

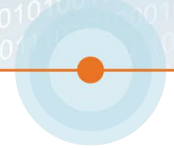


Pason Systems Inc.

2016 INFORMATION FORM

For the year ended December 31, 2016

Dated March 17, 2017



Disclaimer: Forward-Looking Information

Certain information regarding contained in this Annual Information Form that do not relate directly and exclusively to historical facts may constitute forward-looking information under applicable securities law, including without limit the Company's current expectations, estimates and projections, all of which are made in light of Pason's experience and perception of industry trends. Such forward-looking information and statements are identified by words such as "anticipate", "believe", "expect", "estimate", "forecast", "goal", "may", "outlook", "project", "proposed", "scheduled" "should", "will", or other similar expressions and suggestions of future outcomes, including statements about the Company's growth strategy and related schedules, 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 and projected increasing shareholder value. Any such forward-looking statements are based upon various underlying factors and assumptions, including those with regards to the accuracy of Pason's forecasts for customer demand of existing and new products; the state of the economy and the oil and gas exploration and production business, in particular; the industry shift towards more efficient drilling activity and technology to assist in that efficiency; the Company's business prospects and opportunities; and estimates of the financial and operational performance of Pason.

Forward-looking information and statements are subject to known or unknown risks and uncertainties that may cause actual results to differ materially from those anticipated or implied in the forward-looking information and statements. Risk factors that could cause actual results or events to differ materially from current expectations include, among others, the ability of Pason to successfully and timely implement its strategic initiatives and whether such strategic initiatives will yield the expected benefits, the operating performance of Pason's assets and businesses, the price of energy commodities, competitive factors in the energy industry, changes in laws and regulations affecting Pason's businesses, technological developments, and particularly those in the drilling and communications segments of the oil and gas industry, and general economic conditions. Unpredictable or unknown factors not discussed in this cautionary disclaimer could also have material adverse effects on forward-looking statements. The risks and uncertainties the Company faces are discussed in further detail in this Annual Information Form under the heading, "Risk and Uncertainty."

Readers are cautioned not to place undue reliance on forward-looking statements, as there can be no assurance that the plans, intentions or expectations upon which they are placed will occur. Such forward-looking statements, although considered reasonable by management as of the date hereof, may prove to be incorrect, and actual results may differ materially from those anticipated. Forward-looking statements contained in this press release are expressly qualified by this cautionary statement. Furthermore, the forward-looking statements contained herein are made as of the date of this news release, and Pason does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events, or otherwise, except as expressly required by securities law.

Additional information on risks and uncertainties and other factors that could affect Pason's operations or financial results are included in Pason's reports on file with the Canadian securities regulatory authorities and may be accessed through the SEDAR website (www.sedar.com) or through Pason's website (www.pason.com).

Unless otherwise noted, all financial measures are expressed in Canadian dollars.

Unless otherwise indicated, all financial information included in this annual information form has been prepared in accordance with International Financial Reporting Standards ("IFRS").

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Corporate Information

Corporate Structure

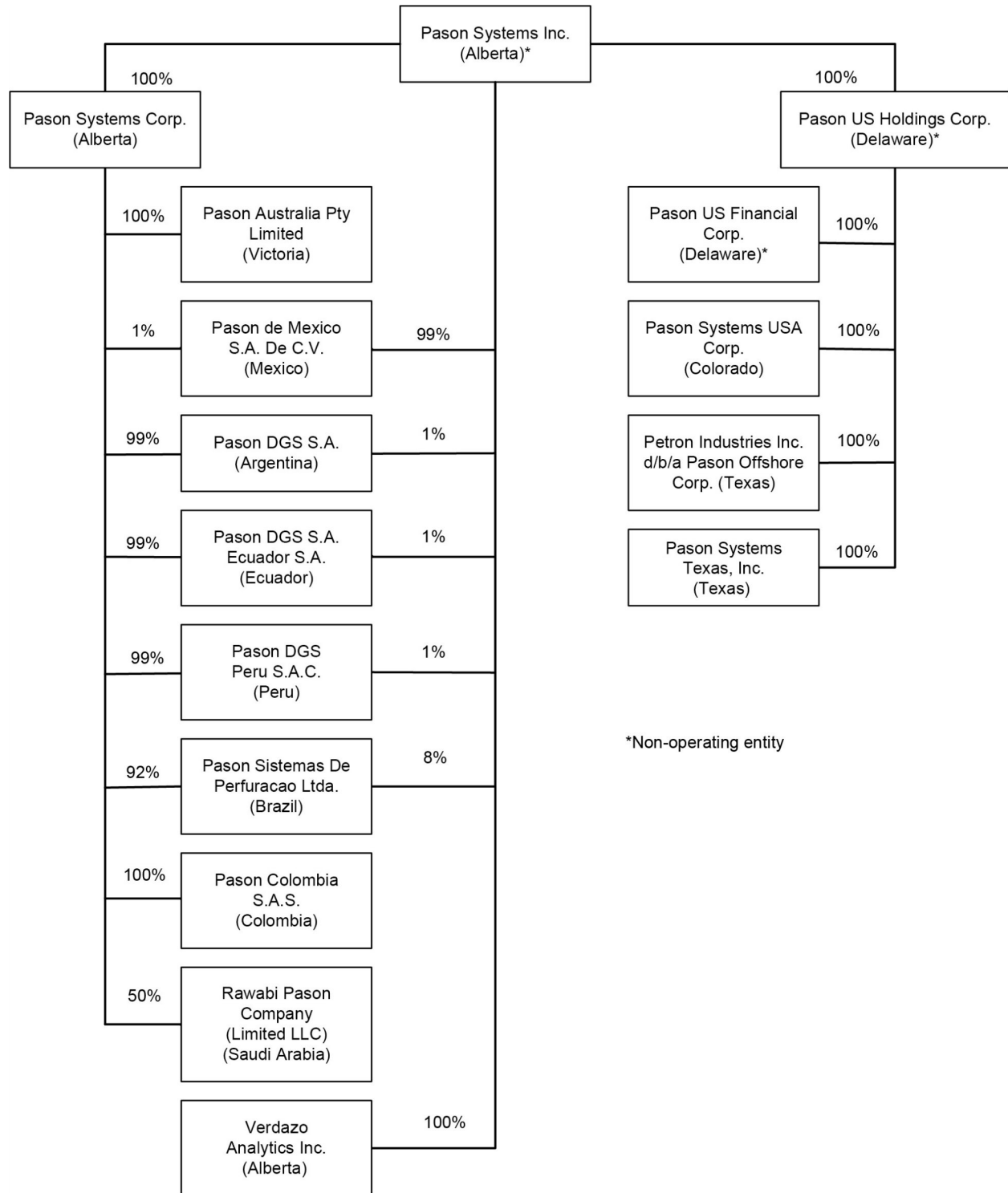
Pason Systems Inc. ("Pason" or the "Company") is an international oil and gas services company that is publicly traded on the Toronto Stock Exchange under the symbol PSI with the corporate head office located at 6130 Third Street SE, Calgary, Alberta, T2H 1K4 and registered office at 1600, 421 Seventh Avenue SW, Calgary, Alberta, T2P 4K9.

Pason was originally incorporated as Pason Well Services Ltd. under the *Alberta Business Corporations Act* on February 3, 1978. Its name was changed to Pason Systems Corp. pursuant to the articles of amendment dated December 29, 1995.

Pason was then amalgamated under the *Alberta Business Corporations Act* on November 1, 1996 as part of a reverse takeover which occurred on October 31, 1996. Mark 8 Ventures Inc. ("Mark 8"), pursuant to an acquisition agreement among Pason Systems Corp., all of its shareholders and Mark 8, acquired all of the outstanding shares of Pason Systems Corp. Following this acquisition, Mark 8 amalgamated with 693867 Alberta Ltd., a wholly-owned subsidiary of Mark 8, and the name was changed to Pason Systems Inc.

Organizational Structure

The chart below sets out Pason's subsidiaries, their location of incorporation, and ownership structure.



*Non-operating entity

General Development of the Business

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 rig and the office. Pason's customers include oil and gas companies ("Operators"), drilling contractors ("Contractors"), and other service companies worldwide.

Company History

Pason began as Pason Well Services Ltd. in February of 1978. Ultimately, the name was changed to Pason Systems Inc., and the company started publicly trading on the Toronto Stock Exchange in December of 1997.

Pason expanded its operations to the United States by forming Pason Rocky Mountain Geo-Engineering Corp., which acquired Rocky Mountain Geo-Engineering Corp. on October 1, 1997. Pason Rocky Mountain Geo-Engineering Corp. changed its name to Pason Systems USA Corp. in December of 1998, and has since expanded to offer the full suite of products and services offered by the Company elsewhere and become the largest contributing subsidiary to the Company's total revenue.

Pason's first significant venture into international operations, outside of Canada and the United States, was in May 2001, when Pason formed Pason de Mexico S.A. de C.V. ("Pason de Mexico"). The success of this business model, which maintained Pason's ownership of equipment with the service provided by a local company, worked well and was used again for the expansion of operations into the South American market in 2003, operating under Pason Systems Corp., and in Australia in 2006, creating Pason Australia PTY Limited ("Pason Australia").

In 2009, Pason acquired Petron Industries Inc. ("Petron") of Houston, Texas. This acquisition improved Pason's overall US instrumentation rental market share as the result of an improved market presence in the southern US. It also provided a platform for Pason to leverage Petron's existing Research and Development ("R&D") technology.

In January 2010, the Company's Australian subsidiary re-purchased the Australian distribution rights from its prior agent.

On December 31, 2010, the Company re-purchased the distribution rights for marketing Pason products in Latin American countries through six share acquisitions from its previous agent in Mexico, Colombia, Brazil, Peru, Ecuador, and Argentina. Duplicative subsidiaries in Brazil and Mexico were subsequently merged.

In August 2011, the Company purchased all of the outstanding shares of 3PS, Inc., a company located in Austin, Texas, which specializes in the design and manufacture of, among other items, a drilling and casing torque and tension sub for the industry that provides real-time accurate torque. During 2016, the Company initiated a review of its investment in 3PS due to the significant decline in capital spending in the markets 3PS serves, including the oil and gas drilling industry. In the fourth quarter of 2016, a final agreement was entered into for the sale of the net operating assets of 3PS, effective January, 2017. The majority of the proceeds on the disposal of the net operating assets were received in January, 2017. The remaining funds are held in escrow and will be released twelve months after closing, in accordance with the terms of the escrow agreement. As a result of this divestiture, the Company recorded a non-cash impairment loss of \$17,474 in the fourth quarter of 2016, the majority of which is attributable to the write-down of goodwill that arose as a result of the initial acquisition of 3PS. 3PS was included in the United States CGU.

In June 2014, Pason announced its joint venture agreement with Rawabi Holding Company Limited, that determines the terms and conditions for the formation of Rawabi Pason Company Limited. Under the terms of the agreement, each of Rawabi and Pason will own 50% of the issued and outstanding stock of the company and shall each nominate two individuals to the Board of Directors. The new company will be the exclusive distributor of Pason's industry leading data management systems for drilling rigs in the Kingdom of Saudi Arabia and will serve as service provider for Pason in certain countries in the region.

In December 2016, Pason acquired all of the issued and outstanding shares of Verdazo Analytics Inc. ("Verdazo") a Calgary-based, privately owned software company offering discovery analytics. The Verdazo management team will continue to operate the day-to-day business as a wholly owned subsidiary of Pason. Verdazo offers discovery analytics which allows energy producers to make informed decisions on how to enhance production, improve operations, and increase overall profitability. Verdazo's clients include oil and gas producers, financial services companies, and energy services providers. Verdazo's product contains powerful visual analysis tools, pre-built templates, and custom reports that work with multiple public and proprietary data sources. Discovery analytics is a sequence of explorations, each predicated on the discovery and insights of the last. The tool enables the user to take analyses wherever the data leads, powered by dynamic workflows that offer vast analytical possibilities. The addition of Verdazo's strong analytics platform for oil and gas production and operations will complement the Company's market leading drilling information ecosystem. By combining the two entities, the Company aims to provide customers with a holistic platform to analyze drilling, production, and operational data. In addition, Verdazo will be able to leverage the Company's established brand and footprint to grow into the US market.

General Description of the Business

Products and Services

Pason's products and services are comprised of instrumentation provided on a rental basis to drilling rigs on land and offshore, as well as component and spare part sales. The revenue from each of these aspects of the business is as follows:

Consolidated Revenue	2016	2015	2014
(000s)	(\$)	(\$)	(\$)
Electronic Drilling Recorder	66,799	122,092	218,963
Pit Volume Totalizer/ePVT	22,833	40,279	72,684
Communications	15,228	24,710	42,018
Software	11,104	19,420	33,076
AutoDriller	9,357	20,337	44,102
Gas Analyzer	12,084	21,021	37,870
Other	23,041	37,289	50,559
Total Revenue	160,446	285,148	499,272

United States Operations

	2016	2015	2014
(000s)	(\$)	(\$)	(\$)
Revenue			
Electronic Drilling Recorder	40,168	79,023	139,651
Pit Volume Totalizer/ePVT	13,487	24,131	42,487
Communications	6,893	11,545	21,032
Software	7,291	13,087	21,759
AutoDriller	3,731	10,045	24,849
Gas Analyzer	5,974	10,639	16,578
Other	13,423	22,416	32,012
Total revenue	90,967	170,886	298,368
Operating costs	52,971	77,822	100,858
Depreciation and amortization	23,130	33,330	33,142
Segment operating profit	14,866	59,734	164,368

Canadian Operations

	2016	2015	2014
(000s)	(\$)	(\$)	(\$)
Revenue			
Electronic Drilling Recorder	17,198	27,420	57,475
Pit Volume Totalizer/ePVT	7,347	11,572	22,109
Communications	7,129	11,117	19,052
Software	3,534	5,815	10,349
AutoDriller	3,296	5,853	13,801
Gas Analyzer	4,865	7,802	16,296
Other	2,831	4,251	7,489
Total revenue	46,200	73,830	146,571
Operating costs	17,706	30,128	43,047
Depreciation and amortization	24,036	36,998	28,033
Segment operating profit	4,458	6,704	75,491

International Operations

	2016	2015	2014
(000s)	(\$)	(\$)	(\$)
Revenue			
Electronic Drilling Recorder	9,433	15,649	21,837
Pit Volume Totalizer/ePVT	1,999	4,576	8,088
Communications	1,206	2,048	1,934
Software	279	518	968
AutoDriller	2,330	4,439	5,452
Gas Analyzer	1,245	2,580	4,996
Other	6,787	10,622	11,058
Total revenue	23,279	40,432	54,333
Operating costs	19,158	28,965	27,999
Depreciation and amortization	8,218	11,053	8,026
Segment operating profit	(4,097)	414	18,308

Rental Instrumentation

Electronic Drilling Recorder (“EDR”)

The Pason EDR remains the Company’s flagship product. The EDR provides a complete system of drilling data acquisition, data networking, and drilling management tools and reports at both the wellsite and customer offices. The EDR is the base product with which all other wellsite instrumentation products are linked. By linking these products, a number of otherwise redundant elements, such as data processing, display, storage, and networking, are eliminated. This ensures greater reliability and a more robust system of instrumentation for the customer. Each full EDR system consists of a proprietary doghouse computer (“DHC”), sensors, junction box, and a series of workstations all connected via a local network. EDR workstations operating with the tool push computer (“TPC”) server present drilling data to the driller, rig manager, tool push, geologist, and any other third party in real time at the rig site. Once collected, rig data is transmitted via either high-speed packet access (“HSPA”), a high-speed wireless ground system, or by broadband satellite to the DataHub to be centrally stored for use by Operator and Contractor engineers and office staff.

The EDR is also designed to work with various add-on products and systems developed by Pason, such as a small rig floor workstation ("SideKick"), Rig Display, Gas Analyzer, Pit Volume Totalizer/ePVT, Electronic Choke System, AutoDriller, and the Hazardous Gas Alarm System.

Pit Volume Totalizer ("PVT")/Enhanced Pit Volume Totalizer ("ePVT")

The PVT/ePVT are used to monitor mud tank levels and mud flow rate out of the wellbore to detect and warn rig crews of impending "kicks" resulting from gas or fluids entering the wellbore while drilling. The PVT/ePVT provide critical information for maintaining the safe operation and control of the well throughout the drilling process. When used with the EDR, the PVT/ePVT can collect valuable drilling information.

Communications

Pason's Communications revenue comes from a number of communication service offerings, including providing customers with bandwidth through the Company's automatically-aiming satellite system and terrestrial networks. This system provides reliable high-speed wellsite communications for email and web application management tools. Pason displays all data in standard forms on its DataHub web application, although if customers require greater analysis or desire to have the information transferred to another supplier's database, data is available for export from the Pason DataHub using WITSML (a specification for transferring data among oilfield service companies, drilling contractors, and operators). The Company complements its satellite equipment with high speed packet access (HSPA), a high-speed wireless ground system which provides automatic fail-over between satellite and terrestrial networks to achieve greater reliability in its service offering.

Software

The Pason DataHub is the Company's data management system that collects, stores, and displays drilling data, reports, and real-time information from drilling operations. The DataHub provides access to data through a number of innovative applications or services, including:

- Live Rig View, which provides advanced data viewing, directional drilling, and 3D visualization of drilling data in real time via a web browser.
- Live Rig Mobile Viewer and Pason Mobile, which allow users to access their data on mobile devices, including iPhone, iPad, BlackBerry, and Android.
- WITSML, which provides seamless data sharing with third-party applications, enhancing the value of data hosted by Pason.
- Additional specialized software, including remote directional.

AutoDriller

Pason developed the AutoDriller to control the feed rate of the bit to various pre-set parameters, such as weight on bit, pressure, torque, and rate of penetration. It provides far greater precision, control, and speed as compared to competing systems. The AutoDriller was the first solution of its kind to employ an electronic control system to improve system performance and reliability. The Company licenses certain functionality of its AutoDriller, though that license is fully paid-up, royalty-free, and irrevocable.

Gas Analyzer

The Pason Gas Analyzer measures the total hydrocarbon gases (C1 through C4) exiting the wellbore, and then calculates the lag time to show the formation depth where the gases were produced. The Gas Analyzer provides information about the composition of the gas, and further calculates geologic ratios from the gas composition to assist in indicating the type of gas, natural gas liquid, or oil in the formation.

Rig Display

The Rig Display is a ruggedized, touch screen computer specifically engineered for use outdoors and in hazardous conditions. The Rig Display enables the customer to access services and applications on and around the rig floor. It allows the rig crew to view the EDR, and third-party well construction applications anywhere on the rig.

Versatile Services Platform ("VSP")

The VSP is the evolution of Pason's communications and computing infrastructure at the rig site. This multifaceted technology provides a flexible platform for the increasing communication and application integration needs of our customers. The VSP provides a faster, more reliable Internet connection at the rig, enhances the quality of service and bandwidth management, enables site WiFi, brings the Internet to the doghouse, and allows customers to project their back-office applications (e.g., human resources and health and safety) to the rig site.

Live Rig View Mobile

Pason's customers now have the ability to access their well information securely, customize their display, configure drilling data graphs and easily access Pason's DataHub via the Mobile Viewer either from a touchscreen mobile phone or tablet.

Other

Other is comprised mostly of service rig recorder rentals in Latin America and Electronic Choke Actuator, Hazardous Gas Alarm, Mobilization revenue, and sales of sensors and other systems sold by 3PS.

New Products

Event Detection

An upgrade to ePVT, Event Detection enables rig personnel to enter trip sheets electronically and view ePVT data in real time from a workstation. It also includes adaptive alarms, which provide early detection of fluid gains and losses without generating false alarms.

Live Rig View (Beta)

Live Rig View (LRV) Beta is a customizable, web-based data viewer for the office. It provides powerful visualization tools that display real-time drilling data and provide an accurate overview of current rig activity. LRV Beta delivers the most popular features of LRV in a browser-based application that supports one-second data updates (1 Hz data).

Drilling Advisory System™

Software algorithms developed by ExxonMobil Upstream Research and deployed by Pason that optimize rotary revolutions per minute and weight on bit resulting in optimal bit wear and rate of penetration of the wellbore.

International Business Model

Pason's international business model for renting its equipment continues to evolve. With the 2009 acquisition of Petron, the Company now offers instrumentation systems for rent for both land and offshore applications. Pason operates in Australia, Mexico, and in all South American oil-producing countries except Venezuela, from the Company's Latin American base in Bogota, Colombia. The Company has regional offices in Mexico, Ecuador, Peru, Brazil, and Argentina. New Zealand and South East Asia markets are serviced from Pason's Australian operations.

Through a joint venture in the Kingdom of Saudi Arabia, and a branch office in Dubai, Pason offers its products and services to the Middle East markets. Pason continues to explore opportunities in areas where Pason has not operated previously, with a focus on the Eastern Hemisphere and Middle East markets.

Competition

Pason's main source of competition remains the instrumentation divisions of large United States service companies. Indirect competitors offering niche services expertise, such as those offering communications, data acquisition, storage and analytics services, compete with Pason's offerings as well as Pason's ability to bundle that technology offering as such companies attempt to sell the individual components of Pason's bundle.

Research and Development (“R&D”)

Pason dedicates significant resources to research and product development, as management believes that remaining competitive is dependent on anticipating and responding to the rapidly changing needs of the oil and gas industry. Pason's R&D department performs two primary functions: support and enhancement of current products, and development of new products and technologies consistent with the technological trends in the oil and gas industry. Pason has assembled an R&D team of 102 employees, with appropriate technical skills in hardware and software design and development.

During 2016, Pason invested a total of \$25.2 million into research and development, including \$22.8 million of expense and \$2.4 million of capitalized development costs. Capitalized development costs are amortized over three years once a new product begins generating rental revenue. New product development projects are periodically reviewed and if at any time a product is deemed not viable, the balance of its unamortized deferred costs are written off.

People & Culture

Pason has created an energized and focused work environment that empowers each team member to push the envelope of traditional thinking to create new solutions to old problems.

Pason's corporate culture nurtures imagination in an atmosphere where people are free to perform to their fullest potential in an open and friendly environment that supports and promotes a healthy lifestyle within and outside the workplace while abiding by all employment standards, human rights, and privacy protection legislation.

As a technology-driven company, a significant portion of Pason's highly skilled workforce is engaged in disciplines such as software and hardware design engineering, information technology, and field services technical support. The remainder of the workforce is engaged in other professional occupations that include marketing and sales, contract manufacturing and supply, warehousing and distribution, finance and accounting, administration, and human resources.

As at December 31, 2016, including executive officers, Pason's total full-time workforce stood at 550 employees, of which 288 were employed in Canada, 158 were employed in the United States, 95 in Latin America, and 9 in Australia. The Canadian numbers include Verdazo while the United States numbers exclude 3PS, Inc.

In March of 2016, the Company further reduced its staffing levels and announced the closing of its Golden, Colorado office, centralizing its US operations into the Houston, Texas office.

Environmental Protection Requirements

A corporate insurance program is maintained consistent with industry practice that protects Pason from liabilities due to environmental accidents and disruptions. Pason also has operational and emergency response procedures and safety and environmental programs in place to reduce potential loss exposure.

Pason does not expect costs of compliance with applicable environmental regulations will have a material impact on Pason's competitive position or future capital expenditures, earnings, or operating costs.

Risk and Uncertainty

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

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

Operating Risks

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

Commodity Prices

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

Seasonality

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

Proprietary Rights

Pason relies on innovative technologies and products to protect its competitive position in the market. To protect Pason's intellectual property, the company employs trademarks, patents, employment agreements, and other measures to protect trade secrets and confidentiality of information. Pason also believes that due to the rapid pace of technological change in the industry, technical expertise,

knowledge, and innovative skill, combined with an ability to rapidly develop, produce, enhance, and market products, also provides protection in maintaining a competitive position.

Litigation

A US subsidiary of the Company is currently involved in a Fair Labour Standards Act collective action (“FLSA”) lawsuit. The parties are in discussions to negotiate a settlement before it reaches the depositions and mandatory mediation stage. The Texas court has indicated that if litigation is to proceed, the court proceedings would occur in August of this year. Other claims and litigation that the Company is involved in arise in the normal course of business. The outcome of the FLSA matter and the normal course legal matters are uncertain and there can be no assurances that such matters will be resolved in Pason’s favour, however, 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 financial position, results of operations, or liquidity.

Credit Risk

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

Availability of Qualified Personnel

Due to the specialized and technical nature of Pason’s business, Pason is highly dependent on attracting and retaining qualified or key personnel. There is competition for qualified personnel in the areas where Pason operates, and there can be no assurance that qualified personnel can be attracted or retained to meet the growth needs of the business. To mitigate this risk, Pason has a People & Culture department within each significant business unit to support the human resources function.

Alternative Energies

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

International Operations

Assets outside of Canada and the US may be adversely affected by changes in governmental policy, social instability, or other political or economic developments beyond the Company’s control, including expropriation of property, exchange rate fluctuations, and restrictions on repatriation of cash. The Company has mitigated these risks where practical and considered warranted. Approximately 85% of the Company’s revenues are generated in Canada and the US, which limits exposure to risks and uncertainties in foreign countries.

Foreign Exchange Exposure

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

Adjustments arising when translating the foreign subsidiaries into Canadian dollars are reflected in the Consolidated Statements of Operations and Other Comprehensive Income as unrealized foreign currency translation adjustments. The Company has not hedged either one of these risks.

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

Major Customers

Pason has a large customer base on both the Operator and Contractor side and does not rely on any single customer for a significant portion of its revenue. During the year ended December 31, 2016, no single customer accounted for more than 10% of the consolidated revenues of the company. The loss of one or more customers, or a reduction in the amount of business Pason does with any of its customers, if not offset by obtaining new customers or increasing the amount of business it does with existing customers, could have a detrimental impact on Pason's revenue.

Key Personnel

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

Dividends

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

Taxation

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

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

Information Security

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

Dividend Record and Policy

The amount of cash dividends declared per common share for each of the three most recently completed years is as follows:

Years Ended December 31,	2016	2015	2014
Dividends declared per common share	\$0.68	\$0.68	\$0.64

The Company does not have a formal dividend policy, and the decision to declare dividends in the future will be made by the Board of Directors.

Description of Capital Structure

Pason is authorized to issue an unlimited number of common shares and an unlimited number of preferred shares. As at December 31, 2016, there were 84,627,653 common shares outstanding and no preferred shares outstanding. On March 17, 2017, there were 84,671,652 common shares outstanding, and no preferred shares outstanding.

Holders of Pason common shares are entitled to receive dividends if, as, and when declared by the Board of Directors. The holders of the common shares are entitled to receive notice of and to attend all meetings of shareholders, and are entitled to one vote per common share held at all such meetings. In the event of the liquidation, dissolution, or winding up of operations or other distribution of assets among Pason shareholders for the purpose of winding up its affairs, Pason's shareholders will be entitled to participate rateably in any distribution of assets.

Select Pason employees participate in a corporate stock-option plan. Pason directors participated in the stock-option plan until 2011, at which time the granting of stock options was replaced with a deferred share unit plan.

All options are issued at market price and vest over three years and expire after five years.

Market for Common Shares

The common shares of Pason are listed and posted for trading on The Toronto Stock Exchange under the symbol "PSI". The following table outlines the share price trading range and volume of shares traded by month in 2016.

2016	High	Low	Close	Share Volume
January	20.29	14.46	17.93	5,050,281
February	18.29	15.00	16.49	2,985,861
March	17.95	15.62	16.50	5,665,267
April	18.80	15.50	18.24	3,183,195
May	18.21	14.98	18.00	2,749,665
June	18.92	16.56	17.86	2,328,442
July	18.60	16.76	17.49	1,447,005
August	18.92	16.40	18.70	1,694,676
September	19.25	16.08	16.79	5,107,312
October	18.49	15.00	15.25	4,146,815
November	16.67	14.79	15.94	4,715,481
December	19.80	16.09	19.64	3,823,536

Directors and Officers

The following table sets out information in respect of Pason's directors and executive officers:

Directors			
Name and Residence	Director Since ⁽¹⁾	Position(s) and Membership(s)	Principal occupation (if not with Pason)
James D. Hill Alberta, Canada	1996	Chairman of the Board	
James B. Howe Alberta, Canada	1996	Lead Director, Audit Committee (Chair), HR and Compensation Committee, Corporate Governance and Nomination Committee	Professional Director and President of Bragg Creek Financial Consultants Ltd., a private financial consulting company.
Marcel Kessler Alberta, Canada	2012	Director, President and CEO	
T. Jay Collins Texas, USA	2012	Director, HR and Compensation Committee (Chair), Audit Committee, and Corporate Governance and Nomination Committee	Professional Director and former CEO of Oceaneering International, Inc.
Judi Hess British Columbia, Canada	2015	Director, Corporate Governance and Nomination Committee (Chair), Audit Committee, and HR and Compensation Committee	CEO of Copperleaf Technologies Inc.

Executive Officers			
Name and Residence	Officer Since	Executive Office	Principal occupation (if not with Pason)
Marcel Kessler Alberta, Canada	2011 ⁽²⁾	President and Chief Executive Officer	
Jon Faber CFA, CBV, CPA Alberta, Canada	2014 ⁽³⁾	Chief Financial Officer	
David Elliott CPA, CA Alberta, Canada	2006	VP, Finance	
Russell Smith Texas, USA	2010	VP, Operations, Offshore and International	
Kevin Boston Texas, USA	2010	VP, Sales and Business Development	
Kevin Lo Alberta, Canada	2015 ⁽⁴⁾	VP, New Ventures	
Melinda Ando Alberta, Canada	2015 ⁽⁵⁾	General Counsel and Corporate Secretary	
Timur Kuru Texas, USA	2016 ⁽⁶⁾	President and General Manager, USA	
Bryce McLean Alberta, Canada	2017	General Manager, Operations - Canada	
Lars Olesen Alberta, Canada	2017	VP, Product Management	
Ryan Van Beurden Alberta, Canada	2017	VP, Rigsite R&D	

- (1) All directors have been elected to serve a one-year term, and will be deemed to retire from office not later than the close of the next annual general meeting of shareholders (scheduled for May 3, 2017) unless they are re-elected. Pason directors do not have term limits or mandatory retirement.
- (2) Prior to his appointment as President and CEO, Mr. Kessler was the President, North America of Exploration Logistics Group, a medical and safety services provided, and prior to that, he was the President and Chief Executive officer of CCR Technologies Ltd., a petrochemical reclamation company, and a partner with McKinsey & Company, a management consulting firm.
- (3) On January 16, 2014, Pason announced the hiring of Jon Faber as the new CFO of Pason, effective March 1, 2014. Mr. Faber was formerly an investment banker with National Bank Financial and is a Chartered Financial Analyst, Chartered Business Valuator, and a Chartered Professional Accountant.
- (4) Mr. Lo was a Managing Director, Institutional Research at FirstEnergy Capital Corp before joining the Company.
- (5) Prior to her appointment Ms. Ando was the Senior Legal Counsel for Enbridge Inc. an energy delivery company.
- (6) On August 22, 2016, Mr. Kuru was hired as the President and General Manager of the United States Business Unit. Prior to Pason he served as Executive Vice President of Solaris, where he led manufacturing, service, and rental operations.

As of March 17, 2017, the directors and executive officers of Pason, as a group, beneficially owned, directly or indirectly, or exercise control or direction over 11,221,996 common shares representing approximately 13% of the issued and outstanding common shares. In addition, as a group, executive officers hold options to purchase an additional 1,507,590 common shares.

Interests of Management and Others in Material Transactions

During the past three years, there have been no material interests, direct or indirect, of any senior officer, director, an associate, or any shareholder who beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding securities, or any known associate or affiliate of such persons, in any transaction or in any proposed transaction which has materially affected or would materially affect Pason.

Material Contracts

Little of Pason's business is subject to long-term contracts and, therefore, business prospects are tied to general rig activity levels in the regions that the company operates in.

Pason licenses certain of its automatic driller functionality from a third-party pursuant to a fully paid-up, royalty-free, and irrevocable license from the owner of certain patents and technologies directed to automatic drilling. Pason entered that license agreement on August 1, 2014 in connection with the settlement of certain litigation. The settlement terminated all litigation regarding such patents and technologies that was outstanding between the parties and the license was granted on a retroactive, fully paid-up, royalty-free, and irrevocable basis.

Future Accounting Policy Changes

IFRS 15, Revenue from Contracts with Customers, is required to be applied for years beginning on or after January 1, 2018 and supersedes existing standards and interpretations including IAS 18, Revenue. Management believes that given its current rental model and the contacts it enters into with its customers that this new standard will not have a material impact on the company's financial statements.

In July 2014, the IASB completed the final elements of IFRS 9 "Financial Instruments." The standard supersedes earlier versions of IFRS 9 and completes the IASB's project to replace IAS 39 "Financial Instruments: Recognition and Measurement." IFRS 9, as amended, includes a principle-based approach for classification and measurement of financial assets, a single 'expected loss' impairment model and a substantially-reformed approach to hedge accounting. The standard will come into effect for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. IFRS 9 will be applied by the Company on January 1, 2018 and the Company is currently evaluating the impact of the standard on the financial statements.

In January 2016, the International Accounting Standards Board released IFRS 16, Leases, which is required to be applied for years beginning on or after January 1, 2019, and which supersedes IAS 17, Leases; earlier application is allowed, but not before the application of IFRS 15, Revenue from Contracts with Customers. This new pronouncement introduces a single lessee accounting model by eliminating a lessee's classification of leases as either operating leases or finance leases. The most significant change will be the lessee's recognition of the initial present value of unavoidable future lease payments as a leased asset and liability on the Consolidated Balance Sheets. Leases with durations of twelve months or less and leases for low-value assets are both exempted. The measurement of the total lease expense over the term of a lease will be unaffected by the new standard. The presentation on the Consolidated Statement of Operations will result in most lease expenses being presented as amortization of leased assets and financing costs arising from lease liabilities rather than as being a part of either local administration expense or corporate service expenses.

The lessee's actual cash flows will be unaffected, however relative to the current standard, the lessee's statement of cash flows will reflect increased operating activity cash flows offset by a corresponding decrease in financing activity cash flows due to the payment of the "principal" component of leases. Management is currently assessing the impacts and transition provisions of the new standard, but expects that the company's Consolidated Balance Sheets will be materially affected. At this time it is not possible to make reasonable estimates of the effects of the new standard.

Transfer Agent and Registrar

Computershare Trust Company of Canada
600, 530 - Eighth Avenue SW
Calgary, Alberta, T2P 3S8

Interests of Experts

There is no person or company whose profession or business gives authority to a statement made by such person or company and who is named as having prepared or certified a statement, report or valuation or included in a filing, or referred to in a filing, made under National Instrument 51-102 by us during, or related to, our most recently completed financial year end other than Deloitte LLP, Chartered Professional Accountants, Pason's independent auditors. Deloitte LLP is independent in accordance with the Rules of Professional Conduct of the Chartered Professional Accountants of Alberta.

Audit Committee

Audit Committee Mandate

The mandate of the Audit Committee is attached as “Appendix A” to this Annual Information Form.

Composition of Audit Committee

Pason’s Audit Committee consists of James B. Howe (Chair of Committee), T. Jay Collins and Judi Hess. Each member of the Audit Committee is independent and none receives, directly or indirectly, any compensation from Pason other than ordinary course compensation for service as a member of the Board of Directors and its committees. All members of the Audit Committee are financially literate as defined under Multilateral Instrument 52-110 *Audit Committees*.

Relevant Education and Experience of Audit Committee Members

In addition to each member’s general business experience, the education and experience of each Audit Committee member that is relevant to the performance of his responsibilities as an Audit Committee Member is as follows:

James B. Howe C.A.

Mr. Howe, 67, of Calgary, Alberta, Canada, has been a director of Pason Systems Inc. since 1996.

Mr. Howe is President of Bragg Creek Financial Consultants Ltd., a private financial consulting company. He has served as Chief Financial Officer of several public companies and also serves on the board of directors and audit committees of Bengal Energy Ltd., and Ensign Energy Services Inc. Mr. Howe earned a B.A. from the Ivey School of Business at the University of Western Ontario and is a member of the Chartered Professional Accountants of Alberta. He has been a member of Pason’s Audit Committee for twenty years.

T. Jay Collins

Mr. Collins, 70, of Houston, Texas, USA has been a director of the Corporation since 2012. Since 2002, Mr. Collins has been a director of Oceaneering International, Inc., a global oilfield provider of engineered service and products primarily to the offshore oil and gas industry.

Mr. Collins served as Chief Executive Officer of Oceaneering from 2006 to 2011, and held numerous senior positions in the company prior to that, including Chief Operating Officer from 1998 to 2006, Executive Vice President – Oilfield Marine Services from 1995 to 1998, and Senior Vice President and Chief Financial Officer from 1993 to 1995. Mr. Collins has substantial knowledge and experience in the oil and gas industry and has served on numerous boards affiliated with the industry, including the National Ocean Industries Association, National Petroleum Council, the American Productivity & Quality Center, the Texas Institute of Science, and the Houston Technology Center. He also serves on the board of Murphy Oil Corporation. Mr. Collins holds an MBA from Harvard Graduate School of Business and both his Bachelor of Arts degree and Masters of Engineering in Chemical Engineering from Rice University. He has been a member of Pason’s Audit Committee for four years.

Judi Hess

Ms. Hess, 58, of Vancouver, British Columbia, Canada, has been a director of Pason Systems Inc. since 2015.

Ms. Hess is the CEO of Copperleaf Technologies, Inc., a position she has held since 2009. Copperleaf Technologies is a privately-owned enterprise software startup. Previously, she was the President of Creo Inc., a publicly-traded printing technology and workflow company that was acquired by Kodak in 2005. After Kodak’s acquisition, she was named Country Manager of Canadian operations and Corporate Vice President and General Manager of one of Kodak’s global business units.

Prior to joining Creo, Judi Hess was at MacDonald Dettwiler and Associates, an aerospace and defense company. She has been a member of the Premier's Technology Council of British Columbia since 2009. She has been a member of Pason's Audit Committee for one year.

Pre-Approval Policies and Procedures

Pason's Audit Committee mandate requires the Audit Committee pre-approve all non-audit services to be provided to Pason or any of its subsidiaries by the external auditor, provided that the Audit Committee may satisfy the pre-approval requirement by delegating to the Chairman the authority to pre-approve non-audit services and report to the Audit Committee all pre-approvals.

External Fees by Category

Deloitte LLP has served as Pason's external auditor since November 1996. The following table lists the fees paid to Deloitte LLP, by category, for the last three years:

Service	2016	2015	2014
Audit	\$175,000	\$247,000	\$266,000
Audit-related ⁽¹⁾	36,000	46,000	48,000
Tax fees	55,000	54,000	34,000
Other ⁽²⁾	—	15,000	33,000
Total fees	\$266,000	\$362,000	\$381,000

(1) Audit-related—assurance services related to review of financial statements.

(2) Other—services that do not fall under previous categories.

Additional Information

Additional information relating to Pason is available via the System for Electronic Document Analysis and Retrieval (SEDAR) at www.sedar.com.

Additional information, including directors' and officers' remuneration, principal holders of Pason's securities and options to purchase securities, is contained in Pason's Information Circular dated March 17, 2017, which relates to the Annual Meeting of Shareholders to be held on May 3, 2017. Additional financial information is contained in Pason's comparative Audited Consolidated Financial Statements for the years ended December 31, 2016 and 2015 and Management's Discussion and Analysis, which are included in Pason's Annual Report for the year ended December 31, 2016.

Mandate & Terms of Reference of the Audit Committee

Currency of the Mandate

This mandate was reviewed and approved by the Board of Directors on February 26, 2016.

Purpose

The purpose of the Audit Committee (the “Committee”) of the Board of Directors (the “Board”) of Pason Systems Inc. (“Pason”) is to assist the Board in fulfilling its oversight responsibilities in relation to the review and approval of the financial statements and financial reporting of Pason and its subsidiaries including; management’s assessment of internal controls over financial reporting and other internal and disclosure controls, the performance of external and internal audits, compliance with regulatory and reporting requirements, and the risk management systems and procedures of Pason as they relate to presentation and integrity of financial information. The Committee shall also be directly responsible for overseeing the relationship of the external auditors with Pason. The external auditors shall report directly, and be accountable, to the Committee.

Mandate

Financial Statements and Financial Reporting

With respect to financial statements and reporting the Committee shall:

- Review with management and the external auditors, and recommend to the Board for approval, the annual and periodic financial statements of Pason, the reports of the external auditors thereon and related financial reporting, including Management’s Discussion and Analysis (“MD&A”) and earnings press releases prior to the public disclosure of such information.
- Review with management and recommend to the Board for approval, any financial statements of Pason, which have not previously been approved by the Board and are to be included in a prospectus of Pason or other documents required by applicable securities law.
- Review with management, management’s internal control reports of Pason and the related required disclosures, if any, as required by applicable securities laws, rules and guidelines.
- Review accounting, tax and financial aspects of the operations of Pason and the reporting thereon as the Committee considers appropriate.
- Consider and be satisfied that appropriate processes are in place with respect to applicable certification requirements regarding Pason’s annual and interim financial statements and other disclosure.
- Consider and be satisfied that adequate procedures are in place for the review of Pason’s public disclosure of financial information extracted or derived from Pason’s financial statements and periodically assess the adequacy of such procedures.
- Review with management, the external auditors, and, if necessary, legal counsel, any litigation, claim or contingency, including legal, regulatory compliance and tax assessments that could have a material effect upon the financial position of Pason, and the manner in which these matters may be, or have been, disclosed in the financial statements.
- Review accounting principles and changes thereto, significant accruals, reserves or other estimates, accounting treatment of unusual or non-recurring transactions, compliance with covenants under loan agreements, disclosure requirements for commitments and contingencies and other accounting and auditing principles and practices including off balance sheet items.
- Review with management and recommend to the Board for approval, Pason’s Annual Information Form.

Relationship with External Auditors

With respect to matters concerning the external auditors the Committee shall:

- Review and evaluate the external auditors, including the lead partner's performance, assuring rotation of the lead partner and make a recommendation to the Board as to the appointment or re-appointment of the external auditors, ensuring that such auditors are participants in good standing pursuant to applicable securities laws.
- Meet regularly with external auditors without management present.
- Consider and make a recommendation to the Board as to the compensation of the external auditors.
- Review and approve the annual audit plan of the external auditors.
- Oversee the work of the external auditors engaged for the purpose of preparing or issuing an auditor's report or performing other audit work, reviews or attesting services, including review of post audit management letters and the resolution of any disagreements between management and the external auditors.
- Review and discuss with the external auditors all significant relationships that the external auditors and their affiliates have with Pason and their affiliates in order to determine the external auditors' independence, including, without limitation, (a) requesting, receiving and reviewing, on a periodic basis, a formal written statement from the external auditors delineating all relationships that may reasonably be thought to bear on the independence of the external auditors with respect to Pason, (b) discussing with the external auditors any disclosed relationships or services that the external auditors believe may affect the objectivity and independence of the external auditors, and (c) recommending that the Board take appropriate action in response to the external auditors' report to satisfy itself of the external auditors' independence.
- As may be required by applicable securities laws, rules and guidelines, either:
 - Pre-approve all non-audit services and the fees for such services, to be provided by the external auditors to Pason or its subsidiaries, or in the case of de minimus non-audit services, approve such non-audit services prior to the completion of the audit; or
 - Adopt specific policies and procedures for the engagement of the external auditors for the purpose of the provision of non-audit services.
- Review and approve the hiring policies of Pason regarding partners, former partners, employees and former employees of the present and former external auditors of Pason.

Internal Controls

With respect to internal controls the Committee shall:

- Review the appropriateness of the accounting practices and policies of Pason and review any proposed changes thereto.
- Review with management and the external auditors, the adequacy and effectiveness of the internal control and management information systems and procedures of Pason (with particular attention given to accounting, financial statements, financial reporting matters and anti-fraud processes) and satisfy itself that Pason is in compliance with applicable legal and regulatory requirements and relevant Pason policies.
- Review the external auditors' recommendations regarding any matters, including internal control and management information systems and procedures, and management's responses thereto.
- Review with management, on at least an annual basis, their approach to monitoring the performance of the internal controls over financial reporting in accordance with their CEO/CFO certification process, and any as required by applicable securities laws, rules and guidelines.
- Be responsible for monitoring the Ethics Hotline for financial matters and reporting any material findings to the Board and recommend a course of action.
- Establish procedures for the receipt, retention and treatment of complaints, submissions and concerns, by employees or otherwise, regarding financial reporting and disclosure, accounting, internal accounting controls or auditing matters on an anonymous and confidential basis.
- Review policies and practices concerning the expenses and perquisites of the Chairman and CEO, including the use of the assets of Pason.

- Review with external auditors any corporate transactions in which directors or officers of Pason have a personal interest.

Financial Risk Management

With respect to managing risks the Committee shall:

- Review with management and the external auditors the significant financial risks and exposures of Pason.
- Review and assess the steps, policies and procedures management has taken to mitigate such risks including insurance policies and coverage.
- Report the results of such reviews to the Board for the purpose of assisting the Board in identifying the principal business risks associated with the businesses of Pason and assessing Pason's risk management policies and procedures.
- Review and, if advisable, approve policies and procedures with respect to officers' and directors' expenses and perquisites and consider the results of any review of these areas by the internal or external auditors.

Membership and Organization

Composition of the Committee

The Committee shall be comprised of not less than three directors of Pason, each of whom is financially literate and independent as defined in National Instrument 52-110. No Committee member shall be an officer or an employee of Pason or any of its subsidiaries, customers or suppliers. Determinations as to whether a particular director satisfies the requirements for membership on the Committee shall be made by the full Board.

Appointment of Committee Members

Members of the Committee shall be appointed from time to time by, and shall hold office at the pleasure of, the Board. Where a vacancy occurs at any time in the membership of the Committee, it may be filled by the Board. The Board shall fill any vacancy if the membership of the Committee is less than three directors.

Meetings

The Committee shall meet at least quarterly and shall meet at such other times during the year as it deems appropriate or as required to review and approve financial statements. In addition, the Chair of the Committee or the Chairman of the Board or any two members of the Committee may call a meeting of the Committee. The Committee shall hold in camera sessions of the members without management and non-independent directors present, at every Committee meeting.

Notice of meetings may be provided by mail, email, personal delivery, facsimile or telephone provided that the method of notification chosen shall be capable of being received by members at least forty-eight hours prior to a meeting.

Absence of Committee Chair

If the Chair of the Committee is not present at any meeting of the Committee, the members of the Committee present at the meeting shall select a chairman to preside over the meeting.

Attendance at Meeting

Members will be considered in attendance at a meeting if they appear in person to the meeting or participate via voice or video call over the Internet or telephone. However, members shall be expected to attend meetings in person unless prevented by extenuating circumstances.

Quorum

Fifty percent of the members of the Committee shall constitute a quorum.

Procedures Records and Reporting

The Corporate Secretary, his or her delegate, or another person the Committee requests shall act as secretary for the meetings. Minutes of meetings shall be recorded and maintained by the Corporate Secretary and approved by the Committee in compliance with the bylaws, relevant securities laws, stock exchange rules or other applicable rules or laws.

Authority to Engage Experts

The Committee has the authority to engage independent counsel and other advisors as it determines advisable to carry out its duties with such engagement to be at Pason's expense.

Review of Terms of Reference

The Committee shall review and reassess the adequacy of this mandate at least once per year, and otherwise as deemed appropriate, and recommend changes to the Board. Such review shall include the evaluation of the performance of the Committee against criteria defined in the Committee and Board mandates.



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