of the strategic business units, the Group's senior management reviews internal management reports on a monthly basis.

Performance is measured based on gross profit as included in the internal management reports. Segment gross profit is used to measure performance, as management believes that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries. Inter-segment pricing is determined on an arm’s length basis. Intra-company balances and transactions are eliminated.

In 2018, management concluded that its Argentinian subsidiary is operating in a hyperinflationary economy. As a result of applying hyperinflation accounting to the operating results of this subsidiary, revenue and segment gross profit for the nine months ended September 30, 2019, was reduced by approximately $1,747 and $950 respectively. The 2018 impact was not material.

The following table represents a disaggregation of revenue from contracts with customers along with the reportable segment for each category:

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

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

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

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

13. Financial Instruments

The carrying values of the financial assets and liabilities approximate their fair value due to the short-term nature of these items. The Company's financial instruments include cash and cash equivalents, short-term investments, trade and other receivables, trade payables and accruals, and stock-based compensation liability.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values.

The three levels of the fair value hierarchy are as follows:

- Level 1 - Quoted prices in active markets for identical assets or liabilities.
- Level 2 - Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly.
- Level 3 - Inputs that are not based on observable market data.

Financial Assets and Liabilities at Fair Value

	Level 1	Level 2	Level 3	**September 30, 2019**
(CDN 000s) (unaudited)	($)	($)	($)	**($)**
Cash and cash equivalents	180,865	—	—	**180,865**

14. Approval of Financial Statements

The condensed unaudited Consolidated Interim Financial Statements were approved by the Board of Directors on November 6, 2019.

15. Events After the Reporting Period

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

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

Corporate Information

Directors

James D. Hill
Chairman of the Board
Pason Systems Inc.
Calgary, Alberta

James B. Howe(1)(4)(6)(7)
President
Bragg Creek Financial
Consultants Ltd.
Calgary, Alberta

Marcel Kessler
President & CEO
Pason Systems Inc.
Calgary, Alberta

T. Jay Collins(2)(3)(6)
Director
Oceaneering International Inc.
Houston, Texas

Judi Hess(2)(4)(5)
CEO & Director
Copperleaf Technologies Inc.
Vancouver, British Columbia

Laura Schwinn
President Specialty Catalysts
W. R. Grace & Co.
Columbia, Maryland

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

Officers & Key Personnel

Marcel Kessler
President
& Chief Executive Officer

Jon Faber
Chief Financial Officer

David Elliott
Vice President, Finance

Timur Kuru
Vice President, Operations – United States

Bryce McLean
Vice President, Operations – Canada

Russell Smith
Vice President, Operations – International & Offshore

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

Lars Olesen
Vice President, Product Management

Kevin Boston
Vice President, Business Development

Reid Wuntke
Vice President, New Ventures

Natalie Fenez
General Counsel

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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.