

FINANCIAL
PRUDENCE

BRIGHTENING
HORIZONS

2016
ANNUAL
REPORT



 pulse seismic



The Annual Meeting of Shareholders of Pulse Seismic Inc. will be held on Wednesday, May 10, 2017 at 3:00 p.m. MDT in the Cardium Room of the Calgary Petroleum Club, located at 319 - 5th Avenue S.W., Calgary, Alberta.

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FINANCIALLY STRONG

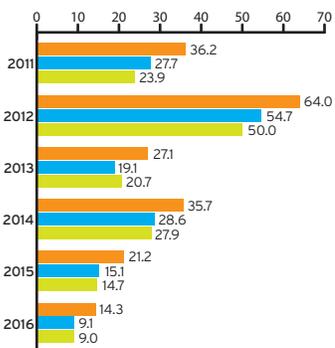
In an industry typified by significant debt loads and large capital commitments, Pulse's **CLEAN BALANCE SHEET** is a point of distinction - and one of the keys to the Company's **FINANCIAL SURVIVABILITY**. The other is the **LOW LEVEL OF REVENUE** at which Pulse **GENERATES CASH FLOW**. Despite weak annual sales, **PULSE WAS PROFITABLE** on a cash basis and emerged from 2016 **FINANCIALLY STRONGER**.



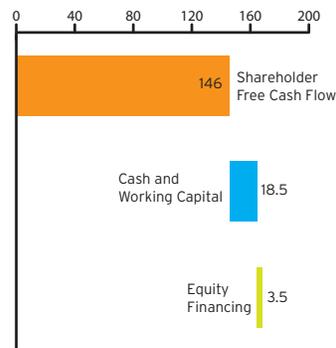
PULSE SEISMIC INC. IS A PURE-PLAY PROVIDER OF TWO-DIMENSIONAL (2D) AND THREE-DIMENSIONAL (3D) SEISMIC DATA TO THE OIL AND NATURAL GAS INDUSTRY IN WESTERN CANADA.

North America's energy services sector in 2016 continued to feel the impact of the deep downturn in oil and natural gas field activity caused by capital scarcity and low commodity prices. Pulse was also affected and the Company's data library sales declined by 32 percent year-over-year.

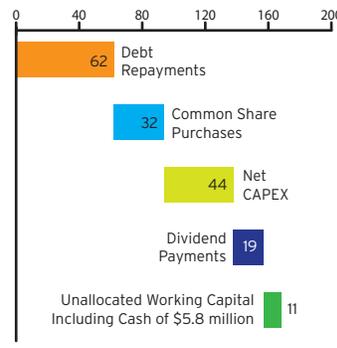
Pulse's financial results stood out from the industry, however. In anticipation of weakening business conditions, Pulse in 2016 exercised financial prudence. The Company further reduced its cash costs, conserved cash and minimized capital expenditures, opting against new 3D participation surveys and conducting only one acquisition early in the year, funded by cash and common shares. Pulse exited the year debt-free and with cash of \$5.8 million.



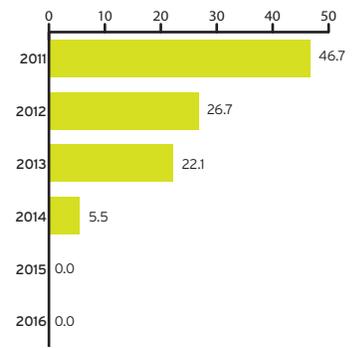
DATA LIBRARY SALES
CASH EBITDA
SHAREHOLDER FREE CASH FLOW
(\$ Millions)



FUNDS AVAILABLE 2011-2016
(\$ Millions)



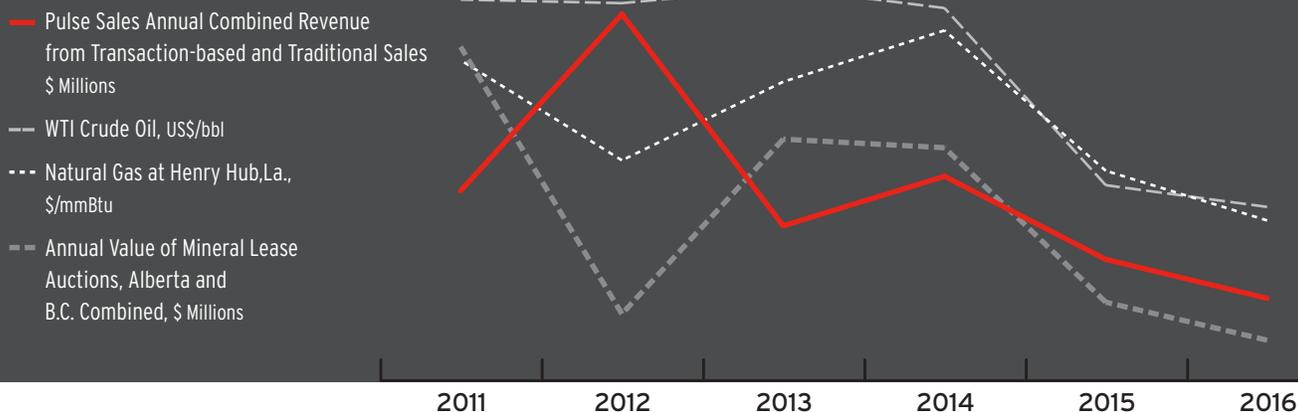
FUNDS ALLOCATED 2011-2016
(\$ Millions)



REDUCING LONG-TERM DEBT
(\$ Millions)

ABOUT THE TREND GRAPH BELOW:

Depicts the general relationship between Pulse's data library sales and traditional benchmarks of the oil and natural gas industry's overall health.



PULSE GENERATES revenue through the licensing of 2D and 3D seismic data from its digital library, and incurs costs to operate the business. We make the most of our revenue by exerting continuous discipline over spending. The difference is our cash margin - 64 percent in 2016. Pulse's high cash margin enables us to deliver cash EBITDA and shareholder free cash flow even in a difficult economic environment such as 2016 and 2015.

CASH-BASED BUSINESS

At Pulse, cash is king. Pulse's business is cash-based instead of capital-based. Rather than being labour-intensive, the Company operates with a lean team. The seismic data library is our cash-generating asset. It incurs non-cash amortization expense but it does not deteriorate, expire or require significant maintenance capital expenditure. This enables Pulse to focus on three main things: generating sales, holding costs as low as possible and looking for opportunities to grow the library.

We have driven down our costs over successive years. Pulse repaid all long-term debt by year-end 2015 and its remaining operating line of credit in January 2016. In 2016, the Company incurred immaterial interest costs and reduced its standby fees by voluntarily reducing the size of its credit facility.

We extended the suspension of our cash dividend through these uncertain times, avoiding a large cash expenditure. We sharply reduced spending on share buybacks (our normal course issuer bid). We further trimmed our team and, guided by experienced senior management, operated efficiently with our smallest staff complement in many years, further lowering SG&A expenses.

Consequently, in 2016 Pulse incurred its lowest cash operating costs ever: just \$5.2 million. This was below our target of \$6.0 million, allowing us to generate cash EBITDA and shareholder free cash flow of over \$9.0 million on sales of \$14.3 million. Pulse got through 2016 not merely intact, but with a significant cash margin.



THE EXPLORATION AND DEVELOPMENT of oil and natural gas reservoirs requires seismic data. Pulse's digital library holds the second-largest licensable seismic data set covering the Western Canada Sedimentary Basin, one of the world's largest hydrocarbon-producing regions. The library is the Company's core asset and primary revenue-generator.

Pulse maintains the long-term goal of accumulating Western Canada's largest licensable seismic data library.



HIGH-QUALITY ASSET

Pulse's data library is high in technical quality and has been strategically assembled to maximize coverage over areas of recurring oil and natural gas development. The Company focuses especially on a broad corridor running northwest from Calgary, Alberta, along the Foothills of the Rocky Mountains into northeast B.C. This area has western Canada's most active developments or "plays" including the Montney, Deep Basin, Duvernay Shale and others.

LONG-TERM VALUE – Because seismic data does not deteriorate or expire, fully amortized data retains the ability to generate recurring sales indefinitely. Pulse's seismic data library has an estimated replacement value of more than \$2 billion. The cost and difficulty of assembling the same data through

new seismic surveys creates significant barriers to entry, increasing the attractiveness of the data library to oil and gas producers. Sales commissions are virtually the only variable cost of incremental sales.

HOW PULSE GENERATES SALES – Pulse generates sales in two main ways. "Traditional" sales are straightforward licensing arrangements in which oil and natural gas producers choose from Pulse's enormous coverage of high-quality data to support their drilling in the data coverage area. "Transaction-based" sales are relicensing events triggered by changes in control among the licensee or the oil and gas asset covered by the data. Transaction-based sales reflect deal-making within the industry, including changes to corporate structures and

sizes, the movement of assets between companies, the addition of joint venture partners who will require a license to the data and the entry of new companies to western Canada. Transaction-based sales can be significant but are especially unpredictable – totalling only \$4.3 million in 2016 – thus providing poor visibility for Pulse's revenue.

GROWTH – Pulse's leadership has shown long-term strategic continuity in pursuing a vision for growth in the data library. More data over more land area increases the chances of providing customers with what they need. Pulse has made transformative acquisitions in the past. Early in 2016, Pulse increased its 2D library by nearly one-third through a \$3.65 million acquisition and has already made sales from the newly acquired data.



HISTORICALLY, there has been a general relationship between a number of oil and natural gas industry benchmarks and Pulse's revenue.

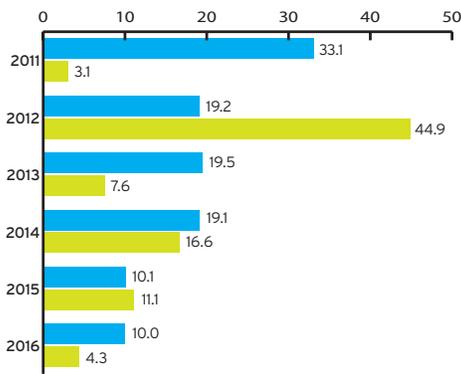
BRIGHTENING HORIZONS

Pulse's revenues depend ultimately on the health of western Canada's oil and natural gas industry. Although there are no direct revenue predictors, there are indirect indicators. These include crude oil and natural gas prices, capital spending by non-oil sands oil and natural gas producers, the number of oil and natural gas wells being drilled, the size and value of provincial government auctions for new mineral rights (or "land sales"), investment flow into the energy sector, and the number and value of asset sales and mergers/acquisitions among producing companies.

These indicators have mainly trended downward over the past five years. Crude oil prices, for example, dipped as low as US\$26 per barrel in February 2016, while natural gas prices fell below \$1.00 per thousand cubic feet in the spring. Pulse's

revenues have also trended downward during this period, particularly over the past two years.

Even amidst the industry's worst year for drilling and land sales in decades and the Company's worst revenue year since 2001, Pulse generated cash and was able to conduct a counter-cyclical acquisition.



TRADITIONAL SALES ■
TRANSACTION-BASED SALES ■
 (\$ Millions)

MOST OF THE INDIRECT INDUSTRY INDICATORS OF PULSE'S REVENUE TRENDED DOWN IN 2014, 2015 AND INTO 2016.

With ANNUAL CASH COSTS of barely over \$5 million, Pulse's cash margin, cash EBITDA and shareholder free cash flow are highly levered to a recovery in data library sales.



In seeking opportunities to grow, Pulse will adhere to its strict requirements for high technical quality, positioning in active play areas and favourable valuations.

Starting in late 2016, several indicators appeared to trend towards recovery. These include crude oil prices, which have exceeded US\$50 per barrel since December 2016. Natural gas prices remain weak but are higher than their lows of 2015 and

spring 2016. In addition – though not yet reflected in the graph on page 2 – industry capital

spending and investment in the energy sector are forecast to increase in 2017, oil and natural gas drilling is forecast to grow by 22 percent year-over-year, the approval process for the Keystone XL export pipeline into the U.S. has been restarted, and growing U.S. LNG exports signal higher gas demand.

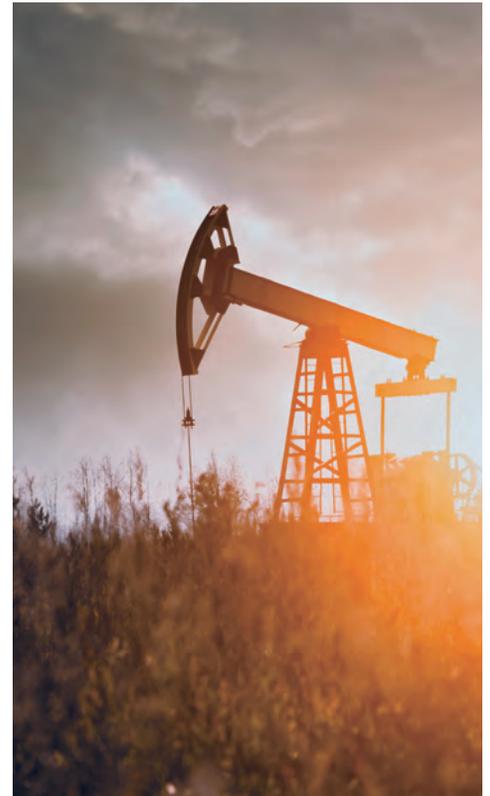
INDUSTRY CAPITAL SPENDING AND INVESTMENT IN THE ENERGY SECTOR ARE FORECAST TO INCREASE IN 2017.

Pulse sees gradually brightening horizons. The Company can continue to generate cash and return capital to shareholders with very low revenue.

Yet the nature of our business and our primary asset enables us to increase

activity and revenue with minimal increase in costs. With a clean balance sheet, low costs, unutilized borrowing capacity

and track record of successful seismic data acquisitions, Pulse is positioned for opportunity on two levels: to grow its seismic library data sales and to further expand its revenue-generating asset.



Despite weaker sales, PULSE GENERATED positive cash EBITDA and shareholder free cash flow in 2016, and improved its year-end cash position by more than \$6 million.

FINANCIAL HIGHLIGHTS

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
(thousands of dollars except per share data, number of shares and kilometres of seismic data)				
Revenue				
Data library sales	4,176	8,759	14,339	21,214
Participation surveys	–	–	–	3,220
Total revenue	4,176	8,759	14,339	24,434
Amortization of seismic data library	4,657	4,979	18,973	22,836
Impairment loss	–	937	–	937
Net earnings (loss)	(1,253)	658	(7,490)	(5,308)
Per share basic and diluted	(0.02)	0.01	(0.13)	(0.09)
Cash provided by operating activities	2,517	2,901	9,471	17,094
Per share basic and diluted	0.04	0.05	0.17	0.30
Cash EBITDA ^(a)	2,996	7,043	9,119	15,121
Per share basic and diluted ^(a)	0.05	0.13	0.16	0.27
Shareholder free cash flow ^(a)	3,003	6,971	9,029	14,745
Per share basic and diluted ^(a)	0.05	0.12	0.16	0.27
Capital expenditures				
Participation surveys	–	–	–	3,959
Seismic data purchases, digitization and related costs	64	750	2,444	933
Property and equipment	–	–	6	14
Total capital expenditures	64	750	2,450	4,906
Weighted average shares outstanding				
Basic and diluted	56,042,673	56,041,324	56,105,593	56,628,524
Shares outstanding at period end			55,921,060	55,592,689

SEISMIC LIBRARY

2D in kilometres	447,000	339,991
3D in square kilometres	28,647	28,555

FINANCIAL POSITION AND RATIO

(thousands of dollars except ratio)

	December 31,	
	2016	2015
Working capital	10,674	4,996
Working capital ratio	8.93:1	4.44:1
Cash and cash equivalents (operating line of credit)	5,847	(222)
Total assets	44,957	54,618
Long-term debt	–	–
Shareholders' equity	38,646	45,389

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

PRESIDENT'S LETTER

YEAR TWO OF THE GLOBAL COMMODITY PRICE DOWNTURN WAS AMONG THE HARDEST-EVER PERIODS FOR WESTERN CANADA'S OIL AND NATURAL GAS SECTOR. ALREADY-WEAK CRUDE OIL PRICES SAGGED TO US\$26 PER BARREL IN FEBRUARY 2016, NATURAL GAS PRICES FELL TO UNHEARD-OF LEVELS BELOW \$1 PER MCF AFTER DEVASTATING WILDFIRES IN MAY FORCED THE EVACUATION OF ALBERTA'S OIL SANDS CAPITAL OF FORT MCMURRAY, THE INDUSTRY FURTHER CUT CAPITAL SPENDING AND DRILLING FELL TO FEWER THAN 3,500 WELLS FOR THE YEAR.

Pulse had revenue of just \$14.3 million in 2016. We had anticipated a weak year, and it did not surprise on the upside. Data library sales were down by 32 percent from 2015, which in turn had sales far below 2014.

Yet the Company not only remained debt-free, we generated cash EBITDA of \$9.1 million and shareholder free cash flow of \$9.0 million, exiting the year with \$5.8 million in cash. As other oil and gas-related companies struggled to survive, and companies including formerly billion-dollar-plus enterprises failed, Pulse emerged with a clean balance sheet, well-positioned to pursue opportunities and benefit from a longer-term rebound. We do see brightening horizons.

FINANCIAL PRUDENCE

How did we steer through this difficult period? Financial prudence. For years before the downturn, Pulse's management team and Board of Directors managed the Company conservatively and for survivability in all phases in the commodity price cycle. We simplified the business model to focus on what we do best, becoming a pure-play seismic data provider in western Canada.

Accordingly, we have worked to lower the cost structure, limit capital commitments, minimize risks and strengthen the balance sheet. As the downturn set in, we cut costs further. We pared the Company to just 17 people, suspended the dividend, repaid all debt, reduced our credit facility to minimize



NEAL COLEMAN
President and CEO

PAMELA WICKS
VP Finance and CFO

TREVOR MEIER
VP Sales and Marketing

standby fees (while maintaining a cost-free accordion feature), minimized discretionary spending and reduced share buybacks.

Low costs preserve one of Pulse's biggest advantages, its high cash margin. We achieved a cash margin of 64 percent in 2016. This was down from 71 percent in 2015 and 80 percent in 2014, but I'm very pleased given the significantly lower revenues. Many oilfield service companies incurred negative margins over the past two years. As in 2015, Pulse experienced little pricing pressure, and the resulting high cash margin enabled us to remain cash flow-positive even in a low revenue year.

2016 FINANCIAL RESULTS

Pulse's key performance indicators declined in 2016. Given the downturn's depth and length, we are pleased with the results.

Financial highlights for 2016:

- Seismic data library sales of \$14.3 million, down by 32 percent from 2015. Traditional sales were flat year-over-year at approximately \$10.0 million and made up 70 percent of data library sales;
- In a year expected to have heavy M&A activity, transaction-based sales fell to only \$4.3 million or 30 percent of data library sales, down from \$11.1 million or 52 percent of data library sales in 2015. Bid-ask spreads remained high. Management teams were seemingly trying to hold out for better times, while low futures prices discouraged buyers from paying more;
- Cash EBITDA of \$9.1 million, down by 40 percent from \$15.1 million in 2015. Cash EBITDA per share decreased by 41 percent to \$0.16 basic and diluted from \$0.27 per share basic and diluted in 2015;
- Shareholder free cash flow of \$9.0 million, compared to \$14.7 million in 2015, a decrease of 39 percent. Shareholder

free cash flow per share was down by 38 percent year-over-year to \$0.16 basic and diluted from \$0.26 per share basic and diluted in 2015;

- Data library amortization expense of \$19.0 million, down from \$22.8 million in 2015. This non-cash item accounted for Pulse's net loss of \$7.5 million or \$0.13 per share basic and diluted;
- Approximately 38 percent of revenue was generated from fully amortized data, compared to 67% in 2015;
- Repurchase of 341,272 common shares at a cost of \$786,000, averaging \$2.30 per share;
- No dividend;
- Zero long-term debt throughout the year, with stand-by fees of only \$108,000 for 2016; and
- A December 31, 2016 cash balance of \$5.8 million.

OTHER CORPORATE MATTERS

We did not conduct seismic participation surveys in 2016. No opportunities met our key criteria of high technical quality, surveying of all potential zones, high ratio of customer pre-funding, and location in a multi-zone play area with available processing and pipeline take-away capacity and competitive industry activity creating high probability of data relicensing. Accordingly, we had minimal capital expenditures and no field operations in 2016, which also minimized our HSE exposure and activities. We maintained the provincial Certificate of Recognition pertaining to our HSE management system.

As well, we digitized the 107,000 km of 2D seismic data acquired in January in a \$3.65 million 2D seismic data acquisition (detailed in last year's annual report). The newly acquired data generated sales in Pulse's first year of ownership.



PULSE'S LONG-TERM VALUE

The value of Pulse centres on the size and quality of its primary asset, the seismic data library. We are unlike traditional oil and gas service companies. We do not have to build and maintain capital-intensive equipment fleets requiring continuous maintenance as well as large and costly operating crews. Nor do we have expensive operations-related real estate or material stockpiles. Pulse's ability to generate revenue is largely independent of incremental personnel or capital expenditures. The digitized data library incurs almost zero maintenance costs. Seismic data does not deteriorate or expire, remaining useful and demonstrably capable of generating relicensing sales for decades.

Pulse has one of Western Canada's largest licensable datasets. Accumulating the seismic data library of 447,000 net km of 2D data and 28,647 net square km of 3D data was the work of decades and some \$444.0 million in capital investment. Its current replacement value is estimated at more than \$2 billion.

Following years of amortization, the data library is held on our balance sheet at a mere \$32.6 million. We believe its long-term capability to generate high-margin recurring revenue is vastly greater than this amount.

Critically, much of our seismic data covers the most actively drilled exploration and development plays in northwest Alberta

and northeast B.C., including the Montney, the multi-zone Deep Basin tight sands, the Duvernay shale and other horizons. Not only is there activity in these plays, there are companies that last year had their busiest year ever. A recent report by the Alberta Energy Regulator forecasts steady drilling over an expanded portion of the gigantic Duvernay shale for the next 30 years. Pulse has more than 12,000 square km of 3D seismic over the Duvernay.

Operating a large and efficient digital asset and being free from continuous capital spending enables Pulse to increase its revenue significantly with minimal relative cost increase. The stable cost structure, in turn, makes our cash margin highly levered to revenue.

INDUSTRY OUTLOOK

Oil prices as of early March are up by more than 100 percent from their lows one year ago and, supported by the recent OPEC supply cut and global demand growth, are forecast to hold in the US\$50-\$60 per barrel range. Although the "turn" in natural gas prices some foresaw for late last year has not begun, gas demand continues to grow and North America's long supply glut is tightening.

U.S. natural gas storage has declined from well outside the five-year weekly averages to near the middle of the five-year weekly range. Just one year after the first commercial LNG cargo left the Sabine Pass facility in Louisiana, U.S. LNG exports are averaging 2.2 billion cubic feet (bcf) per day. This facility's exports should approach 3 bcf per day this year, while the second major U.S. LNG export facility is to be operational by year-end, with four further projects to start operating in 2018 and 2019. In Canada, the smaller Woodfibre LNG project has received its final investment decision. Additionally, the new U.S. Administration has re-started the approval process for the Keystone XL pipeline, which will facilitate growth in Canada's oil exports and reduce price differentials.



Already, hundreds of additional drilling rigs are active in the U.S., and field activity is at a two-and-a-half-year high here in Alberta. Alberta's new royalty rates are encouraging new drilling. British Columbia and Alberta are leading a recovery in land sale spending in Western Canada in 2017, with a combined \$98.2 million in bonus bids by the end of February compared to \$16.76 million at the same time last year. In January, the Petroleum Services Association of Canada increased its drilling forecast by nearly 1,000 wells over 2016 to 5,200 wells for 2017. Initial public offerings are being considered in the energy services sector, signalling optimism among operators and investors. Capital is coming back into oil and gas, and that is highly suggestive of greater field activity.

COMPANY OUTLOOK

We are much more optimistic than one year ago, but we are not predicting an imminent rebound in Pulse's business. Our choice of cover line for the 2016 annual report – Brightening Horizons – was deliberate. A horizon isn't the foreground.

We currently see an industry recovery beginning. From here, we need materially increased capital investment and sustained higher field activity. That should translate into higher data library sales – at some point. At this time, Pulse's revenue visibility remains poor.

Historically, seismic data was virtually the first capital spending item in the exploration and development cycle. Today, many E&P companies have large inventories of drillable locations already defined by seismic that have been awaiting the drillbit throughout the downturn. Their initial drilling is focused mainly on lower-risk, high-graded locations to generate new cash flow from improved pricing.

We are confident that a sustained higher level of drilling will generate demand for seismic data. The more buoyant market should also attract new investors, encouraging assets and companies to change hands, triggering transactional sales.

Rather than a sudden rebound in Pulse's business, then, we are expecting a somewhat drawn-out recovery. This year could still



be relatively weak. We do feel much better than at this time in 2016. There are numerous signs of strength for the medium term. These are the brightening horizons.

INVESTMENT PROPOSITION

Pulse's shareholders are loyal and many hold substantial positions. We are very grateful for their commitment. I think they feel we are running the Company prudently, believe in the long-term value of our asset, are confident we will sell more data with higher industry activity, expect to see more transactions, and anticipate we will find opportunities to grow, realizing value. On behalf of Pulse's management team, I extend sincere thanks to our shareholders. Their support through such a challenging period is reflected in our share price during 2016.

We believe Pulse is a good investment. Here are the reasons:

1. Competitive strengths – The seismic data business imposes high barriers to entry, both for E&P companies shooting data and for competing data providers. Our seismic data library provides broad coverage in the WCSB with no competing 3D data.
2. Opportunities – Greater industry M&A activity would set the stage for transaction-based data sales. In addition, Pulse has a track record of successful transformational acquisitions.
3. Time-tested business model – Cash margins have averaged 74 percent over the past five years. We provide continuing return of capital to shareholders through share buybacks. We are a scalable business with low and stable costs, creating high revenue and margin leverage.

Having outperformed the energy services sector in this downturn and remaining debt-free, with cash reserves, unutilized credit facilities, an experienced team, costs as low as they have ever been, and a valuable, competitive and technically high-quality asset – our enlarged seismic data library – Pulse is positioned to grow. Previously I stated that time is not our enemy. This is still the case. We remain a pure-play seismic data provider with the goal to become the largest licensable seismic dataset in Western Canada.



Neal Coleman
President and Chief Executive Officer

March 2, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

YEAR ENDED DECEMBER 31, 2016

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The following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations of Pulse Seismic Inc. ("Pulse" or "the Company") for the year ended December 31, 2016 was prepared taking into consideration information available to March 6, 2017 and is supplemental to the audited consolidated financial statements and related notes for the year ended December 31, 2016. Throughout this MD&A reference will be made in the text and tables to "2016", which refers to the year ended December 31, 2016, and to "2015", which refers to the year ended December 31, 2015.

The consolidated financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) with comparative figures for the prior year. Certain comparative figures were reclassified to conform to current-year presentation. The consolidated financial statements and the MD&A were reviewed by Pulse's Audit and Risk Committee and approved by Pulse's Board of Directors. All financial information is reported in Canadian dollars. This MD&A discusses matters which Pulse's management considers material. Management determines whether information is material based on whether it believes a reasonable investor's decision whether or not to buy, sell or hold shares in the Company would likely be influenced or changed if the information were omitted or misstated. Readers should also read the cautionary statement in "Forward-Looking Information".

OVERVIEW

ABOUT PULSE

Pulse is a market leader in the acquisition, marketing and licensing of two-dimensional (2D) and three-dimensional (3D) seismic data for the energy sector in Western Canada. Seismic data is used by oil and natural gas exploration and development companies to identify portions of geological formations that have the potential to hold hydrocarbons. Seismic data is used in conjunction with well logging data, well core comparisons, geological mapping and surface outcrops to create a detailed map of the Earth's subsurface at various depths.

Pulse owns the second-largest licensable seismic data library in Canada, currently consisting of approximately 28,600 net square kilometres of 3D seismic and 447,000 net kilometres of 2D seismic. The library extensively covers the Western Canada Sedimentary Basin (WCSB), where most of Canada's oil and natural gas exploration and development occur.

Pulse calculates net kilometres of 2D data and net square kilometres of 3D data by multiplying the number of kilometres of seismic data in each 2D line and the number of square kilometres of seismic data in each individual 3D seismic dataset by Pulse's percentage of ownership in each.

SEISMIC DATA

Seismic data is an essential part of the oil and natural gas exploration and development process. Companies engaged in oil and natural gas exploration and development use seismic data to assist in exploring for and developing new reserves and in establishing the extent of existing reserves. In acquiring seismic data, an acoustical energy wave is transferred from an energy source at or near the surface of the Earth to the subsurface. The seismic wave reflects off various geological beds or strata in the Earth's subsurface. Sophisticated sensors and recording instruments at the surface collect the reflected waves and convert them to digital form. The data is subsequently processed and an image of the subsurface formations is created, providing explorationists with valuable data on the potential of a particular area to yield oil or natural gas reserves, and assisting in the selection of drilling locations.

2D SEISMIC

2D seismic data is measured in linear kilometres and after processing provides a sectional illustration of geological formations directly below the line on which the data was acquired. 2D seismic can extend over a distance spanning many kilometres. Intersecting 2D lines can enable explorers to map large pools of oil and natural gas, but without the precision required for smaller or more complex targets. Exploration companies typically use 2D seismic to get a sense of the regional geology of an area they think is prospective for oil and natural gas. 2D seismic data continues to be used to generate regional leads and prospects in oil and natural gas exploration areas.

3D SEISMIC

3D seismic data is measured in square kilometres and after processing provides map-like overhead views as well as three-dimensional visualizations of the subsurface geology. 3D seismic data is shot in grids, generating a three-dimensional image of the subsurface. 3D seismic data enables a more precise definition of geologically complex targets, and facilitates precise placement of oil and natural gas wells. 3D seismic is generally used to zero-in on a discrete area of geological interest initially identified with 2D seismic. 3D seismic data is particularly important for horizontal drilling, unconventional plays (such as shale gas and tight sands) and complex conventional drilling. Typical 3D seismic surveys cover an area anywhere from a few square kilometres to several hundred square kilometres.

MISSION AND STRATEGY

Pulse is a pure-play seismic data library company focused on the acquisition, marketing and licensing of seismic data to the western Canadian oil and gas sector. The Company's business model is designed to generate a growing stream of cash flow by repeatedly licensing the data in its seismic data library to oil and natural gas companies. Pulse's strategy is to pursue growth opportunities that meet its financial and technical criteria while maintaining a low cost structure.

Current seismic processing and visualization software allows historical 2D and 3D data to be reprocessed and reinterpreted, thereby maintaining the technical usefulness and marketability of historical data and, through repeated licensing sales, generating recurring revenue. The Company is continuously seeking and evaluating opportunities to expand its data library by acquiring high-quality 2D and 3D datasets that cover some of western Canada's most prospective current exploration regions, are complementary to its current library, and are available at favourable valuations. This is accomplished in two ways. Pulse purchases proprietary rights to complementary 2D and 3D seismic datasets when the opportunity arises, and it partners with customers on surveys for new 3D seismic data. Participating customers are provided with a licensed copy while Pulse retains proprietary rights to the seismic data acquired. Pulse uses Company personnel to market and manage participation surveys, and subcontracts field acquisition activities to third parties.

ECONOMIC ENVIRONMENT AND SEISMIC INDUSTRY

Pulse has been successful throughout prior commodity price cycles, due to its low cost structure and ability to generate a high level of shareholder free cash flow relative to revenue. Shareholder free cash flow is a non-GAAP measure that the Company considers important in evaluating its financial performance.

Pulse's success depends on its ability to provide seismic coverage over the geographical areas associated with certain geological development areas or "play types" that the exploration and development sector focuses on in a given period. Activity in various play areas is driven by commodity prices, geological understanding and the economic application of available technologies. Pulse works continuously to enlarge its coverage over play areas in which numerous producers are active for sustained periods.

The oil and natural gas exploration and development industry continues to shift towards natural gas reservoirs that are high in natural gas liquids and crude oil, lying in unconventional shale and less-permeable or tight formations that were not economic or technically possible to develop in the past. 2D and 3D seismic data are important tools for these plays. 2D seismic data is used to map the regional faults in shale gas prospects and 3D seismic data is used to map the exact contours of variable reservoirs, as well as small-scale fractures in shale formations, to plan accurate paths for horizontal wells.

Pulse's business results depend to a large extent on the level of capital spending on exploration activities by oil and natural gas companies. A sustained increase or decrease in the price of natural gas or crude oil, therefore, which could have a material impact on exploration activities, could also materially affect the Company's revenue, financial position, results of operations, cash EBITDA and shareholder free cash flow. The relationship is not direct, however, and the Company has generated high revenue in periods of weak oil and natural gas prices and vice-versa.

KEY PERFORMANCE INDICATORS

The key performance indicators used by Pulse’s management to analyze business results are seismic revenue, in total and broken down between data library sales and participation survey revenue, net earnings, cash EBITDA and shareholder free cash flow. The definitions, calculations and reconciliations of cash EBITDA and shareholder free cash flow to the nearest GAAP financial measures are provided in “Non-GAAP Financial Measures and Reconciliations”.

Results for the key performance indicators for the three months and year ended December 31, 2016, with comparative figures for 2015, are set out in the following table:

(thousands of dollars except per share data)	Three months ended December 31,			Twelve months ended December 31,		
	2016	2015	Variance	2016	2015	Variance
Data library sales	4,176	8,759	(4,583)	14,339	21,214	(6,875)
Participation survey revenue	-	-	-	-	3,220	(3,220)
Total seismic revenue	4,176	8,759	(4,583)	14,339	24,434	(10,095)
Net earnings (loss)	(1,253)	658	(1,911)	(7,490)	(5,308)	(2,182)
Per share basic and diluted	(0.02)	0.01	(0.03)	(0.13)	(0.09)	(0.04)
Cash EBITDA	2,996	7,043	(4,047)	9,119	15,121	(6,002)
Per share basic and diluted	0.05	0.13	(0.08)	0.16	0.27	(0.11)
Shareholder free cash flow	3,003	6,971	(3,968)	9,029	14,745	(5,716)
Per share basic and diluted	0.05	0.12	(0.07)	0.16	0.26	(0.10)

The significant reduction in data library sales for the year ended December 31, 2016 is the main factor contributing to the decline in all of the Company’s key performance metrics from the prior year’s periods. The Company experienced low data library sales in 2016 and 2015 due to drastic cutbacks in the energy-producing sector’s capital spending. Traditional sales in 2016 were the same as in 2015 but transaction-based sales were lower in 2016 than in 2015. See “Traditional Sales vs. Transaction-based Sales: Seven-Year History”.

There were no participation surveys conducted in 2016. In the first quarter of 2015 the Peco South 3D survey in west central Alberta was completed.

CORPORATE UPDATES

On December 13, 2016 the Company extended its revolving credit facility for an additional year with a syndicate of Canadian banks. The facility’s available borrowing amount is \$30.0 million. Up to \$5.0 million of the revolving facility is available as an operating line of credit. The three-year revolving credit facility’s maturity date was extended to February 13, 2020. The accordion feature allows the Company to enlarge the facility to \$70.0 million with the lender’s consent.

On December 19, 2016 the Company renewed its normal course issuer bid (NCIB) to purchase up to 3,493,536 common shares over the following year. During 2016, the Company purchased 341,272 (2015 – 1,625,400) common shares under the program at a weighted average price of \$2.30 per share (2015 – \$2.50), including commissions, for a total cost of approximately \$786,000 (2015 – \$4.1 million). In total, since initiating the NCIB program in November 2006, the Company has purchased approximately 15.9 million common shares at a total cost of \$40.2 million, while also issuing 14.3 million shares to acquire a significant database in 2010 and another 669,643 shares to acquire a 2D database in 2016. Management believes that its common shares may from time to time be undervalued and that such purchases are in the interests of the Company and its shareholders. The NCIB is an integral part of Pulse’s capital allocation strategy.

SEISMIC REVENUE FLUCTUATIONS

Revenue fluctuations are a normal part of the seismic data library business, and data library sales can vary significantly from quarter to quarter and year over year.

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). Pulse no longer sees any patterns in traditional sales by quarter or by season.

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 are unpredictable.

Participation survey revenue also varies significantly from quarter to quarter and year over year. 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. The number and size of participation surveys undertaken from 2014 to 2016 has been considerably less than historical averages.

OUTLOOK

Pulse is more optimistic than one year ago but is not predicting an imminent rebound in its business. Signs for medium to longer-term optimism are observed in various industry benchmarks and activities.

At US\$53.83 per bbl WTI as of March 1, crude oil prices are up by more than 100 percent from their lows one year ago and, supported by the recent OPEC supply cut and global demand growth, are forecast to hold in the US\$50-\$60 per barrel range. At Cdn\$2.49 per mcf at AECO as of March 1, natural gas prices remain relatively weak, but gas demand continues to grow and North America’s long supply glut is tightening.

U.S. natural gas storage has declined from well outside the five-year weekly averages to near the middle of the five-year weekly range. U.S. LNG exports are averaging 2.2 billion cubic feet (bcf) per day and, with multiple new LNG export facilities under construction, are forecast to grow significantly over the next number of years. In Canada, the first LNG export project has received its final investment decision. The new U.S. Administration’s restart of the Keystone XL pipeline will facilitate growth in Canada’s oil exports and reduce price differentials.

The active rig count in the U.S. has increased by several hundred, while oil and natural gas field activity in Alberta is at a two-and-a-half-year high, encouraged by favourable new royalty rates. Spending on mineral rights has increased year-over-year, with \$98.2 million in bonus bids in Alberta and B.C. by the end of February,

compared to \$16.76 million at the same time last year. In January, the Petroleum Services Association of Canada increased its drilling forecast by nearly 1,000 wells to 5,200 wells for 2017. Additional outside capital appears to be flowing into the oil and gas industry, including through a number of recent initial public offerings, signalling optimism among operators and investors.

Pulse's revenue visibility remains poor. The Company believes that a recovery in its data library sales depends on materially increased capital investment and higher field activity on a sustained basis. Accordingly, Pulse anticipates the possibility of continued weakness for the short term, followed by a gradual and/or extended recovery.

Pulse is positioned to grow. Pulse is debt-free, with cash reserves, unutilized credit facilities, an experienced management team and Board of Directors, annual cash costs below \$6 million, and a valuable, competitive and technically high-quality asset – its seismic data library. Pulse continues to be a pure-play seismic data provider with the goal to become the largest licensable seismic dataset in Western Canada.

DISCUSSION OF OPERATING RESULTS

SUMMARY FOR THE YEAR ENDED DECEMBER 31, 2016

LOSS BEFORE INCOME TAXES

Pulse incurred a loss before income taxes of \$10.4 million (\$0.18 per share basic and diluted) in 2016 compared to a loss before income taxes of \$6.3 million (\$0.11 per share basic and diluted) for 2015. The increase in the loss before taxes was mainly attributable to the \$10.1 million decrease in total seismic revenue, partially offset by decreases in seismic data library amortization expense, salaries, internal commissions and benefits and financing costs and higher income tax reduction.

REVENUE

Total seismic revenue, including data library sales and participation survey revenue, was \$14.3 million for 2016 compared to \$24.4 million for 2015.

DATA LIBRARY SALES

Data library sales are conducted under various types of sale contracts. These are classified as data library sales, library cards (discount agreement, paid on predetermined payment terms with periods of up to one year to select data), commitment cards (discount agreement, paid when data is selected and delivered within a one-year period) and review and possession agreements (client is provided with data to review and selects a portion of this data to license, with the agreement having set payment terms). Pulse plans to continue providing customers with a variety of contract options in order to maximize future data library sales. 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.

Data library sales consist of traditional sales and transaction-based sales. There are three main types of transaction-based sale: corporate merger or acquisition sales, partnership or joint venture sales, and asset disposition-related sales. For further information on transaction-based sales, see "Traditional Sales vs. Transaction-based Sales : Seven-Year History" below.

For 2016, seismic data library sales were \$14.3 million compared to \$21.2 million in 2015. Although traditional sales in 2016 were the same as in 2015, the Company experienced decreases in transaction-based sales.

In 2016, 94 percent of seismic data library sales were generated internally by Pulse’s sales staff compared to 96 percent in 2015. Large seismic data sales and relicensing (change-of-control) fees are negotiated by the Company’s internal sales and marketing department as opposed to the external brokerage community.

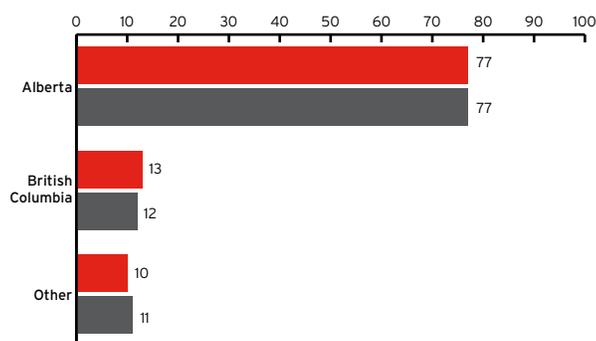
GEOGRAPHICAL SALES BREAKDOWN

The Company’s customers are generally focusing on liquids-rich natural gas and 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. The pricing of natural gas liquids (such as propane, butane and condensate) is linked to crude oil, improving the economics of developing liquids-rich gas targets over “dry” gas. Natural gas has suffered from very low pricing for many years.

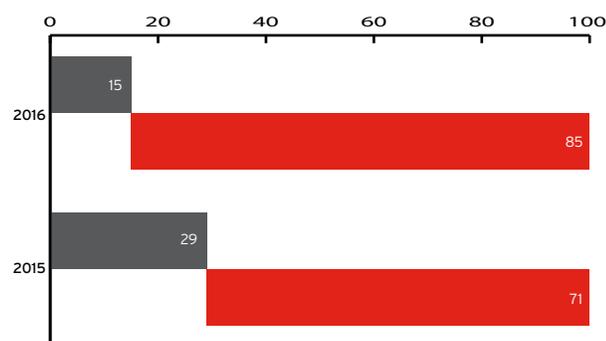
2D/3D SALES BREAKDOWN

As 3D seismic license contracts are generally larger than 2D seismic license 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.

GEOGRAPHICAL SALES BREAKDOWN (%) FOR THE YEARS ENDED DECEMBER 31, 2016 ■ AND 2015 ■



SALES BREAKDOWN 2D ■ AND 3D ■ (%) FOR THE YEARS ENDED DECEMBER 31



PARTICIPATION SURVEY REVENUE

The Company partners with customers on participation surveys; the data becomes the Company’s property, including the right to re-license the data. Participating customers are provided a licensed copy.

Participation survey revenue is recognized in the financial statements in proportion to the project’s stage of completion. This is assessed using the proportion of the total estimated contract cost that has been incurred for work performed to the period-end.

In 2016 no participation surveys were conducted. In 2015 the Company completed one 3D participation survey, which generated revenue of \$3.2 million which was recognized in the first quarter of 2015.

AMORTIZATION OF SEISMIC DATA LIBRARY

Seismic data library amortization expense was \$19.0 million for 2016 compared to \$22.8 million in 2015. The year-over-year decrease in seismic data library amortization expense is due to the initial 50 percent amortization of \$2.0 million recorded by the Company upon completion of the 3D participation survey during the first quarter of 2015 and by a decrease in the amortization of datasets fully amortized. As stated, there were no surveys completed in 2016.

Amortization of the seismic data library is described further under “Critical Accounting Estimates”.

IMPAIRMENT LOSS

At December 31, 2016, the Company assessed its seismic data library cash-generating units (CGUs) for indicators of impairment or impairment reversal, as required under IFRS, and concluded there were no such indicators and no impairment test was performed.

At December 31, 2015 an impairment loss of \$937,000 was recognized in the fourth quarter of 2015. The impairment related to two CGUs, Altares 3D (\$323,000) and Simon East 3D (\$614,000), and was the result of less activity in the areas due to lower commodity prices and constrained customer capital budgets.

SALARIES, INTERNAL COMMISSIONS AND BENEFITS (SCB)

SCB includes salaries, related benefits, incentive compensation and internal commissions. For 2016, SCB was \$3.1 million, a decrease of \$900,000 from \$4.0 million in 2015.

The factors contributing to the decrease in SCB are lower internal selling commissions and incentive plan expenses due to lower data library sales, reduced salaries and benefits as the number of employees has decreased year-over-year and the fact that 2015 included severance payments related to staff reductions.

OTHER SELLING, GENERAL AND ADMINISTRATIVE COSTS (SG&A)

SG&A includes external commissions, occupancy costs, office and general costs, information technology expenses, reprocessing, data storage expenses, directors' fees and corporate costs, consulting fees and professional fees. For 2016, SG&A was \$2.4 million compared to \$2.3 million in 2015.

NET FINANCING COSTS

Net financing costs for 2016 decreased to \$124,000 from \$494,000 in 2015. The Company fully repaid its long-term debt in 2015 and the balance was nil at both December 31, 2015 and 2016.

INCOME TAXES

The deferred income tax reduction for 2016 was \$2.9 million, reflecting an effective tax rate of 27.7 percent, compared to a deferred income tax reduction of \$1.0 million and an effective tax rate of 16.2 percent for 2015.

The federal-provincial corporate income tax rate for 2016 was 27 percent compared to 26 percent for 2015. The effective rate for 2016 was slightly different than the enacted income tax rate as a result of the change in valuation allowance related to future resource deductions, non-deductible expenditures and SR&ED credits claimed by the Company. The effective tax rate in 2015 was lower than the enacted income tax rate, as a result of the change in valuation allowances related to future resource deductions and the change in provincial tax rate. At December 31, 2016, the Company had \$6.3 million in non-capital loss carry-forwards available to use in future years.

SUMMARY FOR THE THREE MONTHS ENDED DECEMBER 31, 2016

EARNINGS (LOSS) BEFORE INCOME TAXES

For the three months ended December 31, 2016, the Company incurred a loss before income taxes of \$1.7 million (\$0.03 per share basic and diluted) compared to earnings before income taxes of \$902,000 (\$0.02 per share basic and diluted) for the comparable period of 2015.

REVENUE

Total revenue, comprised of data library sales only (no participation revenue for both 2016 and 2015), for the three months ended December 31, 2016 was \$4.2 million compared to \$8.8 million for the three months ended December 31, 2015.

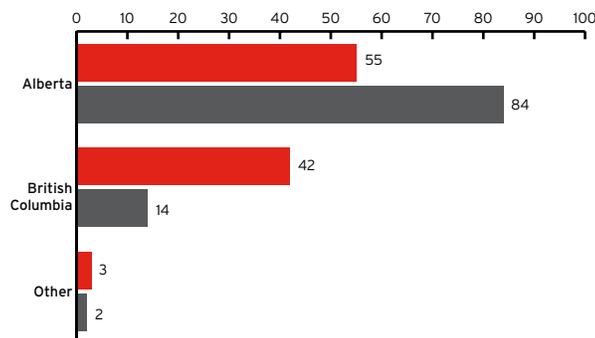
GEOGRAPHICAL SALES BREAKDOWN

The Company's customers are generally focusing on liquids-rich natural gas and 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 fourth quarter of 2016, 55 percent of the data library sales were from data located in Alberta. The Company licensed more data in British Columbia in the fourth quarter of 2016 compared to the same quarter of 2015.

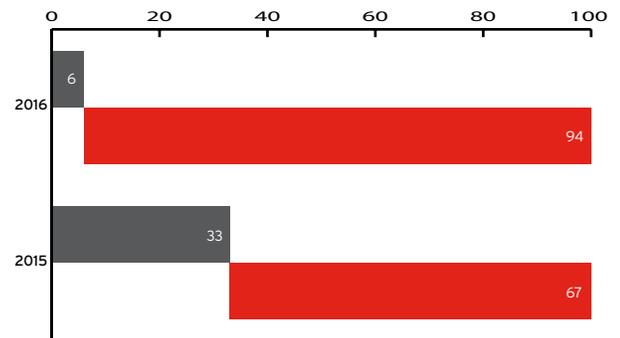
2D/3D SALES BREAKDOWN

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

GEOGRAPHICAL SALES BREAKDOWN (%) FOR THE THREE MONTHS ENDED DECEMBER 31, 2016 ■ AND 2015 ■



SALES BREAKDOWN 2D ■ AND 3D ■ (%) FOR THE THREE MONTHS ENDED DECEMBER 31



PARTICIPATION SURVEY REVENUE

No participation surveys were conducted during the fourth quarter of 2016 or 2015.

AMORTIZATION OF SEISMIC DATA LIBRARY

For the three months ended December 31, 2016, seismic data library amortization expense was \$4.7 million compared to \$5.0 million in the comparable period of 2015. The slight decrease is due to data acquired in previous years becoming fully amortized.

Amortization of the seismic data library is described further under "Critical Accounting Estimates".

IMPAIRMENT LOSS

As discussed above, no impairment loss was recognized in 2016. The Company recognized an impairment loss of \$937,000 in the fourth quarter of 2015.

SALARIES, INTERNAL COMMISSIONS AND BENEFITS (SCB)

SCB for the three months ended December 31, 2016 was \$755,000 compared to \$1.3 million in the comparable period of 2015. The decrease is mainly attributable to severance payments made during the fourth quarter of 2015 and additionally to the lower internal selling commissions and incentive plan expenses due to lower data library sales as well as reduced salaries and benefits as the number of employees has decreased.

OTHER SELLING, GENERAL AND ADMINISTRATIVE COSTS (SG&A)

SG&A for the three months ended December 31, 2016 was \$484,000 compared to \$536,000 for the three months ended December 31, 2015. The decrease was mostly due to the reimbursement of interest related to a favorable GST appeal concerning the Divestco data library acquisition in 2010.

NET FINANCING COSTS

For the three months ended December 31, 2016, net financing costs decreased to a credit position of \$7,000 from an expense of \$101,000 for the same period in 2015. The net financing costs decreased because the long-term debt balance was eliminated at the end of 2015 and the facility size was reduced to \$30 million, reducing standby fees. Adding to the expense reduction, the Company discounted its accounts receivable from clients that had benefited from extended payment terms, resulting in \$27,000 being reallocated to interest income from data library sales.

INCOME TAXES

The income tax reduction for the three months ended December 31, 2016 was \$496,000, reflecting an effective tax rate of 28.4 percent, compared to income tax expense of \$244,000 and an effective tax rate of 27.1 percent for the comparable 2015 period. The federal-provincial corporate income tax rate for 2016 was 27 percent compared to 26 percent for 2015. The effective rate for the three months ended December 31, 2016 was slightly different than the enacted income tax rate as a result of the change in valuation allowance related to future resource deductions and non-deductible expenditures.

REVIEW OF FINANCIAL POSITION

AS AT DECEMBER 31, 2016

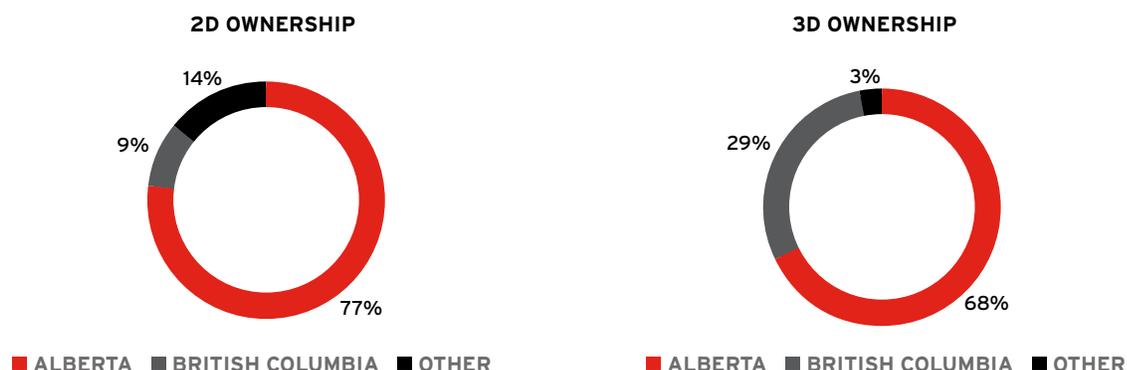
SEISMIC DATA LIBRARY

The Company's business model includes seismic data library growth as a priority. Pulse acquires seismic data to add to its library through two main methods. The Company purchases proprietary rights to complementary seismic datasets when the opportunity arises, and it also conducts participation surveys. Pulse partners with customers on participation surveys from which the seismic data collected is added to Pulse's data library to generate future licensing revenue. Pulse retains full ownership of the data, and participating customers are provided with a licensed copy.

On January 26, 2016 the Company closed an acquisition adding approximately 107,000 net kilometres of 2D seismic data and 58 net square kilometres of 3D seismic data, increasing Pulse's 2D seismic data library by 31.5 percent from approximately 340,000 net kilometres to approximately 447,000 net kilometres. The cost of the acquisition was \$3.65 million, comprising \$2.15 million in cash and Pulse shares worth \$1.5 million.

On September 27, 2016 the Company closed a small acquisition and added approximately 29 net square kilometres of 3D seismic data. The cost of the acquisition was \$100,000.

The Company continues to evaluate new opportunities to partner with customers on potential future participation surveys.



OTHER LONG-TERM PAYABLE

Included in the other long-term payable is the long-term portion of the cash-settled liability related to the long-term incentive plan.

SHARE CAPITAL SUMMARY

The Company's authorized share capital consists of an unlimited number of common shares and an unlimited number of preferred shares, issuable in series.

The following table provides details of the Company's outstanding share capital:

	Three months ended December 31,		Year ended December 31,	
	2016	2015	2016	2015
Weighted average shares outstanding:				
Basic and diluted	56,042,673	56,041,324	56,105,593	56,628,524
Shares outstanding at period-end			55,921,060	55,592,689
Shares outstanding at March 6, 2017			55,747,960	

DILUTED EARNINGS PER SHARE RECONCILIATION

The Company does not have any dilutive securities.

LONG-TERM INCENTIVE PLAN (LTIP)

In 2012 the Company's Board of Directors approved a new LTIP for employees, officers and directors designed to align the Company's long-term incentive compensation with its performance and to increase levels of stock ownership. Participants are granted restricted share units (RSUs) and performance share units (PSUs). LTIP awards are at the discretion of the Board of Directors.

RSUs and PSUs have accompanying dividend-equivalent rights and, therefore, additional RSUs and PSUs are issued to reflect dividends declared on the common shares. The plan's trustee will purchase common shares on the open market for the after-tax number of RSUs and PSUs vested with funds provided by the Company.

On March 31, 2016, one-third of the LTIP awards which were eligible to vest were RSUs and two-thirds were PSUs. The Company's performance in 2015 did not meet the predetermined performance criteria and, consequently, no PSUs vested on March 31, 2016. RSUs vest automatically based upon time; all of the eligible RSUs, therefore, vested automatically on March 31, 2016.

To satisfy its obligation, in April 2016 the Company provided \$182,000 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, 2016. The related payroll taxes of \$131,000 were paid in June 2016 to settle the fully accrued cash-settled portion of the share-based payment liabilities.

At December 31, 2016 there were 343,440 RSUs and 519,717 PSUs outstanding. At March 6, 2017, total RSUs and PSUs outstanding remain unchanged. On March 31, 2017, 95,919 RSUs will vest automatically and, based on the Company's performance in 2016 and the predetermined performance criteria, none of the PSUs will vest. In April 2017, the Company will settle its obligation to deliver the common shares by providing funds to the independent LTIP trustee to purchase the shares on the open market.

DEFICIT

On December 31, 2016 the Company had a deficit of \$41.1 million, compared to \$33.3 million at December 31, 2015. Contributing to the deficit is the net loss for the year of \$7.5 million and the reduction of \$313,000 to retained earnings due to the required accounting treatment of the Company purchasing and cancelling its common shares. The adjustment relates to the difference between the price paid by the Company for the shares purchased and cancelled under the NCIB and the average historical cost of the Company's shares. The average historical cost of the shares purchased and cancelled was recorded as a reduction to share capital.

DIVIDENDS

No dividends were declared or paid in 2016.

With lower period-over-period seismic data library sales and the strong possibility of an extended downturn, in November 2015 Pulse's Board of Directors suspended the Company's quarterly dividend of \$0.02 per share. Suspension of the dividend was seen as helping the Company maintain a strong financial position and remain positioned for future opportunities.

DEFERRED TAX LIABILITY

The net deferred income tax liability was \$4.9 million at December 31, 2016 compared to \$7.7 million at December 31, 2015. The decrease in the deferred income tax liability is mainly due to the decrease in the difference between the tax base of the seismic data library and the carrying amount on the statement of financial position offset by the decrease in the non-capital tax losses carried forward.

The deferred income tax liability consists mainly of taxable temporary differences between the tax base of the seismic data library and the carrying amount on the statement of financial position, offset by non-capital tax losses carried forward.

The Company is aware that the Canada Revenue Agency (CRA) may revise the way it assesses amortization for the income tax purposes 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.

FINANCIAL SUMMARY OF QUARTERLY RESULTS

(thousands of dollars, except per share data)	2016				2015			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Data library sales	4,176	5,613	2,779	1,771	8,759	4,678	6,461	1,316
Participation survey revenue	-	-	-	-	-	-	-	3,220
Total revenue	4,176	5,613	2,779	1,771	8,759	4,678	6,461	4,536
Amortization of seismic data library	4,657	4,701	4,706	4,909	4,979	5,262	5,303	7,292
Impairment loss	-	-	-	-	937	-	-	-
Net earnings (loss)	(1,253)	(302)	(2,441)	(3,494)	658	(1,579)	(1,040)	(3,347)
Per share - basic and diluted	(0.02)	(0.01)	(0.04)	(0.06)	0.01	(0.03)	(0.02)	(0.06)

The revenue streams generated by Pulse's operations are data library sales and customer pre-funding of participation surveys. Data library sales consist of traditional sales and transaction-based sales, as described below under "Traditional Sales vs. Transaction-based Sales : Seven-Year History". See also "Seismic Revenue Fluctuations".

During the second and third quarter of 2016 and the second, third and fourth quarter of 2015, transaction-based sales contributed to data library sales to varying degrees. Very little transaction-based sales revenue was generated in the other three quarters depicted in the above table.

Pulse conducted only one participation survey in the last eight quarters.

Seismic data library amortization is greater in quarters when participation surveys are completed, as each participation survey is amortized at 50 percent immediately upon delivery of data to the participant, with the remainder amortized equally over seven years. There is a lag between the progressive recognition of participation survey revenue and initial amortization upon survey completion. As amortization is a non-cash expense, the Company continued to generate cash EBITDA and shareholder free cash flow in each quarter.

During the past eight fiscal quarters, the fluctuations in net earnings or loss have largely been a function of revenue, data library amortization and impairment loss. Increases in data library sales have a highly positive impact on earnings, as the operating costs associated with licensing seismic data from the library fluctuate little from period to period.

All financial data included in the above table is presented in Canadian dollars, the Company's functional currency, and was prepared using the latest IFRS.

SELECTED ANNUAL FINANCIAL INFORMATION

	Years ended December 31,		
(thousands of dollars, except per share data)	2016	2015	2014
Data library sales	14,339	21,214	35,743
Participation surveys	-	3,220	-
Total revenue	14,339	24,434	35,743
Net earnings (loss)	(7,490)	(5,308)	3,478
Per share - basic and diluted	(0.13)	(0.09)	0.06
Total assets	44,957	54,618	75,482
Long-term debt	-	-	5,367
Total non-current financial liabilities	4,965	7,775	14,118
Cash dividends per common share	-	0.06 ⁽¹⁾	0.08 ⁽²⁾

(1) Represents three quarterly dividends of \$0.02 per common share.

(2) Represents four quarterly dividends of \$0.02 per common share.

Total revenue consists of seismic data library sales and participation survey revenue. Seismic data library sales in 2016 and 2015 were lower than in previous years due to drastic cutbacks in the energy-producing sector's capital spending and to lower customer demand and fewer transaction-based sales.

The Company had net earnings in 2014, compared to a net loss in 2016 and 2015, due primarily to higher data library sales during 2014.

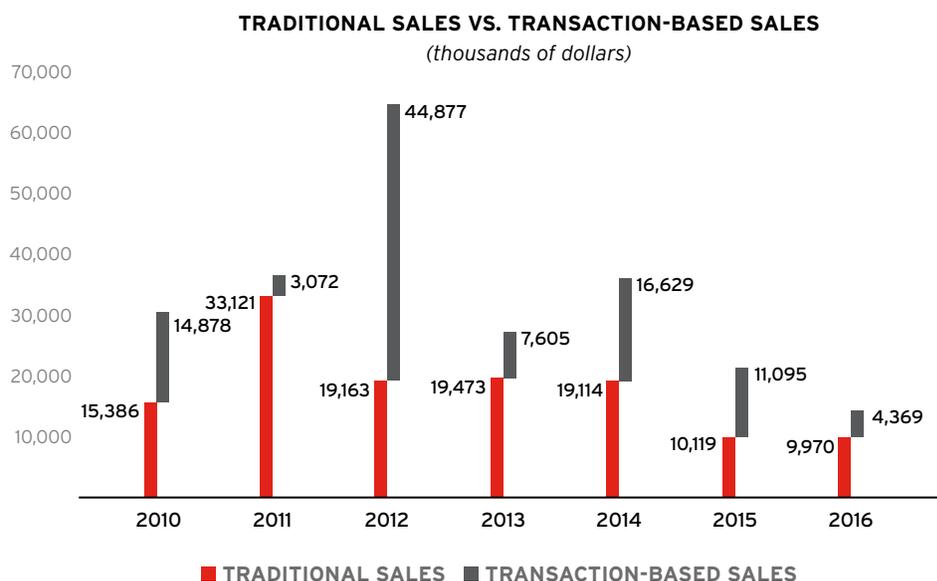
See also "Seismic Revenue Fluctuations".

Total assets decreased significantly from 2014 to 2016 due to amortization of the seismic data library and the impairment loss recorded in 2015.

In the first three quarters of 2015 and all four quarters of 2014, the Company paid a quarterly dividend of \$0.02 per share. The quarterly dividend was suspended in November 2015.

All financial data in the table above is presented in Canadian dollars, which is the Company's functional currency, and was prepared in accordance with IFRS.

TRADITIONAL SALES VS. TRANSACTION-BASED SALES: SEVEN-YEAR HISTORY



There are three main types of transaction-based sales. The first is the partnership or joint venture, 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. Under the Company’s current standard form licensing agreements, any new technical or operational participant that wishes to view or interpret the seismic data must purchase a data license from Pulse, generally at a discount (usually pre-defined in the initial licensing agreement). Purely financial partners that do not wish to view or interpret the seismic information are exempt.

The second kind of transaction-based sale is a corporate merger or acquisition. In this case, the seismic data is transferred to the new organization. Under the Company’s current standard form licensing agreements, the buyer has 30 days to determine whether they would like to pay a change-of-control fee to keep the data or return the data to Pulse.

The third is the sale of an oil and gas asset or group of assets (as well as partial mineral rights to particular zones below the asset-owner’s lands). Under the Company’s current standard form licensing agreements, the 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 at the regular price. Following this type of transaction, considerable time may pass until a data licensing sale occurs because the new asset owner may defer development of the particular asset. In addition, the new asset owner may be interested in only portions of the original dataset. The attraction of Pulse’s library remains the far lower cost of licensing the data than shooting new seismic over the same area.

The precise terms of individual license agreements (including those historically used by Pulse and its predecessors and those assumed by Pulse on data acquisitions) can vary greatly. Change-of-control fees and joint venture copy fees may not always be payable, and license agreements may not always be non-assignable.

CONTRACTUAL OBLIGATIONS

Pulse's known contractual obligations at December 31, 2016 are comprised of operating leases for certain office equipment and office space and minimum payments under seismic data services contracts. The following table reflects the Company's anticipated payment of contractual obligations:

Contractual Obligations (thousands of dollars)	Payments due by period				
	Total	Less than 1 year	1 - 3 Years	4 - 5 Years	After 5 Years
Operating leases	1,957	304	637	625	391
Seismic data services contracts	280	250	30	-	-
Accounts payable and accrued liabilities	650	558	92	-	-
Total contractual obligations	2,887	1,112	759	625	391

The current office lease expires in May 2017. In January 2017, the Company signed a sublease agreement for new office space, which will expire in March 2023. The new space has less square feet and has a reduced base rent which will result in the Company saving approximately 40% in annual rent expense for the new term.

Obligations in the category of seismic data services contracts include geophysical services such as digitization and data storage.

In addition, as part of the acquisition of the Foothills 2D dataset in November 2006, Pulse agreed to pay additional consideration if future seismic data sales from the acquired assets exceeded \$10.0 million per year, up to a maximum of \$3.75 million. Sales from the Foothills 2D dataset have not exceeded \$10.0 million in any year since acquisition. No amounts were included for this obligation in the table above because they cannot be predicted.

LIQUIDITY, CAPITAL RESOURCES AND CAPITAL REQUIREMENTS

At December 31, 2016 Pulse had working capital of \$10.7 million and a working capital ratio of 8.93:1.

In 2016 the Company generated cash from operating activities of \$9.5 million compared to \$17.1 million in 2015. The difference can be attributed to the decrease in data library sales and participation survey revenue, as discussed previously.

The Company utilized cash provided by operating activities during 2016 for the following cash outlays:

- Investing activities of \$2.4 million, consisting mainly of additions to the seismic data library;
- Purchase and cancellation of 341,272 common shares through its NCIB, for a total of \$786,000 (at an average price of \$2.30 per common share including commissions);
- Purchase of common shares for equity-settled share-based payments for \$166,000;
- Repay the \$222,000 owing on the operating line of credit; and
- Additions of property and equipment for \$6,000.

The cash balance at December 31, 2016 was \$5.8 million.

The Company has a three-year extendible revolving credit facility of \$30.0 million with a syndicate of two banks. Up to \$5.0 million of the revolving facility remains available as an operating line of credit.

On an annual basis, the Company has the option to extend the maturity for one additional year with the lenders' approval. On December 13, 2016, the Company extended the maturity date to February 13, 2020.

Highlights of the credit facility:

- Four-tier margin structure based on the Company's total debt to adjusted EBITDA ratio as described below;
- Accordion feature allowing the Company to increase the facility's size up to an additional \$40.0 million, subject to the lenders' consent;
- No regularly scheduled principal payments, with voluntary prepayments permitted in whole or part at any time, without premium or penalty; and
- Three-year term, with an extension of up to one year available on February 15 of every year with the approval of the lenders. If the extension is not granted, any outstanding amounts will be payable on the then-current applicable maturity date.

At December 31, 2016 and March 6, 2017 the Company had no balance owing on the revolving credit facility and \$30 million available for future draws.

The credit facility is secured by a charge on all of the assets of the Company and its material subsidiaries. The credit facility also includes the following two financial covenants:

- Total debt to adjusted EBITDA not to exceed a ratio of 2.50:1. Total debt is equal to the sum of, without limitation, debts and liabilities for borrowed money (including the negative mark-to-market exposure of hedging obligations), bankers' acceptances, letters of credit, and letters of guarantee, capital leases and contingent guarantees.

Adjusted EBITDA is to be calculated on a trailing twelve-month basis and is defined as earnings or loss before interest, income taxes, depreciation and amortization, plus extraordinary losses, non-cash losses and expense charges, and any other unusual or non-recurring cash charges, expenses or losses consented to by the lenders, less participation survey revenue, extraordinary gains and non-cash gains and income. Adjusted EBITDA is to be adjusted for acquisitions or dispositions to reflect such acquisition or disposition as if it occurred on the first day of such calculation period.

- Interest coverage ratio is to be at least 3:1 at all times. The interest coverage ratio is equal to adjusted EBITDA divided by interest expense.

The total debt to adjusted EBITDA ratio was zero as there was no debt outstanding at December 31, 2016.

The interest coverage ratio related to the financial covenant at December 31, 2016 was calculated as follows:

Interest Coverage Ratio

(thousands of dollars except ratio)

Adjusted EBITDA	9,119
Divided by:	
Interest expense	128
ICR (to be at least 3:1)	71:1

Adjusted EBITDA was calculated as follows:

Cash EBITDA for the twelve months ended December 31, 2016	9,119
Adjustment for acquisitions or dispositions	-
Adjusted EBITDA	9,119

Interest expense was calculated as follows:

(thousands of dollars)

Interest paid for the twelve months ended December 31, 2016	128
Adjustments	-
Interest expense	128

The Company was in compliance with the credit facility's covenants at December 31, 2016.

The Company pays a standby fee based on the daily undrawn balance of the credit facility and its total debt to adjusted EBITDA ratio. The interest and standby fee rates are adjusted two business days after the covenant's calculation for the previous fiscal quarter is received and approved by the lenders. On December 31, 2016 the applicable margin and standby fee were set at the lowest rates available under the facility.

The applicable margin and standby fee rate are determined as follows:

Total Debt to Adjusted EBITDA Ratio	Applicable Margin for Canadian Prime Rate Loans	Applicable Margin for Bankers' Acceptances	Standby Fee Rate
Less than or equal to 1:1	0.50%	1.75%	0.35000%
Greater than 1:1 but less than or equal to 1.5:1	0.75%	2.00%	0.45000%
Greater than 1.5:1 but less than or equal to 2:1	1.00%	2.25%	0.50625%
Greater than 2:1 but less than or equal to 2.5:1	1.50%	2.75%	0.61875%

Toronto Stock Exchange (TSX) rules determine the number of shares the Company is permitted to purchase through its NCIB. From December 21, 2015 to December 20, 2016, the maximum number was 3,509,326 common shares, representing 10 percent of the public float of 35,093,268 common shares as at December 15, 2015. From January 1, 2016 to December 31, 2016, the Company purchased 341,272 common shares under the NCIB. Purchases were made on the open market through the TSX or alternative trading platforms at the market price of such shares. All shares purchased under the NCIB were cancelled.

On December 19, 2016, the Company renewed its NCIB. The Company may purchase, for cancellation, up to a maximum of 3,493,536 common shares, equal to 10 percent of the public float of 34,935,363 common shares as at December 15, 2016. The Company is limited under the NCIB to purchasing up to 4,728 common shares in any one day, subject to the block purchase exemption under TSX rules. The NCIB will continue until December 20, 2017. Purchases will be made on the open market through the TSX or alternative trading platforms at the market price of such shares. All shares purchased under the NCIB will be cancelled.

Funding for Pulse's future capital expenditures will generally depend on the level of future data library sales. Pulse's management believes that the Company's capital resources will be sufficient to finance future operations and carry out the necessary capital expenditures through 2017. The Company anticipates that future capital expenditures will be financed through cash on hand, available credit facilities, funds from operations and customer pre-funding. The Company has a \$30.0 million revolving credit facility for future draws in 2017, and an accordion feature allowing Pulse to increase the facility's size by up to \$40.0 million, subject to the lenders' consent. If deemed appropriate by management and the Board of Directors, Pulse can also issue common or preferred shares.

Pulse requires flexibility in managing its capital structure to take advantage of opportunities in raising additional capital where opportunities for seismic data acquisitions or participation surveys arise. Historically, the Company has used a combination of debt and equity to finance various growth initiatives, and it continues to rely on internal measures such as the long-term debt to cash EBITDA ratio and long-term debt to equity ratio, to structure and forecast its capital requirements. Long-term debt is defined as long-term debt, excluding deferred financing costs. At December 31, 2016, both ratios were 0.00:1 as the long-term debt balance was zero. Pulse's management considers the current capital structure appropriate.

This discussion on liquidity, capital resources and capital requirements contains forward-looking information; users of this information are cautioned that actual results may vary and are encouraged to review the discussions of risk factors and forward-looking statements below.

NON-CAPITAL RESOURCES

The Company's main non-capital resource is its key management and staff. The Company has an experienced team with extensive knowledge about the seismic industry. Pulse's management understands industry cycles and how to manage the business in the downturn and recovery phases. Pulse has built strong sales, financial and information technology departments. Key management and staff are eligible to participate in the short-term and long-term incentive plans, which are tied to the Company's shareholder free cash flow per share.

NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS

This MD&A and the Company's continuous disclosure documents provide discussion and analysis of cash EBITDA and shareholder free cash flow. IFRS do not include standard definitions for these measures and, therefore, they may not be comparable to similar measures used and disclosed by other companies. As IFRS have been incorporated into Canadian generally accepted accounting principles (GAAP), these non-IFRS measures are also non-GAAP measures. The Company has included these non-GAAP financial measures because management, investors, analysts and others use them to evaluate the Company's financial performance.

Cash EBITDA and shareholder free cash flow are not calculations based on IFRS and should not be considered in isolation or as a substitute for IFRS performance measures, nor should they be used as an exclusive measure of cash flow, because they do not consider working capital changes, capital expenditures, long-term debt repayments and other sources and uses of cash which are disclosed in the consolidated audited and interim statements of cash flows.

CASH EBITDA AND SHAREHOLDER FREE CASH FLOW

Cash EBITDA represents the capital available to invest in growing the Company's 2D and 3D seismic data library, to pay interest and principal on its long-term debt, to purchase its common shares, to pay taxes and to pay dividends if applicable.

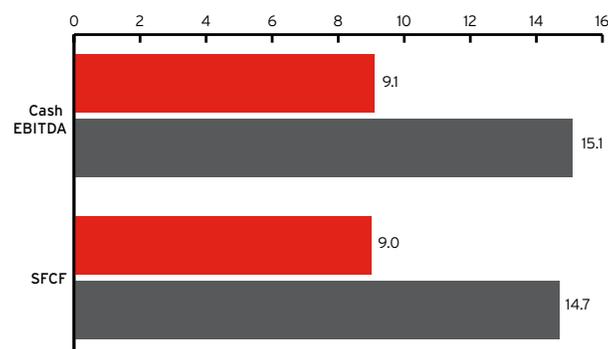
Cash EBITDA is calculated as earnings or loss from operations before interest, taxes, depreciation and amortization less participation survey revenue, plus non-cash and non-recurring expenses. Cash EBITDA excludes participation survey revenue as this revenue is directly used to fund specific participation surveys and is unavailable for discretionary expenditures. The Company believes cash EBITDA helps investors compare Pulse's results on a consistent basis without regard to participation survey revenue and non-cash items, such as depreciation and amortization, which can vary significantly depending on accounting methods or non-operating factors such as historical cost.

Shareholder free cash flow further refines the calculation of capital available to invest in growing the Company's 2D and 3D seismic data library, to repay debt, to purchase its common shares and to pay dividends if applicable, by deducting non-discretionary expenditures from cash EBITDA. Non-discretionary expenditures are defined as debt financing costs (net of deferred financing expenses amortized in the current period) and current tax provisions.

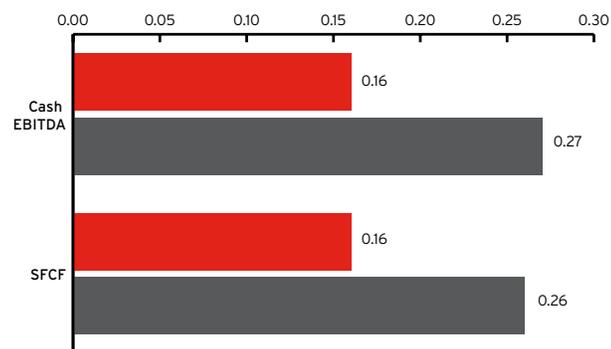
A reconciliation of net earnings or loss to EBITDA, cash EBITDA and shareholder free cash flow follows:

(thousands of dollars, excepts per share data)	Three months ended December 31, 2016		Year Ended December 31, 2016	
	2016	2015	2016	2015
Net earnings (loss)	(1,253)	658	(7,490)	(5,308)
Add:				
Amortization of seismic data library	4,657	4,979	18,973	22,836
Impairment loss	-	937	-	937
Net financing costs	(7)	101	124	494
Income tax expense (reduction)	(496)	244	(2,867)	(1,026)
Depreciation	36	46	144	185
EBITDA	2,937	6,965	8,884	18,118
Deduct:				
Participation survey revenue	-	-	-	(3,220)
Add:				
Non-cash expenses	59	78	235	223
Non-recurring expenses	-	-	-	-
Cash EBITDA	2,996	7,043	9,119	15,121
Deduct:				
Net financing costs	7	(101)	(124)	(494)
Current income tax expense	-	-	-	-
Add:				
Non-cash deferred financing charges	-	29	15	118
Current income tax reduction	-	-	19	-
Shareholder free cash flow (SFCF)	3,003	6,971	9,029	14,745
Cash EBITDA per share (basic and diluted)	0.05	0.13	0.16	0.27
SFCF per share (basic and diluted)	0.05	0.12	0.16	0.26

CASH EBITDA AND SFCF (\$ millions) FOR YEARS ENDED DECEMBER 31, 2016 ■ AND 2015 ■



CASH EBITDA AND SFCF PER SHARE (basic and diluted) (\$) FOR THE YEARS ENDED DECEMBER 31, 2016 ■ AND 2015 ■



FINANCIAL INSTRUMENTS

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity. Financial instruments are recognized on the statement of financial position when the Company becomes a party to the instrument's contractual obligations. The Company's financial assets include cash and cash equivalents, trade and other receivables. Its financial liabilities mainly comprise accounts payable and long-term debt.

FAIR VALUE

The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amount largely due to the short-term maturities of these instruments. The fair value of the long-term debt approximates the carrying value because interest charges under the bank loan are based on current Canadian bankers' acceptance rates and margins.

CREDIT RISK

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable.

The Company is exposed to customer credit risk in connection with data sales and participation surveys with its customers. The Company's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The nature of the Company's customer base, including the default risk of the industry in which customers operate, has an influence on credit risk. As the Company operates to a large extent in the oil and natural gas industry, nearly all of its trade receivables relate to customers from this industry.

The effective monitoring and control of credit risk is a core competency of the Company. Each new customer is analyzed individually for creditworthiness before payment and delivery terms and conditions are offered. The Company's review includes credit reference checks and credit limits for all customers as well as other monitoring activities. Accounts receivable aging is reviewed regularly.

Certain customers have signed agreements with the Company that provide for extended payment terms. The Company's credit risk increases on these types of arrangements due to the length of time before payments are received. The risk is mitigated by attempting to limit these types of arrangements to major oil and natural gas companies which have long operating histories and adequate resources to fulfill their commitments.

The Company has been doing business with the majority of its customers for many years, with insignificant credit losses to date. The Company does not require collateral in respect of trade receivables.

The Company's customers are in the oil and natural gas industry, with the majority located in Alberta. At December 31, 2016, 83 percent or \$4.8 million of total accounts receivable were due from four customers. From this amount, \$3.1 million was collected subsequent to year-end. The other payments were not due as of March 6, 2017 and the Company does not expect any problem to collect these amounts.

The Company recorded no bad debt expense in 2016. At December 31, 2016, none of the Company's accounts receivable were more than 60 days past due.

Cash and cash equivalents are held with a Canadian chartered bank, part of the top-5 largest Canadian banks. The carrying amount of financial assets represents the maximum credit exposure. The Company considers the risk on cash and cash equivalents to be limited.

LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled in cash or other financial assets, i.e., repaying its debt and paying its suppliers. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation. Beyond cash on hand of \$5.8 million and effective working capital, the Company has a revolving-term credit facility, which offers flexibility in drawing and paying down debt, without penalty, of which \$30 million remained available at December 31, 2016 and March 6, 2017 for future draws, as described in "Liquidity, Capital Resources and Capital Requirements".

The Company regularly monitors cash flow. In addition, it monitors funding options available in the capital markets, as well as trends in the availability and costs of such funding, with a view to maintaining financial flexibility and limiting repayment risks. The Company does not believe that it will encounter difficulty in meeting its obligations associated with financial liabilities.

COMMODITY PRICE RISK

The Company is not directly exposed to commodity price risk as it does not have any contracts directly based on commodity prices. A change in commodity prices, specifically oil and natural gas prices, could have a material impact on the Company's customers' cash flows and could therefore affect seismic data library sales and participation surveys. Commodity prices are affected by many factors, including supply and demand. The Company has not entered into any commodity price risk contracts. Given that this is an indirect influence, the financial impact on the Company of changing oil and natural gas prices is not reasonably determinable.

NEW IFRS STANDARDS

A number of new standards, amendments to standards and interpretations have been issued by the International Accounting Standards Board (IASB) but are not yet effective for the year ended December 31, 2016. Accordingly, they were not applied in preparing the consolidated 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 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 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.

- 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, therefore, remains unknown at this time.

CRITICAL ACCOUNTING ESTIMATES

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions. Management's estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The Company's critical accounting estimates are described below and are discussed annually with the Audit and Risk Committee of the Company's Board of Directors.

SEISMIC DATA LIBRARY

Amortization of the seismic data library, the Company's largest asset, with a net book value of \$32.6 million at December 31, 2016 (December 31, 2015 – \$47.6 million), is conducted by reference to the estimated timing of the economic return of the seismic library. Amortization of the seismic data library is based on management's estimates of expected future sales, expected useful lives, market developments and experience. These estimates may change due to changes in market conditions, potential prospects, exploration licence periods, exploration and development in certain areas, government regulations and general economic conditions. Because of the inherent difficulty in estimating market developments and future sales, the amortization rates might not accurately reflect the systematic allocation of the seismic data library over its useful life.

Additions to the seismic library arise in two ways: (i) participation surveys, and (ii) the purchase of existing seismic data. Costs associated with participation surveys completed during the year are amortized at 50 percent immediately on the delivery of the data to the participants, with the balance amortized on a straight-line basis over the seven-year period commencing at the end of the period of exclusivity, if any.

The assumptions behind the 50 percent immediate amortization on delivery are as follows. The Company's historical average and target survey prefunding percentage is 70 percent of the cost of the seismic data shoot. Based on historical performance, the Company usually then recovers an additional 70 percent of the total cost of the survey through recurring sales of the acquired data. After seven years the data sales generally decline.

Based on these numbers, the total revenue generated by a particular participation survey historically is 140 percent of cost. Accordingly, prefunding typically represents approximately 50 percent of the total revenue generated by the survey. The 50 percent initial amortization thereby matches amortization to the historical pattern of revenue generation.

The costs of purchased data are amortized on a straight-line basis over seven years.

The carrying amounts of the seismic data library are reviewed at each reporting date by management to determine whether there is any indication of impairment. If so, the asset's recoverable amount is estimated and impairment recorded, if any. The Company uses judgement in determining its CGUs for purposes of impairment testing. The determination of these CGUs was based on management's judgements in regards to the smallest identifiable group of seismic data that generates cash inflows largely independent of the cash inflows from other data. Estimating future cash flows and residual values for purposes of impairment testing requires management to make judgments regarding long-term forecasts of future revenues and costs and future residual values related to the seismic data library. These forecasts are uncertain as they require assumptions about demand for seismic data and future market conditions. Significant and unanticipated changes in these assumptions could require a provision for impairment in a future period.

As discussed above, the Company did not recognize an impairment loss in 2016. An impairment loss of \$937,000 was recognized in 2015.

Estimates of useful lives and the pattern of expected future economic benefits are based on historical experience and internal business plans. Expected future economic benefits are determined based on historical revenue patterns. Future deviations from the Company's historical returns could materially affect the current amortization methodology.

PERFORMANCE SHARE UNITS

In determining the amount of share-based compensation related to PSUs, management makes estimates about future results and vesting criteria. It is reasonably possible that future outcomes could be different from the estimates and could 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.

DEFERRED TAX ASSETS

Significant management judgement is required to determine the amount of deferred tax assets that can be recognized, based on the likely timing and level of future taxable income. The estimates of projected future taxable income are based on a variety of factors and assumptions, many of which are subjective and beyond the Company's control. Accordingly, these estimates could differ significantly from year to year, and the Company might end up realizing more or less of the deferred tax assets than recognized in the consolidated financial statements.

DISCLOSURE CONTROLS AND PROCEDURES (DC&P) AND INTERNAL CONTROLS OVER FINANCIAL REPORTING (ICFR)

DC&P

Management has evaluated the effectiveness of its DC&P (as defined in National Instrument 52-109), under the supervision of its CEO and CFO, at December 31, 2016. Based on this evaluation, the CEO and CFO have concluded that the DC&P were effective at December 31, 2016.

ICFR

Management under the supervision of its CEO and CFO evaluated the effectiveness of ICFR (as defined in National Instrument 52-109) at December 31, 2016, in accordance with Internal Control – Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and the Control Objectives for Information and Related Technology Framework (COBIT). Based on this evaluation, Pulse's CEO and CFO have concluded that the ICFR were effective at December 31, 2016.

No changes were made to ICFR during the period beginning on October 1, 2016 and ending on December 31, 2016 that have materially affected, or are reasonably likely to materially affect, Pulse's ICFR.

RISK FACTORS

OIL AND NATURAL GAS PRICES

Pulse's customers are oil and natural gas exploration and development companies. Oil and natural gas prices are volatile and directly affect the capital budgets, drilling activity, and access to capital and credit by Pulse's customers, which in turn directly affect the demand by such customers for seismic data.

DEMAND FOR SEISMIC DATA AND PARTICIPATION SURVEYS

Pulse's ability to generate revenue, cash EBITDA, shareholder free cash flow and earnings and to grow its seismic data library depends on the demand for seismic data and participation surveys from its oil and natural gas customers over geological plays and areas that such customers focus on in a given period. Activity in such plays and areas depends on commodity prices, customers' budgets, geological understanding and advances in drilling technology, all of which are beyond Pulse's control. The Company endeavours to grow its high-quality proprietary data library, to expand and maintain its customer base, and to provide good customer service with short delivery time and broad data coverage in prospective locations.

PRICING OF DATA LIBRARY LICENCE SALES

Pulse's ability to generate revenue, cash EBITDA, shareholder free cash flow and earnings and to grow its data library depends on its ability to market data library licences and on the pricing of these licences. Pulse prices its data competitively while endeavouring to maintain the integrity of the database.

CYBERSECURITY

Pulse faces the threat of cyber attacks aimed at gaining unauthorized access to its confidential seismic databases and systems. Attempts to breach cybersecurity are becoming more sophisticated and could lead to unauthorized access and release of confidential seismic data and disruption in operating systems.

Pulse operates IT systems, networks and a website that are subject to cyber attacks, which are intentional attempts to gain unauthorized access to its information systems, networks and website for unlawful or improper purposes. Cyber attacks or other breaches of IT systems, networks and website security may cause disruptions to Pulse's operations.

Cyber attackers may use a range of techniques, from manipulating people to using sophisticated malicious software and hardware on a single or distributed basis. Some cyber attacks use a combination of techniques in their attempts to evade safeguards, such as the firewalls, intrusion prevention systems and antivirus software found in Pulse's systems and networks. The risk and consequences of cyber attacks can surpass traditional physical security risk due to the rapidly evolving scope and sophistication of these threats.

A successful attack on Pulse's systems, networks, website and infrastructure could prevent Pulse from providing reliable service and information, allow for the unauthorized interception, destruction, use or dissemination of Pulse's or its customers' information, and/or prevent Pulse from operating its networks. Such events could cause the Company to lose customers, lose revenue, incur expenses, and suffer reputational and goodwill damages, could lead to a devaluation of intellectual property rights and could subject the Company to litigation or government investigation. The costs of such events could include liability for information loss, and repairs to infrastructure and systems. Pulse's insurance may not cover or be adequate to fully reimburse the Company for these costs and losses.

To mitigate these risks, Pulse has implemented measures and processes that mitigate the risk of physical and cyber attacks. Pulse has policies, controls and monitoring systems that protect its assets and its team members.

Pulse also uses cyber threat intelligence, testing, intrusion prevention/detection and incident response capabilities to help identify possible cyber threats and adjust its security measures accordingly.

Pulse also has a recovery plan in case of a cyber attack. This recovery plan includes back-up infrastructure and systems that mirror the actual infrastructure and systems used in the day-to-day operations. The recovery plan has been tested.

Pulse also uses a third party to store its physical data and to provide back up copies of electronic data. The third party backs-up the data using the same technology as Pulse which includes redundant offsite storage in a secured data facility and tape back ups.

As an additional level of risk management, the Company's IT Director reports to the Audit and Risk Committee, on a regular basis, any new risks that Pulse is facing in its day-to-day operations along with the risk mitigation plans. The Audit and Risk Committee has the oversight responsibility for cyber security.

RELICENSING (CHANGE-OF-CONTROL) FEES AND PARTNER COPY SALES

Data library licences are generally not transferable. Under Pulse's current standard-form licence agreement, upon a change of control of the licensee in a merger or acquisition transaction, a change-of-control fee is generally payable. Under Pulse's current standard-form licence agreement, a licensee generally may not give the licensed data to a joint interest partner in the oil and natural gas lands. If the joint interest partner wishes to view or interpret the seismic data, it must purchase an additional copy directly from Pulse.

The precise terms of individual licence agreements (including those historically used by Pulse and its predecessors and those assumed by Pulse on data acquisitions) can vary greatly. Relicensing (change-of-control) fees may not always be payable and joint interest partners may not always wish to or have to purchase an additional licensed copy.

In addition, merger-and-acquisition and joint venture activity in the oil and gas industry is unpredictable.

PRE-FUNDING OF PARTICIPATION SURVEYS AND SUBSEQUENT DATA LIBRARY LICENCE SALES

Pulse's rate of pre-funding for participation surveys varies, with the actual target percentage funding of each particular survey determined by Pulse ahead of time depending on Pulse's risk analysis of such survey and competitive conditions in the area. Factors affecting these individual survey program targets include: circumstances where Pulse believes that there is a high probability of additional participants joining the survey before completion or additional licence sales after completion of the survey, or where a survey is located in a strategic location, or where competitive conditions require a lower level of pre-funding.

Pulse's ability to generate revenue, cash EBITDA, shareholder free cash flow and earnings and to grow the data library depends on its ability to obtain targeted levels of pre-funding for participation surveys, and to make subsequent seismic data library sales from such surveys.

COMPLETION OF PARTICIPATION SURVEYS

Pulse obtains presales of licences for participation surveys based on its budgeted costs and program schedule. Pulse's ability to generate revenues, cash EBITDA, shareholder free cash flow and earnings depends on its ability to complete committed participation surveys on time and within budget. Cost overruns are generally absorbed by Pulse and effectively reduce the percentage of pre-funding. The Company endeavours to manage this risk through the use of a dedicated survey project team with extensive experience.

ENVIRONMENTAL, HEALTH AND SAFETY RISKS

Pulse's field operations for participation surveys are subject to laws and regulations relating to environmental protection and occupational health and safety. A breach of these laws and regulations could result in material fines and civil lawsuits, as well as reputational damage. Pulse endeavours to reduce this risk by employing seasoned specialists who provide comprehensive training, field supervision and monitoring, and by working with a network of trusted sub-contractors who operate to high standards. In March 2015, Pulse received the renewal of its three-year Certificate of Recognition (COR) issued by Enform and the Government of Alberta, with a score of 96 percent, higher than in its initial 2009 certification and in its September 2012 re-certification. The COR program recognizes employers in the Alberta oil and natural gas industry having a health and safety management system that meets provincial standards.

LAWS AND REGULATIONS

Pulse's oil and natural gas customers are subject to federal and provincial laws and regulations, including those pertaining to taxation, royalty rates, environmental protection and safety. Compliance with these laws and regulations, and changes in these laws and regulations, may affect oil and natural gas exploration and development activities and the demand for seismic data licenses and participation surveys by such customers.

Pulse's field operations for participation surveys are subject to federal and provincial laws and regulations, including laws and regulations relating to safety and environmental protection. Pulse and its contractors are required to invest financial and managerial resources to comply with such laws and related permit requirements in their operations. Although such expenditures historically have not been material to Pulse, such laws and regulations are subject to change and, accordingly, it is impossible for the Company to predict the cost or impact of such laws and regulations on its future operations.

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.

COMPETITION

The western Canadian geophysical services industry in which Pulse operates is highly competitive and price-sensitive. Pulse competes with companies which may have greater financial resources, and certain of which are large international geophysical services companies that offer a wider array of geophysical services to their clients than Pulse. Pulse also competes with other companies that acquire, market and license seismic data, that maintain their own seismic data libraries, and that compete against Pulse in shooting participation surveys and licensing seismic data to their customers. Pulse also competes against oil and natural gas companies that may choose to license their own proprietary seismic data to customers. To mitigate this risk, Pulse's management continuously evaluates its marketing plan and marketing efforts. In addition, the Company owns high-quality data with extensive coverage in the WCSB. In general, there is little overlap between 3D databases, due to the high costs of overshooting existing 3D seismic surveys, and there is little direct competition between specific 3D datasets. Seismic data library companies and individual oil and gas companies may, however, elect to overshoot an existing 3D dataset if it is not of the desired quality or specifications.

DEPENDENCE ON QUALIFIED SEISMIC CONTRACTORS

Pulse depends on qualified seismic acquisition contractors to complete its seismic surveys on time and within budget. Pulse endeavors to enter into master service agreements and to establish relationships with its key contractors.

KEY MANAGEMENT, OPERATIONS AND MARKETING PERSONNEL

Pulse depends on certain key management, operations and marketing personnel for the success of its seismic acquisition, marketing and licensing business. Pulse endeavors to obtain written employment agreements with such personnel containing confidentiality and non-competition provisions where appropriate. Personnel risk is further mitigated by providing compensation packages designed to support Pulse's business philosophy and which are both market-driven and performance-based. This includes short- and long-term incentive programs which are directly tied to shareholder free cash flow per share, which the Board of Directors believes is the key financial metric for the long-term increase in the value of Pulse. Pulse also has a succession plan to provide adequate training and education to its future leaders, which is reviewed annually by the Board of Directors.

LOSS OF SEISMIC DATA

Pulse's largest asset and source of revenue is the seismic data library. The safety and security of the data library asset is imperative to the Company's success. The physical data is stored in a secure location managed by a data storage company. All physical data has been digitized and back-up digital copies are kept in separate secure locations.

PROTECTION OF INTELLECTUAL PROPERTY

Pulse relies on a combination of licence agreements, copyright and other intellectual property rights to protect its ownership rights and copyright in its seismic data. Despite Pulse's efforts to enforce its licence agreements and copyright, there is a risk that unauthorized parties might improperly obtain, copy or use Pulse's seismic data without Pulse's knowledge or permission. The cost of litigation necessary to enforce Pulse's ownership rights and copyright could be prohibitive.

NEW PRODUCTS

Seismic data is used by oil and natural gas exploration and development companies to identify portions of geological formations that have the potential to hold hydrocarbons. There are currently no other products that compete directly against seismic data for such purposes. Should a new product or method be introduced that was technically and/or economically comparable or superior to seismic data, Pulse's data library sales and/or the pricing thereof could be adversely affected.

ADDITIONAL INFORMATION

You may find additional information relating to Pulse, including the Company's Annual Information Form, on SEDAR at www.sedar.com.

FORWARD-LOOKING INFORMATION

This document contains information that constitutes "forward-looking information" or "forward-looking statements" (collectively, "forward-looking information") within the meaning of applicable securities legislation.

The Outlook and the Liquidity, Capital Resources and Capital Requirements sections contain forward-looking information which includes, among other things, statements regarding:

- Pulse is more optimistic than one year ago but is not predicting an imminent rebound in its business;
- Pulse anticipates the possibility of continued weakness for the short term, followed by a gradual and/or extended recovery;
- Pulse's management believes that the Company's capital resources will be sufficient to finance future operations and carry out the necessary capital expenditures through 2017;

- Pulse’s capital allocation strategy;
- Pulse’s dividend policy;
- Oil and natural gas prices;
- Oil and natural gas drilling activity and land sales activity;
- Oil and natural gas company capital budgets;
- Future demand for seismic data;
- Future seismic data sales;
- Future demand for participation surveys;
- Pulse’s business and growth strategy; and
- Other expectations, beliefs, plans, goals, objectives, assumptions, information and statements about possible future events, conditions, results and performance.

Sources for the forecasts and the material assumptions underlying this forward-looking information are, where applicable, noted in the relevant sections of this MD&A.

Undue reliance should not be placed on forward-looking information. Forward-looking information is based on current expectations, estimates and projections that involve a number of risks and uncertainties, which could cause actual results to vary and in some instances to differ materially from those anticipated in the forward-looking information. Pulse does not publish specific financial goals or otherwise provide guidance, due to the inherently poor visibility of seismic revenue.

The material risk factors include, without limitation:

- Oil and natural gas prices;
- The demand for seismic data and participation surveys;
- The pricing of data library license sales;
- Cybersecurity;
- Relicensing (change-of-control) fees and partner copy sales;
- The level of pre-funding of participation surveys, and the Company’s ability to make subsequent data library sales from such participation surveys;
- The Company’s ability to complete participation surveys on time and within budget;
- Environmental, health and safety risks;
- Federal and provincial government laws and regulations, including those pertaining to taxation, royalty rates, environmental protection and safety;
- Competition;
- Dependence on qualified seismic field contractors;
- Dependence on key management, operations and marketing personnel;
- The loss of seismic data;
- Protection of intellectual property rights; and
- The introduction of new products.

The foregoing list is not exhaustive. Additional information on these risks and other factors which could affect the Company’s operations and financial results is included under “Risk Factors”. Forward-looking information is based on the assumptions, expectations, estimates and opinions of the Company’s management at the time the information is presented.

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF PULSE SEISMIC INC.

We have audited the accompanying consolidated financial statements of Pulse Seismic Inc., which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

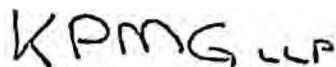
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of Pulse Seismic Inc. as at December 31, 2016 and 2015 and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.



Chartered Professional Accountants

March 6, 2017
Calgary, Canada

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

YEARS ENDED DECEMBER 31, 2016 AND 2015
(THOUSANDS OF CANADIAN DOLLARS)

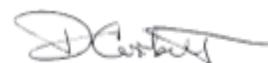
		As at December 31,	
	Note	2016	2015
Assets			
Cash and cash equivalents		5,847	-
Trade and other receivables	5	5,809	6,158
Prepaid expenses		364	292
Total current assets		12,020	6,450
Seismic data library	6	32,594	47,623
Property and equipment		343	489
Other		-	56
Total non-current assets		32,937	48,168
Total assets		44,957	54,618
Liabilities and Shareholders' Equity			
Operating line of credit	7	-	222
Accounts payable and accrued liabilities		558	809
Deferred revenue		788	423
Total current liabilities		1,346	1,454
Deferred income tax liabilities	8	4,873	7,699
Other long-term payable		92	76
Total non-current liabilities		4,965	7,775
Total liabilities		6,311	9,229
Shareholders' Equity			
Share capital	9	77,531	76,504
Contributed surplus		2,217	2,184
Deficit		(41,102)	(33,299)
Total shareholders' equity		38,646	45,389
Total liabilities and shareholders' equity		44,957	54,618

See accompanying notes to consolidated financial statements.



On behalf of the Board:

Robert Robotti, *Chair of the Board*



Daphne Corbett, *Audit and Risk Committee Chair*

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

(THOUSANDS OF CANADIAN DOLLARS EXCEPT PER SHARE DATA)

For the years ended
December 31

	Note	2016	2015
Revenue			
Data library sales		14,339	21,214
Participation surveys		-	3,220
Total revenue		14,339	24,434
Operating expenses			
Amortization of seismic data library	6	18,973	22,836
Impairment loss	6	-	937
Salaries, internal commissions and benefits	12	3,104	3,989
Other selling, general and administrative costs	13	2,351	2,327
Depreciation		144	185
Total operating expenses		24,572	30,274
Results from operating activities		(10,233)	(5,840)
Financing costs			
Financing expenses		175	495
Interest income		(51)	(1)
Net financing costs		124	494
Loss before income taxes		(10,357)	(6,334)
Current income tax reduction		(19)	-
Deferred income tax reduction	8	(2,848)	(1,026)
Income tax reduction		(2,867)	(1,026)
Net loss and comprehensive loss		(7,490)	(5,308)
Net loss per share, basic and diluted	11	(0.13)	(0.09)

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(THOUSANDS OF CANADIAN DOLLARS EXCEPT NUMBER OF SHARES)

	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		-	-	-	(5,308)	(5,308)
Share-based compensation		-	-	220	-	220
Settlement of vested long-term incentive plan award		-	-	(325)	-	(325)
Tax effect of equity- settled share-based compensation		-	-	(151)	-	(151)
Normal course issuer bid	9	(1,625,400)	(2,237)	-	(1,831)	(4,068)
Shares cancelled and related dividends		(29,754)	(41)	41	28	28
Dividends paid	9	-	-	-	(3,408)	(3,408)
Balance at December 31, 2015		55,592,689	76,504	2,184	(33,299)	45,389

	Note	Number of shares issued (repurchased)	Share capital	Contributed surplus	Deficit	Total equity
Balance at January 1, 2016		55,592,689	76,504	2,184	(33,299)	45,389
Net loss for the period		-	-	-	(7,490)	(7,490)
Share-based compensation		-	-	227	-	227
Settlement of vested long-term incentive plan award		-	-	(172)	-	(172)
Shares issued	6	669,643	1,500	-	-	1,500
Tax effect of equity- settled share-based compensation		-	-	(22)	-	(22)
Normal course issuer bid	9	(341,272)	(473)	-	(313)	(786)
Balance at December 31, 2016		55,921,060	77,531	2,217	(41,102)	38,646

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

YEARS ENDED DECEMBER 31, 2016 AND 2015
(THOUSANDS OF CANADIAN DOLLARS)

		As at December 31,	
	Note	2016	2015
Cash flows provided by (used in):			
Operating:			
Net loss and comprehensive loss		(7,490)	(5,308)
Adjustment for:			
Amortization of seismic data library		18,973	22,836
Impairment loss		-	937
Depreciation		144	185
Loss on disposition of capital assets		8	3
Income tax reduction		(2,867)	(1,026)
Equity-settled share-based compensation		227	220
Net financing costs		124	494
Interest and standby fees paid		(128)	(297)
Interest received		98	1
Income tax received		19	-
		9,108	18,045
Net change in non-cash working capital	14	363	(951)
Cash provided by operating activities		9,471	17,094
Financing:			
Normal course issuer bid		(786)	(4,068)
Shares purchased for equity-settled share-based payments		(166)	(325)
Repayment of long-term debt		-	(5,500)
Dividends paid		-	(3,408)
Dividend recovery from share cancellation		-	28
Cash used in financing activities		(952)	(13,273)
Investing:			
Additions to seismic data library through participation surveys		-	(3,959)
Seismic data purchases, digitization and related costs		(2,444)	(933)
Additions to property and equipment		(6)	(14)
Net change in non-cash working capital		-	(38)
Cash used in investing activities		(2,450)	(4,944)
Increase (decrease) in cash and cash equivalents		6,069	(1,123)
Cash and cash equivalents (operating line of credit), beginning of year		(222)	901
Cash and cash equivalents (operating line of credit), end of year		5,847	(222)

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

INFORMATION AS AT DECEMBER 31, 2016 AND 2015
AND FOR THE YEARS ENDED DECEMBER 2016 AND 2015.

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

The consolidated financial statements were prepared by the Company's management and were approved by the Board of Directors on March 6, 2017.

B) BASIS OF PRESENTATION

The consolidated financial statements include the accounts of the Company's wholly-owned subsidiaries. Certain comparative figures have been reclassified to conform to the current year's presentation.

C) BASIS OF MEASUREMENT

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

D) FUNCTIONAL AND PRESENTATION CURRENCY

The consolidated 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, 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 consolidated 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 consolidated financial statements.

F) USE OF ESTIMATES AND JUDGEMENTS

Preparing the consolidated 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 amounts of revenue and expenses attributed to the reporting period. Actual results could differ from those estimates.

Management discussed the Company's critical accounting principles and estimates and the application of such principles and estimates with the Audit and Risk Committee of the Board of Directors. Estimates and underlying assumptions are reviewed at a minimum annually, as required by IFRS. Changes to accounting estimates are recognized in the year in which the estimates are revised and in any future years affected.

The following note provides information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements:

- Note 3(g) – The Company uses judgement in determining its cash-generating units (CGUs) for purposes of impairment testing. The determination was based on management's judgement in regards to the smallest identifiable group of seismic data that generates cash flows largely independent of the cash inflows from other data. Changes in the determination of CGUs could have a significant impact on the carrying value of the assets and could result in additional impairment charges or reversal of impairment charges in future periods.

The following notes provide information about assumptions and estimation uncertainties that pose a significant risk of a material adjustment within the next financial year:

- Note 3(a) (ii) – Participation survey revenue is recognized in the financial statements in proportion to the stage of project completion. Participation survey revenue is recognized when the total contract revenue, total contract costs, contract costs to completion and the stage of completion at the balance sheet date can be measured reliably, requiring management to make judgments regarding the total contract costs, contract costs to completion and stage of completion. These estimates are subject to uncertainty as they require assumptions about field conditions and are reviewed by management on a monthly basis.
- Note 3(e) – Amortization of seismic data library is based on management's estimates of expected future sales, expected useful lives, market developments and experience. These estimates may change due to changes in market conditions, potential prospects, exploration licence periods, exploration and development in certain areas, government regulations and general economic conditions. Because of the inherent difficulty in estimating market developments and future sales, the amortization rates might not accurately reflect the useful life of the data library. The amortization rates are adjusted if it is determined that estimated useful lives have changed.
- Note 3(g) – Impairment tests, if required, involve the estimation of future cash flows, requiring management to make judgments regarding long-term forecasts of future revenues and costs related to the seismic data library and residual values. These forecasts are subject to uncertainty as they require assumptions about demand for seismic data and future market conditions. Significant changes in these assumptions could require a provision for impairment in a future period.
- Note 3(h) – Deferred tax assets are recognized for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable profits. The estimates of projected future taxable profits are based on a variety

of factors and assumptions, many of which are subjective and outside the Company's control. Accordingly, these estimates could differ significantly from year to year, and the Company might end up realizing more or less of the deferred tax assets than it has recognized in the consolidated financial statements.

The Company is aware that the Canada Revenue Agency (CRA) may revise the way it assesses amortization for income tax purposes of certain seismic data library costs. To date the CRA has issued no policy related to this matter and, therefore, the Company is not able to estimate the impact any changes might have on its income tax calculations, carry-forward balances or consolidated financial statements.

- Note 3(k) – The number of Performance Share Units (PSUs) expected to vest is based on management's estimates of expected future results and vesting criteria in subsequent years. These forecasts are uncertain as they require assumptions about future market conditions, revenues, expenses and vesting criteria. Significant changes in the assumptions could require an adjustment to the amount of share-based compensation recognized.

G) NEW IFRS PRONOUNCEMENTS THAT APPLY TO THE COMPANY

A number of new standards, 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, 2016. Accordingly, the new standards, amendments to standards and interpretations were not applied in preparing these consolidated 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 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 of the survey in question. 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 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.

- 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, therefore, remains unknown.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

A) REVENUE RECOGNITION

Revenue is measured at the fair value of the consideration received or receivable, net of discounts and volume rebates.

i) DATA LIBRARY SALES

Revenue is recognized when the customer executes a valid licence agreement, transfer of seismic data to the customer occurs and collection is reasonably assured. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognized as a reduction of revenue as the sales are recognized. The Company defers the unearned portion of the contract value for which the revenue recognition requirements have not been met. Deferred revenue consists of the difference between the total contract value and the amount of seismic data delivered.

ii) PARTICIPATION SURVEYS

The Company participates with customers in 3D seismic participation surveys from which the Company retains proprietary rights to the collected data, and from which participating customers receive a non-transferable licensed copy. Customers typically can direct or influence the project specifications and access data as it is being acquired.

Participation survey revenue is recognized in the financial statements in proportion to the project's stage of completion and when the total contract revenue, total contract costs, contract costs to completion and stage of completion at the date of the statement of financial position can be measured reliably. The stage of completion is assessed by calculating the cost incurred for work performed to the date of the statement of financial position as a percentage of the estimated total contract cost. The amount of revenue recognized is equal to the total contract revenue multiplied by the percentage of completion. Deferred revenue consists of the difference between the total value billed and the amount of revenue recognized.

B) FINANCIAL INSTRUMENTS

Financial assets of the Company include cash and cash equivalents and trade receivables. Financial liabilities of the Company mainly comprise trade payables and long-term debt.

Financial instruments are recognized on the consolidated statement of financial position when the Company becomes a party to the instrument's contractual obligations. All financial instruments are initially recognized at fair value. Measurement in subsequent periods depends on the instrument's classification.

Cash and cash equivalents and trade receivables are designated as loans and receivables. Accounts payable and long-term debt are designated as other financial liabilities. Loans and receivables and other financial liabilities, including related transaction costs, are measured initially at fair value and subsequently at amortized cost using the effective interest rate method, less any allowance for impairment.

A provision for impairment of loans and receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the receivable's original terms. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated

future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. When a receivable is uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to earnings or loss.

The fair value of accounts receivable is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. Fair value of financial liabilities, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date.

C) CASH AND CASH EQUIVALENTS

Short-term investments with an original maturity of three months or less, net of the operating line of credit, are considered to be cash equivalents.

D) PARTICIPATION SURVEYS IN PROGRESS

Participation surveys in progress include all expenditures related directly to specific projects and an allocation of variable overheads.

Accrued participation survey revenue represents the gross unbilled amount expected to be collected from customers for participation survey work performed to date and is measured at the value of the contract recognized to date, based on the percentage of completion, less progress billings. If payments received from customers exceed the related income recognized, then the difference is presented as deferred revenue on the consolidated statement of financial position.

Preliminary costs during the research phase of participation surveys are recognized in earnings as incurred. Development expenditures related to participation surveys are capitalized only once the survey project is deemed technically feasible, which usually occurs when the participation survey contract is signed. The expenditures capitalized include the cost of materials, subcontractor fees and labour costs that are directly attributable to the survey.

E) SEISMIC DATA LIBRARY

The seismic data library has a finite useful life and is measured at cost less accumulated amortization and impairment losses. Additions to the seismic data library arise in two distinct ways: (i) participation surveys and (ii) the purchase of existing data. Costs directly incurred in acquiring, processing and otherwise completing seismic surveys are capitalized to the seismic data library.

Subsequent expenditures on data library assets, such as reprocessing, are capitalized only when the expenditure increases the asset's future economic benefits. All other expenditures are recognized in earnings as incurred.

Amortization is calculated over the cost of the asset less its residual value. Costs associated with participation surveys are amortized at 50 percent immediately on the delivery of the data to the participants, with the balance amortized on a straight-line basis over the seven-year period.

The assumptions behind the 50 percent immediate amortization on delivery are as follows. The Company's historical average and target survey prefunding percentage is 70 percent of the cost of the seismic data shoot. Based on historical performance, the Company usually then recovers an additional 70 percent of the total cost of the survey through recurring sales of the acquired data. After seven years the data sales generally decline.

Based on these numbers, the total revenue generated by a particular participation survey historically is 140 percent of cost. Accordingly, prefunding typically represents approximately 50 percent of the total revenue

generated by the survey. The 50 percent initial amortization thereby matches amortization to the historical pattern of revenue generation.

The costs of purchased data are amortized on a straight-line basis over seven years.

Amortization is based on management's estimates of expected future sales, expected useful lives, market developments and experience. These estimates may change due to changes in market conditions, potential prospects, exploration licence duration, exploration and development in certain areas, government regulations and general economic conditions. Amortization methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

F) PROPERTY AND EQUIPMENT

Property and equipment are recorded at cost less accumulated depreciation and impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset.

Depreciation is calculated over the depreciable amount, which is the cost of an asset less its residual value. Depreciation is recognized in earnings over the estimated useful life of each significant component of an item of property and equipment. The half-year rule is applied to the first year of acquisition.

Depreciation is provided using the following methods:

	Declining Balance	Straight Line
Computer hardware and software	30%	
Office equipment	20%	
Leasehold improvements		Balance of lease

G) IMPAIRMENT OF LONG-LIVED ASSETS

The carrying amounts of the seismic data library, property and equipment, and intangible assets are reviewed at each reporting date by management to determine whether there is any indication of impairment. If so, the asset's recoverable amount is estimated and impairment recorded, if any.

Factors considered important by the Company that could trigger an impairment assessment include:

- Significant underperformance relative to expected operating results based on historical and/or projected data;
- Significant changes in the manner of the use of the asset or the strategy of the overall business; and
- Significant negative industry or economic trends.

The recoverable amount of tangible and intangible assets is the greater of value in use and fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are classified in the smallest grouping that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups (the CGU).

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in earnings or loss. Impairment losses recognized in respect of a CGU are allocated to the carrying amount of the assets in the unit on a pro-rata basis.

Impairment losses for assets recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount and only to the extent that the assets' carrying value does not exceed the carrying amount that would be determined, net of amortization or depreciation, if no impairment loss had been recognized.

H) INCOME TAXES

Income tax expense comprises current and deferred tax. Income tax expense is recognized in earnings or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates expected to be applied to the temporary differences when they are reversed, based on the laws enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

Deferred tax is not recognized for the following differences:

- The initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable income or loss; and
- Differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable they will not be reversed in the foreseeable future.

A deferred tax asset is recognized to the extent that it is probable that future taxable income will be available against which deductible temporary differences can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable the related tax benefit will be realized.

I) PER SHARE AMOUNTS

Basic per share amounts are calculated using the weighted average number of shares outstanding during the period.

J) SHARE CAPITAL

Common shares are classified as equity. When shares are sold, the consideration received, including directly attributable costs, net of any tax effect, is recognized as a change in share capital. The Company purchases shares for cancellation under its normal course issuer bid. The cost of purchasing shares for cancellation is first charged to share capital to the extent of the average carrying value of the common shares purchased and the excess is charged to retained earnings. No gain or loss is recognized in the consolidated statements of comprehensive income (loss) on the purchase, sale, issuance or cancellation of the Company's own equity instruments.

K) SHARE-BASED PAYMENTS

In 2012, the Company implemented a new long-term incentive plan (LTIP) under which participants are granted restricted share units (RSUs) and performance share units (PSUs). All amounts awarded are at the discretion of the Board of Directors. RSUs and PSUs have accompanying dividend-equivalent rights and, therefore, additional RSUs and PSUs are issued to reflect dividends declared on the common shares. The plan's trustee will purchase common shares on the open market for the after-tax number of RSUs and PSUs vested with funds provided by the Company. The RSUs and PSUs are treated as equity-settled share-based payments and the related payroll taxes are treated as cash-settled share-based payments.

The compensation expense is recognized over the vesting period. For equity-settled share-based payments, the compensation expense is based on the number of RSUs and PSUs expected to vest and the market value of a common share of the Company on the grant date, with a corresponding increase to contributed surplus. For cash-settled share-based payments, the compensation expense is measured initially at the fair market value of the Company's shares at the grant date and subsequently adjusted for the additional shares granted based on the reinvestment of notional dividends and the market value of the shares at the end of each reporting period, with a corresponding increase to liabilities.

L) EMPLOYEE BENEFITS

Short-term employee benefit obligations are calculated on an undiscounted basis and are expensed as the related services are provided.

A liability is recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Company has a current legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

M) LEASES

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether its fulfillment depends on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Payments made under operating leases are recognized in earnings or loss on a straight-line basis over the lease term.

N) NET FINANCING COSTS

Financing expenses consist of interest expense on long-term debt and amortization of the deferred financing costs. All borrowing costs are recognized in earnings or loss using the effective interest rate method.

Interest income is earned from term deposits.

4. PARTICIPATION SURVEYS SEASONALITY

Participation survey revenue varies significantly from quarter to quarter and year to year. 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. The number and size of participation surveys undertaken from 2014 to 2016 has been considerably less than historical averages.

5. TRADE AND OTHER RECEIVABLES

As at December 31,	2016	2015
Data library trade receivables	5,805	6,155
Other	4	3
	5,809	6,158

No bad debt expense was recorded in 2016 or 2015.

6. SEISMIC DATA LIBRARY

	2016	2015
Cost		
Opening balance, January 1	439,455	434,527
Acquisitions through purchases and related cost	3,944	933
Transferred from participation surveys in progress	-	3,995
Closing balance, December 31	443,399	439,455
Accumulated amortization		
Opening balance, January 1	391,832	368,059
Amortization for the year	18,973	22,836
Impairment loss for the year	-	937
Closing balance, December 31	410,805	391,832
Carrying amount, December 31	32,594	47,623

No participation survey was in progress at December 31, 2016. The Peco South 3D survey was delivered during the first quarter of 2015.

On January 26, 2016, the Company acquired approximately 107,000 net kilometres of 2D seismic data and 58 net square kilometres of 3D seismic data, increasing Pulse's 2D seismic data library by 31.5 percent to approximately 447,000 net kilometres. The acquisition includes data spread throughout the Western Canada Sedimentary Basin and is complementary to the Company's existing data. The purchase price of \$3.65 million was funded through the issuance of 669,643 common shares, plus \$2.15 million in cash.

On September 27, 2016 the Company closed a small acquisition and added approximately 29 net square kilometres of 3D seismic data. The cost of the acquisition was \$100,000.

At December 31, 2016, the Company assessed its seismic data library CGUs for indicators of impairment, as required under IFRS, and concluded there were no such indicators and no impairment test was performed.

At December 31, 2015, the Company also assessed its seismic data library CGUs for indicators of impairment, as required under IFRS, and concluded there were such indicators. The principal indicator was the ongoing weakness of commodity prices along with uncertainty over the timing of any improvement. That indicator triggered an impairment test. For the purpose of impairment testing, the recoverable amount of a CGU is the greater of its value in use and its fair value less costs to sell. The recoverable amount of each CGU was determined by a value-in-use calculation.

The Company used the following assumptions to calculate the recoverable amount of each CGU:

- The estimated future cash flows for the next five years net of variable and fixed costs;
- The residual value of each CGU estimated to be 20 percent of the original cost for purchased data and 10 percent of the original cost for data shot in a participation survey;
- A pre-tax discount rate of 9.1 percent to calculate the net present value of future cash flows, which is the weighted average cost of capital calculated at December 31, 2015; and
- A combined federal-provincial income tax rate of 27 percent.

Based on these assumptions and the Company's calculations, an impairment loss of \$937,000 was recognized in the fourth quarter of 2015. The impairment related to two CGUs, Altares 3D (\$323,000) and Simon East 3D (\$614,000), and resulted from less than expected activity in the areas due to low commodity prices and constrained customer capital budgets. The total remaining net book value of Altares 3D and Simon East 3D was \$826,000 at December 31, 2015.

7. LONG-TERM DEBT

On February 15, 2013 the Company executed a \$50.0 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.

On January 18, 2016 the Company elected to reduce the facility's available borrowing amount to \$30.0 million from \$50.0 million. Up to \$5.0 million of the revolving facility is available as an operating line of credit. As at December 31, 2016, there was no balance (December 31, 2015 – \$222,000) on the operating line of credit, and no long term-debt owing at either December 31, 2016 or 2015. The credit facility with a syndicate of banks includes an accordion feature which allows the facility to be enlarged to \$70.0 million with the lenders' consent. The accordion incurs no renewal or standby fees. In December 2016 the Company extended the maturity date for one year to February 13, 2020. 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.

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 both December 31, 2016 and 2015 the applicable interest rate on the long-term debt was 3.2 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 December 31, 2016. The second financial covenant is that the interest coverage ratio must be at least 3:1 at all times. The ratio was 71:1 at December 31, 2016. The Company was in compliance with all covenants at December 31, 2016.

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

8. DEFERRED TAX ASSETS AND LIABILITIES

A) UNRECOGNIZED DEFERRED TAX ASSETS

As at December 31,	2016	2015
Foreign exploration and development expense	314	347
Capital losses	413	413
	727	760

Deferred tax assets for these items have not been recognized because utilization against future taxable profits is not probable.

B) RECOGNIZED DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and liabilities are attributable to the following:

As at December 31,	2016	2015
Deferred income tax assets:		
Resource expenditures	183	199
Non-capital tax losses carried forward	1,594	2,060
Share issuance and financing cost	22	36
SR&ED credit	19	-
Long-term incentive plan	118	120
Deferred income tax asset	1,936	2,415
Deferred income tax liability:		
Seismic data library and participation surveys	6,809	10,114
Deferred income tax liability	6,809	10,114
Net deferred income tax liabilities	4,873	7,699

At December 31, 2016, the Company had non-capital tax losses of \$6.3 million available to reduce future years' income for tax purposes. These losses expire between 2033 and 2035.

C) MOVEMENT IN TEMPORARY DIFFERENCES DURING THE YEAR

	Deferred tax liabilities (assets) January 1, 2015	Recognized in income	Recognized in equity	Deferred tax liabilities (assets) December 31, 2015
Resource expenditures	(194)	(5)	-	(199)
Non-capital losses	(1,747)	(313)	-	(2,060)
Share issuance and financing costs	(27)	(9)	-	(36)
Long-term incentive plan	(341)	70	151	(120)
Seismic data library	10,883	(769)	-	10,114
	8,574	(1,026)	151	7,699

	Deferred tax liabilities (assets) January 1, 2016	Recognized in income	Recognized in equity	Deferred tax liabilities (assets) December 31, 2016
Resource expenditures	(199)	16	-	(183)
Non-capital losses	(2,060)	466	-	(1,594)
Share issuance and financing costs	(36)	14	-	(22)
Long-term incentive plan	(120)	(20)	22	(118)
SR&ED credit	-	(19)	-	(19)
Seismic data library	10,114	(3,305)	-	6,809
	7,699	(2,848)	22	4,873

D) RECONCILIATION OF EFFECTIVE TAX RATE

Income tax expense differs from the amount that would be computed by applying the basic combined federal and provincial statutory income tax rate to earnings before income taxes. The reasons for the differences are as follows:

For the years ended December 31,	2016	2015
Loss before income tax	(10,357)	(6,334)
Combined federal and provincial income tax rate	27%	26%
Expected income tax reduction	(2,796)	(1,647)
Effects of differences:		
Non-deductible expenses	(8)	13
Adjustment in respect of prior years	8	1
Change in valuation allowance	(33)	(35)
SR&ED credits	(38)	-
Effect of changes in provincial tax rate on tax pools	-	642
Actual income tax reduction	(2,867)	(1,026)

The deferred tax related to the equity-settled share-based compensation is recognized directly in equity, as the estimated future tax deduction exceeds the cumulative remuneration expense.

9. EQUITY

A) SHARE CAPITAL

The Company's authorized share capital consists of an unlimited number of common and an unlimited number of preferred shares, issuable in series. The shares have no stated par value. No preferred shares have been issued. All common shares are entitled to receive dividends as declared and are entitled to one vote per share at Company meetings.

On December 19, 2016, the Company announced the renewal of its normal course issuer bid (NCIB). The Company may purchase, for cancellation, up to a maximum of 3,493,536 common shares, equal to 10 percent of the public float of 34,935,363 common shares as at December 15, 2016. The Company is also limited under

the NCIB to purchasing no more than 4,728 common shares on any given day, subject to the block purchase exemption under the TSX rules. The NCIB will continue until December 20, 2017. Purchases will be made on the open market through the TSX or alternative platforms at the market price of such shares. All shares purchased under the NCIB will be cancelled.

During the year ended December 31, 2016 the Company purchased, for cancellation 341,272 (2015 – 1,625,400) common shares pursuant to its NCIB at a weighted average price of \$2.30 (2015 – \$2.50) per share, including brokerage fees, for a total cost of \$786,000 (2015 – \$4.1 million). The total cost paid, including fees, was first charged to share capital to the extent of the average carrying value of the common shares purchased and the excess of \$313,000 (2015 – \$1.8 million) was charged to the deficit.

The purchase price of the \$3.65 million acquisition discussed in Note 6 was partially funded through the issuance of 669,643 Pulse common shares valued at approximately \$2.24 per share, based on the 10-day volume-weighted average price of the shares on the Toronto Stock Exchange at close of trading on January 21, 2016.

B) DIVIDENDS

No dividends were paid in 2016.

In 2015, the Company declared and paid three quarterly dividends of \$0.02 per common share for a total of \$0.06 per common share, totalling \$3.4 million.

10. SHARE-BASED PAYMENTS

In 2012, the Company's Board of Directors approved a new LTIP plan 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 RSUs and PSUs, 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 on the common shares.

On March 31, 2016 one-third of the awards which were eligible to vest were RSUs and two-thirds were PSUs. The Company's performance in 2015 did not meet the predetermined performance measures and, consequently, no PSUs vested on March 31, 2016. RSUs vested automatically based upon time and, consequently, all of the eligible RSUs vested automatically on March 31, 2016.

To satisfy its obligation, in April 2016 the Company provided \$182,000 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, 2016. The related payroll taxes of \$131,000 were paid in June 2016 to settle fully the accrued cash-settled portion of the share-based payment liabilities.

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, based on current knowledge, future outcomes could differ from the estimates 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.

During the year ended December 31, 2016, the Company recognized \$362,000 (2015 – \$238,000) in compensation expense related to the LTIP in salaries, internal commissions and benefits on the statement of comprehensive loss. The equity-settled portion was \$227,000 (2015 – \$220,000).

At December 31, 2016 the obligation related to the cash-settled portion of the LTIP was \$175,000 (December 31, 2015 – \$174,000) with \$83,000 (December 31, 2015 – \$98,000) included in accounts payable and accrued liabilities and \$92,000 (December 31, 2015 – \$76,000) included in other long-term liabilities.

The following summarizes activity in the Company's LTIP during the years ended December 31, 2016 and 2015:

RSUs	2016	2015
Outstanding, January 1	344,729	427,359
Vested	(121,713)	(174,577)
Granted	142,055	133,520
Dividend-equivalent share units	-	8,930
Cancelled or forfeited	(21,631)	(50,503)
Outstanding, December 31	343,440	344,729

PSUs	2016	2015
Outstanding, January 1	498,746	658,896
Vested	-	(10,910)
Granted	208,469	201,950
Dividend-equivalent share units	-	13,584
Cancelled or forfeited	(187,498)	(364,774)
Outstanding, December 31	519,717	498,746

On March 31, 2017, 95,919 RSUs will vest automatically and, based on the Company's performance in 2016 and the predetermined performance measures, none of the PSUs will vest. In April 2017, the Company will settle its obligation to deliver the common shares by providing funds to the independent LTIP trustee to purchase the shares on the open market.

11. EARNINGS PER SHARE

A) BASIC EARNINGS PER SHARE

The calculation of basic earnings per share at December 31, 2016 was based on the loss attributable to common shareholders of \$7.5 million for the year ended December 31, 2016 (2015 – loss of \$5.3 million) and a weighted average number of common shares of 56,105,593 (2015 – 56,628,524), calculated as follows:

	2016	2015
Common shares outstanding, January 1	55,592,689	57,247,843
Effect of shares issued, purchased and cancelled	(109,169)	(619,319)
Effect of common shares issued during year	622,073	-
Weighted average number of common shares for the year ended December 31	56,105,593	56,628,524

B) DILUTED EARNINGS PER SHARE:

The Company does not have any dilutive securities.

12. SALARIES, INTERNAL COMMISSIONS AND BENEFITS

For the years ended December 31,	Note	2016	2015
Salaries and benefits		2,455	3,321
Internal commissions		179	259
Registered retirement savings plan contributions		108	131
Short-term incentives		-	40
Long-term incentives	10	362	238
Total salaries, internal commissions and benefits		3,104	3,989

13. OTHER SELLING, GENERAL AND ADMINISTRATIVE COSTS

For the years ended December 31,	2016	2015
External commissions	102	35
Occupancy cost and other leases	614	645
Office and general cost	251	421
Information technology	436	356
Reprocessing and data storage	136	145
Directors' fees and corporate costs	422	450
Consulting fees	46	46
Professional fees	344	229
Total other selling, general and administrative costs	2,351	2,327

14. NET CHANGE IN NON-CASH OPERATING WORKING CAPITAL

For the years ended December 31	2016	2015
Trade and other receivables	349	925
Prepaid expenses	(31)	(17)
Accounts payable and accrued liabilities	(251)	(963)
Deferred revenue	365	(768)
Other long-term payable	16	(101)
Others	(85)	(27)
Net change in non-cash operating working capital	363	(951)

15. FINANCIAL INSTRUMENTS

The Company's risk management policy objectives include the long-term management of the Company's business activities and, wherever possible, mitigation of the associated business risks. The Company has exposure to the following risks from its use of financial instruments:

- Credit risk;
- Liquidity risk; and
- Market risk.

A) RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. The Company, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Audit and Risk Committee oversees how management monitors compliance with the Company's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the Company. Reviews of risk management controls and procedures are performed, the results of which are reported to the Board of Directors.

B) CREDIT RISK

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Company's accounts receivable.

The Company is exposed to credit risk in connection with data sales and participation surveys with its customers. The Company's exposure to credit risk is influenced mainly by each customer's individual characteristics. The nature of the Company's customer base, including the default risk of the industry in which customers operate, has an influence on credit risk. As the Company operates to a large extent in the oil and natural gas industry, nearly all of the trade receivables relate to customers from this industry.

The effective monitoring and control of credit risk is a core competency of the Company. Each new customer is analyzed individually for creditworthiness, including credit reference checks, before payment and delivery terms and conditions such as credit limits are offered. Customer accounts are monitored and accounts receivable aging is regularly reviewed. Certain customers have signed agreements with the Company that provide for extended payment terms. The Company's credit risk increases in these arrangements due to their longer time-frame. The risk is mitigated by attempting to limit these arrangements to major oil and natural gas companies which have long operating histories and adequate resources to fulfill their commitments.

The majority of the Company's customers have been doing business with the Company for many years, and insignificant losses have occurred in the past. The Company does not require customers to provide collateral.

EXPOSURE TO CREDIT RISK

The carrying amount of financial assets represents the maximum credit exposure. The maximum exposure to credit risk at the reporting date was the value of accounts receivable of \$5.8 million. The Company has a significant concentration of customers in the oil and natural gas industry, with the majority located in Alberta. At December 31, 2016, 83 percent of total accounts receivable were due from four customers. For the year ended December 31, 2016, approximately 43 percent of the Company's data library sales were attributable to three customers.

The aging of trade receivables at the reporting date was:

	2016		2015	
	Gross	Impairment	Gross	Impairment
Current	5,801	-	6,158	-
Past due 31-60 days	8	-	-	-
Past due 61-90 days	-	-	-	-
More than 90 days	-	-	-	-
Total	5,809	-	6,158	-

The above accounts receivable of \$5.8 million include accounts receivable of \$2.6 million from four clients benefiting from extended payment terms. All amounts are due during the year 2017.

As at the reporting date, the Company believes that all accounts are collectible, based on historical payment behaviour and extensive analysis of customers' underlying credit ratings.

C) LIQUIDITY RISK

Liquidity risk is the risk that the Company will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled in cash or another financial asset. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under normal and stressed conditions, without incurring unacceptable losses or risking damage to its reputation.

The Company regularly monitors its cash flow and funding options available in the capital markets, as well as trends in the availability and costs of such funding, with a view to maintaining financial flexibility and limiting repayment risks. The Company does not believe that it will encounter difficulty in meeting its financial obligations. Consolidated cash flow information, including a projection for the remainder of the year where applicable, is presented to the Audit and Risk Committee quarterly, which aids in planning to ensure that the Company has sufficient cash to meet expected operational expenses, including the servicing of financial obligations.

Beyond cash on hand of \$5.8 million and effective working capital, at December 31, 2016 the Company had \$30.0 million available for future draws on its revolving credit facility, and a further \$40.0 million was also available subject to the banking syndicate's approval to activate an accordion feature. The facility was undrawn and this availability was therefore unchanged as at March 6, 2017.

The following are the contractual maturities of financial liabilities at December 31, 2016:

	Carrying amounts	2017	2018	2019	2020 and after
Accounts payable	558	558	-	-	-
Long-term payable	92	-	92	-	-
Total	650	558	92	-	-

D) MARKET RISK

Market risk is the risk that changes in market prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return.

i) COMMODITY PRICE RISK

The Company is not directly exposed to commodity price risk as it does not have any contracts that are directly based on commodity prices. A change in commodity prices, specifically oil and natural gas prices, could have a material impact on the Company's customers' cash flows and could therefore affect the level of seismic data library sales and participation surveys. Commodity prices are affected by many factors, including supply and demand. The Company has not entered into any commodity price risk contracts. Given that this is an indirect influence, the financial impact on the Company of changing oil and natural gas prices is not reasonably determinable.

ii) INTEREST RATE RISK

The Company's interest rate risk exposure is mainly related to long-term debt. The Company is exposed to interest rate cash-flow risk on its floating-rate long-term debt as described in note 7. Changes in market interest rates will cause fluctuations in future interest payments.

The Company earns minimal interest income on its cash balances.

A change of 100 basis points in interest rates for the year ended December 31, 2016 would have had no effect on earnings in 2016 (2015 – \$33,000) because the facility was undrawn throughout the year, assuming all other variables remained constant.

E) FAIR VALUES

The fair values of cash and cash equivalents, accounts receivable and accounts payable approximate their carrying amount largely due to the short-term maturities of these instruments.

16. CAPITAL MANAGEMENT

The Company considers its capital structure to include shareholders' equity and long-term debt, but carried no balance on long-term debt at December 31, 2016 or 2015.

As at December 31,	2016	2015
Shareholders' equity	38,646	45,389
Long-term debt	-	-
Total capitalization	38,646	45,389

The Company's primary objective when managing capital is to preserve its ability to execute its long-term growth plan of significantly increasing the size of the seismic data library, so that it can maximize revenue and, ultimately, shareholder value. Sales generated from the seismic data library provide the Company with high levels of cash, and its most significant expense is non-cash amortization. Due to this, the Company has been able to repay long-term debt and continue to fund data library growth.

The Company requires flexibility in managing the capital structure so that it can take advantage of opportunities to raise additional capital as opportunities for data acquisitions or participation surveys arise. The Company uses a combination of debt and equity and relies on key internal measures such as the long-term debt to TTM

cash EBITDA ratio and the long-term debt to equity ratio to forecast and structure its capital requirements. From time to time the Company purchases its own shares on the market through its NCIB, the timing of which depends on market prices.

Cash EBITDA is defined by the Company as earnings before interest, taxes, depreciation and amortization less participation survey revenue, plus non-cash and non-recurring expenses. Cash EBITDA is a measure that does not have any standardized meaning prescribed by IFRS or Canadian generally accepted accounting principles and is therefore unlikely to be comparable to similar measures presented by other issuers.

The long-term debt to TTM cash EBITDA ratio is calculated as long-term debt at the end of the period, divided by 12-month trailing cash EBITDA. This measure is substantially the same as the total debt to adjusted EBITDA ratio covenant in the Company's credit facility, with the exception that the covenant calculation under the credit facility allows for the addition of normalized cash flow from acquisitions for the months during the trailing 12 months that the Company didn't own the acquired data.

As the balance of the long-term debt was nil at December 31, 2016, the long-term debt to TTM cash EBITDA ratio and long-term debt to equity ratio were 0.00:1 at December 31, 2016.

As discussed in note 7, the Company is subject to debt covenants on its long-term debt as of December 31, 2016. Having no debt at December 31, 2016, the Company was in compliance with all covenants.

The Company is subject to maximum limits on the number of shares it may purchase through its NCIB.

There were no changes in the Company's approach to capital management during the year.

17. OPERATING LEASES AND OTHER COMMITMENTS

The Company leases office space and office equipment under operating leases. The office space lease expires in May 2017. In January 2017, the Company signed a sublease agreement for new office space. This sublease expires in March 2023.

During the year ended December 31, 2016, \$609,000 (2015 – \$640,000) was recognized in selling, general and administrative expenses in respect of operating leases.

Obligations for seismic data services contracts include geophysical services such as digitization and data storage.

During the year ended December 31, 2016, \$136,000 (2015 – \$144,000) was recognized in selling, general and administrative expenses in respect of seismic data services.

The following table represents expected operating lease payments and minimum payments under seismic data services contracts:

	2017	2018	2019	2020	2021 and after
Operating leases	304	324	313	313	703
Seismic data services	250	30	-	-	-
Total	554	354	313	313	703

18. RELATED-PARTY TRANSACTIONS

The Company has a related-party relationship with its Board of Directors and with key management personnel.

A) KEY MANAGEMENT PERSONNEL COMPENSATION

In addition to their salaries, the executive officers participate in the Company's short-term incentive cash-bonus plan and LTIP (refer to note 10).

Key management personnel compensation comprised:

For the years ended December 31,	2016	2015
Fixed salary	798	994
Termination payments	-	357
Short-term employee benefits	57	77
Short-term incentive plan	-	20
LTIP	132	74
	987	1,522

B) TRANSACTIONS WITH DIRECTORS

Directors also participate in the Company's LTIP (refer to note 10).

The remuneration of the Directors is as follows:

For the years ended December 31,	2016	2015
Directors' fees	216	239
LTIP	101	93
	317	332

CORPORATE INFORMATION

Pulse is a market leader in the acquisition, marketing and licensing of 2D and 3D seismic data to the western Canadian energy sector. Pulse owns the second-largest licensable seismic data library in Canada, currently consisting of approximately 28,600 net square kilometres of 3D seismic and 447,000 net kilometres of 2D seismic. The library extensively covers the Western Canada Sedimentary Basin where most of Canada's oil and natural gas exploration and development occur.

OFFICERS

Neal Coleman

President and CEO

Pamela Wicks

Vice President Finance and CFO

Trevor Meier

Vice President

Sales and Marketing

Norman Hall

Corporate Secretary

BOARD OF DIRECTORS

Robert Robotti ^{(1) (2) (3)}

Chair

Karen El-Tawil ^{(1) (2) (4)}

Director

Peter Burnham ^{(2) (4)}

Director

Daphne Corbett ^{(1) (3) (4)}

Director

Clark Zentner ^{(2) (3)}

Director

BANKERS

The Toronto-Dominion Bank
Calgary, Alberta

Alberta Treasury Branches
Calgary, Alberta

REGISTRAR AND TRANSFER AGENT

Computershare Trust Company
of Canada
Calgary, Alberta

SOLICITORS

Gowling WLG
Calgary, Alberta

AUDITORS

KPMG LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

Stock Exchange Listing
TSX: PSD
OTCQX: PLSDF

HEAD OFFICE

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www.pulsesismic.com

(1) Member of the
Audit and Risk Committee

(2) Member of the
Compensation Committee

(3) Member of the Corporate
Governance and
Nominating Committee

(4) Member of the Environment,
Health and Safety Committee



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