SECOND QUARTER INTERIM REPORT

For the three and six months ended June 30, 2020

pason

Performance Data

	Three Months Ended June 30,			Six Months Ended June 30,		
	2020	2019	Change	**2020**	2019	Change
(CDN 000s, except per share data) (unaudited)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**26,848**	72,894	(63)	**100,810**	155,037	(35)
EBITDA [1,2]	**4,271**	25,606	(83)	**37,740**	66,041	(43)
Adjusted EBITDA [1.2]	**(848)**	30,741	—	**32,457**	71,540	(55)
As a % of revenue	**(3.2)**	42.2	—	**32.2**	46.1	(1,390) bp
Funds flow from operations	**134**	23,794	(99)	**26,856**	59,693	(55)
Per share – basic	**0.00**	0.28	(100)	**0.32**	0.70	(54)
Per share – diluted	**0.00**	0.28	(100)	**0.32**	0.69	(54)
Cash from operating activities	**29,953**	37,938	(21)	**55,546**	46,380	20
Capital expenditures	**799**	4,216	(81)	**3,887**	14,533	(73)
Free cash flow [1]	**29,888**	32,547	(8)	**52,823**	32,932	60
Cash dividends declared	**0.19**	0.18	6	**0.38**	0.36	6
Net (loss) income	**(4,799)**	9,245	—	**11,753**	28,289	(58)
Net (loss) income attributable to Pason	**(4,487)**	9,245	—	**12,432**	28,289	(56)
Per share – basic	**(0.05)**	0.11	—	**0.15**	0.33	(55)
Per share – diluted	**(0.05)**	0.11	—	**0.15**	0.33	(55)
Total interest bearing debt	**—**	—	—	**—**	—	—
Shares outstanding end of period (#000's)	**84,096**	85,393	(2)	**84,096**	85,393	(2)

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

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

Q2 2020 vs Q2 2019

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

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

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

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

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

President's Message

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

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

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

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

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

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

Our EDR market share in the United States is now firmly over 65%, a great base to build from when the industry recovers. On the product side, customers continue to be impressed with Pason DAS, our drilling automation package. Drilling performance improves considerably when the optimization system is used in terms of higher rate of penetration (faster drilling) and minimized damaging vibrations, leading to longer life of the drill bit.

Our PVT Smart Alarms are gaining traction with key customers and the new DataHub Dashboard has been introduced with great feedback from users.

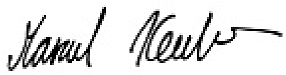
Energy Toolbase has made good progress with positive momentum on software subscriptions and new battery control systems sold. With the industry-leading software package to model the economics and build proposals for solar and energy storage (battery) projects, combined with the iEMS control system and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

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

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

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

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



Marcel Kessler
President and Chief Executive Officer
August 6, 2020

Management's Discussion and Analysis

The following discussion and analysis has been prepared by management as of August 6, 2020, and is a review of the financial condition and results of operations of Pason Systems Inc. (Pason or the Company) based on International Financial Reporting Standards (IFRS) and should be read in conjunction with the Consolidated Financial Statements and accompanying notes.

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

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

Impact of Hyperinflation

In 2018, the Company concluded that its Argentinian subsidiary is operating in a hyperinflationary economy. This conclusion impacts the application of two accounting standards, IAS 21, The Effects of Changes in Foreign Exchange, and IAS 29, Financial Reporting in Hyperinflationary Economies.

The impact of applying IAS 21 to the operating results of Argentina subsidiary for the second quarter of 2020 was to decrease revenue by $389 and reduce segment gross profit by $391. The impact of applying IAS 29 to the non-monetary assets and liabilities, and shareholders' equity of the Argentina subsidiary was to record a non-cash net monetary adjustment of $396 for the second quarter of 2020. The impact of applying these two standards on the comparative period in 2019 was not material.

Impact on IFRS Measures

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

Impact on Non-IFRS Measures

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

Additional IFRS Measures

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

Funds flow from operations

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

Cash from operating activities

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

Non-IFRS Financial Measures

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

Revenue per EDR day

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

EBITDA

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

Adjusted EBITDA

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

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

Free cash flow

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

Overall Performance

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

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

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

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

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

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

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

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

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

Discussion of Operations

United States Operations

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

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

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

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

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

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

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

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

Canadian Operations

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

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

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

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

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

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

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

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

International Operations

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

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

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

Corporate Expenses

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

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

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

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

During the second quarter of 2019, the Company was notified that the tenant that was leasing the Company’s previous office space in Colorado, USA filed for Chapter 7 bankruptcy. As a result, the Company derecognized the lease receivable and reported $4.3 million in other expenses.

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

Q2 2020 vs Q1 2020

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

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

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

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

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

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

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

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

Summary of Quarterly Results

Three Months Ended	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 30, 2020	**Jun 30, 2020**
(000s, except per share data) (unaudited)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	82,344	81,965	82,143	72,894	72,195	68,410	73,962	**26,848**
EBITDA [(1)]	44,169	38.418	40,435	25,606	33,167	25,555	33,469	**4,271**
Adjusted EBITDA [(1)]	42,480	39.415	40.799	30.741	31,489	26,615	33,305	**(848)**
Funds flow from operations	36,039	30,711	35,899	23,794	29,899	22,126	26,722	**134**
Per share – basic	0.42	0.36	0.42	0.28	0.35	0.26	0.32	**0.00**
Per share – diluted	0.42	0.36	0.42	0.28	0.35	0.26	0.32	**0.00**
Cash from operating activities	31,809	23,407	8,442	37,938	37,453	24,714	25,593	**29,953**
Free cash flow [(1)]	26,880	16,603	385	32,547	33,067	19,955	22,935	**29,888**
Net income (loss)	24,386	20,720	19,044	9,245	15,418	10,096	16,552	**(4,799)**
Net income (loss) attributable to Pason	24,386	20,720	19,044	9,245	15,418	10,405	16,919	**(4,487)**
Per share – basic	0.29	0.24	0.22	0.11	0.18	0.12	0.20	**(0.05)**
Per share – diluted	0.28	0.24	0.22	0.11	0.18	0.12	0.20	**(0.05)**

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

Reconcile Income to EBITDA

Three Months Ended	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 30, 2020	**Jun 30, 2020**
(000s) (unaudited)	($)	($)	($)	($)	($)	($)	($)	($)
Net income (loss)	24,386	20,720	19,044	9,245	15,418	10,096	16,552	**(4,799)**
Add:								
Income taxes	8,754	7,192	7,393	3,469	5,485	3,846	7,023	**(1,072)**
Depreciation and amortization	8,904	7,556	10,222	9,978	9,917	10,713	10,414	**8,612**
Stock-based compensation	2,589	3,335	3,824	3,089	2,446	1,481	(122)	**1,868**
Net interest income	(464)	(385)	(48)	(175)	(99)	(581)	(398)	**(338)**
EBITDA [(1)]	44,169	38,418	40,435	25,606	33,167	25,555	33,469	**4,271**

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

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 30, 2020	**Jun 30, 2020**
(000s) (unaudited)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	44,169	38,418	40,435	25,606	33,167	25,555	33,469	**4,271**
Add:								
Foreign exchange (gain) loss	(1,516)	1,007	101	553	615	930	(47)	**79**
Derecognition of onerous lease	—	—	—	—	—	—	—	**(5,757)**
Government wage assistance	—	—	—	—	—	—	—	**(4,363)**
Reorganization costs	—	—	—	—	—	—	—	**5,554**
Derecognition of lease receivable	—	—	—	4,289	—	—	—	**—**
Net monetary gain	—	—	—	—	(2,376)	(511)	(419)	**(396)**
Other	(173)	(10)	263	293	83	641	302	**(236)**
Adjusted EBITDA [(1)]	42,480	39,415	40,799	30,741	31,489	26,615	33,305	**(848)**

(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	Sept 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	Sept 30, 2019	Dec 31, 2019	Mar 30, 2020	**Jun 30, 2020**
(000s) (unaudited)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	31,809	23,407	8,442	37,938	37,453	24,714	25,593	**29,953**
Less:								
Net additions to property, plant and equipment	(3,890)	(5,621)	(7,489)	(5,510)	(3,726)	(4,143)	(2,236)	**(644)**
Deferred development costs	(1,039)	(1,183)	(568)	119	(660)	(616)	(422)	**579**
Free cash flow [1]	26,880	16,603	385	32,547	33,067	19,955	22,935	**29,888**

(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 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, 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.

Liquidity and Capital Resources

As at June 30,	2020	2019	Change
(000s) (unaudited)	($)	($)	(%)
Cash and cash equivalents	**176,486**	189,133	(7)
Working capital	**182,051**	250,359	(27)
Funds flow from operations (1)	**26,856**	59,693	(55)
Capital expenditures (1)	**3,887**	14,533	(73)
As a % of funds flow (1) (2)	**14.5 %**	24.3 %	(980) bps

(1) Figures are for the six months ended June 30.
(2) Calculated by dividing capital expenditures by funds flow from operations.

Contractual Obligations

	Less than 1 year	1–3 years	Thereafter	Total
(000s) (unaudited)	($)	($)	($)	($)
Operating leases and other contracts	5,650	10,775	2,367	18,792

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.

The Company has available a $5.0 million demand revolving credit facility. At June 30, 2020, no amount had been drawn on the facility.

Disclosure of Outstanding Share and Options Data

As at June 30, 2020, there were 84,096 common shares and 4,767 options issued and outstanding.

SEDAR

Additional information relating to the Company 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.

Depreciation and Amortization

The accounting estimate that has the greatest impact on the Company's financial statements is depreciation and amortization. Depreciation of the Company's capital assets includes estimates of useful lives. These estimates may change with experience over time so that actual results could differ significantly from these estimates.

Carrying Value of Assets

The carrying amounts of the Company's non-financial assets, other than deferred tax assets, are reviewed at each reporting date to determine whether there is any indication of impairment. Judgments and assessments are made to determine whether an event has occurred that indicates a possible impairment. If any such indication exists, then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite useful lives or that are not yet available for use, the recoverable amount is estimated each year.

At June 30, 2020, the Company performed an impairment test for property, plant and equipment and goodwill and concluded that there was no impairment. Given the uncertainty facing the oil and gas industry, as a result of COVID-19 and over-supply of oil, the Company will re-asses its assumptions and, if warranted, will perform another impairment test at September 30, 2020.

Stock-Based Payments

The fair value of stock-based payments is calculated using a Black-Scholes option pricing model. There are a number of estimates used in the calculation, such as the future 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.

Income Taxes

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 for the carry-forward of unused tax losses and unused tax credits when it is probable that taxable income will be available to utilize unused tax losses and unused tax credits. This requires estimation of future taxable income and usage 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 organization's appetite for risk considering our 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 11th, 2020, the World Health Organization declared the COVID-19 outbreak a 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 have reduced their capital expenditure programs which has led to a precipitous fall in the active rig count in Pason's major markets. This supply / demand imbalance will have a direct impact on Pason's revenue in the near-term. 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.

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, the foreign supply of crude oil, 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 which 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.

Availability of 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. To mitigate this risk, Pason has a Human Resources department within each significant business unit to support that function.

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. Approximately 90% 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.

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 consolidation 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 has not hedged either one of these risks.

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, 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 detrimental impact on Pason's revenue.

Key Personnel

Pason's success depends to a significant extent on the contributions of a number of its officers and key employees. The Company does not carry "key person" insurance on any of its key employees. As such, the loss of services of one or more of these key employees could have a material adverse effect on Pason's business, operating results, or financial condition.

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.

Corporate Information

Directors

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

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

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

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

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

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

Marcel Kessler
President
& Chief Executive Officer

Jon Faber
Chief Financial Officer

David Elliott
Vice President, Finance

Bryce McLean
Vice President, Operations

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
President, Energy Toolbase Software Inc.

Natalie Fenez
Vice President, Legal & Corporate Secretary

Fiona Mueller-Thode
President, Verdazo Analytics Inc.

Corporate Head Office

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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.