Management's Discussion and Analysis

The following management's discussion and analysis ("MD&A") has been prepared by management as of February 28, 2024, and is a review of the financial condition and results of operations of Pason Systems Inc. ("Pason" or the "Company") based on International Financial Reporting Standards ("IFRS") and should be read in conjunction with the Consolidated Financial Statements for the twelve months ended December 31, 2023 and 2022, and accompanying notes, and Pason's Annual Information Form dated March 15, 2023.

The Company uses certain non-GAAP measures to provide readers with additional information regarding the Company's operating performance, ability to generate funds to finance its operations, fund its research and development, capital expenditure program, and pay dividends. These non-GAAP measures are defined under Non-GAAP Financial Measures.

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

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

Company Profile

Pason is a leading global provider of specialized data management systems for oil and gas drilling. Pason's solutions, which include data acquisition, wellsite reporting, automation, remote communications, web-based information management, and data analytics enable collaboration between the drilling rig and the office. Pason services major oil and gas basins with a local presence in the following countries: United States, Canada, Argentina, Australia, Brazil, Colombia, Dubai, Ecuador, Mexico, Peru and Saudi Arabia. The Company has an over 40-year track record of distinctive technology and service capabilities offering end-to-end data management solutions enabling secure access to critical drilling operations information and decision making in real time.

Through Intelligent Wellhead Systems Inc. ("IWS"), Pason also provides engineered controls, data acquisition, and software, to automate workflows and processes for oil and gas well completions operations, improving wellsite safety and efficiency.

Through Energy Toolbase ("ETB"), the Company also provides products and services for the solar power and energy storage industry. ETB's solutions enable project developers to model, control, and monitor economics and performance of solar energy and storage projects.

For a complete description of services provided by the Company, please refer to the headings 'General Development of the Business' and 'General Description of Business' in Pason's Annual Information Form dated March 15, 2023.

Highlights

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2023	2022	Change	**2023**	2022	Change
(CDN 000s, except per share data)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue	**93,295**	94,420	(1)	**369,309**	334,998	10
EBITDA (1)	**22,169**	53,248	(58)	**154,713**	170,266	(9)
Adjusted EBITDA (1)	**38,888**	48,944	(21)	**171,466**	159,510	7
As a % of revenue	**41.7**	51.8	(1,010) bps	**46.4**	47.6	(120) bps
Funds flow from operations	**37,455**	45,971	(19)	**154,472**	134,885	15
Per share – basic	**0.47**	0.56	(17)	**1.92**	1.65	17
Per share – diluted	**0.47**	0.56	(17)	**1.92**	1.63	18
Cash from operating activities	**27,412**	19,942	37	**135,033**	104,414	29
Net capital expenditures (2)	**8,095**	16,233	(50)	**38,002**	33,941	12
Free cash flow (1)	**19,317**	3,709	421	**97,031**	70,473	38
Cash dividends declared (per share)	**0.12**	0.12	—	**0.48**	0.36	33
Net income	**8,012**	35,994	(78)	**95,827**	105,726	(9)
Net income attributable to Pason	**8,495**	36,257	(77)	**97,539**	107,616	(9)
Per share – basic	**0.11**	0.44	(75)	**1.21**	1.31	(8)
Per share – diluted	**0.11**	0.44	(75)	**1.21**	1.30	(7)

(1) Non-GAAP financial measures are defined under Non-GAAP Financial Measures

(2) Includes additions to property, plant, and equipment and development costs, net of proceeds on disposal from Pason's Consolidated Statements of Cash Flows

As at	December 31, 2023	December 31, 2022	Change
(CDN 000s)	**($)**	($)	(%)
Cash and cash equivalents	**171,773**	132,057	30
Short-term investments	**—**	40,377	nmf
Total Cash (1)	**171,773**	172,434	—
Working capital	**212,561**	213,899	(1)
Total interest bearing debt	**—**	—	—
Shares outstanding end of period (#)	**79,685,025**	81,526,954	(2)

(1) Total Cash is defined as total cash and cash equivalents and short-term investments from Pason's Consolidated Balance Sheets

Pason's financial results for the three and twelve months ended December 31, 2023, reflect the Company's strong competitive positioning, prudent balance sheet, and ability to outpace underlying industry activity.

Pason generated $93.3 million in revenue in the fourth quarter of 2023, representing a 1% decrease from the $94.4 million generated in the comparative period of 2022. While industry activity levels in North America, the Company's largest end market, decreased by 19% year over year, the Company was able to grow Revenue per Industry Day by 12% in that same period to $998, posting a new record quarterly level. With this revenue, Pason generated $38.9 million in Adjusted EBITDA, or 41.7% of revenue in the fourth quarter of 2023, compared to $48.9 million in the fourth quarter of 2022, or 51.8% of revenue. A comparison of Adjusted EBITDA margin year over year reflects inflationary effects on the Company's mostly fixed cost base for its drilling related business units, higher levels of lower margin sales from its solar and energy storage segment, and the inclusion of equity accounted losses related to supporting the rapid growth of Intelligent Wellhead Systems (IWS). Excluding these equity accounted losses, Pason's Adjusted EBITDA margin in the fourth quarter of 2023 would have been 44%.

Similarly, the Company recorded net income attributable to Pason of $8.5 million ($0.11 per share) in the fourth quarter of 2023, compared to net income attributable to Pason of $36.3 million ($0.44 per share) recorded in the corresponding period in 2022. The year over year decline is driven by the lower level of Adjusted EBITDA seen in the fourth quarter of 2023 as described above, along with a $14.2 million foreign exchange loss recognized in the fourth quarter of 2023, primarily attributable to the revaluation of cash and working capital balances in the Company's Argentinian subsidiary with the significant devaluation of the Argentinian Peso seen in December 2023.

Pason's balance sheet remains strong, with no interest bearing debt, and $171.8 million in Total Cash as at December 31, 2023, compared to $172.4 million as at December 31, 2022. During the fourth quarter of 2023, Pason generated $27.4 million in cash from operating activities and $19.3 million in Free Cash Flow, both representing increases from the levels generated in the 2022 comparative period while the Company continued to make required investments in working capital and capital expenditures.

In the fourth quarter of 2023, Pason returned $14.6 million to shareholders through the Company's quarterly dividend of $9.6 million and $5.0 million in share repurchases. Also in the fourth quarter of 2023, the Company approved and funded the final $5.0 million of the available preferred share subscriptions for its non-controlling investment in Intelligent Wellhead Systems Inc. ("IWS") and exercised its call option to purchase the remaining and outstanding shares of IWS effective January 1, 2024. As part of the transaction, Pason assumed net debt of approximately $7.0 million and paid total consideration of $88.3 million, financed with cash on hand subsequent to December 31, 2023.

President’s Message

Pason’s operating and financial results for the fourth quarter and full year of 2023 highlight the resilience of the Company’s business in the context of more challenging industry conditions. Our strong competitive position in the drilling-related business and growing presence in additional end markets allow us to outperform underlying levels of oil and gas drilling activity in North America.

Pason generated consolidated revenue of $369.3 million in 2023, up 10% from 2022, while industry activity decreased by 5% over the same period. North American Revenue per Industry Day continued to increase to $950 for the full year, up 11% from the prior year, largely resulting from increased product adoption and improved price realization. Our International business unit posted revenue of $63.8 million, representing the highest level of revenue from international markets in Pason’s history. Energy Toolbase (ETB), which operates in the solar and energy storage market, also posted impressive revenue growth in the year, with annual revenue of $15.7 million representing a 118% increase from 2022 levels.

Adjusted EBITDA of $171.5 million for the year was up 7% from 2022. Free cash flow for the year of $97.0 million represented a 38% increase from the prior year, while net income attributable to Pason of $97.5 million was down 9% over the same period, primarily as a result of the significant devaluation of the Argentine peso in the fourth quarter.

Consolidated revenue in the fourth quarter of $93.3 million was 1% lower than the fourth quarter of 2022, outpacing a 19% decrease in North American industry activity. North American Revenue per Industry Day in the quarter of $998 was up 12% from the prior year period. Revenue per Industry Day has grown at a compound annual growth rate of 11% from the fourth quarter of 2020, in the midst of the COVID-19 pandemic. Adjusted EBITDA of $38.9 million was down 21% from the fourth quarter of 2022, while free cash flow increased from $3.7 million to $19.3 million. EBITDA margins were impacted in the fourth quarter by inflationary effects on our mostly fixed cost base, a large increase in the amount of lower margin sales of control systems from Energy Toolbase, and the inclusion of equity accounted losses related to supporting the rapid growth of Intelligent Wellhead Systems (IWS). Net income attributable to Pason decreased 77% year-over-year to $8.5 million, notably impacted by a $14.2 million foreign exchange loss mostly resulting from the significant devaluation of the Argentine peso in December 2023.

Our approach to capital allocation remains focused on returning meaningful capital to shareholders, while pursuing attractive opportunities to strengthen our business through capital expenditures in oil and gas drilling and completions, and investing in the continued growth of Energy Toolbase. In 2023, we returned $66.5 million to shareholders, with $38.5 million in dividends and $27.9 million in share repurchases. We will continue to pursue disciplined returns over time through our regular quarterly dividend, which we are increasing to $0.13 per share. We maintain flexibility in our approach to shareholder returns by evaluating share repurchases in the context of attractive organic capital investments to generate additional free cash flow. Net capital expenditures in 2023 totaled $38.0 million, with the timing of deliveries impacting approximately $5 million of expected 2023 capital expenditures. During the year, we also deployed $15.4 million to our investment in IWS, including the final $15 million of the $25 million preferred share financing arrangement announced in December 2022. We currently expect to spend between $75 to $80 million in capital expenditures in 2024. Our increased capital expenditures in 2024 are primarily the result of including IWS capital investments and, to a much lesser extent, the impact of the timing of certain equipment deliveries related to our expected 2023 capital expenditures.

At December 31, 2023, we had positive working capital of $212.6 million, including cash and cash equivalents of $171.8 million. Subsequent to year-end, we closed the previously announced acquisition of Intelligent Wellhead Systems for total cash consideration of $88.3 million. Our balance sheet continues to allow us to manage through the volatility arising from our operating leverage and changes in revenue related to industry activity, while continuing to pursue attractive investment opportunities and return cash to shareholders.

While we expect to benefit from gradually increasing rig counts later in 2024 and beyond, we expect that in the short-term, drilling activity will remain near current levels. The US land rig count, as reported by Baker Hughes, has plateaued in a tight band between 597 and 606 rigs since the beginning of the fourth quarter of 2023. The pace of reduction in the inventory of drilled but uncompleted wells (DUCs) has also slowed after being drawn down by 18% over the past year. As such, we expect that completions activity will begin to more closely track drilling activity going forward. The ability to sustain US land production to help meet expectations of growing global oil demand will depend on increased drilling and completions activity going forward.

Pason is well positioned to deliver consistent, strong results going forward. We see supportive tailwinds in each of our end markets to support growth in 2024 and beyond.

We have demonstrated our ability to outpace underlying industry activity in our drilling-related business through increased Revenue per Industry Day in a flat or declining rig count environment. As customers continue to utilize increasing amounts of data to support their automation and analytics efforts, our position as the leading provider of high quality data will provide further opportunities for product adoption and new data delivery products. We have experienced a very positive market response as we have begun rolling out an innovative new drilling mud analyzer to provide continuous, real-time readings of critical drilling mud parameters.

The acquisition of the remainder of IWS, which closed at the start of this year, was the largest acquisition in Pason's history and represents a meaningful opportunity for Pason to deliver material revenue growth outside of oil and gas drilling. IWS generated revenue of approximately $45 million in 2023, representing a compounded annual growth rate in excess of 85% since Pason's initial investment in 2019. We have not only been impressed with the amount of revenue growth that IWS has been able to achieve, but also the profile of that growth. IWS has demonstrated impressive capabilities in the acquisition of new customers, retention of existing customers and expansion of product and service offering.

The completions industry has historically lagged the drilling industry in its use of technology to drive operational performance. Combining Pason and IWS will allow us to deliver products and services that support the industry's increasing use of data-driven technologies. IWS has seen significant revenue growth from its inVision technology platform, with increasing adoption of its Digital Valve Control offering and we expect IWS' automation products to drive further revenue growth in 2024. In addition, as we bring together the experience and expertise of Pason and IWS, we are focused on establishing a compelling data aggregation solution in the completions space. As customers continue to pursue automation and analytics efforts, including the establishment of remote operating centers, access to consistent, high-quality data from disparate sources is increasingly important. The challenges around handling complex data management requirements in remote operating environments are significant. Pason's experience over more than four decades in solving similar challenges in the oil and gas drilling market provides a natural advantage to making meaningful and rapid advancements in this increasingly important technology space.

Our efforts to provide both automation and data aggregation technologies for the completions space are supported by a best-in-class field service and support organization. We will make the necessary operational, working capital and capital expenditure investments required to support IWS ‘s high growth rate. Over time, as IWS achieves greater scale, we anticipate that margins and returns on capital could approach similar levels to those of our drilling-related business.

Energy Toolbase stands to benefit from growing demand for energy storage to support renewable energy projects. The strong revenue growth ETB posted in 2023 stemmed from focusing our efforts on growing subscription revenues from our economic modeling software tool, and executing on a growing pipeline of control system sales opportunities. We are expanding the functionality of our economic modeling tool to address the unique requirements of additional markets, and our pipeline of control systems opportunities has seen sizeable growth as regulatory changes provide additional incentives for solar project developers to incorporate energy storage in their proposals.

With our increasing exposure to end markets not directly tied to drilling activity, we are more resilient to slowdowns in industry activity while remaining well positioned for much higher levels of growth as drilling and completions activity begins to increase.

Jon Faber
President and Chief Executive Officer
February 28, 2024

Discussion of Operations

Overall Performance

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**49,013**	50,986	(4)	**198,635**	180,430	10
Mud Management and Safety	**25,371**	26,635	(5)	**101,826**	93,312	9
Communications	**4,422**	5,276	(16)	**17,716**	19,359	(8)
Drilling Intelligence	**6,168**	6,662	(7)	**23,511**	23,915	(2)
Analytics and Other	**8,321**	4,861	71	**27,621**	17,982	54
Total revenue	**93,295**	94,420	(1)	**369,309**	334,998	10
Operating expenses						
Rental services	**33,816**	29,297	15	124,234	109,879	13
Local administration	**3,883**	3,314	17	14,189	12,554	13
Depreciation and amortization	**7,797**	5,399	44	27,216	20,842	31
	45,496	38,010	20	**165,639**	143,275	16
Gross profit	**47,799**	56,410	(15)	**203,670**	191,723	6
Other expenses						
Research and development	**10,392**	9,556	9	**41,247**	37,573	10
Corporate services	**4,133**	3,842	8	**16,422**	15,192	8
Stock-based compensation expense	**4,732**	5,129	(8)	**11,718**	15,230	(23)
Other (income) expense	**13,820**	(7,516)	nmf	**4,110**	(15,403)	nmf
	33,077	11,011	200	**73,497**	52,592	40
Income before income taxes	**14,722**	45,399	(68)	**130,173**	139,131	(6)
Income tax provision	**6,710**	9,405	(29)	**34,346**	33,405	3
Net income	**8,012**	35,994	(78)	**95,827**	105,726	(9)
Adjusted EBITDA [1]	**38,888**	48,944	(21)	**171,466**	159,510	7

(1) Non-GAAP financial measures are defined under Non-GAAP Financial Measures

The Company reports on three strategic business units: The North American (Canada and the United States) and International (Latin America, including Mexico, Offshore, the Eastern Hemisphere, and the Middle East) business units, all of which offer technology services to the oil and gas industry, and the Solar and Energy Storage business unit, which provides technology services to solar and energy storage developers.

North American Operations

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**38,477**	42,412	(9)	**160,904**	148,516	8
Mud Management and Safety	**21,511**	23,411	(8)	**87,912**	81,823	7
Communications	**3,310**	4,469	(26)	**14,186**	16,703	(15)
Drilling Intelligence	**5,784**	6,204	(7)	**21,874**	22,271	(2)
Analytics and Other	**1,425**	1,191	20	**4,887**	5,256	(7)
Total revenue	**70,507**	77,687	(9)	**289,763**	274,569	6
Rental services and local administration	**24,225**	22,384	8	**92,943**	85,624	9
Depreciation and amortization	**6,366**	4,226	51	**23,623**	17,943	32
Segment gross profit	**39,916**	51,077	(22)	**173,197**	171,002	1

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2023	2022	Change	**2023**	2022	Change
	($)	($)	(%)	**($)**	($)	(%)
Revenue per Industry Day	**998**	890	12	**950**	853	11

Industry activity in North America declined 19% compared to the prior year comparative period, driven primarily by a reduction in US rig counts. However, Pason's Revenue per Industry Day in the fourth quarter of 2023 of $998 was a new quarterly record for the Company and a 12% increase from the comparative 2022 period. Revenue per Industry Day in the current quarter continues to represent strong product adoption and improved pricing for the Company's products and technologies. As a result, improvements in Revenue per Industry Day partially offset the decline in industry activity, and revenue only fell by 9% year over year, from $77.7 million in the fourth quarter of 2022 to $70.5 million in the fourth quarter of 2023.

As certain regions within the North American segment experience fluctuations in activity levels due to seasonality, Pason expects Revenue per Industry Day and revenue categories to fluctuate with the relative revenue levels associated within the North American regions.

Rental services and local administration increased 8% in the fourth quarter of 2023 over the 2022 comparative period. The increase in operating costs is primarily attributable to inflationary effects on the Company's fixed cost base, which was put in place to service higher levels of activity seen throughout the second half of 2022 and beginning of 2023. This primarily includes costs associated with the Company's field service presence throughout North America, as well as support functions. Further, the Company caught up on certain repair costs in the fourth quarter of 2023, and US sourced rental services and local administration costs were negatively impacted in the fourth quarter of 2023 from a stronger US dollar versus the Canadian dollar.

Depreciation and amortization increased by 51% in the fourth quarter of 2023 over the 2022 comparative period. The increase is primarily due to higher capital expenditures in recent quarters.

Segment gross profit was $39.9 million during the fourth quarter of 2023 compared to $51.1 million in the comparative period of 2022, with lower levels of revenue in the current quarter over the business unit's mostly fixed cost base, which is in place to support higher levels of activity than seen in the latter half of 2023.

On a year to date basis, revenue of $289.8 million and segment gross profit of $173.2 million represent improvements from the prior year's comparative results driven by the 11% increase in Revenue per Industry Day offsetting the 5% decline seen in industry activity year over year.

International Operations

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Drilling Data	**10,536**	8,574	23	**37,731**	31,914	18
Mud Management and Safety	**3,860**	3,224	20	**13,914**	11,489	21
Communications	**1,112**	807	38	**3,530**	2,656	33
Drilling Intelligence	**384**	458	(16)	**1,637**	1,644	—
Analytics and Other	**2,049**	1,328	54	**7,012**	5,519	27
Total revenue	**17,941**	14,391	25	**63,824**	53,222	20
Rental services and local administration	**8,774**	7,338	20	**30,316**	26,742	13
Depreciation and amortization	**1,426**	1,168	22	**3,573**	2,879	24
Segment gross profit	**7,741**	5,885	32	**29,935**	23,601	27

The International business unit generated $17.9 million of reported revenue in the fourth quarter of 2023, a 25% increase over the comparative period of 2022. While activity levels in the international end markets the Company serves remain stable and the Company's competitive position continues to be strong, fourth quarter 2023 international results benefited from strength in the US dollar and the associated impact on US dollar linked revenue contracts. Further, in the fourth quarter of 2023, the Company recognized a $0.7 million increase to revenue relating to a contractual foreign exchange and inflationary related adjustment clause with one of its major customers in Argentina.

As further outlined under the Impact of Hyperinflation heading of this MD&A, in the fourth quarter of 2023, the Company had a change in functional currency for its Argentinian subsidiary. As a result, starting in the fourth quarter of 2023, the Company no longer applies hyperinflationary accounting rules for its Argentinian subsidiary. The impacts of these accounting entries on the first nine months of 2023 and comparative 2022 periods are outlined under the heading Impact of Hyperinflation.

Rental services and local administration expense was $8.8 million in the fourth quarter of 2023, an increase of 20% compared to $7.3 million in the comparative period of 2022. These expenses were also impacted by a strengthening US dollar for expenses linked to the US dollar. Depreciation and amortization increased by 22% in the fourth quarter of 2023 over the 2022 comparative period with higher capital expenditures in recent quarters.

For the three months ended December 31, 2023, the resulting segment gross profit was $7.7 million during the fourth quarter of 2023 compared to $5.9 million in the 2022 comparative period due to the factors outlined above.

On a year to date basis, revenue of $63.8 million and segment gross profit of $29.9 million represent improvements from the prior year comparative results and reflect higher levels of activity in 2023 coupled with strong operating leverage.

Solar and Energy Storage Operations

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Revenue						
Analytics and Other	**4,847**	2,342	107	**15,722**	7,207	118
Total revenue	**4,847**	2,342	107	**15,722**	7,207	118
Operating expenses and local administration (1)	**4,700**	2,889	63	**15,164**	10,067	51
Depreciation and amortization	**5**	5	—	**20**	20	—
Segment gross profit (loss)	**142**	(552)	nmf	**538**	(2,880)	nmf

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

The Solar and Energy Storage business unit generated $4.8 million in revenue in the fourth quarter of 2023, an increase of 107% from the comparative period in 2022 driven primarily by increased control system sales. Quarterly revenue for the Solar and Energy Storage business unit will fluctuate with the timing of control system project deliveries.

Operating expenses and local administration were $4.7 million during the fourth quarter of 2023, a 63% increase from $2.9 million during the comparable period. The increase is primarily due to hardware costs associated with sold control systems in the current quarter. Segment gross profit was $0.1 million for the fourth quarter of 2023 compared to a segment gross loss of $0.6 million in the comparable period in 2022.

Year to date, revenue generated by the segment totaled $15.7 million, a 118% increase over the comparative period in 2022, demonstrating increased sales in both the Company's economic modeling software platform and control system product offering. Segment gross profit followed suit and increased from a $2.9 million loss during the twelve months ended December 31, 2022, to profit of $0.5 million in 2023.

The Solar and Energy Storage business unit incurred the following research and development costs, which are included in research and development in the Company's Consolidated Statements of Operations. Consistent with the Company's other reporting segments, research and development costs are excluded from the segment gross loss table above.

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Research and development	**1,213**	983	23	**4,821**	4,936	(2)

Corporate Expenses

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Research and development	**10,392**	9,556	9	**41,247**	37,573	10
Corporate services	**4,133**	3,842	8	**16,422**	15,192	8
Stock-based compensation	**4,732**	5,129	(8)	**11,718**	15,230	(23)
Total corporate expenses	**19,257**	18,527	4	**69,387**	67,995	2

The Company's Research and development costs include expenditures on research and development activities, as well as ongoing support for IT and technology platforms. Fourth quarter research and development and corporate service expenses increased 9% and 8%, respectively, from the comparative period in 2022. Throughout 2022 and continuing into 2023, Pason has made additional investments in research and development, further improving the Company's ability to support an increased level of activity as well as product enhancements. Further, the year over year increases in research and development and corporate services expenses include inflationary effects on the Company's compensation levels.

The change in stock-based compensation expense is attributable to the change in the Company's share price performance and ongoing vesting of outstanding awards.

Other Expenses (Income)

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Put option revaluation	**(149)**	(5,815)	(97)	**(149)**	(5,815)	(97)
Net interest income	**(5,082)**	(2,679)	90	**(14,394)**	(4,937)	192
Net monetary gain	**—**	(536)	nmf	**(2,832)**	(1,849)	53
Foreign exchange loss (gain)	**14,247**	1,959	627	**16,758**	(2,024)	nmf
Other expenses (income)	**1,035**	88	nmf	**1,390**	(1,068)	nmf
Equity loss (gain)	**3,769**	(533)	nmf	**3,337**	290	1,051
Total other expenses (income)	**13,820**	(7,516)	nmf	**4,110**	(15,403)	nmf

In the fourth quarter of 2023, the Company recorded a $0.2 million recovery on the obligation under put option associated with the purchase of ETB to reflect the change in the fair value of the outstanding obligation. Refer to the Put Obligation heading of this MD&A for further information.

Net interest income is primarily comprised of interest generated from the Company's invested Total Cash and will fluctuate as available yields fluctuate. The increase year over year is a reflection of the higher levels of cash invested and the increased interest rate environment, along with interest income generated on the Company's preferred share investments in IWS.

Net monetary gain included in other income results from applying hyperinflation accounting to the Company's Argentinian subsidiary for the first nine months of 2023. Refer to the heading Impact of Hyperinflation for further details.

Equity (gain) loss results from the Company using the equity method of accounting to account for its investments in Intelligent Wellhead Systems Inc. ("IWS") and the Pason Rawabi joint venture and reflects the current period change in the value of the Company's equity investments. The amount recognized in the fourth quarter of 2023 includes losses related to supporting the rapid growth of IWS, and negatively impacts the Company's Adjusted EBITDA margin.

Foreign exchange loss (gain) represents net realized and unrealized foreign exchange gains and losses on the Company's cash and cash equivalents, and working capital held in foreign currencies. In the fourth quarter of 2023, the Company recorded a $14.2 million foreign exchange loss, primarily associated with cash and working capital held in Argentina which was impacted by the significant devaluation of the Argentinian Peso in late Q4 2023.

Income Tax Provision

During the fourth quarter of 2023, the Company recorded an income tax expense of $6.7 million, compared to an income tax expense of $9.4 million during the comparative period in 2022. The decrease year over year is primarily driven by a reduction in income before tax, resulting from the factors outlined in this MD&A. For the twelve months ended December 31, 2023, the Company recorded an income tax expense of $34.3 million, compared to $33.4 million for the twelve months ended December 31, 2022. The increase in income tax expense is primarily due to non-taxable permanent differences in foreign exchange rates.

Equity Investments

As at December 31, 2023, the Company holds $60.3 million on its Consolidated Balance Sheets relating to the carrying value of investments accounted for using the equity method (December 31, 2022: $47.8 million). This balance is comprised of investments in Intelligent Wellhead Systems Inc. ("IWS") and a 50% interest in Rawabi Pason Company ("Rawabi JV"). IWS is a privately-owned oil and gas technology and service company that provides engineered controls, data acquisition and software to automate workflows and processes at live well operations in the completions segment of the oil and gas industry. Rawabi JV is a provider of specialized data management systems for drilling rigs in the Kingdom of Saudi Arabia.

The Company's initial investment in IWS was made in 2019, and consisted of total consideration of $25.0 million, with initial cash consideration of $10.0 million and $15.0 million payable in three separate $5.0 million put options, which were exercised throughout 2021 and 2022.

During the fourth quarter of 2022, Pason further increased its non-controlling investment in IWS and acquired a portion of outstanding common shares for total cash consideration of $7.9 million. Also in the fourth quarter of 2022, the Company entered into a preferred share subscription agreement with IWS with an initial subscription of $10.0 million, and up to $15.0 million in additional subscriptions exercisable by IWS, but subject to the Company's approval. No additional voting rights were granted as part of this preferred share subscription. In the second and third quarter of 2023, the Company approved and funded $10.0 million of the $15.0 million then available preferred share subscriptions. In the fourth quarter of 2023, the Company approved and funded the final $5.0 million of the remaining available preferred share subscriptions.

As a result of the aforementioned transactions, total cash outflows associated with the Company's non-controlling investment in IWS is $15.4 million in 2023, compared to $17.9 million in 2022.

The Company's initial investment in 2019 also included a call option agreement, which gave the Company the option to purchase the shares held by other shareholders, exercisable at the Company's discretion. In the fourth quarter of 2023, Pason exercised this call option to purchase all remaining outstanding common shares of IWS effective January 1, 2024, for total consideration of $88.3 million and the assumption of net debt of $7.0 million, financed with cash on hand. Effective January 1, 2024, the Company will no longer equity account for its investment in IWS and will fully consolidate its operations as a wholly-owned subsidiary.

In May of 2023, a competitor filed a patent infringement lawsuit against IWS in the District of Colorado alleging IWS' infringement of two patents relating to certain aspects of continuous hydraulic fracturing. The Company does not currently believe the outcome of any pending or threatened proceedings related to this patent litigation is more likely than not to result in IWS being required to pay any amounts which would have a material adverse impact on its financial position, results of operations, or liquidity.

Put Obligation

As at December 31, 2023, the Company holds a $6.2 million obligation under a put option on its Consolidated Balance Sheets (December 31, 2022: $6.5 million). The put obligation is a contractual obligation whereby the non-controlling shareholders of ETB have a put option to exercise for cash their 20% shareholdings of ETB starting in 2023 with reference to the fair value of ETB shares at the date the put option can be exercised. This put option gives rise to a financial liability and is calculated at each annual reporting period using a discounted cash flow model of the estimated future cash flows of the obligation.

Summary of Quarterly Results

Three Months Ended	Dec 31, 2021	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	Jun 30, 2023	Sep 30, 2023	Dec 31, 2023
(000s, except per share data)	($)	($)	($)	($)	($)	($)	($)	($)	($)
Revenue	62,833	74,468	73,608	92,502	94,420	98,229	84,691	93,094	**93,295**
EBITDA [(1)]	26,874	34,686	31,673	50,659	53,248	51,755	37,822	42,967	**22,169**
Adjusted EBITDA [(1)]	24,208	33,373	30,962	46,231	48,944	52,410	37,887	42,281	**38,888**
As a % of revenue	38.5	44.8	42.1	50.0	51.8	53.4	44.7	45.4	**41.7**
Funds flow from operations	19,353	25,704	27,242	35,968	45,971	43,673	33,111	40,233	**37,455**
Per share – basic	0.23	0.31	0.33	0.44	0.56	0.54	0.41	0.50	**0.47**
Per share – diluted	0.23	0.31	0.33	0.43	0.56	0.53	0.41	0.50	**0.47**
Cash from operating activities	27,061	28,050	25,679	30,743	19,942	46,265	29,658	31,698	**27,412**
Free cash flow [(1)]	23,990	23,582	19,135	24,047	3,709	34,710	17,988	25,016	**19,317**
Net income (loss)	10,279	18,001	17,992	33,739	35,994	35,454	24,962	27,399	**8,012**
Net income (loss) attributable to Pason	11,149	18,573	18,540	34,246	36,257	35,842	25,470	27,732	**8,495**
Per share – basic	0.14	0.23	0.23	0.42	0.44	0.44	0.32	0.35	**0.11**
Per share – diluted	0.14	0.23	0.22	0.41	0.44	0.44	0.32	0.35	**0.11**

(1)Non-GAAP financial measures are defined in Non-GAAP Financial Measures section.

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

The overall seasonality of the Company's operations has, and will continue to become less pronounced as a result of market share growth internationally and in the US, along with increased diversification of operations with the Company's Solar and Energy Storage business units.

Q4 2023 vs Q3 2023

Consolidated revenue was $93.3 million in the fourth quarter of 2023, consistent with consolidated revenue of $93.1 million in the third quarter of 2023.

Revenue in the North American business unit was $70.5 million in the fourth quarter of 2023 compared to revenue of $72.2 million in the third quarter of 2023. While drilling activity decreased 5% quarter over quarter, the North American business unit was able to increase Revenue per Industry Day sequentially from $975 in Q3 2023 to $998 in Q4 2023. The sequential increase in Revenue per Industry Day benefited from higher levels of product adoption as well as a stronger US dollar relative to the Canadian dollar.

The International business unit reported revenue of $17.9 million in the fourth quarter of 2023 compared to $15.3 million in the third quarter of 2023. As noted under the heading International Operations of this MD&A, fourth quarter 2023 international revenue benefited from a stronger average US dollar than the third quarter of 2023, along with $0.7 million in one-time revenue increases associated with certain foreign exchange and inflationary contract triggers.

The Solar and Energy Storage business unit generated $4.8 million of revenue in the fourth quarter of 2023 compared to revenue of $5.6 million in the third quarter of 2023. Quarterly revenue for this business unit will fluctuate with timing of delivery on control system projects.

Adjusted EBITDA was $38.9 million in the fourth quarter of 2023 compared to $42.3 million in the third quarter of 2023. Sequential Adjusted EBITDA comparisons reflect the Company's primarily fixed cost base, which is sized for higher levels of activity than seen in the fourth quarter of 2023, and the inclusion of equity accounted losses related to supporting the rapid growth of IWS.

The Company recorded net income attributable to Pason in the fourth quarter of 2023 of $8.5 million ($0.11 per share) compared to net income attributable to Pason of $27.7 million ($0.35 per share) in the third quarter of 2023. The decline quarter over quarter is primarily driven by the foreign exchange loss recorded in the fourth quarter for the Company's cash and working capital balances held in Argentina as a result of the significant devaluation seen in the Argentinian Peso.

Following a similar trend to Adjusted EBITDA, cash from operating activities was $27.4 million in the fourth quarter of 2023, compared to $31.7 million in the third quarter of 2023. Fourth quarter cash from operating activities includes the annual settlement on the Company's cash based stock based compensation plans. Similarly, Free Cash Flow generated by the Company in Q4 2023 was $19.3 million compared to $25.0 million in Q3 2023.

Liquidity and Capital Resources

As at	**December 31, 2023**	December 31, 2023	Change
(000s)	**($)**	($)	(%)
Cash and cash equivalents	**171,773**	132,057	30
Short-term investments	**—**	40,377	nmf
Total Cash [(1)]	**171,773**	172,434	—
Working capital	**212,561**	213,899	—
Total assets	**487,877**	469,928	4
Total interest bearing debt	**—**	—	—

(1) Total Cash is defined as total cash and cash equivalents and short-term investments from Pason's Consolidated Balance Sheets

Pason's balance sheet remains strong with no interest bearing debt and as at December 31, 2023, $171.8 million in Total Cash, and $212.6 million in working capital.

As at December 31, 2023, the Company had trade and other receivables of $66.0 million compared to $84.8 million as at December 31, 2022. While the Company saw an improvement in collection trends, the decline in trade and other receivables year over year also reflects the impacts of the revaluation of Peso denominated accounts receivable as a result of the significant devaluation seen in the Argentinian Peso in the fourth quarter of 2023. Similarly, trade payables and accruals also fell from $53.7 million as at

December 31, 2022 to $41.6 million as at December 31, 2023, which was also partially impacted by the devaluation in the Argentinian Peso in the fourth quarter of 2023.

The Company has an undrawn $5.0 million demand revolving credit facility available as at December 31, 2023, consistent with December 31, 2022.

Cash Flow Statement Summary

	Three Months Ended December 31,			Twelve Months Ended December 31,		
	2023	2022	Change	**2023**	2022	Change
(000s)	**($)**	($)	(%)	**($)**	($)	(%)
Funds flow from operations	**37,455**	45,971	(19)	**154,472**	134,885	15
Cash from operating activities	**27,412**	19,942	37	**135,033**	104,414	29
Cash used in financing activities	**(12,397)**	(14,242)	(13)	**(65,819)**	(42,065)	56
Cash used in investing activities	**27,282**	(74,525)	(137)	**(13,065)**	(92,233)	(86)
Net capital expenditures (1)	**8,095**	16,233	(50)	**38,002**	33,941	12
As a % of funds flow (2)	**21.6 %**	35.3 %	(1,370) bps	**24.6 %**	25.2 %	(60) bps

(1) Includes additions to property, plant, and equipment, proceeds on disposals, changes in non-cash working capital, and development costs from Pason's Consolidated Statements of Cash Flows.

(2) Defined within Supplementary Financial Measures under Non-GAAP Financial Measures

Cash from operating activities

Funds flow from operations decreased in the fourth quarter of 2023 from the comparative quarter in 2022 due to lower levels of Adjusted EBITDA seen year over year. However, offsetting this decline, the Company made fewer investments in working capital in the fourth quarter of 2023 compared to the 2022 comparative period and cash from operating activities increased by 37% year over year.

Cash used in financing activities

Cash used in financing activities was $12.4 million during the fourth quarter of 2023, compared to $14.2 million during the comparative quarter of 2022, with the decrease being primarily as a result of increased proceeds on option exercises in 2023.

Dividend

The Company declared the following quarterly dividends in 2023, resulting in total dividends paid to shareholders in the amount of $38.5 million compared to $29.5 million in 2022:

	Dividend Record Date	**Dividend Payment Date**	**Per Common Share**	**Total**
(000s, except per share data)			($)	**($)**
March	March 15	March 31	0.12	**9,747**
June	June 15	June 30	0.12	**9,635**
September	September 15	September 29	0.12	**9,586**
December	December 15	December 29	0.12	**9,567**
Total dividends declared			0.48	**38,535**

On February 28, 2024, the Company declared an increased quarterly dividend of $0.13 per share on the Company’s common shares. This represents an 8% increase from the prior quarterly level. The dividend will be paid on March 29, 2024, to shareholders of record at the close of business on March 15, 2024.

Normal Course Issuer Bid ("NCIB")

In 2023, the Company renewed its NCIB commencing on December 20, 2023, and expiring on December 19, 2024. Under the NCIB, the Company may purchase for cancellation, as the Company considers advisable, up to a maximum of 7,949,888 common shares, which represents approximately 10% of the applicable public float at the time of renewal.

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 33,781 common shares. The Company may make one block purchase per calendar week that exceeds the daily purchase restriction.

For the three month period ended December 31, 2023, the Company repurchased 346,100 (Q4 2022 - 385,300) shares for cancellation for total cash consideration of $5.0 million (Q4 2022 - $5.8 million). The total consideration is allocated between share capital and retained earnings.

For the twelve month period ended December 31, 2023, the Company repurchased 2,150,900 shares for cancellation for total cash consideration of $27.9 million. For the twelve month period ended December 31 2022, the Company repurchased 970,650 common shares for cancellation for total cash consideration of $13.8 million. The total consideration is allocated between share capital and retained earnings.

Periodically, the Company will enter into an automatic purchase plan (APP) with an independent broker. As at December 31, 2023, the Company recorded a liability of $3.5 million for share repurchases that could take place during its internal blackout period under an APP. As at December 31, 2022, the Company recorded a $3.0 million liability for an APP.

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

Cash used in investing activities

During the fourth quarter of 2022, Pason purchased $40.4 million of short-term investments with maturities of less than one year, locking in interest rates on term deposits ranging from 5.16% to 5.55%. These investments matured in the fourth quarter of 2023.

Also during the fourth quarter of 2023, Pason invested $8.1 million in net capital expenditures, a decrease from $16.2 million in the fourth quarter of 2022 where capital expenditure levels represented the easing of supply chain challenges which impacted the timing around Pason's quarterly capital expenditures throughout 2022. For the twelve months ended December 31, 2023, Pason invested $38.0 million in net capital expenditures which is lower than the Company's $45.0 million guidance provided. Supply chain challenges continue to impact the timing of deliveries on certain elements of Pason's capital expenditure program and Pason will make necessary capital investments in its equipment and technology in order to service the demand for its products.

Finally, as further outlined under the heading Equity Investments of this MD&A, Pason made $5.0 million of investments in its non-controlling investment in IWS in the fourth quarter of 2023 (Q4 2022: $17.9 million).

Contractual Obligations

As at December 31, 2023	Less than 1 year	1–3 years	Thereafter	**Total**
(000s)	($)	($)	($)	**($)**
Leases and other operating contracts	3,180	8,232	13,409	**24,821**
Capital commitments	31,359	—	—	**31,359**
IWS call option commitment	88,300	—	—	**88,300**
Total contractual obligations	122,839	8,232	13,409	**144,480**

Leases and other operating contracts relate primarily to minimum future lease payments for facility leases, commitments associated with ongoing repair costs of the Company's equipment and technology, and commitments to purchase hardware associated with ETB's control system sales offering. A portion of these commitments have been recognized on the balance sheet as a leased asset with a corresponding liability, in accordance with IFRS 16, Leases.

During the first quarter of 2023, the Company extended the Canadian head office lease to 2032. This extension resulted in a $7.3 million increase in the Company's right of use asset balance recorded within Property, Plant and Equipment as well as a corresponding increase in lease liability on the Company's Consolidated Balance Sheets as at December 31, 2023.

Capital commitments relate to contracts to purchase property, plant and equipment in the normal course of business.

As noted under the Investments heading of this MD&A, in the fourth quarter of 2023, Pason exercised its call option to purchase all remaining outstanding common shares of IWS effective January 1, 2024, for total consideration of $88.3 million, financed with cash on hand.

Disclosure of Outstanding Share and Options Data

As at December 31, 2023, there were 79,685,025 common shares and 2,324,877 options issued and outstanding. As at February 28, 2024, there were 79,469,821 common shares and 2,301,481 options issued and outstanding.

Impact of Hyperinflation

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

During the fourth quarter of 2023, given a change in facts and circumstances, management determined that there was a change in functional currency of the Argentinian subsidiary from the Argentinian Peso to the US dollar. As a result, starting in the fourth quarter of 2023, hyperinflationary accounting rules were no longer incorporated into Pason's results.

The impact of applying IAS 21 to the operating results of the Argentina subsidiary for the three and twelve months ended December 31, 2023, are detailed as follows:

Impact on IFRS Measures

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2023	2022	**2023**	2022
(000s)	**($)**	($)	**($)**	($)
(Decrease) increase in revenue	**—**	(769)	**(888)**	1,486
Decrease (increase) in rental services and local administration expenses	**—**	420	**285**	(691)
(Increase) in depreciation expense	**—**	(86)	**(217)**	(481)
Increase (decrease) in segment gross profit	**—**	**(435)**	**(820)**	**314**
Net monetary gain presented in other expenses	**—**	536	**2,832**	1,849
(Increase) in other expenses	**—**	(55)	**(530)**	(551)
Decrease (increase) in income tax provision	**—**	167	**376**	(227)
Increase (decrease) in net income	**—**	**213**	**1,858**	**1,385**

Impact on Non-GAAP Measures

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2023	2022	**2023**	2022
(000s)	**($)**	($)	**($)**	($)
(Decrease) increase in revenue	**—**	(769)	**(888)**	1,486
Decrease (increase) in rental services and local administration expenses	**—**	420	**285**	(691)
Net monetary gain presented in other expenses	**—**	536	**2,832**	1,849
(Increase) in other expenses	**—**	(55)	**(530)**	(551)
Increase in EBITDA	**—**	132	**1,699**	2,093
Elimination of net monetary (gain) presented in other expenses	**—**	(536)	**(2,832)**	(1,849)
Elimination of other expenses	**—**	55	**530**	551
(Decrease) increase in Adjusted EBITDA	**—**	(349)	**(603)**	795

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, 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-GAAP Financial Measures

A non-GAAP financial measure has the definition set out in National Instrument 52-112 "Non-GAAP and Other Financial Measures Disclosure".

The following non-GAAP measures may not be comparable to measures used by other companies. Management believes these non-GAAP measures provide readers with additional information regarding the Company's operating performance, and ability to generate funds to finance its operations, fund its research and development and capital expenditure program, and return capital to shareholders through dividends or share repurchases.

EBITDA and Adjusted EBITDA

EBITDA is defined as net income before interest income and expense, income taxes, stock-based compensation expense, and depreciation and amortization expense. Adjusted EBITDA is defined as EBITDA, adjusted for foreign exchange, impairment of property, plant, and equipment, restructuring costs, net monetary adjustments, government wage assistance, revaluation of put obligation, and other items, which the Company does not consider to be in the normal course of continuing operations.

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

Reconcile Net Income to EBITDA

Three Months Ended	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	Jun 30, 2023	Sep 30, 2023	**Dec 31, 2023**
(000s)	($)	($)	($)	($)	($)	($)	($)	($)
Net income	18,001	17,992	33,739	35,994	35,454	24,962	27,399	**8,012**
Add:								
Income taxes	5,329	7,189	11,482	9,405	12,374	7,906	7,356	**6,710**
Depreciation and amortization	6,314	4,696	4,433	5,399	6,616	5,815	6,988	**7,797**
Stock-based compensation	5,555	2,514	2,032	5,129	(82)	1,986	5,082	**4,732**
Net interest (income) expense	(513)	(718)	(1,027)	(2,679)	(2,607)	(2,847)	(3,858)	**(5,082)**
EBITDA	34,686	31,673	50,659	53,248	51,755	37,822	42,967	**22,169**

Reconcile EBITDA to Adjusted EBITDA

Three Months Ended	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	Jun 30, 2023	Sep 30, 2023	**Dec 31, 2023**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
EBITDA	34,686	31,673	50,659	53,248	51,755	37,822	42,967	**22,169**
Add:								
Foreign exchange loss (gain)	403	(1,054)	(3,332)	1,959	233	1,597	681	**14,247**
Put option revaluation	—	—	—	(5,815)	—	—	—	**(149)**
Net monetary (gain) loss	(202)	268	(1,380)	(536)	(159)	(1,196)	(1,477)	**—**
Other	(1,514)	75	284	88	581	(336)	110	**2,621**
Adjusted EBITDA	33,373	30,962	46,231	48,944	52,410	37,887	42,281	**38,888**

Free cash flow

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

Reconcile cash from operating activities to free cash flow

Three Months Ended	Mar 31, 2022	Jun 30, 2022	Sep 30, 2022	Dec 31, 2022	Mar 31, 2023	Jun 30, 2023	Sep 30, 2023	**Dec 31, 2023**
(000s)	($)	($)	($)	($)	($)	($)	($)	**($)**
Cash from operating activities	28,050	25,679	30,743	19,942	46,265	29,658	31,698	**27,412**
Less:								
Net additions to property, plant and equipment	(4,334)	(6,412)	(6,590)	(16,112)	(11,404)	(11,303)	(6,474)	**(7,720)**
Deferred development costs	(134)	(132)	(106)	(121)	(151)	(367)	(208)	**(375)**
Free cash flow	23,582	19,135	24,047	3,709	34,710	17,988	25,016	**19,317**

Supplementary Financial Measures

A supplementary financial measure: (a) is, or is intended to be, disclosed on a periodic basis to depict the historical or expected future financial performance, financial position or cash flow of the Company; (b) is not presented in the financial statements of the Company; (c) is not a non-GAAP financial measure; and (d) is not a non-GAAP ratio. Supplementary financial measures found within this MD&A are as follows:

Revenue per Industry Day

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

Adjusted EBITDA as a percentage of revenue

Calculated as adjusted EBITDA divided by revenue.

Net capital expenditures as a percentage of funds flow from operations

Calculated as net capital expenditures divided by funds flow from operations.

Total Cash

Calculated as the sum of cash and cash equivalents, and short-term investments from the Company's Consolidated Balance Sheets. The Company's short term-investments are comprised of twelve-month term deposits.

Critical Accounting Estimates

The preparation of the Company's Consolidated Financial Statements requires that certain estimates and judgements 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 judgements based on information available as at the financial statement date, and, as a result, the estimates used by management involve uncertainty and may change as additional experience is acquired. As such, actual results may differ significantly from estimates made within the Consolidated Financial Statements for the year ended December 31, 2023.

Allowance for Doubtful Accounts

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

Depreciation & Amortization

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

Carrying Value of Assets

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

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

At December 31, 2023, the Company performed an impairment test on its goodwill and concluded that there was no impairment.

Inventories

The Company evaluates its inventory to ensure it is carried at the lower of cost and net realizable value. Provisions are made against obsolete and damaged inventories and are charged to rental services. These provisions are assessed at each reporting date for adequacy. Any reversal of a write-down of inventory arising from an increase in net realizable value will be recognized as a reduction in rental services in the period in which the reversal occurred.

Provisions and Contingencies

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

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

Development Costs

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

Stock-Based Compensation

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

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

Income Taxes

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

The Company has adopted certain transfer pricing (TP) policies and methodologies to value inter-company transactions that occur in the normal course of business. The value placed on such transactions must meet certain guidelines that have been established by the tax authorities in the jurisdictions in which the Company operates. The Company believes that its TP methodologies are in accordance with such guidelines. The Company entered into a Bilateral Advanced Pricing Arrangement (APA) with the Canada

Revenue Agency (CRA) and the Internal Revenue Service (IRS) (collectively, the Parties) covering the taxation years ended December 31, 2013, through to December 31, 2021. The purpose of this APA was for the Company to obtain agreement among the Parties on the TP methodology applied to the material inter-company transactions between Pason Systems Corp. (Pason Canada) and Pason Systems USA and Petron (collectively Pason USA) (the covered transactions). A new APA agreement effective January 1, 2022 is under review with the above tax regulatory authorities. Consistent with the prior agreement, the purpose of this APA is for the Company to obtain agreement among the Parties on the TP methodology applied to the material inter-company transactions of the Company.

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

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

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

Material Accounting Policies

The Company's material accounting policies have been disclosed within Note 3 of Pason's Consolidated Financial Statements for the year ended December 31, 2023.

Risks and Uncertainties

The following information is a summary of certain risk factors relating to Pason. This section does not describe all risks applicable to the Company, its industry or its business, and is intended only as a summary of certain material risks. Investors should also consider the other risks described throughout the Company’s public disclosure documents on file with the Canadian securities regulatory authorities available on SEDAR+ at www.sedar.com. Additional risks and uncertainties not currently known to Pason, or that Pason currently considers remote or immaterial, may also impair the operations of the Company. Should any such risks actually occur, Pason’s business, financial condition, operating results or price and liquidity of Pason’s securities could be materially harmed.

Commodity Prices and Drilling Activity Levels

Pason derives Pason derives most of its revenue from the rental of instrumentation and data services to Operators and Contractors in Canada, the US, Australia, Latin America and the Middle East during drilling activity. The success of the Company’s business depends on the level of industry activity for oil and natural gas exploration and development in the markets in which Pason operates. The level of oil and natural gas industry activity has seen significant volatility in recent years and is influenced by numerous factors over which the Company has no control. One of the primary factors is prevailing oil and natural gas commodity prices, which fluctuate in response to factors beyond Pason’s control. Such factors could include, but may not be limited to: global supply and demand for crude oil and natural gas; the cost of exploring for, producing and delivering oil and natural gas; pipeline availability and the capacity of other oil and natural gas transportation and processing systems; the actions of the Organization of Petroleum Exporting Countries and other major petroleum exporting countries; global political, military, regulatory, economic and social conditions; government regulation; political stability in the Middle East and elsewhere; the price of foreign imports; the availability of alternate fuel sources; and prevailing weather conditions.

From 2014 to 2020, global commodity prices were negatively affected by a combination of factors including increased production, decisions of OPEC and Russia, and the impact of the COVID-19 pandemic on overall demand for oil and gas. These headwinds drove significant pressure on commodity prices, and adversely impacted the level of capital spending by our customers on exploration and production activities and could continue to do so. Concurrently, Operators navigated ongoing pressure from the investment community to constrain spending within cash flows and further allocate a significant portion of cash flow generation to returns to shareholders, impacting the amount of drilling-related capital expenditures.

Throughout 2021, commodity prices and global drilling activity began to recover from the lows experienced in 2020, as the demand for oil and gas neared pre-pandemic levels, while supply lagged significantly. Throughout 2022 and 2023, global macroeconomic conditions proved challenging with central banks aggressively increasing interest rates to address high prevailing levels of inflation and growing concerns around economic recession. Further, Operators and Contractors grappled with global supply chain bottlenecks and faced equipment availability challenges. These factors, coupled with geopolitical instability, drove commodity price volatility.

These aforementioned factors could continue to put pressure on commodity prices, adversely impacting the level of drilling activity in the regions in which Pason operates, which could have a materially adverse effect on Pason’s business, financial condition, results of operations and cash flows. Pason does not have any operations or revenue generated in Russia, the Ukraine or Israel. However, ongoing conflict may negatively impact commodity price volatility and global financial conditions, which could have an indirect adverse effect on Pason’s business and financial condition.

Seasonal Factors

Drilling activity in Canada is seasonal due to weather that limits access to well sites 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 drilling activity is less seasonal.

Credit and Liquidity

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. During times of depressed oil and gas markets or wider economic uncertainty, customers may experience financial constraints. Further, many of our customers require reasonable access to credit facilities and debt capital markets to finance their oil and natural gas drilling activity. If the availability of credit to our customers is reduced, they may reduce their drilling expenditures, reducing the demand for the Company’s products and services. While Pason monitors its exposure to credit risk and has a large customer base, which minimizes Pason’s risk exposure to the financial concerns of any single customer, lack of payment from multiple clients may have a material adverse effect on the Company’s financial condition.

Customers

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

Competition

Pason’s main source of competition in the North American Operations and International Operations segments remains the instrumentation divisions of large US service companies. Potential actions taken by competitors such as pricing changes and new products and technologies could affect the Company’s leading market share or competitive position. In addition, while the Company continues to make investments in R&D to provide innovative technologies for customers, management cannot reasonably predict whether these investments will result in increased levels of product adoption, market share or pricing. These factors could materially affect our business, financial condition, results of operations and cash flows.

Qualified Personnel and Access to Talent

Due to the specialized and technical nature of Pason's business, Pason is highly dependent on attracting and retaining qualified, key employees, which involves compensating them appropriately. The shift to remote work in some roles, particularly since the start of the COVID-19 pandemic, has expanded the job market beyond traditional geographic boundaries. Employers must now compete for talent not only locally, but within a greater global market. Due to high levels of competition for qualified personnel, there can be no assurance that qualified personnel will be attracted or retained to meet the growth needs of the business. Further, Pason does not carry "key person" insurance on any of its key employees. In addition, Pason's ability to meet activity levels and customer demand for the Company's products and services will depend on the ability to attract qualified personnel as needed, which may be more difficult in periods of rapidly accelerated growth in activity levels.

The inability to recruit or retain skilled personnel or their inability to perform their duties could have a material adverse effect on the Company's business, financial condition, results of operations and cash flows. To mitigate these risks, Pason has a dedicated HR department in each significant business unit that is focused on proactive recruiting and retention initiatives.

Intellectual Property

Pason relies on innovative technologies and products to maintain its competitive position in the market. Pason employs trademarks, patents, contracts, and other measures to protect the Company's intellectual property, trade secrets and confidential information. Pason also believes that 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, provides protection in maintaining a competitive position.

Despite these precautions, it may be possible for third parties to attempt to infringe the Company's intellectual property and Pason could incur substantial costs to protect and enforce its intellectual property rights. Moreover, from time to time third parties may assert patent, trademark, copyright and other intellectual property rights to technologies that are important to the Company. In such an event, the Company may be required to incur significant costs in litigating a resolution to the asserted claim. There can be no assurance that such a resolution would not require that the Company pay damages or obtain a license of a third party's proprietary rights in order to continue to provide its products as currently offered, or, if such a license is required, that it will be available on terms acceptable to the Company.

Cyber Security

The Company takes measures and makes meaningful investments to protect the security and integrity of its IT infrastructure 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. Natural disasters, energy blackouts, operating malfunction, viruses or malware, cyber security attacks, theft, computer or telecommunication errors, human error, internal or external misconduct or other unknown disruptive events could result in the temporary or permanent loss of any or all parts of the IT infrastructure or data. There is a risk the data and other electronic information stored in Pason's IT infrastructure could be accessed, publicly disclosed, lost, or stolen. Such occurrences could negatively affect Pason's business and financial performance in the form of loss of revenue, increased operational costs, reputational damage or litigation.

Availability of Raw Materials, Parts, or Finished Products

Pason purchases many materials, components and finished products in connection with its operations. Some of the components and finished products are obtained from a single source or a limited group of suppliers. While Pason makes it a priority to maintain and enhance these strategic relationships, there can be no assurance that these relationships will continue and reliance on these suppliers involves risks, including price increases, inferior component quality, unilateral termination, and a potential inability to obtain an adequate supply of required components or finished products in a timely manner. While Pason has long standing relationships with recognized and reputable suppliers, it does not have long-term contracts with all of its suppliers, and the partial or complete loss of certain of these sources could have a negative impact on the Company's operations and could damage customer relationships. Further, a significant increase in the price of one or more of these components could have a negative impact on Pason's cost structure.

The Company's ability to provide services to its customers is also dependent upon the ongoing refresh of existing hardware within its technology offering, which requires purchases of materials, components and finished products. While Pason has a dedicated procurement team that proactively manages required equipment and hardware needs, the availability and supply of these items may be impacted in periods of high or recovering activity levels, such as those seen recently. Supply chain disruptions, including those caused as a result of COVID-19, may result in timing delays on expected deliveries for certain components of the Company's product offering and may impact the Company's cost structure and ability to meet rising activity levels.

Geopolitical Risk

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 Pason's control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and warranted. Most of Pason's revenues are generated in Canada and the US, which limits exposure to risks and uncertainties in foreign countries. Pason does not have any operations or revenue generated in Russia, the Ukraine or Israel. The Company's Argentinian subsidiary is operating in a highly inflationary economy and its operating results are being impacted by a weakening Argentina peso relative to the Canadian dollar, the details of which are outlined in the Company's consolidated financial statements for the year ended December 31, 2023.

Foreign Exchange Risk

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 financial statements. The Company's self-sustaining foreign subsidiaries expose the Company to exchange rate risk on the translation of their financial assets and liabilities to Canadian dollars for public reporting purposes. Adjustments arising when translating the foreign subsidiaries into Canadian dollars are reflected in the consolidated financial statements as unrealized foreign currency translation adjustments. The Company does not employ any financial instruments to manage foreign exchange risk at this time. Most 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.

Climate Change Risks

Regulatory and Policy Risks

There is an increasing trend in public and government support of climate change initiatives across the regions in which Pason operates. Governmental authorities are strengthening existing environmental regulations and introducing new climate change measures, such as emission caps, reduction targets, taxes and penalties, efficiency standards, and alternative energy incentives and mandates. In addition, concerns about climate change have resulted in many environmental activists and members of the public opposing the continued exploitation and development of fossil fuels. Pason is not a large-scale emitter of greenhouse gases or other emissions and does not anticipate the impact of these regulations to be material to its operations; however, present and future environmental regulations and other developments could have a material impact on Pason's client base, which is primarily comprised of operators and contractors. While it is not possible at this time to predict how such regulations or developments would impact the Company's business, any future environmental requirements could result in reduced demand for hydrocarbons, as well as increased capital expenditures, operating costs and project delays for our customers, which in turn could have a material adverse effect on the business, financial condition, results of operations, and prospects for the Company.

Physical Risks

There is growing evidence that climate change is causing the increased frequency and severity of extreme weather events as well as longer-term changes in climate patterns. As a result, the physical impacts of such increasingly volatile weather conditions may have an adverse effect on the operations of the Company. These include more frequent and extreme weather events, natural disasters such as flooding and forest fires, shifts in temperature and precipitation, and changing sea levels, which could cause damage to key corporate assets. Climate change may have similar impacts on the Company's major customers, reducing demand for Pason's products and services, and may also impact suppliers, which could result in shortages in certain consumables and the supply of products that are required to maintain the Company's operations. While the Company takes such risks into consideration and implements mitigation strategies to address, where possible, the risks associated with the impacts of extreme weather events, the frequency and severity of such events can vary widely and cannot be predicted. This uncertainty, in turn, could have a material adverse effect on the Company's ability to operate in certain jurisdictions and its projections, business operations and financial condition. Pason maintains a corporate insurance program consistent with industry practice that protects the Company from liabilities due to environmental accidents and disruptions and has operational and emergency response procedures and safety and environmental programs in place to reduce potential loss exposure.

Alternative Energies Risk

The focus of governments, businesses and consumers on transitioning to a low-carbon economy was accelerated by the COVID-19 pandemic, resulting in increased policies and initiatives designed to shift resources and investment away from fossil fuels towards low carbon energy sources. This shift, combined with technological advances and cost declines in alternative energy sources, could reduce consumer demand for, and result in a reduction in the global economy's reliance on, oil and natural gas; which in turn could decrease demand for the Company's drilling oriented products and services. While Pason believes energy supply and demand fundamentals continue to support hydrocarbon resources forming a meaningful component of ongoing energy supply, the Company considers opportunities to diversify its business to mitigate this risk. This includes exploring new opportunities to apply the Company's expertise in instrumentation and data services to markets beyond of oil and gas drilling, such as recent investments made in supporting ETB in the solar energy and storage market. However, there is no guarantee that Pason would be successful in these ventures should there be a significant reduction in global demand for oil and gas.

Investor Sentiment

Investor sentiment towards the oil and natural gas industry has evolved in recent years and some institutional investors have announced that they are no longer willing to fund or invest in companies in the oil and natural gas industry, or are reducing such investment over time. While Pason believes it operates its business sustainably, the Company's ability to access capital and the price and liquidity of its securities may be adversely impacted by investors' perceptions of the sector in which it generates the majority of its revenue.

Public Health Crises

As seen in recent years, the occurrence of a future global pandemic could expose the Company to a number of risks, including but not limited to: material declines in revenue and cash flows due to reduced drilling and demand for associated products and services, increased risk of non-payment of accounts receivable, potential for impairment charges on long-term assets, and additional reorganization costs, if deemed required in the context of Pason's ongoing efforts to manage its cost structure.

Insurance

Pason’s operations are subject to risks inherent in the oil and natural gas services industry, such as hardware or software defects, malfunctions and failures, human error, and natural disasters. These risks could expose Pason to substantial liability for personal injury, loss of life, business interruption, property damage, pollution, and other liabilities. Pason carries prudent levels of insurance to protect the Company against these unforeseen events, subject to appropriate deductibles and the availability of coverage. An annual review of insurance coverage is completed to assess the risk of loss and risk mitigation alternatives.

Extreme weather conditions, natural occurrences, and terrorist activity have strained insurance markets leading to substantial increases in insurance costs and limitations on coverage. It is anticipated that the Company will continue to maintain appropriate insurance coverage, but there can be no assurance that such insurance coverage will be available on commercially reasonable terms or on terms as favourable as Pason’s current arrangements. The occurrence of a significant event outside of the scope of coverage of Pason’s insurance policies could also have a material adverse effect on the results of the organization.

Payment of Future Cash Dividends

The decision to pay dividends and the amount paid is at the discretion of the Board, which regularly reviews the Company’s financial position, operating results, and industry outlook, all of which could impact Pason’s dividend policy. The amount of cash available for future dividends will be dependent on a number of factors including, but not limited to, the Company’s ability to generate cash flow in excess of its operating and investment needs, its overall financial position, and its capital allocation priorities.

Taxation

Pason and its subsidiaries are subject to income and other forms of taxation in the various jurisdictions in which they operate. Pason structures its operations in a tax efficient manner in compliance with all 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 its business, operating results, or financial condition. The management of Pason believes that the Company’s 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 possibly succeed in challenging, management’s interpretation of the applicable tax legislation.

Litigation and Legal Claims

Pason may be involved in various claims and litigation arising in the normal course of business. 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, however, the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in Pason’s favour. In addition, future legal proceedings could be filed against the Company, the outcome of which is also uncertain and could have a material adverse effect on the Company.

SEDAR+

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

Forward Looking Information

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

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

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

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

These risks, uncertainties and assumptions include but are not limited to those discussed in Pason’s Annual Information Form for the year ended December 31, 2022 under the heading, “Risk and Uncertainty,” in our management’s discussion and analysis for the year ended December 31, 2022, and in our other filings with Canadian securities regulators. These documents are on file with the Canadian securities regulatory authorities and may be accessed through the SEDAR+ website (www.sedar.com) or through Pason's website (www.pason.com).

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

Disclosure Controls and Procedures and Internal Controls over Financial Reporting

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

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

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

For the year ended December 31, 2023, an evaluation of the Company’s Disclosure Controls and Procedures was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that our DC&P, as defined in National Instrument 52-109, Certification of Disclosure in Issuers’ Annual and Interim Filings (NI 52-109), was effective to ensure that the information required by Canadian Securities regulatory authorities will be recorded, processed, and reported within the prescribed timelines.

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

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

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

An evaluation of the Company’s ICFR was conducted by management under the supervision of the CEO and the CFO. Based on this evaluation, the CEO and CFO have concluded that as at December 31, 2023, our ICFR, as defined in NI 52-109, was effective. There were no changes in our ICFR during the year ended December 31, 2023, that have materially affected, or are reasonably likely to affect, our ICFR.

Historical Review

Selected Financial Data

Years Ended December 31,

	2023	2022	2021	2020	2019	2018	2017	2016	2015	2014
(CDN 000s, except per share data)	**($)**	($)	($)	($)	($)	($)	($)	($)	($)	($)
Operating Results										
Revenue	**369,309**	334,998	206,686	156,636	295,642	306,393	245,643	160,446	285,148	499,272
Expenses										
Rental services	**124,234**	109,879	76,662	66,695	105,496	104,398	95,912	80,115	120,445	153,151
Local administration	**14,189**	12,554	11,006	11,121	13,106	14,496	11,147	9,720	16,470	18,753
Corporate services	**16,422**	15,192	13,175	11,275	15,653	15,905	15,141	16,758	20,040	22,243
Research and development	**41,247**	37,573	32,220	26,977	30,439	26,997	25,219	22,848	31,733	35,427
Stock-based compensation	**11,718**	15,230	11,523	4,840	10,840	12,313	11,762	6,195	7,398	19,471
Depreciation and amortization	**27,216**	20,842	25,689	34,417	40,830	34,588	45,681	55,384	81,381	69,201
Adjusted EBITDA(1)(2)	**171,466**	159,510	72,520	39,540	129,644	146,004	98,224	31,005	96,460	251,623
As a % of revenue	**46.4**	47.6	35.1	25.2	43.9	48.1	40.0	19.3	33.8	50.4
Funds flow from operations	**154,472**	134,885	67,728	40,560	111,718	128,544	87,121	26,815	94,263	224,204
Per share – basic	**1.92**	1.65	0.82	0.48	1.31	1.51	1.03	0.32	1.13	2.71
Net income (loss) attributable to Pason	**97,539**	107,616	33,845	6,568	54,112	62,944	25,190	(41,792)	(7,917)	114,637
Per share – basic	**1.21**	1.31	0.41	0.08	0.63	0.74	0.30	(0.49)	(0.09)	1.39
Net capital expenditures(3)	**38,002**	33,941	9,950	4,719	22,593	21,655	19,966	13,711	53,454	114,740
Financial Position										
Total assets	**487,877**	469,928	379,941	361,416	437,841	461,716	398,446	435,251	529,625	570,066
Working capital	**212,561**	213,899	184,083	167,366	183,769	256,153	193,692	198,419	244,972	206,571
Total equity	**400,955**	380,962	307,781	305,283	346,454	386,077	347,486	386,651	489,448	483,523
Common Share Data										
Common shares outstanding (#000s)										
At December 31	**79,685**	81,527	82,194	83,089	84,538	85,783	85,158	84.628	84,063	83,363
Weighted average	**80,379**	81,961	82,792	83,956	85,409	85,357	84,821	84.365	83,675	82,647
Dividends ($)	**0.48**	0.36	0.20	0.48	0.74	0.70	0.68	0.68	0.68	0.64

(1) Non-GAAP financial measures are defined under Non-GAAP Financial Measures

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

(3) Includes additions to property, plant, and equipment and development costs, net of proceeds on disposal from Pason's Consolidated Statements of Cash Flows.

Corporate Information

Directors

Marcel Kessler(1)
Independent Business Advisor
Victoria, British Columbia

T. Jay Collins(3)(4)
Independent Business Advisor
Houston, Texas

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

Judi Hess(3)(5)(7)
Vice Chair & Chief Strategist
Copperleaf Technologies Inc.
Vancouver, British Columbia

Laura Schwinn(5)(6)(8)
Independent Business Advisor
Fulton, Maryland

Ken Mullen(2)(7)
Director
Melamaken Adventures Inc.
Calgary, Alberta

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

Officers & Key Personnel

Jon Faber
President
& Chief Executive Officer

Celine Boston
Chief Financial Officer

Kevin Boston
Vice President, Commercial

Natalie Fenez
Vice President, Legal & Corporate Secretary

Heather Hantos
Vice President, Human Resources

Bryce McLean
Vice President, Operations

Lars Olesen
Vice President, Product & Technology

Russell Smith
Vice President, International

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

Corporate Head Office

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

Auditors

Deloitte LLP
Calgary, Alberta

Banker

Royal Bank of Canada
Calgary, Alberta

Registrar and Transfer Agent

Computershare Trust Company of Canada
Calgary, Alberta

Stock Trading

Toronto Stock Exchange
Trading Symbol: PSI.TO

Eligible Dividend Designation

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