



Pason Systems Inc.

# 2020 ANNUAL INFORMATION FORM

For the year ended December 31, 2020

Dated March 17, 2021



# Disclaimer: 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, forecasted 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; potential repurchases under the NCIB program; 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 judgments; 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 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; reliance on renewable energy; 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 this Annual Information Form under the heading, “Risk and Uncertainties” and in the Company’s 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](http://www.sedar.com)) or through Pason’s website ([www.pason.com](http://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.

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 and registered office located at 6130 Third Street SE, Calgary, Alberta, T2H 1K4

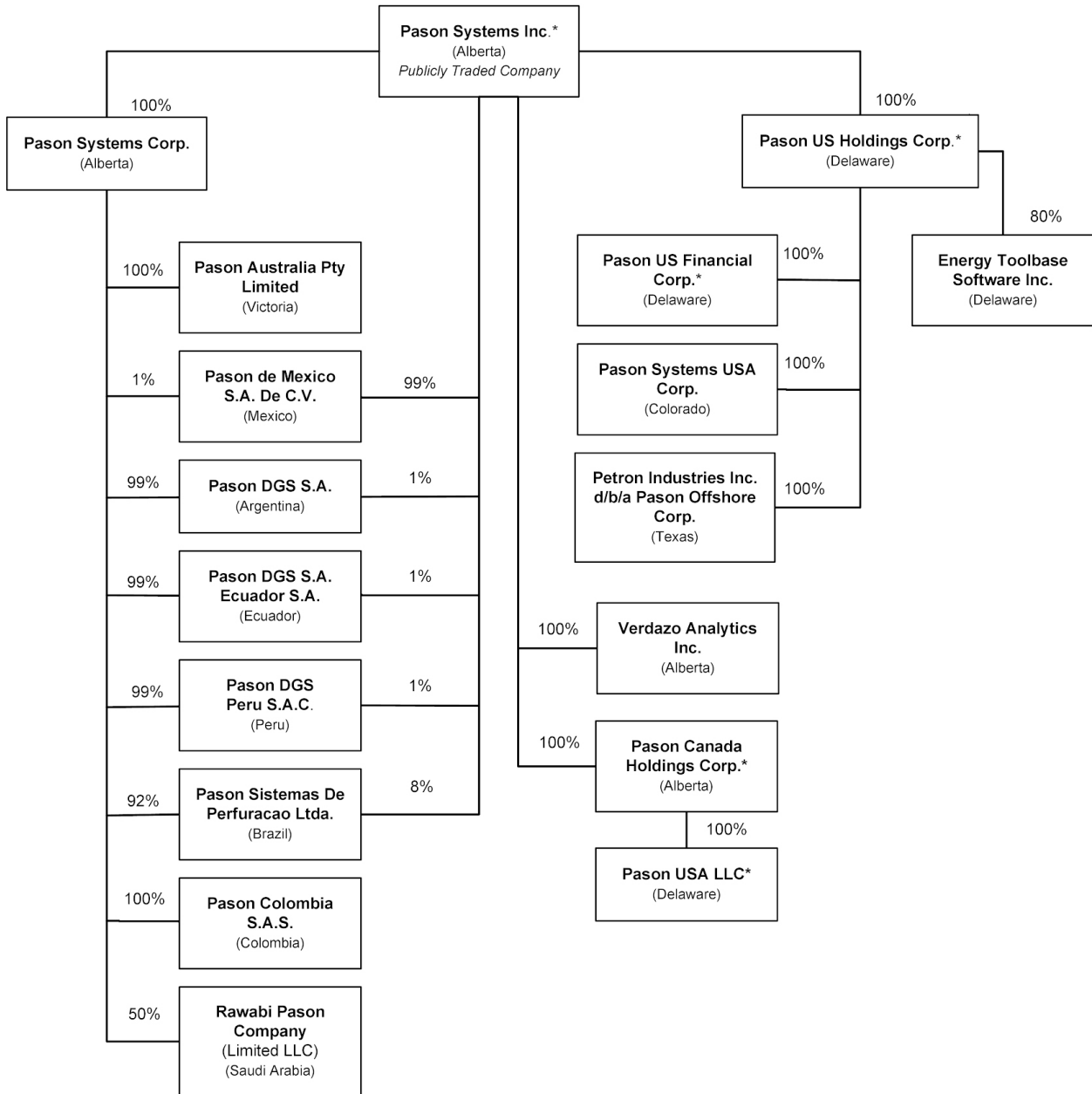
Pason was originally incorporated as Pason Well Services Ltd. under the Business Corporations Act (Alberta) on February 3, 1978. Its name was changed to Pason Systems Corp. pursuant to the articles of amendment dated December 29, 1995.

Pason was then amalgamated under the Business Corporations Act (Alberta) 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

## PASON SYSTEMS INC. - GLOBAL ORGANIZATIONAL CHART

(Majority owned entities and Joint Venture)



\*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.

## 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 Latin America 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 America 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 June 2014, Pason announced a joint venture agreement with Rawabi Holding Company Limited for the formation of Rawabi Pason Company Limited. Under the terms of the agreement, Rawabi and Pason own 50% of the issued and outstanding stock of the company and each nominate two individuals to the Board of Directors of the joint venture. The new company is the exclusive distributor of Pason's products in the Kingdom of Saudi Arabia and surrounding countries in the Middle East.

In December 2016, Pason acquired all the issued and outstanding shares of Verdazo Analytics Inc. ("Verdazo") a Calgary-based, privately owned software company. Verdazo offers discovery analytics that allows energy producers to make informed decisions on how to enhance production, improve operations, and increase overall profitability.

In 2017, the Company initiated a project that leverages its technology and energy data management and controls automation into the energy distribution and storage market ("Pason Power"). To complement and build upon the progress of Pason Power, the Company, in September of 2019, made a US\$20 million investment to acquire an 80% interest in ETB LLC, a US-based software company that provides products and services for the solar power and energy storage industry. ETB LLC and Pason Power (collectively, ETB) were then amalgamated to provide a robust and compelling software and control system offering,

enabling solar and energy storage developers to secure more projects and deploy assets for their customers with higher confidence. With the combined capabilities within ETB, and building on Pason's deep data management expertise, the Company has positioned itself for meaningful growth and a presence in the solar and energy storage market.

In October of 2019 the Company entered into an agreement to invest \$25 million to acquire a minority interest in Intelligent Wellhead Systems Inc. ("IWS"). IWS is a privately-owned oil and gas technology and service company that provides proprietary and unique surface control systems for various markets globally, including unconventional shale, and critical well intervention. This investment represents the Company's first investment in the completions industry. The Company's deep expertise in end-to-end data management and ruggedized field technologies will support IWS' continued growth.

On March 11, 2020, the World Health Organization declared the COVID-19 outbreak a global pandemic. COVID-19's negative impact on the demand for oil has been significant and this combined with an over-supply of oil led to the lowest oil prices in 20 years seen in the second quarter of 2020. As a result, starting in March of 2020, Pason's customers reduced their capital expenditure programs which led to a precipitous fall in the active rig count in all of Pason's major markets. In response to these enormously challenging conditions, Pason proactively took necessary measures to protect its financial position, while retaining critical capabilities as it relates to service and technology. These measures included reductions in head count, discretionary spending, capital expenditures, and a reduction in the Company's dividend on an annualized basis, from \$0.76/share to \$0.20/share.

Operationally, the Company experienced minimal adverse impacts to its business operations and workforce throughout the COVID-19 pandemic in 2020. With the exception of certain international regions that experienced temporary country-wide economic shutdowns, Pason's operations have been and continue to remain open and fully operating. In response to the pandemic, additional safety measures have been implemented throughout the Company's operations, both in the field and in office/warehouse settings, to ensure the ongoing safety of Pason's employees and customers' employees, and to maintain delivery of products and services to customers while complying with recommendations from global and local health authorities.

Through this enormously challenging year, Pason generated \$156.6 million in revenue, a 47% reduction from 2019 levels, but managed to grow North American Revenue per Industry Day by 6% from \$665 to \$706 as the Company managed to defend and grow its competitive positioning. Furthermore, through strong working capital management and reduced capital expenditures through the year, the Company generated \$53.9 million in Free Cash Flow in 2020 and exited the year with \$149.3 million in cash and cash equivalents and no interest-bearing debt.

While commodity prices and industry activity have begun to improve through the fourth quarter of 2020 and into 2021, the ongoing impacts of the COVID-19 pandemic remain severe and uncertain for the oil and gas industry. Demand for the Company's products and services will remain dependent on global capital investment in oil and natural gas, and Pason continues to be well positioned in its core business as Operators and Contractors place an increasing emphasis on the use of technology to increase the efficiency and effectiveness of drilling activities.

Throughout 2020, Pason continued to make investments in the development of product offerings in the solar and energy storage market through ETB. Revenue generated by ETB continues to be primarily comprised of subscription-based licenses for the ETB Developer tool, and in 2020, represents 2.1% of the Company's overall revenue given the early and developing stage of the business and the industry in which it operates.

## **Changes in Board of Directors and Management**

On July 22, 2020, the Company announced certain changes in management and the Board of Directors aligned with its long-term succession plan. Effective September 30, 2020, James D. Hill retired as Chair of the Board. On October 1, 2020, Marcel Kessler retired as President and Chief Executive Officer (CEO), and succeeded Mr. Hill as Chair of the Board. On the same date, the Board appointed Jon Faber, formerly Chief Financial Officer, to succeed Mr. Kessler as President and CEO and as a director on the Board, and David Elliott, formerly Vice President, Finance, to act as interim Chief Financial Officer. On October 26, 2020, Pason announced the appointment of Celine Boston as Chief Financial Officer, effective November 30, 2020.

## **Changes in Reportable Segments**

Prior to the third quarter of 2020, the Company presented three operating segments, based upon the geographic segments of the Company's core business of servicing the oil and gas industry, consisting of Canada, the United States, and International. The United States segment included ETB, which is the operating entity of the Company's solar and energy storage business.

In response to ongoing low activity levels across the North American land drilling market, the Company streamlined its structure and operations in 2020 by consolidating its core US and Canadian operations. As a result of this consolidation, along with the continued investment in solar and energy storage business, the Company determined that the prior operating segments no longer reflected how management monitored and evaluated operating results. This conclusion was reached in part due to the fact that solar and energy storage business is distinct from Pason's core business and that anticipated future operating results will be significant enough to warrant a distinct segment, as well as from the consolidation of management of North American operations.

As a result of the change in reportable segments the Company now 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 services to the oil and gas industry, and the Solar and Energy Storage business unit, which provides services to solar and energy storage developers. These new reportable segments reflect how the Chief Executive Officer and management allocate resources and assess the performance of the Company.

All comparative figures have been reclassified to conform to the new presentation.



# General Description of the Business

## Products and Services

Pason's products and services remain primarily comprised of hardware and software provided on a rental basis to drilling rigs on land and offshore. Pason's system of computers, instrumentation, and monitoring equipment is networked around a drilling rig to provide data at the wellsite and at the office. The software installed on Pason's hardware provides a variety of monitoring, guidance, and data storage.

Starting in 2018, Pason started to report its revenue along five product categories to better reflect the changing nature of Pason's business, aligned with how the Company determines its investments in new products and services.

	Year Ended December 31,		
Consolidated Revenue	2020	2019	2018
(000s)	(\$)	(\$)	(\$)
Drilling Data	82,081	156,208	157,162
Mud Management and Safety	45,025	85,827	85,952
Communications	8,839	19,760	28,177
Drilling Intelligence	9,765	20,321	22,786
Analytics and Other	10,926	13,526	12,316
<b>Total Revenue</b>	<b>156,636</b>	<b>295,642</b>	<b>306,393</b>

### Drilling Data

Drilling Data contains all products and services associated with acquiring, displaying, storing, and delivering drilling data. This includes the Electronic Drilling Recorder ("EDR") and all its peripherals, Pason Live/DataHub, various data feed services, and the Electronic Service Recorder.

The EDR remains the Company's flagship product. It 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 server, sensors, junction boxes, and a series of workstations all connected via a local network. EDR workstations present drilling data to the driller, rig manager, geologist, and any other third party in real time at the rig site. Once collected, rig data is transmitted via either LTE, 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 Rig Display, SideKick rig floor workstation, Gas Analyzer, Pit Volume Totalizer, Electronic Choke System, AutoDriller, and the Hazardous Gas Alarm System.

The 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 for users both in the field and in office settings. Pason Live provides advanced data viewing, and visualization of drilling data in real time via a web browser or on mobile devices. DataLink provides seamless data sharing with third-party applications, enhancing the value of data hosted by Pason.

## **Mud Management & Safety**

Mud Management & Safety includes products such as the Pit Volume Totalizer ("PVT"), Gas Analyzer, Hazardous Gas Alarm, and the Electronic Choke System.

The PVT is 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 provides critical information for maintaining the safe operation and control of the well throughout the drilling process. By monitoring the mud system and alerting crews to potential "kicks", the potential for environmentally damaging surface spills is also reduced.

The Gas Analyzer measures the hydrocarbon gases in the drilling fluid exiting the wellbore, and then calculates 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.

## **Communications**

The Communications segment includes satellite and terrestrial Internet bandwidth, Wireless Rigsite, VOIP, and Intercom services.

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, allowing for automatic failover between networks to achieve greater reliability in its service offering. This system provides reliable high-speed wellsite communications for email and web application management tools.

## **Drilling Intelligence**

The Drilling Intelligence segment bundles Pason's offers targeted at enabling customers' drilling optimization and automation efforts. It contains products such as AutoDrillers, and the deployment of the advanced Drilling Advisory System™ (DAS).

Pason developed the AutoDriller to control the feed rate of the drill 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.

Pason continues to gain momentum developing and deploying technologies that seek to improve the efficiency and effectiveness of drilling operations, which serves to increase the economic returns and sustainability for customers and reduce the carbon intensity of each unit of production.

## **Analytics & Other**

Analytics & Other includes the ETB and Verdazo products, various types of reports, and other revenue streams.

ETB provides a suite of products, primarily for solar and storage developers, to model, control and measure economics and performance of solar energy and storage projects. ETB Developer is an industry leading software platform for modelling and proposing the economics of solar and storage projects. Acumen EMS™ is the intelligent control system software that utilizes machine learning and artificial intelligence to forecast and optimally discharge energy storage systems. ETB Monitor comprises a monitoring platform providing transparency into real-time operation and performance of solar and storage projects. To date, revenue generated by ETB continues to be primarily comprised of subscription based licenses for the ETB Developer tool.

Verdazo provides products that allow users to perform discovery analytics across a series of public and proprietary data sources.

## Non-IFRS Financial Measures

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

### 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.

### 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 that the Company does not consider to be in the normal course of continuing operations.

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

### Free Cash Flow

Free Cash Flow is defined as cash from operating activities plus proceeds on disposal of property, plant, and equipment, less capital expenditures (including changes to non-cash working capital associated with capital expenditures), and deferred development costs. This metric provides a key measure on the Company's ability to generate cash from its principal business activities after funding 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.

## North American Operations

	Year Ended December 31,		
	2020	2019	2018
(000s)	(\$)	(\$)	(\$)
<b>Revenue</b>			
Drilling Data	69,861	132,590	139,324
Mud Management and Safety	38,848	78,260	79,143
Communications	8,083	18,146	26,674
Drilling Intelligence	9,263	18,986	21,316
Analytics and Other	5,324	8,721	9,426
<b>Total revenue</b>	<b>131,379</b>	<b>256,703</b>	<b>275,883</b>
<b>Operating costs</b>	<b>57,132</b>	<b>96,238</b>	<b>98,395</b>
<b>Depreciation and amortization</b>	<b>30,037</b>	<b>36,421</b>	<b>31,276</b>
<b>Segment gross profit</b>	<b>44,210</b>	<b>124,044</b>	<b>146,212</b>

2020 and 2019 amounts are in accordance with IFRS following the adoption of IFRS 16. Prior periods have not been restated. Impacts of this change in accounting policy have been further discussed in the Company's Consolidated Financial Statements for the years ended December 31, 2019 and 2018.

	Year Ended December 31,		
	2020	2019	2018
	(\$)	(\$)	(\$)
Revenue per Industry day	706	665	621

## International Operations

	Year Ended December 31,		
	2020	2019	2018
(000s)	(\$)	(\$)	(\$)
<b>Revenue</b>			
Drilling Data	12,220	23,618	17,838
Mud Management and Safety	6,177	7,567	6,809
Communications	756	1,614	1,503
Drilling Intelligence	502	1,335	1,470
Analytics and Other	2,248	3,600	2,890
<b>Total revenue</b>	<b>21,903</b>	<b>37,734</b>	<b>30,510</b>
<b>Operating costs</b>	<b>14,626</b>	<b>21,313</b>	<b>19,109</b>
<b>Depreciation and amortization</b>	<b>4,357</b>	<b>4,384</b>	<b>3,579</b>
<b>Segment gross profit</b>	<b>2,920</b>	<b>12,037</b>	<b>7,822</b>

2020 and 2019 amounts are in accordance with IFRS following the adoption of IFRS 16. Prior periods have not been restated. Impacts of this change in accounting policy have been further discussed in the Company's Consolidated Financial Statements for the years ended December 31, 2019 and 2018.

## Solar and Energy Storage Operations

	Year Ended December 31,		
	2020	2019	2018
(000s)	(\$)	(\$)	(\$)
<b>Revenue</b>			
Drilling Data	—	—	—
Mud Management and Safety	—	—	—
Communications	—	—	—
Drilling Intelligence	—	—	—
Analytics and Other	3,354	1,205	—
<b>Total revenue</b>	<b>3,354</b>	<b>1,205</b>	<b>—</b>
<b>Operating costs</b>	<b>6,058</b>	<b>2,441</b>	<b>—</b>
<b>Depreciation and amortization</b>	<b>23</b>	<b>25</b>	<b>—</b>
<b>Segment gross (loss)</b>	<b>(2,727)</b>	<b>(1,261)</b>	<b>—</b>

2020 and 2019 amounts are in accordance with IFRS following the adoption of IFRS 16. Prior periods have not been restated. Impacts of this change in accounting policy have been further discussed in the Company's Consolidated Financial Statements for the years ended December 31, 2019 and 2018.

## Impact of Hyperinflation

Due to various qualitative and quantitative factors, Argentina has been designated a hyper-inflationary economy as of the second quarter of 2018 for accounting purposes. As such, starting in 2019, the Company has applied accounting standards IAS 21, The Effects of Changes in Foreign Exchange, and IAS 29, Financial Reporting in Hyper-Inflationary Economies to these Consolidated Financial Statements for its Argentinian operating subsidiary. These Consolidated Financial Statements are based on the historical cost approach in IAS 29.

The impact of applying IAS 21 to the operating results of the Argentina subsidiary for the year ended December 31, 2020, was to decrease revenue by \$0.7 million and reduce segment gross profit by \$1.4 million. The impact of applying IAS 29 to the non-monetary assets and liabilities, and shareholders' equity of the Argentina subsidiary resulted in a non-cash net monetary adjustment of \$1.9 million for the year ended December 31, 2020.

### Impact on IFRS Measures

	Year Ended December 31,		
	2020	2019	Change
(000s)	(\$)	(\$)	(%)
(Decrease) increase in revenue	(745)	(955)	(22)
Decrease (increase) in rental services and local administration expenses	652	562	16
(Increase) in depreciation expense	(1,347)	(598)	125
<b>(Decrease) in segment gross profit</b>	<b>(1,440)</b>	<b>(991)</b>	45
Net monetary gain presented in other expenses	1,874	2,588	(28)
(Increase) decrease in income tax provision	—	40	nmf
<b>Increase in net income</b>	<b>434</b>	<b>1,637</b>	(73)

### Impact on Non-IFRS Measures

	Year Ended December 31,		
	2020	2019	Change
(000s)	(\$)	(\$)	(%)
(Decrease) increase in revenue	(745)	(955)	(22)
Decrease (increase) in rental services and local administration expenses	652	562	16
Net monetary gain presented in other expenses	1,874	2,588	(28)
<b>Increase in EBITDA</b>	<b>1,781</b>	2,195	(19)
(Elimination) of net monetary gain presented in other expenses	(1,874)	(2,588)	(28)
<b>Increase (decrease) in Adjusted EBITDA</b>	<b>(93)</b>	(393)	(76)

## Seasonality

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 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.

## **International Business Model**

The Company offers instrumentation systems for rent for both land and offshore applications. Pason operates in Australia and several Latin America countries through wholly owned subsidiaries.

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.

## **Customers**

Pason's customers for its North American and International operating segments include oil and gas companies ("Operators"), drilling contractors ("Contractors"), and other service companies worldwide. Customers for the Company's solar and energy storage software primarily include solar and energy storage developers. In 2020, no single customer accounted for more than 10% of the consolidated revenues of the Company.

Recently, there has been a significant amount of consolidation amongst Operators and Contractors, particularly in the North American end market. Continued consolidation amongst Pason's existing and prospective customers will likely result in a smaller number of companies with a heightened focus on technology. Pason is well positioned to make investments in technology development in order to meet the growing demands of these customers.

## **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, may compete with components of Pason's bundled technology offerings.

## **Research and Product Development ("R&D")**

Pason dedicates significant resources to R&D, as management believes that remaining competitive is dependent on anticipating and responding to the rapidly changing needs of the energy 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 energy industry. Pason has assembled an R&D and IT team of 186 employees, with appropriate technical skills in hardware and software design and development.

During 2020, Pason invested a total of \$27 million into research and development. The majority of these costs get expensed, while a portion gets capitalized. 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.

## **Human Resources**

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.

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, 2020, including executive officers, Pason's total full-time workforce stood at 579 employees, of which 278 were employed in Canada, 169 were employed in the United States, 121 in Latin America, 10 in Australia, and one in the Middle East.

## **Corporate Social Responsibility, Ethics, and Integrity**

Corporate social responsibility is essential for Pason's long-term profitability and value creation for all stakeholders. Pason conducts its business with integrity, transparency, and accountability. Pason promotes diversity and is committed to building an inclusive workforce at all levels and aims to create a workplace that is free of discrimination, harassment and violence, and where all individuals are treated with dignity and respect.

The Company has very high standards with respect to health and safety matters. Pason's strong safety culture is founded on the Company's values and underpins the unwavering commitment to the safety of the Company's workforce and protection of assets. Pason's HSE team works to create a vigilant and resilient safety culture, which strives for zero incidents and accidents. Pason continues to invest heavily in the safety of its people, customers, systems, property, environment, and the public.

Pason seeks to operate in an environmentally responsible manner. Pason is primarily involved in the development and deployment of hardware and software technology and, as a result, the Company's activities produce comparatively low greenhouse gas (GHG) emissions, pollution, or environmental waste, and have low land and water use. Pason seeks to minimize its environmental impact by ensuring equipment is handled in an environmentally responsible manner when it is returned from the field and prepared to be re-deployed. Pason also participates in a variety of recycling programs in its office and field locations and utilizes electronics recycling programs for equipment when it reaches the end of its useful life.

Pason supports activities, initiatives, and charities in areas where its employees live and work. Using a grassroots approach, Pason empowers its employees to get involved and support the causes that are meaningful to them.

## **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 Uncertainties

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

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

## COVID-19

COVID-19's negative impact on the demand for oil has been significant, and this, combined with an over-supply of oil, has led to a decline in oil prices. As a result, Pason customers reduced their capital expenditure programs which led to a precipitous fall in the active rig count in Pason's major markets, starting in the second quarter of 2020. This supply/demand imbalance is having a direct impact on Pason's revenue. The ultimate impact of COVID-19 on future oil demand is unknown at the present time and thus it is not possible to predict the long-term effects of COVID-19 on the Company's operating results. The current economic climate has or may have significant adverse impacts to Pason, 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.

## 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, global supply and demand for crude oil, and natural gas, the price of foreign imports, the availability of alternate fuel sources, and weather conditions. Any of these can reduce the amount of drilling activity.

## Seasonality

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



## **Proprietary Rights**

Pason relies on innovative technologies and products to protect its competitive position in the market. To protect Pason's intellectual property, the Company employs trademarks, patents, employment agreements, and other measures to protect trade secrets and confidentiality of information. Pason also believes that due to the rapid pace of technological change in the industry, technical expertise, knowledge, and innovative skills, combined with an ability to rapidly develop, produce, enhance, and market products, also provides protection in maintaining a competitive position.

## **Litigation**

The Company is involved in various claims and litigation arising in the normal course of business. While the outcome of these matters is uncertain and there can be no assurance that such matters will be resolved in Pason's favour, the Company does not currently believe that the outcome of any pending or threatened proceedings related to these or other matters, or the amounts which the Company may be required to pay by reason thereof, would individually or in the aggregate have a material adverse impact on its day-to-day business operations.

## **Credit Risk**

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

## **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. Further, the Company does not carry "key person" insurance on any of its key employees. As such, the unexpected loss of a key employee could have an adverse effect on Pason's results. To mitigate these risks, Pason has a human resources department in each significant business unit that is focused on recruiting and retention initiatives. In addition, the Company has deployed necessary equipment and technology to enable remote work for employees impacted by COVID-19 restrictions.

## **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, both from a risk perspective for the Company's drilling exposed business units and from an opportunity perspective for the Company's solar and energy storage business unit. 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. The vast majority of the Company's revenues are generated in Canada and the US, limiting exposure to risks and uncertainties in foreign countries. The Company's Argentinian subsidiary is operating in a highly inflationary economy and its operating results are being impacted by a weakening Argentina peso relative to the Canadian dollar, the details of which are outlined in the Company's Consolidated Financial Statements.

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

## **Major Customers**

Pason has a large customer base, consisting of both operators and contractors, and does not rely on any single customer for a significant portion of its revenue. No single customer accounted for more than 10% of the consolidated revenues of the Company. The loss of one or more customers, further consolidation in the industry, 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 significant impact on Pason's revenue.

## **Dividends**

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

## **Taxation**

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

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

## **Information Security**

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

# 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, 2020, there were 83,088,941 common shares outstanding and no preferred shares outstanding. On March 17, 2021, there were 83,088,941 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. All options are issued at market price, vest over three years and expire after five years.

## 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:

<b>Year Ended December 31,</b>	<b>2020</b>	2019	2018
Dividends declared per common share	<b>\$0.48</b>	\$0.74	\$0.70

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

The Company does not have a formal dividend policy. The decision to declare and pay dividends is at the discretion of the Board of Directors, which regularly reviews the Company's financial position, operating results, and industry outlook. For the year ended December 31, 2020, the Company paid \$40.4 million in dividends to shareholders (2019 - \$63.1 million, 2018 - \$59.8 million)

## Normal Course Issuer Bid (NCIB)

In 2019, the Company had an NCIB in place, which expired on December 17, 2020, and allowed the Company to repurchase for cancellation, from time to time, as the Company considered advisable, up to a maximum of 6,777,269 common shares, which represented 10% of the applicable public float. On December 15, 2020, the Company announced the renewal of its previous NCIB, commencing December 18, 2020, and expiring on December 17, 2021. Under the current NCIB, the Company may purchase for cancellation, from time to time, as the Company considers advisable, up to a maximum of 4,149,047 common shares, which represents 10% of the applicable public float.

Under the renewed NCIB program, 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 83,393 common shares. The Company may make one block purchase per calendar week, which exceeds the daily purchase restriction.

For the year ended December 31, 2020, the Company purchased 1,449,300 common shares for cancellation (2019: 1,538,000), for a total cash consideration of \$9.5 million (2019: \$24.0 million) at an average price per share of \$6.54 (2019: \$15.63).

# 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 2020.

<b>2020</b>	<b>High</b>	<b>Low</b>	<b>Close</b>	<b>Share Volume</b>
January	13.59	12.78	13.20	4,151,520
February	14.08	11.83	12.31	4,169,435
March	12.88	5.94	6.25	10,044,764
April	7.99	5.81	7.57	5,264,154
May	7.94	6.45	7.18	5,262,369
June	9.45	7.03	7.42	7,253,777
July	7.87	6.37	6.39	3,400,954
August	6.53	5.56	5.95	5,690,339
September	5.93	5.21	5.29	14,378,863
October	5.71	4.74	5.15	5,643,325
November	7.52	5.05	7.19	6,510,828
December	8.19	7.00	7.88	5,132,043

# Directors and Officers

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

Directors			
Name and Residence	Director Since <sup>(1)</sup>	Position(s) and Membership(s)	Principal occupation (if not with Pason)
Marcel Kessler Alberta, Canada	2012	Chairman of the Board	Professional Director - previously President and Chief Executive Officer of Pason
T. Jay Collins Texas, USA	2012	Director, HR and Compensation Committee (Chair), and Audit Committee	Professional Director - Board member of Oceaneering International and Murphy Oil
Jon Faber Alberta, Canada	2020	Director, President and Chief Executive Officer	
Judi Hess British Columbia, Canada	2015	Director, Corporate Governance and Nomination Committee (Chair), and HR and Compensation Committee	CEO of Copperleaf Technologies Inc.
James B. Howe Alberta, Canada	1996	Lead Director, Audit Committee (Chair), and Corporate Governance and Nomination Committee	Professional Director and President of Bragg Creek Financial Consultants Ltd., a private financial consulting company.
Laura Schwinn Maryland, USA	2019	Director, Audit Committee, HR and Compensation Committee, Corporate Governance and Nomination Committee	President of W.R. Grace & Co's Specialty Catalysts
Executive Officers			
Name and Residence	Officer Since	Executive Office	Principal occupation last five years (if not with Pason)
Jon Faber Alberta, Canada	2014	President and Chief Executive Officer	
Celine Boston Alberta, Canada	2020	Chief Financial Officer	Senior Finance Professional at CES Energy Solutions Corp.
Kevin Boston Texas, USA	2010	VP, Commercial	
David Elliott Alberta, Canada	2006	VP, Finance	
Natalie Fenez Alberta, Canada	2019	VP, Legal , Corporate Secretary	Corporate Services Lawyer at the City of Calgary, prior to that Legal Counsel at Alberta Health Services
Bryce McLean Alberta, Canada	2017	VP, Operations	
Fiona Mueller-Thode Alberta, Canada	2019	President, Verdazo Analytics Inc.	
Lars Olesen Alberta, Canada	2017	VP, Product & Technology	
Russell Smith Texas, USA	2010	VP, International	
Ryan van Beurden Alberta, Canada	2017	VP, Rigsite R&D	
Reid Wuntke Alberta, Canada	2019	President, Energy Toolbase Software Inc.	Co-founder and COO of MobSquad, prior to that Director, Corporate Development at Parkland Fuel.

(1) All directors have been elected to serve a one-year term, be deemed to retire from office not later than the close of the next annual general and special meeting of shareholders (scheduled for April 29, 2021) unless they are re-elected. Pason directors do not have term limits or mandatory retirement.

As of March 17, 2021, the directors and executive officers of Pason, as a group, beneficially owned, directly or indirectly, or exercise control or direction over 525,025 common shares, representing less than 1% of the issued and outstanding common shares. In addition, as a group, executive officers hold options to purchase an additional 2,002,367 common shares.

# Interests of Management and Others in Material Transactions

During the past three years, no senior officer, director, associate, or shareholder who beneficially owns, or controls or directs, directly or indirectly, more than 10% of the outstanding common shares, or known associate or affiliate of such persons, has had any interest, direct or indirect, in any transaction that has materially affected or would materially affect Pason.

## Material Contracts

Pason's business is not subject to any significant long-term contracts and, therefore, business prospects are generally tied to drilling activity levels in the regions that the company operates in.

## Future Accounting Policy Changes

The following amendments have been issued and are effective for financial years beginning on or after January 1, 2021. Amendments that are not applicable to the Company have been excluded. The Company does not anticipate that the adoption of any of these amendments will have a material impact on its financial statements.

**IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement, IFRS 7, Financial Instruments; Disclosures, IFRS 4, Insurance Contracts, and IFRS 16, Leases, collectively named 'Interest Rate Benchmark Reform – Phase 2' (effective January 1, 2021).**

The amendments provide relief for modifications of financial contracts and leases and discontinuing hedge accounting required solely by Interest Rate Benchmark Reform. The amendments include a practical expedient to apply the change in the basis for determining the contractual cash flows prospectively by revising the effective interest rate. A similar practical expedient is also provided for modifications of the cash flows of lease liabilities. In relation to hedge accounting, the amendments introduce an exception to the existing requirements so that changes in the formal designation of a hedge accounting relationship that are needed to reflect the changes required by Interest Rate Benchmark Reform do not result in the discontinuation of hedge accounting or the designation of a new hedging relationship.

**IAS 37, Provisions, Contingent Liabilities and Contingent Assets (effective January 1, 2022)**

Clarifies that the 'costs of fulfilling a contract' when assessing whether a contract is onerous comprise both the incremental costs and an allocation of other costs that relate directly to fulfilling contracts. The amendments apply to contracts existing at the date when the amendments are first applied.

**IAS 1, Presentation of Financial Statements (effective January 1, 2023)**

Clarifies the presentation of liabilities in the statement of financial position. The classification of liabilities as current or non-current is based on contractual rights that are in existence at the end of the reporting period and is unaffected by expectations about whether an entity will exercise its right to defer settlement. A liability not due over the next twelve months is classified as non-current even if management intends or expects to settle the liability within twelve months. The amendments also introduce a definition of 'settlement' to make clear that settlement refers to the transfer of cash, equity instruments, other assets, or services to the counterparty.

# 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 Laura Schwinn. Each member of the Audit Committee is independent and none receive, 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, 71, 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 brings extensive corporate board experience to Pason, including in the oil and natural gas and related service industries, together with significant accounting, finance and executive compensation expertise. Over his 40-year career, Mr. Howe has served as Chief Financial Officer of several public companies and currently serves on the board of directors and audit committee of Bengal Energy Ltd. and the board of directors, audit committee and compensation committee of 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 Chartered Accountant. He is a member of the Chartered Professional Accountants of Alberta. He has been a member of Pason’s Audit Committee for twenty-four years.

### **T. Jay Collins**

Mr. Collins, 74, 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 eight years.

### **Laura Schwinn**

Ms. Schwinn, 56, of Olney, Maryland, USA, has been a director of Pason Systems Inc. since 2019.

Ms. Schwinn is President of W. R. Grace & Co.’s Specialty Catalysts business, a publicly traded specialty chemicals company. Prior to this, Ms. Schwinn was CEO of C&C Reservoirs, a privately-owned, global company that provides reservoir knowledge used to derive detailed insight across the E&P lifecycle. Ms.



Schwinn joined C&C from Halliburton, one of the world's largest oil field service companies, where she was Global Vice President of the Drill Bits and Services division. Ms. Schwinn was appointed to Pason's Audit Committee in 2020.

## 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:

<b>Service</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>
	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Audit <sup>(1)</sup>	<b>262,500</b>	310,000	224,400
Audit-related <sup>(2)</sup>	<b>37,800</b>	37,800	36,000
Tax fees	<b>144,200</b>	108,400	106,200
Other <sup>(3)</sup>	—	31,500	—
<b>Total fees</b>	<b>444,500</b>	<b>487,700</b>	<b>366,600</b>

(1) 2019 amounts include costs for auditing new lease standard, acquisition of ETB, the investment in IWS, and hyperinflationary accounting.

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

(3) 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](http://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, 2021, which relates to the Annual and Special Meeting of Shareholders to be held on April 29, 2021. Additional financial information is contained in Pason's comparative Audited Consolidated Financial Statements for the years ended December 31, 2020 and 2019, and Management's Discussion and Analysis, which are included in Pason's Annual Report for the year ended December 31, 2020.

# 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, 2019.

## 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 antifraud 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**

### **Duties and Responsibilities of the Committee Chair**

In addition to the duties of the Committee, as set forth in this Mandate, the additional responsibilities of the Committee Chair are as follows:

- Be an independent member of the Board of Directors.
- Set the tone for the Committee work, ensuring Committee meetings are conducted in an efficient, effective and focused manner.
- Oversee the logistics of the Committee's operations in accordance with good governance practices including the schedule and frequency of meetings.
- Provide leadership to the Committee, assisting the Committee in monitoring its responsibilities and reporting to the Board on the recommendations and decisions of the Committee.
- Advise the Committee of any finance, accounting, or misappropriation matters brought to the Chair's attention through the Corporations Ethics and Conduct hotline procedures.
- Ensure Committee meetings are conducted in an effective, efficient, and focused manner.

### **Meetings**

The procedures for Committee meetings shall be specified in the Mandate of the Board of Directors.

### **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.

### **No Rights Created**

This Mandate does not create any legally binding obligations on the Board, any Board committee, any Director or Pason.