# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

| *(thousands of Canadian dollars) (unaudited)*<br>As at | Note | **September 30, 2015** | December 31, 2014 |
|---|---|---|---|
| **Assets** | | | |
| Cash and cash equivalents | | **845** | 901 |
| Trade and other receivables | | **2,079** | 7,083 |
| Prepaid expenses | | **192** | 275 |
| Total current assets | | **3,116** | 8,259 |
| Participation surveys in progress | *5* | **-** | 36 |
| Seismic data library | *6* | **52,789** | 66,468 |
| Property and equipment | | **535** | 663 |
| Other | | **56** | 56 |
| Total non-current assets | | **53,380** | 67,223 |
| Total assets | | **56,496** | 75,482 |
| **Liabilities and Shareholders' Equity** | | | |
| Accounts payable and accrued liabilities | | **464** | 1,772 |
| Deferred revenue | | **664** | 1,191 |
| Total current liabilities | | **1,128** | 2,963 |
| Long-term debt | *7* | **1,456** | 5,367 |
| Deferred income tax liabilities | | **7,430** | 8,574 |
| Other long-term payable | | **86** | 177 |
| Total non-current liabilities | | **8,972** | 14,118 |
| Total liabilities | | **10,100** | 17,081 |
| **Shareholders' Equity** | | | |
| Share capital | *9* | **77,550** | 78,782 |
| Contributed surplus | | **2,131** | 2,399 |
| Deficit | | **(33,285)** | (22,780) |
| Total shareholders' equity | | **46,396** | 58,401 |
| Total liabilities and shareholders' equity | | **56,496** | 75,482 |

See accompanying notes to condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

*(thousands of Canadian dollars except per share data)*
*(unaudited)*

| | Note | Three months ended September 30, 2015 | Three months ended September 30, 2014 | Nine months ended September 30, 2015 | Nine months ended September 30, 2014 |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Data library sales | | **4,678** | 14,531 | **12,455** | 27,358 |
| Participation surveys | | **-** | - | **3,220** | - |
| Total revenue | | **4,678** | 14,531 | **15,675** | 27,358 |
| **Operating expenses** | | | | | |
| Amortization of seismic data library | | **5,262** | 5,554 | **17,857** | 17,228 |
| Salaries, internal commissions and benefits | | **925** | 1,335 | **2,731** | 3,634 |
| Other selling, general and administrative costs | | **492** | 601 | **1,791** | 2,094 |
| Depreciation | | **47** | 61 | **139** | 186 |
| Total operating expenses | | **6,726** | 7,551 | **22,518** | 23,142 |
| Results from operating activities | | **(2,048)** | 6,980 | **(6,843)** | 4,216 |
| Financing expenses | | **112** | 210 | **394** | 711 |
| Interest income | | **-** | (3) | **(1)** | (11) |
| Net financing costs | | **112** | 207 | **393** | 700 |
| **Loss before income taxes** | | **(2,160)** | 6,773 | **(7,236)** | 3,516 |
| Current income tax | | **-** | - | **-** | - |
| Deferred income tax expense (reduction) | | **(581)** | 1,687 | **(1,270)** | 862 |
| Income tax expense (reduction) | | **(581)** | 1,687 | **(1,270)** | 862 |
| **Net earnings (loss) and comprehensive income (loss)** | | **(1,579)** | 5,086 | **(5,966)** | 2,654 |
| **Net earnings (loss) per share, basic and diluted** | 11 | **(0.03)** | 0.09 | **(0.10)** | 0.04 |

See accompanying notes to condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

| *(thousands of Canadian dollars, except number of shares) (unaudited)* | Number of shares issued (repurchased) | Share capital | Contributed surplus | Deficit | Total equity |
|---|---|---|---|---|---|
| Balance at January 1, 2014 | 59,349,120 | 81,673 | 2,399 | (18,110) | 65,962 |
| Net earnings for the period | – | – | – | 2,654 | 2,654 |
| Share-based compensation | – | – | 322 | – | 322 |
| Settlement of vested long-term incentive plan award | – | – | (397) | – | (397) |
| Tax effect of equity-settled share-based compensation | – | – | (83) | – | (83) |
| Normal course issuer bid | (35,000) | (48) | – | (69) | (117) |
| Dividends paid | – | – | – | (3,559) | (3,559) |
| Balance at September 30, 2014 | 59,314,120 | 81,625 | 2,241 | (19,084) | 64,782 |

| | Note | **Number of shares issued (repurchased)** | **Share capital** | **Contributed surplus** | **Deficit** | **Total equity** |
|---|---|---|---|---|---|---|
| Balance at January 1, 2015 | | **57,247,843** | **78,782** | **2,399** | **(22,780)** | **58,401** |
| Net loss for the period | | **–** | **–** | **–** | **(5,966)** | **(5,966)** |
| Share-based compensation | | **–** | **–** | **142** | **–** | **142** |
| Settlement of vested long-term incentive plan award | | **–** | **–** | **(325)** | **–** | **(325)** |
| Tax effect of equity-settled share-based compensation | | **–** | **–** | **(126)** | **–** | **(126)** |
| Normal course issuer bid | | **(865,100)** | **(1,191)** | **–** | **(1,159)** | **(2,350)** |
| Shares cancelled and related dividends | 9 | **(29,754)** | **(41)** | **41** | **28** | **28** |
| Dividends paid | 9 | **–** | **–** | **–** | **(3,408)** | **(3,408)** |
| Balance at September 30, 2015 | | **56,352,989** | **77,550** | **2,131** | **(33,285)** | **46,396** |

See accompanying notes to condensed consolidated interim financial statements.

# CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

| *(thousands of Canadian dollars) (unaudited)*<br>For the nine months ended September 30 | **2015** | 2014 |
|---|---|---|
| **Cash flows provided by (used in):** | | |
| **Operating**: | | |
| Net earnings (loss) and comprehensive income (loss) | **(5,966)** | 2,654 |
| Adjustment for: | | |
| Amortization of seismic data library | **17,857** | 17,228 |
| Depreciation | **139** | 186 |
| Loss on disposition of capital assets | **3** | 2 |
| Income tax expense (reduction) | **(1,270)** | 862 |
| Equity-settled share-based compensation | **142** | 322 |
| Net financing costs | **393** | 700 |
| Interest paid | **(251)** | (544) |
| Interest received | **1** | 11 |
| Income Tax received | **-** | 3,576 |
| | **11,048** | 24,997 |
| Net change in non-cash working capital | **3,145** | (10,132) |
| Cash provided by operating activities | **14,193** | 14,865 |
| **Financing**: | | |
| Normal course issuer bid | **(2,350)** | (117) |
| Shares purchased for equity-settled share-based payments | **(325)** | (393) |
| Repayment of long-term debt | **(4,000)** | (10,600) |
| Dividends paid | **3,408** | (3,559) |
| Dividend recovery from share cancellation | **28** | - |
| Cash used in financing activities | **(10,055)** | (14,669) |
| **Investing**: | | |
| Additions to seismic data library through participation surveys | **(3,959)** | - |
| Seismic data digitization and related costs | **(183)** | (550) |
| Additions to property and equipment | **(14)** | (21) |
| Net change in non-cash working capital | **(38)** | (2) |
| Cash used in investing activities | **(4,194)** | (573) |
| Decrease in cash and cash equivalents | **(56)** | (377) |
| Cash and cash equivalents, beginning of period | **901** | 1,745 |
| **Cash and cash equivalents, end of period** | **845** | 1,368 |

See accompanying notes to condensed consolidated interim financial statements.

# NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

**INFORMATION AS AT SEPTEMBER 30, 2015, DECEMBER 31, 2014 AND FOR THE THREE AND NINE MONTHS ENDED SEPTEMBER 30, 2015 AND 2014.**
(Tabular amounts in thousands of Canadian dollars, except per share data, numbers of shares and other exceptions as indicated).

## 1 | REPORTING ENTITY

Pulse Seismic Inc. (the Company) was incorporated under the Canada Business Corporations Act and is a publicly-listed company on the Toronto Stock Exchange (TSX), trading under the symbol PSD and on the OTCQX International, trading under the symbol PLSDF. The Company's registered office is in Calgary, Alberta. The Company is a provider of seismic data to the energy sector in western Canada.

## 2 | BASIS OF PRESENTATION

### (A) STATEMENT OF COMPLIANCE

The condensed consolidated interim financial statements were prepared in accordance with International Accounting Standard (IAS) 34 *Interim Financial Reporting*. They were prepared by the Company's management and were approved by the Board of Directors on November 4, 2015. The condensed consolidated interim financial statements were reviewed, not audited, by the Company's auditors

### (B) BASIS OF PRESENTATION

The condensed consolidated interim financial statements include the accounts of the Company's wholly-owned subsidiaries.

### (C) BASIS OF MEASUREMENT

The condensed consolidated interim financial statements were prepared on the historical cost basis.

### (D) FUNCTIONAL AND PRESENTATION CURRENCY

The condensed consolidated interim financial statements are presented in Canadian dollars, the Company's functional currency. All financial information presented is rounded to the nearest thousand, except per share data, number of shares and other exceptions as indicated.

### (E) BASIS OF CONSOLIDATION

(i) Joint operations

Certain of the Company's seismic data library assets are jointly owned with others. The condensed consolidated interim financial statements include the Company's share in the joint assets, joint liabilities, expenses incurred and income earned from the joint operations.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the condensed consolidated interim financial statements.

### (F) USE OF ESTIMATES AND JUDGMENTS

Preparing the condensed consolidated interim financial statements in accordance with International Financial Reporting Standards (IFRS) required management to make estimates and judgements that affected the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the reporting date, and the revenue and expense amounts attributed to the reporting period. Significant items subject to such estimates and judgments include the identification of cash-generating units (CGU), the anticipated number of long-term incentive plan share awards that will vest, the amount of short-term incentive plan accrual, the useful life and

recoverable amount of the seismic data library, the stage of completion of participation surveys in progress, the amount of current income tax expected for the year and the recognition of deferred tax assets. Actual results could differ from those estimates.

The significant judgments made by management in applying the accounting policies and the key sources of estimation uncertainty in preparing the condensed consolidated interim financial statements were the same as those applied to the audited consolidated financial statements as at and for the year ended December 31, 2014.

The Company is aware that the Canada Revenue Agency (CRA) may revise the way it assesses the income tax amortization of certain seismic data library costs. No policy document has been issued by the CRA and therefore the Company is not able to estimate the impact this change will have on its income tax calculations, carry-forward balances or consolidated financial statements.

#### (G) INCOME TAXES

Income tax expense or reduction is recognized based on management's best estimate of the weighted-average annual income tax rate expected for the full financial year multiplied by the pre-tax income or loss in the interim reporting period. Current income tax for the interim periods is calculated by prorating the estimated full-year amount to be incurred or recovered, based on the Company's annual forecast.

## 3 | SIGNIFICANT ACCOUNTING POLICIES

The accounting policies adopted by the Company are described in the audited consolidated financial statements for the year ended December 31, 2014.

A number of new standards, and amendments to standards and interpretations, have been issued by the International Accounting Standards Board (IASB) and are not yet effective for the year ended December 31, 2015. They were not applied in preparing the condensed consolidated interim financial statements. None is expected to have a significant effect on the consolidated financial statements, except for:

- IFRS 15, *Revenue from Contracts with Customers*, which provides guidance on revenue recognition and relevant disclosures. The standard provides a single, principles-based five-step model to be applied to all contracts with customers. IFRS 15 was issued in May 2014 and applies to annual reporting periods beginning on or after January 1, 2018, with early adoption permitted. The new standard will also enhance revenue disclosure.

  After review, Pulse's management concluded that IFRS 15 would affect the Company's policy for recognizing participation survey revenue. Pulse currently recognizes revenue on participation surveys based on percentage of completion. With the amended standard, participation survey revenue can only be recognized in the financial statements when the survey is complete in all respects, meaning the risks and rewards of the final product have been passed on to the customer. Pulse will therefore have to adjust its revenue recognition policy accordingly and may choose to adopt the standard before January 2018. With this adjustment, the lag between the progressive recognition of participation survey revenue and initial amortization upon survey completion will disappear.

## 4 | SEASONALITY OF THE BUSINESS

Revenue fluctuations are a normal part of the seismic data library business and data library sales can vary significantly from quarter to quarter. Traditional data library sales in the fourth quarter have often been stronger than in other quarters, with seismic data sales being triggered as oil and natural gas companies finalize capital expenditures near year-end. Third-quarter traditional data library sales are often lower than in other quarters due to slower business conditions during the summer months. Both traditional and transaction-based data library sales can, however, occur at any time during any quarter. This is due to the nearly continual changes in general oil and natural gas industry conditions, increased demand for seismic data covering a specific area or play, timing of public offerings of petroleum and natural gas rights (land sales), as well as merger-and-acquisition, joint venture and asset disposition activity by the Company's clients.

Participation survey revenue also varies significantly from quarter to quarter. The majority of new 3D seismic data is typically acquired under frozen ground conditions from November to March. Summer seismic programs can only be completed in certain areas that have drier ground conditions and can be easily accessed without environmental harm. In addition, the size and pre-funding levels of individual participation surveys can vary significantly.

## 5 | PARTICIPATION SURVEYS IN PROGRESS

| As at | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| **Cost** | | |
| Opening balance, January 1 | **36** | - |
| Cost incurred | **3,959** | 36 |
| Transferred to seismic data library | **(3,995)** | - |
| Closing balance | **-** | 36 |

The Peco South 3D survey was delivered during the first quarter of 2015.

## 6 | SEISMIC DATA LIBRARY

| As at | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| **Cost** | | |
| Opening balance, January 1 | **434,527** | 433,794 |
| Acquisitions through purchases and related cost | **183** | 733 |
| Transferred from participation surveys in progress | **3,995** | - |
| Closing balance | **438,705** | 434,527 |
| | | |
| **Amortization** | | |
| Opening balance, January 1 | **368,059** | 345,552 |
| Amortization for the period | **17,857** | 22,507 |
| Closing balance | **385,916** | 368,059 |
| | | |
| **Carrying amount at end of period** | **52,789** | **66,468** |

## 7 | LONG-TERM DEBT

| As at | **September 30, 2015** | December 31, 2014 |
|---|---|---|
| Secured revolving bank loan | **1,500** | 5,500 |
| Less deferred financing costs | **44** | 133 |
| Long-term debt, net of deferred financing cost | **1,456** | 5,367 |

The Company has a $50.0 million revolving term credit facility of which up to $5.0 million can be used as an operating line of credit.

There are no regularly scheduled principal payments on the credit facility. Voluntary prepayments are permitted in whole or part at any time without premium or penalty. In the third quarter of 2015, the Company repaid $4.0 million of its long-term debt. At September 30, 2015 the Company had $48.5 million available for future draws. The credit facility matures on February 13, 2018.

Interest on the syndicated revolving bank loan is calculated based on the lender's prime rate, bankers' acceptance rate or LIBOR, plus an applicable margin based on the covenant ratio of total debt to adjusted earnings before

interest, tax, depreciation and amortization (adjusted EBITDA). At September 30, 2015 the interest rate on the long-term debt was 3.2 percent (December 31, 2014 – 3.5 percent).

The Company pays a standby fee based on the daily undrawn balance of the credit facility and an applicable margin based on the covenant ratio of total debt to adjusted EBITDA.

The credit facility is secured by a charge on all of the assets of the Company and its material subsidiaries. It also includes two financial covenants. The first is that total debt to adjusted EBITDA must not exceed a ratio of 2.50:1. The ratio was 0.10:1 at September 30, 2015. The second financial covenant is that the interest coverage ratio must be at least 3:1 at all times. The ratio was 44:1 at September 30, 2015. The Company was in compliance with both covenants at September 30, 2015.

Subsequent to the end of the reporting period, on October 6, 2015, the Company repaid its remaining $1.5 million in long-term debt.

## 8 | PROVINCIAL CORPORATE INCOME TAX RATE

The Alberta government increased the provincial corporate income tax rate from 10 percent to 12 percent effective July 1, 2015. The impact has been recognized in the financial statements.

## 9 | EQUITY

### (A) SHARE CAPITAL

On February 25, 2015, the Company enforced a sunset clause included in a plan of arrangement between two predecessor companies and directed its transfer agent to cancel 29,754 common shares held for former shareholders of these two predecessor companies and return all dividends held for the former shareholders.

### (B) DIVIDENDS

The following dividends were declared and paid for 2015:

| Declaration date | Dividend per common share ($) | Total amount of dividend ($) | Record date | Payment date |
|---|---|---|---|---|
| March 3, 2015 | 0.02 | 1.1 million | March 27, 2015 | April 10, 2015 |
| May 6, 2015 | 0.02 | 1.1 million | June 5, 2015 | June 19, 2015 |
| July 29, 2015 | 0.02 | 1.1 million | September 4, 2015 | September 18 2015 |

## 10 | SHARE BASED PAYMENTS

The long-term incentive plan (LTIP) awards consist of Restricted Share Units (RSUs) and Performance Share Units (PSUs), with members of the Company's Board of Directors being granted RSUs only. Upon vesting, each RSU and PSU entitles the holder to one common share of the Company. RSUs and PSUs have accompanying dividend-equivalent rights and, therefore, additional RSUs and PSUs are issued to reflect dividends declared on the common shares.

On March 31, 2015 one-third of the awards which were eligible to vest were RSUs and two-thirds were PSUs. Based on the Company's performance in 2014 and the predetermined performance measures, 4 percent or 10,910 of the eligible PSUs vested. RSUs vest automatically based upon time and, consequently, all of the eligible RSUs vested automatically on March 31, 2015.

To satisfy its obligation, in April 2015 the Company provided $350,000 to the plan's trustee to purchase common shares on the open market for the total after-tax number of cash- and equity-settled RSUs and PSUs that vested on March 31, 2015. The related payroll taxes of $211,000 were paid in May 2015 to settle the fully accrued cash-settled portion of the share-based payment liabilities.

In the condensed consolidated interim statement of comprehensive income (loss) for the nine months ended September 30, 2015, the Company recognized $175,000 (nine months ended September 30, 2014 – $266,000) in compensation expense related to the LTIP in salaries, internal commissions and benefits. The equity-settled portion was $142,000 (nine months ended September 30, 2014 – $322,000) and the cash-settled portion was $32,000 (nine months ended September 30, 2014 – reduction of $56,000). At September 30, 2015 the obligation related to the cash-settled portion of the LTIP was $188,000 with $102,000 included in accounts payable and accrued liabilities and $86,000 included in other long-term liabilities.

The following is a summary of the continuity of the Company's LTIP during the three and nine months ended September 30, 2015 and 2014:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| RSUs | **2015** | 2014 | **2015** | 2014 |
| Outstanding, beginning of period | 387,954 | 434,306 | 427,359 | 505,221 |
| Granted | - | 2,741 | 133,520 | 137,657 |
| Settled | - | - | (175,060) | (180,640) |
| Dividend-equivalent share units | 3,104 | 2,766 | 8,930 | 8,470 |
| Cancelled or forfeited | (7,523) | (15,332) | (11,214) | (46,227) |
| Outstanding, end of period | 383,535 | 424,481 | 383,535 | 424,481 |

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| PSUs | **2015** | 2014 | **2015** | 2014 |
| Outstanding, beginning of period | 586,413 | 675,387 | 658,896 | 791,156 |
| Granted | - | 5,466 | 201,950 | 194,500 |
| Settled | - | - | (10,910) | (1,566) |
| Dividend-equivalent share units | 4,691 | 4,255 | 13,584 | 13,178 |
| Cancelled or forfeited | (15,011) | (30,650) | (287,427) | (342,810) |
| Outstanding, end of period | 576,093 | 654,458 | 576,093 | 654,458 |

## 11 | EARNINGS PER SHARE

### (A) BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the nine months ended September 30, 2015 was based on the net loss attributable to common shareholders of $6.0 million (nine months ended September 30, 2014 – net earnings of $2.7 million) and a weighted average number of common shares outstanding of 56,826,409 (nine months ended September 30, 2014 – 59,324,779), calculated as follows:

| | Three months ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| | **2015** | 2014 | **2015** | 2014 |
| Common shares outstanding at beginning of period | 56,796,689 | 59,314,120 | 57,247,843 | 59,349,120 |
| Effect of common shares purchased and cancelled during period | (178,437) | - | (421,434) | (24,341) |
| Weighted average number of common shares (basic) | 56,618,252 | 59,314,120 | 56,826,409 | 59,324,779 |

### (B) DILUTED EARNINGS PER SHARE

The Company does not have any dilutive securities.

## 12 | FINANCIAL INSTRUMENTS

### FAIR VALUES

The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amounts largely due to their short-term maturities. The fair value of the long-term debt approximates the carrying value because interest charges under the bank loan are based on current rates offered on similar loans.

## 13 | MAJOR CUSTOMERS

Data library sales to three customers represented approximately $9.2 million of the Company's total data library sales for the nine months ended September 30, 2015.

Participation survey revenue was earned from one customer during the nine months ended September 30, 2015.