pulse seismic

TSX: PSD
OTCQX: PLSDF

Q1 For the three months ended March 31, 2018

SELECTED FINANCIAL AND OPERATING INFORMATION

(thousands of dollars except per share data, numbers of shares and kilometres of seismic data)	Three months ended March 31, **2018**	2017 (unaudited)	Year ended December 31, 2017
Revenue – Data library sales	**2,328**	2,719	43,525
Amortization of seismic data library	**1,878**	4,635	15,870
Net earnings (loss)	**(696)**	(2,502)	15,087
Per share basic and diluted	**(0.01)**	(0.04)	0.27
Cash provided by (used in) operating activities	**(8,592)**	3,298	38,755
Per share basic and diluted	**(0.16)**	0.06	0.70
Cash EBITDA [(a)]	**934**	1,330	37,070
Per share basic and diluted [(a)]	**0.02**	0.02	0.67
Shareholder free cash flow [(a)]	**880**	1,254	29,729
Per share basic and diluted [(a)]	**0.02**	0.02	0.54
Capital expenditures			
Seismic data purchase, digitization and related costs	**62**	65	1,575
Property and equipment	**2**	27	48
Total capital expenditures	**64**	92	1,623
Special dividend	**-**	-	10,915
Weighted average shares outstanding			
Basic and diluted	**53,887,280**	55,743,767	55,135,035
Shares outstanding at period-end	**53,850,917**	55,337,560	54,020,817
Seismic library			
2D in kilometres	**450,000**	447,000	447,000
3D in square kilometres	**28,956**	28,647	28,956

FINANCIAL POSITION AND RATIO

(thousands of dollars except ratio)	**March 31, 2018**	March 31, 2017	December 31, 2017
Working capital	**22,216**	10,427	22,486
Working capital ratio	**13.5:1**	11.1:1	3.1:1
Cash and cash equivalents	**18,232**	7,647	27,422
Total assets	**41,218**	39,873	51,693
Shareholders' equity	**36,656**	34,843	37,810

(a) These non-GAAP financial measures are defined, calculated and reconciled to the nearest GAAP financial measures in the Management's Discussion and Analysis.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION

(thousands of Canadian dollars) (unaudited)

As at	*Note*	**March 31, 2018**	December 31, 2017
ASSETS			
Cash and cash equivalents		**18,232**	27,422
Trade and other receivables		**4,640**	5,536
Current tax assets		**804**	-
Prepaid expenses		**323**	262
Total current assets		**23,999**	33,220
Seismic data library	*5*	**16,483**	18,299
Property and equipment		**159**	174
Long-term trade receivables		**577**	-
Total non-current assets		**17,219**	18,473
Total assets		**41,218**	51,693
LIABILITIES AND SHAREHOLDERS' EQUITY			
Accounts payable and accrued liabilities		**850**	2,324
Deferred revenue		**933**	925
Current income tax liabilities		**-**	7,485
Total current liabilities		**1,783**	10,734
Deferred income tax liabilities		**2,546**	2,941
Other long-term payable	*8*	**233**	208
Total non-current liabilities		**2,779**	3,149
Total liabilities		**4,562**	13,883
SHAREHOLDERS' EQUITY			
Share capital		**74,661**	74,896
Contributed surplus		**2,630**	2,554
Deficit		**(40,635)**	(39,640)
Total shareholders' equity		**36,656**	37,810
Total liabilities and shareholders' equity		**41,218**	51,693

See accompanying notes to consolidated interim financial statements.

On behalf of the Board:

Robert Robotti
Chair of the Board

Daphne Corbett
Audit and Risk Committee Chair

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS

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

Three months ended March 31,	*Note*	**2018**	2017
Revenue			
Data library sales	*4*	**2,328**	2,719
Operating expenses			
Amortization of seismic data library	*5*	**1,878**	4,635
Salaries, internal commissions and benefits		**934**	918
Other selling, general and administrative costs		**551**	558
Depreciation		**17**	35
Total operating expenses		**3,380**	6,146
Results from operating activities		**(1,052)**	(3,427)
Financing costs (income)			
Financing expenses		**39**	39
Interest income		**(134)**	(33)
Net financing costs (income)		**(95)**	6
Loss before income taxes		**(957)**	(3,433)
Current income tax expense		**149**	70
Deferred income tax reduction		**(410)**	(1,001)
Income tax reduction		**(261)**	(931)
Net loss and comprehensive loss		**(696)**	(2,502)
Net loss per share, basic and diluted	9	**(0.01)**	(0.04)

See accompanying notes to consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY

(thousands of Canadian dollars, except number of shares) (unaudited)

	Note	Number of shares issued (repurchased)	Share capital	Contributed surplus	Deficit	Total equity
Balance at January 1, 2017		55,921,060	77,531	2,217	(41,102)	38,646
Net loss for the period		-	-	-	(2,502)	(2,502)
Share-based compensation	8	-	-	87	-	87
Tax effect of equity-settled share-based compensation		-	-	18	-	18
Normal course issuer bid	7	(583,500)	(809)	-	(597)	(1,406)
Balance at March 31, 2017		55,337,560	76,722	2,322	(44,201)	34,843

	Note	**Number of shares issued (repurchased)**	**Share capital**	**Contributed surplus**	**Deficit**	**Total equity**
Balance at January 1, 2018		**54,020,817**	**74,896**	**2,554**	**(39,640)**	**37,810**
Net loss for the period		**-**	**-**	**-**	**(696)**	**(696)**
Share-based compensation	8	**-**	**-**	**91**	**-**	**91**
Tax effect of equity-settled share-based compensation		**-**	**-**	**(15)**	**-**	**(15)**
Normal course issuer bid	7	**(169,900)**	**(235)**	**-**	**(299)**	**(534)**
Balance at March 31, 2018		**53,850,917**	**74,661**	**2,630**	**(40,635)**	**36,656**

See accompanying notes to consolidated interim financial statements.

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS

(thousands of Canadian dollars) (unaudited)

Three months ended March 31,	*Note*	**2018**	2017
Cash flows provided by (used in):			
Operating:			
Net loss and comprehensive loss		**(696)**	(2,502)
Adjustment for:			
Amortization of seismic data library	5	**1,878**	4,635
Depreciation		**17**	35
Income tax reduction		**(261)**	(931)
Equity-settled share-based compensation		**91**	87
Net financing costs (income)		**(95)**	6
Interest and standby fees paid		**(27)**	(26)
Interest received		**109**	10
Income tax paid		**(8,439)**	-
		(7,423)	1,314
Net change in non-cash working capital	10	**(1,169)**	1,984
Cash provided by (used in) operating activities		**(8,592)**	3,298
Financing:			
Normal course issuer bid	7	**(534)**	(1,406)
Cash used in financing activities		**(534)**	(1,406)
Investing:			
Seismic data purchases, digitization and related costs	5	**(62)**	(65)
Additions to property and equipment		**(2)**	(27)
Cash used in investing activities		**(64)**	(92)
Increase (decrease) in cash and cash equivalents		**(9,190)**	1,800
Cash and cash equivalents, beginning of period		**27,422**	5,847
Cash and cash equivalents, end of period		**18,232**	7,647

See accompanying notes to condensed consolidated interim financial statements.

PULSE SEISMIC

NOTES TO CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (UNAUDITED)

INFORMATION AS AT MARCH 31, 2018, DECEMBER 31, 2017 AND FOR THE THREE MONTHS ENDED MARCH 31, 2018 AND 2017.

(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 PREPARATION

(A) STATEMENT OF COMPLIANCE

The condensed consolidated interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS).

The condensed consolidated interim financial statements were prepared by the Company's management and were approved by the Board of Directors on May 7, 2018.

(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 in Canadian dollars has been rounded to the nearest thousand, except per share data, numbers 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 JUDGEMENTS

Preparing the condensed consolidated interim financial statements in accordance with 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 date of the consolidated financial statements, and the revenue and expenses attributed to the reporting period. 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, 2017.

3. CHANGES IN SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these interim financials statements are the same as those applied by the Company in the audited consolidated financial statements for the year ended December 31, 2017.

The Company has initially adopted IFRS 15 *Revenue from Contracts with Customers* and IFRS 9 *Financial Instruments* from January 1, 2018.

A) IFRS 15 *REVENUE FROM CONTRACTS WITH CUSTOMERS*

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognized. It replaces IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations.

As stated above, the Company has adopted IFRS 15 effective January 1, 2018. The information presented for 2017 has not been restated, as application of the new standard IFRS 15 does not result in any change to revenue recognition as previously reported, under IAS 18, IAS 11 and related interpretations.

The details of the new revenue recognition policy are described below.

I) DATA LIBRARY SALES

Revenue for data library sales is recognized when clients obtain control of seismic data when the data is delivered to and has been accepted by the customers. Invoices are generated and revenue is recognized at that point in time. Invoices are usually payable within 30 days.

Some customers request extended payments terms, which when agreed to by the Company, usually are not for more than one year. For such transactions, the Company discounts its account receivable, and the related amount of data library sales revenue is reallocated to interest income.

II) PARTICIPATION SURVEY REVENUE

Before 2018, the Company recognized participation survey revenue based on percentage of completion of the survey. Under IFRS 15, participation survey revenue can only be recognized when control of the deliverables under the contract are transferred and when the seismic data is delivered to and accepted by the customers.

This is a change to the Company's revenue recognition accounting policy. As there was no participation survey revenue in 2017, there is no previous year restatement.

B) IFRS 9 *FINANCIAL INSTRUMENTS*

IFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces IAS 39 *Financial Instruments: Recognition and Measurement*.

I) CLASSIFICATION AND MEASUREMENT OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

IFRS 9 largely retains the existing requirements in IAS 39 for the classification and measurement of financial liabilities. However, it eliminates the previous IAS 39 categories for financial assets of held to maturity, loans and receivables and available for sale.

IFRS 9 introduces new requirements for the classification and measurement of financial assets, amends the requirements related to hedge accounting, and introduces a forward-looking expected loss impairment model. The adoption of IFRS 9 has not had a significant effect on the Company's accounting policies related to financial liabilities, derivative financial instruments and financial statements.

IFRS 9 contains three classification categories for financial assets: measured at amortized cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under IFRS is based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

The impact of IFRS 9 on the classification and measurement of financial assets is set out below.

	IAS 39		IFRS 9	
Financial Asset (liability)	Category	Measurement	Category	Measurement
Cash and cash equivalents	Loans and receivables	Fair value	Assets at amortized cost	Amortized cost
Accounts receivable	Loans and receivables	Amortized cost	Assets at amortized cost	Amortized cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized cost	Financial liabilities at amortized cost	Amortized cost
Other long-term payable	Other financial liabilities	Amortized cost	Financial liabilities at amortized cost	Amortized cost
Long-term debt	Other financial liabilities	Amortized cost	Financial liabilities at amortized cost	Amortized cost

As a result of adopting IFRS 9, certain financial assets were reclassified from fair value through profit and loss to amortized cost. The change in classification category did not result in an adjustment to the carrying amount of the related assets.

The Company does not have financial assets or liabilities designated as part of a hedging relationship or qualify for hedge accounting and didn't adopt the new hedge accounting model included in IFRS 9.

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, 2018. 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:

IFRS 16, *Leases*. IFRS 16 was issued in January 2016, significantly revising the way in which companies account for leases by requiring almost all leases to be included on the balance sheet of lessees. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with early adoption permitted for companies that also apply IFRS 15, *Revenue from Contracts with Customers.* The Company continues to evaluate the potential impact of IFRS 16 on the financial statements, which remains unknown.

4. REVENUE

DATA LIBRARY SALES

There are three different ways to disaggregate the Company's data library sales: transaction type, data type and geographically. Revenue fluctuations are a normal part of the seismic data library business, and data library sales can vary significantly year-over-year, by transaction type, data type and geographically.

Traditional data library sales can occur at any time. This is due to the nearly continual changes in oil and natural gas industry conditions, increased demand for seismic data covering a specific area or play, and the timing of public offerings of petroleum and natural gas rights (land sales).

Transaction-based sales can also occur at any time. This is due to corporate merger and acquisition, joint venture and asset disposition activity by Pulse's clients, which is unpredictable.

The following tables provide a summary of the Company's revenue disaggregated by type:

A) TRANSACTION TYPE

Three months ended March 31,	**2018**	2017
Traditional sales	**2,328**	1,884
Transaction-based sales	**-**	835
Total data library sales	**2,328**	2,719

Traditional data library sales are conducted under various types of sale contracts. These are classified as data library sales, library cards, commitment cards and review and possession agreements. The unearned portion of a contract's value is deferred until Pulse's revenue recognition criteria are met, with data library sales revenue being recognized upon delivery of seismic data to the customer.

There are three main types of transaction-based sales: partnership or joint venture, corporate merger or acquisition and oil and gas asset or group sales.

The first type is the partnership or joint venture sale, in which an oil and gas asset holder elects to pool their expertise, capital and/or assets with one or more new participants to explore or develop a play. Any new technical or operational participant that wishes to view or interpret the seismic data must purchase a data licence from Pulse.

The second type of transaction-based sale is a corporate merger or acquisition sale. In this case, when the seismic data is transferred to the new organization the buyer has 30 days to determine whether they would like to pay a change-of-control fee to keep the data licence or return the data to Pulse.

The third type is the sale of an oil and gas asset or group of assets. The related seismic data license is not transferable upon an asset sale. In this case, no rights to the seismic data transfer to the buyer, and there are no terms of payment in the license agreement. Should the buyer be interested in Pulse's seismic data, they must license the data from Pulse.

The precise terms of individual licence agreements can vary greatly. Change-of-control fees and joint venture copy fees may not always be payable, and licence agreements may not always be non-assignable.

B) DATA TYPE

Three months ended March 31,	**2018**	2017
2D data sales	**777**	554
3D data sales	**1,551**	2,165
Total data library sales	**2,328**	2,719

Pulse's data library consists of 2D and 3D seismic data. As 3D seismic licence contracts are generally larger than 2D seismic licence contracts, the percentage of seismic data library sales generated from 2D and 3D data sales fluctuates significantly depending on the number of 3D seismic sale contracts signed during a given period.

C) GEOGRAPHICAL BREAKDOWN

Three months ended March 31,	**2018**	2017
Alberta sales	**2,039**	2,453
British Columbia sales	**77**	7
Others	**212**	259
Total data library sales	**2,328**	2,719

The Company's customers are generally focusing on liquids-rich natural gas and light oil pools found primarily in a broad corridor running from northwest of Calgary, Alberta, along the Foothills of the Rocky Mountains to the British Columbia border, as compared to "dry" natural gas more often found in British Columbia and on Alberta's eastern prairies. In the first quarter of 2018, 88 percent of the data library sales were from data located in Alberta, 3 percent from British Columbia and 9 percent from other areas.

5. SEISMIC DATA LIBRARY

As at	**March 31, 2018**	December 31, 2017
Cost		
Opening balance, January 1	**444,974**	443,399
Acquisitions through purchases, digitization and related cost	**62**	1,575
Closing balance	**445,036**	444,974
Accumulated amortization		
Opening balance, January 1	**426,675**	410,805
Amortization for the period	**1,878**	15,870
Closing balance	**428,553**	426,675
Carrying amount	**16,483**	18,299

At March 31, 2018, the Company has considered indicators of impairment for each of its cash-generating units and based on that review no impairment tests were performed.

6. LONG-TERM DEBT

The Company has a $30.0 million three-year extendible revolving credit facility with a syndicate of banks. There are no scheduled principal payments. Voluntary prepayments are permitted in whole or part at any time without premium or penalty.

Up to $5.0 million of the revolving facility is available as an operating line of credit. As at March 31, 2018, long-term debt was $nil (December 31, 2017 – $nil). The credit facility includes an accordion feature which allows the Company to increase the facility to $70.0 million with the lenders' consent. The accordion incurs no renewal or standby fees. The Company has the option on an annual basis to extend the maturity date for one additional year with the lenders' approval and has done so each year. The maturity date is currently February 13, 2021.

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 March 31, 2018 the applicable interest rate on the long-term debt, if any were incurred, was 3.95 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 covenants include two financial ratio tests. The first is that the total debt to adjusted EBITDA must not exceed a ratio of 2.50:1. The ratio was 0.00:1 at March 31, 2018. The second is that the interest coverage ratio must be at least 3:1 at all times. The ratio was 346:1 at March 31, 2018. The Company was in compliance with all covenants at March 31, 2018.

The credit facility is secured by a charge on all of the assets of the Company and its material subsidiaries.

7. NORMAL COURSE ISSUER BID

During the first quarter of 2018 the Company purchased and cancelled 169,900 common shares (three months ended March 31, 2017 – 583,500 common shares) through its normal course issuer bid, for a total cost of $534,000 (three months ended March 31, 2017 – $1.4 million) at an average price of $3.15 per common share (three months ended March 31, 2017 – $2.41 per common share) including commissions.

8. SHARE-BASED PAYMENTS

In 2012, the Company's Board of Directors approved a new long-term incentive plan (LTIP) for employees, officers and Directors designed to align the Company's long-term incentive compensation with its performance and to increase individual share ownership.

The LTIP awards consist of restricted share units (RSU) and performance share units (PSU), with 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, if applicable, on the common shares.

In determining the amount of equity-settled share-based compensation related to PSUs, management makes estimates about future results and vesting criteria. It is reasonably possible that future outcomes could differ from the estimates, which are based on current knowledge, and require a material adjustment to the share-based compensation expense recorded in future periods. The impact of any change in the number of PSUs expected to vest is recognized in the period the estimate is revised.

On March 31, 2018 169,152 RSUs and 218,419 PSUs were eligible to vest. Based on the Company's performance in 2017 and the predetermined performance measures, 30 percent or 65,526 of the eligible PSUs vested. RSUs vest automatically based upon time and, consequently, all of the eligible RSUs vested automatically on March 31, 2018.

To satisfy its obligation, in April 2018 the Company provided $423,000 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 that vested on March 31, 2018. The related payroll taxes of $308,000 will be paid in May 2018 to settle fully the accrued cash-settled portion of the share-based payment liabilities.

In the condensed consolidated interim statement of comprehensive loss for the three months ended March 31, 2018, the Company recognized $130,000 in compensation expense (three months ended March 31, 2017 – $153,000) related to the LTIP in salaries, internal commissions and benefits. The equity-settled portion was $91,000 (three months ended March 31, 2017 – $87,000) and the cash-settled portion was $39,000 (three months ended March 31, 2017 – $66,000). At March 31, 2018 the obligation related to the cash-settled portion of the LTIP was $517,000 (March 31, 2017 – $241,000) with $284,000 included in accounts payable and accrued liabilities (March 31, 2017 – $99,000) and $233,000 included in other long-term liabilities (March 31, 2017 – $142,000).

The following summarizes activity in the Company's LTIP notional accounts during the periods ended March 31, 2018 and 2017:

Three months ended March 31,	**2018**		2017	
	RSUs	PSUs	RSUs	PSUs
Outstanding, beginning of period	553,666	707,071	343,440	519,717
Granted	151,006	206,725	274,957	330,899
Cancelled or forfeited	–	(152,893)	–	(185,488)
Outstanding, end of period	704,672	760,903	618,397	665,128

The 169,152 RSUs and the 65,526 PSUs that vested on March 31, 2018 will be settled in May 2018. The 152,893 PSUs that did not vest were cancelled from the notional accounts on the vesting date.

9. EARNINGS PER SHARE

A. BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the three months ended March 31, 2018 was based on the net loss attributable to common shareholders of $696,000 (three months ended March 31, 2017– net loss of $2.5 million) and a weighted average number of common shares outstanding of 53,887,280 (three months ended March 31, 2017 – 55,743,737), calculated as follows:

Three months ended March 31,	**2018**	2017
Common shares outstanding at beginning of period	54,020,817	55,921,060
Effect of common shares purchased and cancelled	(133,537)	(177,293)
Weighted average number of common shares	53,887,280	55,743,767

B) DILUTED EARNINGS PER SHARE

The Company does not have any dilutive securities.

10. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

Three months ended March 31,	**2018**	2017
Trade and other receivables	319	2,388
Prepaid expenses	(61)	(82)
Accounts payable and accrued liabilities	(1,474)	(15)
Deferred revenue	8	(367)
Other long-term payable	25	50
Others	14	10
Net change in non-cash operating working capital	(1,169)	1,984

11. MAJOR CUSTOMERS

Data library sales to three customers represented approximately $2.0 million or 87 percent of the Company's total data library sales for the three months ended March 31, 2018 (three months ended March 31, 2017 – sales to three customers represented approximately $1.7 million or 64 percent).