

Pulse Seismic Inc.

Form 51-102F4

Business Acquisition Report

Item 1 Identity of Company

1.1 Name and Address of Company

Pulse Seismic Inc. ("Pulse" or the "Company")
2700, 421-7 Avenue SW
Calgary, Alberta T2P 4K9

1.2 Executive Officer

The name and business telephone number of an executive officer of Pulse who is knowledgeable about the Acquisition (as defined below) and this business acquisition report is:

Pamela Wicks
VP Finance and
Chief Financial Officer
Phone: 403-531-0207

Item 2 Details of Acquisition

2.1 Nature of Business Acquired

On January 15, 2019, Pursuant to the terms of the acquisition (the "Acquisition"), Pulse acquired 100% of the shares of Seitel Canada Ltd. ("Seitel"), for initial cash consideration of \$53.6 million paid at closing plus potential additional payments of up to \$5 million, in the aggregate, within two years of closing. There are additional ongoing future liabilities estimated to be worth approximately \$4.2 million that include such things as office leases and contracted marketing costs, which were taken into consideration in finalizing the purchase price.

The Acquisition more than doubled the size of the Company's seismic data library, making it Canada's largest provider of licensable seismic data to the oil and natural gas industry in the Western Canada Sedimentary Basin.

The assets of Seitel, a privately held company, consist primarily of its 2D and 3D seismic data library in Western Canada. Seitel seismic data library includes approximately 36,354 net square kilometres of 3D data and 379,207 net kilometres of 2D seismic data. Pulse will thereby more than double its 3D library to be the owner of approximately 65,310 net square kilometres and nearly double the 2D library to approximately 829,207 net kilometres. The Acquisition was completed pursuant to the terms of a share purchase agreement dated January 15, 2019, which contained customary closing conditions, adjustment provisions and commercial representations and warranties.

The newly acquired seismic data is unique and complementary to Pulse's data, with minimal overlap within the most valuable asset, the 3D library, and only a small percentage of overlap in the 2D library. The new 3D seismic data provides the following approximate coverage over these significant plays:

- Montney – 16,336 km²
- Cardium – 8,994 km²
- Viking – 3,036 km²
- Horn River – 2,980 km²
- Duvernay – 2,856 km²
- Bluesky – 2,263 km²
- Bakken – 1,535 km²

2.2 Acquisition Date

The closing date of the Acquisition was January 15, 2019.

2.3 Consideration

Under the Acquisition agreement, the aggregate consideration paid by Pulse was \$53.6 million and was paid in cash and financed by a combination of Pulse's cash on hand of \$20.6 million and \$33.0 million of debt as described below. Additionally, Seitel Canada Holdings, Inc., the "Vendor", has assumed a deferred payment of up to \$5.0 million, which will be payable by Pulse in the two years following closing and is calculated as a percentage of sales of the former Seitel data library, as more particularly described in the Acquisition agreement, a copy of which can be found on Pulse's SEDAR profile at www.sedar.com.

2.4 Effect on Financial Position

In connection with the Acquisition, Pulse has taken on a total of \$33.0 million in debt and a deferred payment to the Vendor for up to \$5.0 million. Prior to the acquisition, Pulse did not have any debt.

In connection with the Acquisition, Pulse has entered into an amended and restated credit agreement with its senior lenders, pursuant to which Pulse's credit facilities are comprised of \$15.0 million in term debt, the entirety of which has been utilized for the Acquisition, and a \$30.0 million revolving facility, \$8.0 million of which has been drawn for the Acquisition. There is also a \$25.0 million accordion feature which allows the Company to increase the facility's size up to \$70.0 million, subject to consent of lenders.

Further, Pulse has also entered into a five-year subordinated debt agreement with Edgepoint Investment Group Inc. (Edgepoint), a non-arm's-length party, for \$10.0 million, and which agreement has no requirement to repay the principal prior to the end of term (the "subordinated credit agreement"). Under the terms of the subordinated credit agreement, the loan will accrue interest daily at a rate of 10% per annum, calculated monthly in arrears and payable at the end of each quarter.

The balance of up to \$5.0 million is a deferred payment that will be paid to the Vendor at a rate representing 50% of the sales revenue generated from the former Seitel data library during the two years following the closing of the transaction. The Company expects to pay this \$5.0 million.

For information relating to the expected effect of the Acquisition on Pulse's financial performance and financial position, please refer to the unaudited pro forma consolidated financial statements referred to under Item 3 below and attached hereto as Schedule "B".

Except as otherwise publicly disclosed and in the ordinary course, other than in respect of changes that occurred as a result of the Acquisition and changes to Seitel personnel, Pulse does not presently have any plans or proposals for material changes in its business affairs or the business affairs of Seitel which may have a significant effect on the financial performance and financial position of Pulse. Pulse has assumed an estimated \$4.2 million future liabilities that include such things as office and warehouse lease, severance payments to former Seitel employees and contracted marketing costs. Seitel had 13 employees prior to the acquisition and Pulse had 16. Subsequent to a two month integration period, Pulse now has 17 employees to manage the combined entities and the remaining employees have been terminated. These are examples of the significant synergies that can be realized in combining the two seismic data libraries to be managed by one team. The downtown office space that formerly housed Seitel is no longer in use, and available for sub-lease until November 2022.

Copies of the subordinated credit agreement and amended and restated credit agreement with Pulse's senior lenders can be found on the Company's SEDAR profile at www.sedar.com.

2.5 Prior Valuations

To the knowledge of Pulse, no valuation opinion was obtained within the last twelve months by either Pulse or Seitel that was required by securities legislation, or a Canadian exchange or market, to support the consideration paid by Pulse in connection with the Acquisition.

2.6 Parties to Transaction

The Acquisition was not with an "informed person", "associate" or "affiliate" of the Company (each as defined under applicable securities legislation).

2.7 Date of Report

April 12, 2019

Item 3 Financial Statements and Other Information

The following financial statements of Seitel are attached as Schedule "A" to, and form a part of, this business acquisition report:

- (i) the audited financial statements of Seitel as of and for the years ended December 31, 2018 and December 31, 2017, together with the notes thereto and the report of independent registered public accounting firm thereon.

The following *pro forma consolidated* financial statements of Pulse after giving effect to borrowings under the syndicated restated credit agreement, the subordinated credit agreement and the Acquisition are attached as Schedule "B" to, and form a part of, this business acquisition report:

(i) the unaudited *pro forma* consolidated statement of financial position of Pulse as at December 31, 2018; and

(ii) the unaudited *pro forma* consolidated statement of net loss and comprehensive loss of Pulse for the year ended December 31, 2018, including *pro forma* net loss per share calculations, together with the notes thereto.

Special Note Regarding Forward-Looking Statements

This business acquisition report contains certain forward-looking information and statements that involves various risks, uncertainties and other factors. The use of any of the words “anticipate”, “continue”, “estimate”, “expect”, “may”, “will”, “should”, “believe”, “plans”, and similar expressions are intended to identify forward-looking information or statements. In particular, but without limiting the foregoing, this business acquisition report contains forward-looking information and statements pertaining to the expected effects of the Acquisition on Pulse’s financial performance and financial position.

With respect to forward-looking information contained in this business acquisition report, assumptions have been made regarding, among other things: that the Company will continue to conduct its operations in a manner consistent with past operations; future oil, natural gas and natural gas liquids prices; the Company’s ability to integrate Seitel’s business and operations with Pulse’s business and operations; the Company’s ability to market successfully to current and new clients; future capital expenditures to be made by the Company; future sources of funding for the Company’s capital program; the Company’s future debt levels; and the Company’s ability to obtain financing on acceptable terms.

Actual results could differ materially from those anticipated in the forward-looking information as a result of the possible failure of the Company to realize the anticipated benefits of the Acquisition; volatility of the oil and natural gas industry; restrictions on access to capital; direct and indirect exposure to volatile credit markets; merger and acquisition activity among the Company’s clients; federal and provincial legislative and regulatory initiatives could result in increased costs and additional operating restrictions or delays; health, safety and environment laws and regulations may require the Company to make substantial expenditures or cause it to incur substantial liabilities; negative cash flows from operating activities; third-party credit risk; hazards inherent to participation survey field operations which may not be covered to the full extent by the Company’s insurance policies; reliance on a few key employees; legal proceedings involving the Company; failure to maintain the Company’s safety standards and record; failure to realize anticipated benefits of acquisitions and dispositions; actual results may differ materially from management estimates and assumptions; the costs of various greenhouse gas regulations; misappropriation or infringement of intellectual property rights; improper access to confidential information; conservation measures and technological advances; terrorist attacks or armed conflict; cyber attacks and the loss of the Company’s information and computer systems; conflicts of interest of directors and officers; reassessment by tax authorities of the Company’s income (loss) calculations; and the Company’s current technology may become obsolete or experience a decrease in demand.

SCHEDULE "A"

AUDITED FINANCIAL STATEMENTS OF SEITEL CANADA LTD. AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2018 AND DECEMBER 31, 2017

(attached)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholder and Board of Directors
Seitel Canada Ltd.
Houston, Texas

Opinion on the Financial Statements

We have audited the accompanying balance sheets of Seitel Canada Ltd. (the Company), a wholly-owned subsidiary of Seitel Canada Holdings, Inc., as of December 31, 2018 and 2017, the related statements of operations, stockholder's equity and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ **BKD, LLP**

We have served as the Company's auditor since 2018.

Houston, Texas
March 27, 2019

SEITEL CANADA LTD.
BALANCE SHEETS

(In thousands, except share and per share amounts)

	December 31,	
	2018	2017
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 1,371	\$ 33,791
Receivables		
Trade, less allowance for doubtful accounts of \$0 and \$15, respectively	252	4,910
Notes and other	7	125
Due from affiliates	—	2,696
Prepaid expenses and other current assets	102	190
Assets held for sale	3,755	4,312
Total Current Assets	5,487	46,024
Seismic data library	433,001	430,939
Less: Accumulated amortization	(423,540)	(415,143)
Net seismic data library	9,461	15,796
Property and equipment	8,183	8,253
Less: Accumulated depreciation and amortization	(7,257)	(7,057)
Net property and equipment	926	1,196
Other assets	93	148
Goodwill	50,009	99,891
Total Assets	<u>\$ 65,976</u>	<u>\$ 163,055</u>
LIABILITIES AND STOCKHOLDER'S EQUITY		
Current Liabilities:		
Accounts payable	\$ 298	\$ 4,513
Accrued liabilities	724	1,302
Employee compensation payable	325	197
Due to affiliates	155	—
Income taxes payable	—	3,469
Deferred revenue	1,361	1,916
Current portion of capital lease obligations	377	354
Total Current Liabilities	3,240	11,751
Obligations under capital lease	978	1,355
Deferred income taxes	681	1,704
Total Liabilities	<u>4,899</u>	<u>14,810</u>
Commitments and Contingencies		
Stockholder's Equity		
Common stock, no par value; unlimited shares authorized; 316,080,137 shares issued	285	285
Additional paid-in capital	172,433	207,769
Retained deficit	(111,641)	(59,809)
Total Stockholder's Equity	61,077	148,245
Total Liabilities and Stockholder's Equity	<u>\$ 65,976</u>	<u>\$ 163,055</u>

The accompanying notes are an integral part of these financial statements.

SEITEL CANADA LTD.
STATEMENTS OF OPERATIONS
(In thousands)

	Year Ended December 31,	
	2018	2017
REVENUE	\$ 7,085	\$ 32,818
EXPENSES:		
Depreciation and amortization	8,709	19,477
Impairment of goodwill	49,882	—
Cost of sales	75	9
Selling, general and administrative	5,138	5,469
	<u>63,804</u>	<u>24,955</u>
INCOME (LOSS) FROM OPERATIONS	(56,719)	7,863
Interest expense	(112)	(140)
Interest income	433	281
Foreign currency exchange gains	1,156	74
Other income	29	5
Income (loss) from continuing operations, before taxes	(55,213)	8,083
Provision (benefit) for income taxes	(2,424)	1,825
Income (loss) from continuing operations	<u>(52,789)</u>	<u>6,258</u>
Discontinued operations:		
Income from discontinued operations before income taxes	1,311	600
Income tax provision	354	162
Income from discontinued operations	<u>957</u>	<u>438</u>
NET INCOME (LOSS)	<u><u>\$ (51,832)</u></u>	<u><u>\$ 6,696</u></u>

The accompanying notes are an integral part of these financial statements.

SEITEL CANADA LTD.
STATEMENTS OF STOCKHOLDER'S EQUITY
(In thousands, except share amounts)

	Common Stock		Additional Paid-In Capital	Retained Deficit
	Shares	Amount		
Balance, December 31, 2016	316,080,137	\$ 285	\$ 207,769	\$ (66,505)
Net income	—	—	—	6,696
Balance, December 31, 2017	316,080,137	285	207,769	(59,809)
Net loss	—	—	—	(51,832)
Return of capital to Seitel Canada Holdings, Inc.	—	—	(35,336)	—
Balance, December 31, 2018	316,080,137	\$ 285	\$ 172,433	\$ (111,641)

The accompanying notes are an integral part of these financial statements.

SEITEL CANADA LTD.
STATEMENTS OF CASH FLOWS

(In thousands)

	Year Ended December 31,	
	2018	2017
Cash flows from operating activities:		
Net income (loss)	\$ (51,832)	\$ 6,696
Income from discontinued operations, net of tax	957	438
Income (loss) from continuing operations	(52,789)	6,258
Adjustments to reconcile income (loss) from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation and amortization	8,709	19,477
Impairment of goodwill	49,882	—
Deferred income tax benefit	(2,423)	(1,358)
Foreign currency exchange gains	(1,156)	(74)
Increase (decrease) in allowance for doubtful accounts	(15)	15
Gain on sale of property and equipment	(29)	(5)
Non-cash revenue	(239)	—
Decrease in receivables	4,791	7,939
Decrease (increase) in prepaid expenses and other assets	114	(1)
Decrease in deferred revenue	(382)	(7)
Increase (decrease) in accounts payable and other liabilities	(2,309)	1,696
Increase in amounts due from affiliates	(150)	(4,157)
Net cash provided by operating activities of continuing operations	<u>4,004</u>	<u>29,783</u>
Cash flows from investing activities:		
Cash invested in seismic data	(6,363)	(8,585)
Cash paid to acquire property and equipment	(41)	(77)
Cash from sale of property and equipment	29	5
Net cash used in investing activities of continuing operations	<u>(6,375)</u>	<u>(8,657)</u>
Cash flows from financing activities:		
Principal payments on capital lease obligations	(354)	(318)
Return of capital to Seitel Canada Holdings, Inc.	(32,085)	—
Net cash used in financing activities of continuing operations	<u>(32,439)</u>	<u>(318)</u>
Net increase (decrease) in cash and cash equivalents of continuing operations	(34,810)	20,808
Net cash provided by operating activities of discontinued operations	3,503	6,337
Net cash used in investing activities of discontinued operations	(2,151)	(4,293)
Net cash provided by discontinued operations	1,352	2,044
Effect of exchange rate changes on cash	1,038	164
Cash and cash equivalents at beginning of period	<u>33,791</u>	<u>10,775</u>
Cash and cash equivalents at end of period	<u>\$ 1,371</u>	<u>\$ 33,791</u>
Supplemental disclosure of cash flow information:		
Cash paid during the period for:		
Interest	\$ 112	\$ 140
Income taxes, net of refunds received	\$ 2,932	\$ 648
Supplemental schedule of non-cash investing and financing activities:		
Additions to seismic data library	\$ —	\$ (14)

The accompanying notes are an integral part of these financial statements.

SEITEL CANADA LTD.
NOTES TO FINANCIAL STATEMENTS
December 31, 2018

NOTE A-BASIS OF PRESENTATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization: Seitel Canada Ltd. (the “Company”) was incorporated under the laws of Alberta Canada on July 15, 1997. The Company is a wholly-owned subsidiary of Seitel Canada Holdings, Inc., a United States privately owned corporation that is a wholly-owned subsidiary of Seitel, Inc., a wholly-owned subsidiary of Seitel Holdings, Inc. (“Holdings”). Holdings is an investment entity in which Centerbridge Capital Partners II, L.P. and Centerbridge Capital Partners SBS II, L.P. together own a majority interest. On January 15, 2019, Seitel Canada Holdings, Inc. entered into a Share Purchase Agreement with Pulse Seismic, Inc. to sell all of the issued and outstanding shares of the Company (the “January 2019 Transaction”). See further discussion of the January 2019 Transaction at Note L - “Subsequent Events.”

Nature of Operations: The Company owns an extensive library of proprietary onshore seismic data that it offers for license to exploration and production (“E&P”) companies. The majority of the Company’s seismic surveys cover onshore areas in Western Canada and its territories. The Company has leading seismic market positions in key unconventional plays, including oil and liquids-rich plays such as the Montney, Duvernay and Horn River. To support its seismic data licensing business and its clients, the Company maintains warehouse and electronic storage facilities in Calgary, Alberta and offers, through its Seitel Solutions business unit (“Solutions”), the ability to access and interact, via a standard web browser and the Internet, with the seismic data library owned and marketed by the Company.

Assets Held for Sale and Discontinued Operations: The Company carries assets held for sale at the lower of carrying value or fair value less costs to sell. The results of operations of a component that is classified as held for sale are reported in discontinued operations if the disposal represents a strategic shift that has or will have a major effect on an entity’s operations and financial results. The notes to the financial statements reflect the Company’s assets held for use and its continuing operations.

Use of Estimates and Assumptions: The preparation of the Company’s financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the accounting for and recognition of assets, liabilities, revenues and expenses. These estimates and assumptions must be made because certain information that is used in the preparation of the Company’s financial statements is dependent on future events, cannot be calculated with a high degree of precision from data available or is not otherwise capable of being readily calculated based on generally accepted methodologies. In some cases, these estimates are particularly difficult to determine and the Company must exercise significant judgment.

The most difficult, subjective and complex estimates and assumptions that deal with the greatest amount of uncertainty are related to the Company’s accounting for its seismic data library and goodwill.

The Company’s accounting for its seismic data library requires it to make significant subjective estimates and assumptions relative to future sales and cash flows from such library. These cash flows impact amortization rates, as well as potential impairment charges. Any changes in the Company’s estimates or underlying assumptions may impact the Company’s results of operations prospectively from the date changes are made. To the extent that such estimates, or the assumptions used to make those estimates, prove to be significantly different than actual results, the carrying value of the seismic data library may be subject to higher prospective amortization rates, additional straight-line amortization or impairment losses.

In a portion of its seismic data library activities, the Company engages in certain non-monetary exchanges and records a data library asset for the seismic data received and recognizes revenue on the transaction in accordance with its policies on revenue recognition. These transactions are valued at the fair value of the data received by the Company or licenses or services granted by the Company, whichever is more readily determinable. The Company’s estimate of the value of these transactions is highly subjective and based, in large part, on data sales transactions between the Company and a limited number of customers over a limited time period.

When required to perform its goodwill impairment test, the Company makes estimates of fair value which requires significant judgment and estimates about the future performance and/or selling price of the Company.

Actual results could differ materially from the estimates and assumptions that the Company uses in the preparation of its financial statements. To the extent management’s estimates and assumptions change in the future, the effect on the Company’s reported results could be significant to any particular reporting period.

SEITEL CANADA LTD.

NOTES TO FINANCIAL STATEMENTS - Continued

Adoption of New Accounting Standards: In 2018, the Company adopted Financial Accounting Standards Board (“FASB”) Accounting Standards Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606).” The adoption of this new standard had no impact to the Company’s financial statements other than expanded disclosures and ongoing application of the new standard will not have a significant impact to the Company’s revenue recognition. See further discussion and expanded revenue recognition disclosures at below under “Revenue Recognition.”

Also in 2018, the Company adopted ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment.” The new standard simplifies the measurement of goodwill impairment by eliminating Step 2 from the goodwill impairment test. Prior to adoption of the new standard, Step 2 measured a goodwill impairment loss by comparing the implied fair value of a reporting unit’s goodwill with the carrying amount of that goodwill. In order to compute the implied fair value of goodwill under Step 2, an entity had to perform procedures to determine the fair value at the impairment testing date of its assets and liabilities following the same procedure that would be required for purchase price allocation in a business combination. Under the new standard, a goodwill impairment loss is measured using the difference between the carrying amount and the fair value of the reporting unit limited to the total carrying amount of that reporting unit’s goodwill. The Company performed its goodwill impairment test as of December 31, 2018 utilizing the simplified method as prescribed by ASU No. 2017-04. See further discussion at Note D - “Goodwill and Other Intangibles.”

Revenue Recognition: Revenues are primarily derived from licensing of seismic data to customers for fixed consideration. These seismic data licenses represent a single performance obligation and revenue is recognized when a contract with a customer exists and the Company satisfies its performance obligation to the customer either over time in the case of revenue from data acquisition or at a point in time for the majority of its revenue from non-exclusive licenses. If a contract contains multiple performance obligations (seismic data license and reproduction or data processing services), the Company allocates the transaction price to the related performance obligations based on their relative standalone selling prices typically using the residual approach. The Company does not adjust the amount of consideration per the contract for the effects of a significant financing component when the Company expects, at contract inception, that the period between the transfer of a promised good or service to a customer and when the customer pays for that good or service will be one year or less, which is in substantially all cases. Additionally, the Company does not typically extend payment terms beyond one year in its contracts with customers.

The following table presents the Company’s revenues disaggregated by component (in thousands):

	Year Ended December 31,	
	2018	2017
Acquisition underwriting revenue	\$ 1,889	\$ 10,919
Resale licensing revenue	4,321	21,004
Total seismic revenue	<u>6,210</u>	<u>31,923</u>
Solutions and other	875	895
Total revenue	<u>\$ 7,085</u>	<u>\$ 32,818</u>

Revenue from Data Acquisition

The Company generates revenue when it creates a new seismic survey that is initially licensed by one or more of its customers to use the resulting data. The payments for the initial licenses, representing the fixed consideration stated per the contract, are sometimes referred to as acquisition underwriting or prefunding. Customers make periodic payments throughout the new survey creation period based on milestones stated per the contract, which generally correspond to costs incurred and work performed. These payments are non-refundable. Contracts signed up to the time the Company makes a firm commitment to create the new seismic survey are considered acquisition underwriting. Any subsequent license of the data while the survey is in progress or once it is completed is considered a resale license (see “Revenue from Non-Exclusive Data Licenses”).

The data license and acquisition services provided by the Company represent a single performance obligation as the data acquisition services are not distinct from the corresponding data license; therefore, acquisition underwriting revenue is recognized throughout the new survey creation period using the proportional performance method. The proportional performance amount at each reporting period is calculated using an input method based upon costs incurred and work performed to date as a percentage of total estimated costs and work required. Management believes that this method is the most reliable and representative measure of progress for its new survey creation projects and satisfaction of its performance obligation for recognition of its acquisition underwriting revenue. On average, the duration of the new survey creation process is approximately 6 to 9 months.

SEITEL CANADA LTD.

NOTES TO FINANCIAL STATEMENTS - Continued

Under the contracts related to the new survey, the Company creates new seismic data designed in conjunction with its customers and specifically suited to the geology of the area using the most appropriate technology available. The Company outsources the substantial majority of the work required to complete data acquisition projects to third-party contractors. The Company's payments to these third-party contractors comprise the substantial majority of the total estimated costs of the projects and are paid throughout the new survey creation period. A typical survey includes specific activities required to complete the survey creation, each of which has value to the customers. Typical activities, that often occur concurrently, include:

- permitting for land access, mineral rights, and regulatory approval;
- surveying;
- drilling for the placement of energy sources;
- recording the data in the field; and
- processing the data.

The customers paying for the initial licenses to the data created from a new survey have access to and receive legally enforceable rights to any resulting product of each activity described above. The customers also receive access to and use of the newly acquired, processed data.

The customers' access to and use of the results of the work performed and of the newly acquired, processed data is governed by a master license agreement, which is a separate agreement from the acquisition contract. The Company's acquisition contracts require the customer either to have a master license agreement in place or to execute one at the time the acquisition contract is signed. The Company typically maintains sole ownership of the newly acquired data, which is added to its library, and is free to license the data to other customers.

Revenue from Non-Exclusive Data Licenses

The Company recognizes a substantial portion of its revenue from licensing of data that has already been created and is available for delivery. This seismic data license represents a single performance obligation that is typically recognized at a point in time. The revenue is sometimes referred to as resale licensing revenue, late sales or shelf sales.

These sales fall under the following four basic forms of non-exclusive license contracts, each of which is subject to the terms and conditions contained in a customer's master license agreement.

- Specific license contract—The customer licenses specific data from the data library, including data currently in progress, at the time the contract is entered into and holds this license for a long-term period.
- Library card license contract—The customer initially receives only the right to access a certain amount of data. The customer selects which data to access and hold long-term under its license agreement. The length of the selection period under a library card contract is limited in time and varies from customer to customer.
- Review and possession license contract—The customer receives the right to review a certain quantity of data for a limited period of time. During the review period, the customer may select specific data from that available for review to hold long-term under its license agreement. Any data not selected for long-term licensing must be returned to the Company at the end of the review period.
- Review only license contract—The customer obtains rights to review a certain quantity of data for a limited period of time, but does not obtain the right to select specific data to hold long-term.

The Company's non-exclusive license contracts specify the following:

- that all customers must also have in place or execute a master license agreement that governs the use of all data received under each non-exclusive license contract;
- the specific payment terms, generally ranging from 30 days to 12 months, and that such payments are non-cancelable and non-refundable;
- the actual data that is accessible by the customer; and
- that the data is licensed in its present form, as is, where is, and that the Company is under no obligation to make any enhancements, modifications or additions to the data unless specific terms to the contrary are included.

Non-exclusive licenses provide each customer a right to use the seismic data licensed as it exists at contract execution.

SEITEL CANADA LTD.
NOTES TO FINANCIAL STATEMENTS - Continued

Therefore, revenue from the non-exclusive licensing of seismic data is typically recognized at the point in time when the following criteria are met:

- the Company has an approved agreement with the customer;
- the transaction price is determinable;
- collection of consideration (transaction price) is probable;
- the customer has selected the specific data or the contract has expired without full selection; and
- the data is currently available for delivery.

Copies of the licensed data are available to the customer immediately upon request.

For licenses that have been invoiced for which payment is due or has been received, but that have not met the aforementioned criteria, revenue is deferred. This normally occurs under the library card, review and possession or review only license contracts because the data selection may occur over time.

In situations where the non-exclusive license provided to the customer is for seismic data in progress and the resale licensing customer is granted the same legally enforceable rights and access to and use of the results of the acquisition work performed as the original acquisition underwriting clients, the Company recognizes such resale revenue over time during the remaining survey creation period using the proportional performance method, instead of when the data is available for delivery.

Revenue from Non-Monetary Exchanges

In certain cases, the Company will take ownership of a customer's seismic data or revenue interest therein (collectively referred to as "data") in exchange for a non-exclusive license to selected seismic data from the Company's library or, in some cases, reproduction or data processing services. In connection with specific data acquisition contracts, the Company may choose to receive both cash and ownership of seismic data from the customer as consideration for the underwriting of new data acquisition. These transactions are referred to as non-monetary exchanges. A non-monetary exchange for data always complies with the following criteria:

- the data licensed to a customer is always distinct from the data received from that customer;
- the customer forfeits ownership of the data received by the Company; and
- the Company retains ownership of the data licensed to a customer.

In non-monetary exchange transactions, the Company records a data library asset for the seismic data received at the time the contract is entered into and recognizes revenue on the transaction in equal value in accordance with its policy on revenue from resale data licenses or data acquisition, or as services are provided by Solutions, as applicable. The resale data license to the customer is in the form of one of the four basic forms of contracts discussed above. These transactions are valued at the fair value of the data received by the Company or the fair value of the license granted or services provided to the customer, whichever is more readily determinable.

Fair value of the data exchanged is determined using a multi-step process as follows:

- First, the Company considers the value of the data received from the customer. In determining the value of the data received, the Company considers the age, quality, current demand and future marketability of the data and, in the case of 3D seismic data, the cost that would be required to create the data. In addition, the Company applies a limitation on the value it assigns per square mile on the data received.
- Second, the Company determines the value of the license granted to the customer. Typically, the range of cash transactions by the Company for licenses of similar data during the prior six months are evaluated. In evaluating the range of cash transactions, the Company does not consider transactions that are disproportionately high or low.

SEITEL CANADA LTD.**NOTES TO FINANCIAL STATEMENTS - Continued**

Due to the Company's revenue recognition policies, revenue recognized on non-monetary exchange transactions may not occur at the same time that the seismic data acquired is recorded as an asset. The activity related to non-monetary exchanges was as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Seismic data library additions ⁽¹⁾	\$ —	\$ (14)
Revenue recognized on specific data licenses or selections of data	239	—

⁽¹⁾ In 2017, the Company had negative non-cash additions to its seismic data library of approximately \$14,000 related to an adjustment to a prior year non-monetary exchange.

Revenue from Solutions

Revenue from Solutions is recognized as the services for reproduction and delivery of seismic data are provided to customers.

Trade Receivables: Trade receivables include amounts billed and currently due from customers and unbilled amounts typically arising from data acquisition contracts when revenue recognized exceeds the amounts billed to the customer, and right to payment is not just subject to the passage of time. Trade receivables are stated at their net estimated realizable value. The Company maintains an allowance for doubtful accounts to provide for the estimated amount of receivables that will not be collected.

The Company extends credit to various companies in the oil and gas industry for the licensing of seismic data, which results in a concentration of credit risk. This concentration of credit risk may be affected by changes in economic or other conditions and may accordingly impact the Company's overall credit risk. However, management believes that the risk is mitigated by the number, size, reputation, and diversified nature of the companies to which they extend credit. Historical credit losses incurred on receivables by the Company have not been significant relative to sales.

The Company includes taxes, such as goods and services tax, as required, on certain invoices to its customers in order to remit payment to applicable governmental authorities. Tax amounts charged to our customers are excluded from revenues.

Deferred Commissions: The Company's incremental direct costs of obtaining a contract, which primarily consist of sales commissions, are recognized as expense as revenue is recognized on the corresponding contract. Therefore, sales commissions are deferred on licenses that have been invoiced for which payment is due or has been received, but that have not met the criteria needed for revenue recognition. Deferred commissions are included in prepaid expenses and other current assets in the balance sheets and were approximately \$27,000 and \$32,000 as of December 31, 2018 and 2017, respectively.

Contract Liabilities: The Company's contract liabilities consist of billings in excess of revenue recognized and are included in deferred revenue in the balance sheets. The Company's deferred revenue balance is comprised of (i) deferred revenue on data acquisition projects, (ii) data licensing contracts where selection of specific data had not yet occurred, (iii) data licensing contracts with data products not yet available and (iv) data licensing contracts where any other revenue recognition criteria has not yet been met. The deferred revenue will be recognized as work progresses on the data acquisition contracts, when selection of specific data is made by the customer, upon expiration of the data selection period specified in the data licensing contracts if full selection has not occurred, as the data products become available or as all of the revenue recognition criteria are met. Revenue recognized that had been previously deferred was \$0.5 million during the year ended December 31, 2018 and \$1.2 million during the year ended December 31, 2017.

At December 31, 2018, the Company had a deferred revenue balance of \$1.4 million, compared to the December 31, 2017 balance of \$1.9 million. The deferred revenue balance as of December 31, 2018 is scheduled to be recognized no later than 2020 based on the contractual expiration of the selection period, although some revenue may be recognized earlier.

Remaining Performance Obligations: Remaining performance obligations represents the transaction price of executed acquisition contracts for which work has not been performed. The Company had no remaining performance obligations as of December 31, 2018.

Major Customers: During the year ended December 31, 2018, two external customers accounted for more than 10% of total revenue, totaling approximately 29% and 28% each, and one customer accounted for approximately 10%. During the year

SEITEL CANADA LTD.

NOTES TO FINANCIAL STATEMENTS - Continued

ended December 31, 2017, three external customers accounted for more than 10% of revenue, totaling approximately 28%, 21% and 13% each.

Property and Equipment: Property and equipment consists primarily of computer equipment, leasehold improvements and furniture and fixtures stated at historical cost through February 13, 2007, at which time the Company adjusted its property and equipment to fair value in accordance with purchase accounting. Subsequent additions are stated at historical cost. Depreciation of property and equipment is calculated using the straight-line method over the estimated useful lives of the assets, the majority of which are two to five years. Leasehold improvements are amortized using the straight-line method over the shorter of their estimated useful lives or the remaining term of the underlying lease. Depreciation expense for each of the years ended December 31, 2018 and 2017 was \$0.3 million.

Goodwill and Other Intangible Assets: Goodwill is the excess of purchase price over the fair value of the net assets of acquired businesses. The Company's goodwill was the result of push down purchase accounting in February 2007 from Holdings. Goodwill is not amortized but is evaluated whether it is impaired. Goodwill is considered impaired if the carrying amount of the Company exceeds its estimated fair value. The Company first assesses qualitative factors to determine whether it is more likely than not that the fair value is less than its carrying amount as a basis for determining whether it is necessary to perform the goodwill impairment test. If the qualitative assessment indicates that it is more likely than not that the fair value is less than its carrying amount or the Company elects not to perform a qualitative assessment, the quantitative assessment or goodwill test is performed. The goodwill impairment test is also performed whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill impairment loss is measured using the difference between the carrying value and the fair value of the Company limited to the total carrying amount of goodwill.

Income Taxes: The Company follows the asset and liability method of accounting for income taxes. Under this method, deferred income tax assets and liabilities are recorded for the future income consequences of temporary differences between the financial reporting and income tax basis of assets and liabilities, and are measured using enacted tax rates and laws.

Foreign Currency Translation: The Company's financial statements are presented in Canadian dollars as its functional currency is Canadian dollars. The Company's parent and other related entities owned by the parent transact in U.S. dollars. Any gains or losses realized on transactions or monetary assets or liabilities in currencies other than Canadian dollars are included in net income (loss) in the current period. Transaction gains totaled \$1.2 million and \$0.1 million for the years ended December 31, 2018 and 2017, respectively.

Employee Benefit Plan: The Company maintains a Registered Retirement Savings Plan that allows employees to contribute a portion of their compensation on a pre-tax basis in accordance with specified guidelines. The Company matches a percentage of the employee contributions up to certain limits. Savings plan expense amounted to \$0.1 million for each of the years ended December 31, 2018 and 2017.

Recent Accounting Pronouncements: In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" with the objective of increasing transparency and comparability among organizations by requiring lessees to recognize assets and liabilities on the balance sheet for the present value of the rights and obligations created by all leases with terms of more than 12 months. The ASU will also require disclosures designed to give financial statement users information on the amount, timing and uncertainty of cash flows arising from leases. The amendments in this ASU are to be applied using a modified retrospective approach and was adopted by the Company as of January 1, 2019. Upon adoption, the Company recorded a \$0.9 million right-of-use asset and an offsetting lease liability on its balance sheet for its operating lease.

Other new pronouncements issued but not yet effective are not expected to have a material impact on the Company's financial position, results of operations or liquidity.

NOTE B-ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

Immediately before closing the January 2019 Transaction, certain assets were sold to Seitel Canada Holdings, Inc., the Company's parent, for \$10.2 million. The sale will be recorded as a return of capital to Seitel Canada Holdings, Inc. The assets sold included ownership in jointly owned U.S. seismic data library assets, internally developed software and certain hardware and software along with related maintenance agreements. The Company concluded that the sale met the requirements to be classified as assets held for sale and discontinued operations as of December 31, 2018.

SEITEL CANADA LTD.
NOTES TO FINANCIAL STATEMENTS - Continued

Assets held for sale comprised the following (in thousands):

	As of December 31,	
	2018	2017
Assets		
Prepaid expenses and other current assets	\$ 29	\$ —
Seismic data library, net of accumulated amortization of \$20,115 and \$18,003, respectively	3,691	4,257
Property and equipment, net of accumulated depreciation of \$224 and \$199, respectively	35	55
Total assets held for sale	\$ 3,755	\$ 4,312

The following table presents the detail of discontinued operations (in thousands):

	Year Ended December 31,	
	2018	2017
Revenue	\$ 3,799	\$ 4,222
Expenses:		
Depreciation and amortization	2,137	3,300
Selling, general and administrative	351	322
	<u>2,488</u>	<u>3,622</u>
Income from discontinued operations before income taxes	<u>\$ 1,311</u>	<u>\$ 600</u>

NOTE C-SEISMIC DATA LIBRARY

The Company's seismic data library consists of seismic surveys that are offered for license to customers on a non-exclusive basis. Costs associated with creating, acquiring or purchasing seismic data are capitalized and amortized principally on the income forecast method subject to a straight-line amortization period of four years, applied on a quarterly basis at the individual survey level.

The following table sets forth a summary of the net book value of the Company's seismic data library (in thousands):

	As of December 31,	
	2018	2017
Unconventional 3D	\$ 9,223	\$ 15,324
Conventional 3D	63	107
2D	175	365
Total	\$ 9,461	\$ 15,796

At December 31, 2018, there were no seismic data library projects in progress. At December 31, 2017, approximately 17% of the net book value of the seismic data library were projects in progress.

Costs of Seismic Data Library

For newly created data, the capitalized costs include costs paid to third parties for the acquisition of data and related permitting, surveying and other activities associated with the data creation activity. In addition, the Company capitalizes certain internal costs incurred by Seitel Data Processing, Inc. ("SDP"), an affiliated entity, related to processing newly created data and reprocessing existing data. Such costs include salaries and benefits of SDP's processing personnel and certain other costs incurred for the benefit of the processing activity. The Company believes that these capitalized processing costs are not greater than, and generally are less than, those that would be incurred and capitalized if such activity were performed by a third party. Capitalized costs for SDP data processing were \$0.3 million for each of the years ended December 31, 2018 and 2017.

For data received through a non-monetary exchange, the Company capitalizes an amount equal to the fair value of the data received by the Company or the fair value of the license granted or services provided to the customer, whichever is more readily determinable. See Note A for discussion of the process used to determine fair value.

For purchased seismic data, the Company capitalizes the purchase price of the acquired data.

Data Library Amortization

The Company amortizes each survey in its seismic data library using the greater of the amortization that would result from the application of the income forecast method to each survey's revenue, subject to a minimum amortization rate, or a straight-line basis over four years, commencing at the time such survey is completed and available for licensing to customers on a non-exclusive basis.

The Company applies the income forecast method by forecasting the ultimate revenue expected to be derived from a particular data library component over the estimated useful life of each survey comprising part of such component. This forecast is made by the Company annually and reviewed quarterly. If, during any such review, the Company determines that the ultimate revenue for a library component is expected to be significantly different than the most recent estimate of total revenue for such library component, the Company revises the amortization rate attributable to future revenue from each survey in such component. The Company applies a minimum amortization rate of 70%. In addition, in connection with the forecast reviews and updates, the Company evaluates the recoverability of its seismic data library investment, and if required, records an impairment charge with respect to such investment. See discussion on "Seismic Data Library Impairment" below.

The greater of the income forecast or straight-line amortization policy is applied quarterly on a cumulative basis at the individual survey level. Under this policy, the Company first records amortization using the income forecast method. The cumulative amortization recorded for each survey is then compared with the cumulative straight-line amortization. If the cumulative straight-line amortization is higher for any specific survey, additional amortization expense is recorded, resulting in accumulated amortization being equal to the cumulative straight-line amortization for such survey. This requirement is applied regardless of future-year revenue estimates for the library component of which the survey is a part and does not consider the existence of deferred revenue with respect to the library component or to any survey.

Amortization expense totaled \$8.4 million and \$19.0 million for the years ended December 31, 2018 and 2017, respectively. The actual aggregate rate of amortization as a percentage of total seismic revenue was 135% and 60% for the same periods, respectively. The actual aggregate rate of amortization depends on the specific seismic surveys licensed and selected by the Company's customers during the period and the amount of straight-line amortization recorded. The income forecast amortization rates can vary by component and, as of January 1, 2019, the amortization rate utilized under the income forecast method is 70% for all components. Additionally, certain seismic surveys have been fully amortized; consequently, no amortization expense is required on revenue recorded for these seismic surveys.

Seismic Data Library Impairment

The Company evaluates its seismic data library investment into two segments: 3D and 2D onshore. The Company then further groups its individual 3D onshore surveys into components based on its operations and geological and geographical trends, resulting in the following 3D onshore data library segments for purposes of evaluating impairments: Montney, Horn River, Duvernay and other 3D. The Company believes that these library components constitute the lowest levels of independently identifiable cash flows.

The Company evaluates its seismic data library investment for impairment whenever events or changes in circumstances indicate that the carrying amounts may not be recoverable. The Company considers the level of sales performance in each component compared to projected sales, as well as industry conditions, among others, to be key factors in determining when its seismic data investment should be evaluated for impairment. In evaluating sales performance of each component, the Company generally considers five consecutive quarters of actual performance below forecasted sales to be an indicator of potential impairment.

The impairment evaluation is based first on a comparison of the undiscounted future cash flows over each component's remaining estimated useful life with the carrying value of each library component. If the undiscounted future cash flows are equal to or greater than the carrying value of such component, no impairment is recorded. If undiscounted future cash flows are less than the carrying value of any component, the forecast of future cash flows related to such component is discounted to fair value and compared with such component's carrying amount. The difference between the library component's carrying amount and the discounted future value of the expected revenue stream is recorded as an impairment charge.

For purposes of evaluating potential impairment losses, the Company estimates the future cash flows attributable to a library component by evaluating, among other factors, historical and recent revenue trends, oil and gas prospectivity in particular regions, general economic conditions affecting its customer base and expected changes in technology and other factors that the

SEITEL CANADA LTD.
NOTES TO FINANCIAL STATEMENTS - Continued

Company deems relevant. The cash flow estimates exclude expected future revenues attributable to non-monetary data exchanges and future data creation projects.

The estimation of future cash flows and fair value is highly subjective and inherently imprecise. Estimates can change materially from period to period based on many factors, including those described in the preceding paragraph. Accordingly, if conditions change in the future, the Company may record impairment losses relative to its seismic data library investment, which could be material to any particular reporting period.

The Company did not have any impairment charges during the two years ended December 31, 2018.

NOTE D-GOODWILL AND OTHER INTANGIBLES

As of December 31, 2018, the Company performed a goodwill impairment test and determined that the carrying amount of the reporting unit was less than its fair value and recorded a goodwill impairment loss of approximately \$49.9 million. The fair value of the reporting unit used for the goodwill impairment test was determined based on the purchase price paid in the January 2019 Transaction.

The Company assessed its goodwill for impairment as of December 31, 2017 and concluded no impairment was necessary and no impairment losses were recorded for goodwill in prior years. Changes in the carrying amount of goodwill for the years ended December 31, 2018 and 2017 are as follows (in thousands):

	December 31,	
	2018	2017
Balance at beginning of year	\$ 99,891	\$ 99,891
Impairment loss	(49,882)	—
Balance at end of year	<u>\$ 50,009</u>	<u>\$ 99,891</u>

In addition to goodwill, the Company also has a customer relationship intangible asset that was fully amortized as of December 31, 2017. The customer relationship intangible asset was valued at \$12.4 million and was amortized over 10 years.

Amortization expense during the year ended December 31, 2017 was \$0.2 million for the remainder of the customer relationship intangible asset that was originally recorded in February 2007.

NOTE E-INCOME TAXES

Income Tax Expense (Benefit)

The provision (benefit) for income taxes is comprised of the following (in thousands):

	Year Ended December 31,	
	2018	2017
Current	\$ (1)	\$ 3,183
Deferred	(2,423)	(1,358)
Tax provision (benefit)	<u>\$ (2,424)</u>	<u>\$ 1,825</u>

The differences between the federal and provincial income taxes computed at the statutory rate (27%) and the Company's income taxes for financial reporting purposes are as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Statutory federal income tax	\$ (14,908)	\$ 2,182
Change in unrecognized tax benefits	(1,046)	(423)
Change in valuation allowance	(31)	—
Non-deductible expenses	13,531	66
Other, net	30	—
Income tax provision (benefit)	<u>\$ (2,424)</u>	<u>\$ 1,825</u>

Deferred Tax Asset/Liability

The components of the net deferred income tax asset (liability) reflected in the Company's balance sheets at December 31, 2018 and 2017 were as follows (in thousands):

	Deferred Tax Assets (Liabilities)	
	December 31,	
	2018	2017
Deferred tax assets:		
Net operating loss carryforwards	\$ 490	\$ 31
Accrued expenses and other	384	482
Total deferred tax assets	874	513
Deferred tax liabilities:		
Depreciation and amortization	(1,548)	(2,175)
Deferred expenses and other	(7)	(11)
Total deferred tax liabilities	(1,555)	(2,186)
Valuation allowance:		
Beginning balance	(31)	(31)
Decrease during the period	31	—
Total valuation allowance	—	(31)
Net deferred tax liability	\$ (681)	\$ (1,704)

As of December 31, 2018, the Company has net operating loss (NOL) carryforwards for federal and provincial taxes of approximately \$1.8 million, which can be used to offset Canadian income taxes payable in future years. This NOL carryforward was utilized in 2019 upon filing of the Company's pre-closing tax return in connection with the January 2019 Transaction.

Uncertain Tax Positions

The Company accounts for income taxes in accordance with ASC Topic 740, "Income Taxes," which prescribes a minimum recognition threshold a tax position must meet before being recognized in the financial statements. A reconciliation of the beginning and ending gross unrecognized tax benefits is as follows (in thousands):

	Year Ended December 31,	
	2018	2017
Balance at beginning of year	\$ 349	\$ 661
Reductions as a result of a lapse of statute of limitations	(349)	(312)
Balance at end of year	\$ —	\$ 349

Income tax-related interest and penalty expenses are recorded as a component of income tax expense. As of December 31, 2018, we had no accrued interest or penalties. As of December 31, 2017, we had \$0.2 million of accrued interest and no accrued penalties. Income tax expense (benefit) for the years ended December 31, 2018 and 2017 included a \$0.7 million benefit and \$0.1 million benefit, respectively, related to interest on unrecognized tax benefits.

The Company is no longer subject to tax examinations by tax authorities for years prior to 2010.

NOTE F-LEASE OBLIGATIONS

Assets recorded under capital lease obligations of \$3.8 million at December 31, 2018 and 2017 are included in property and equipment. Accumulated depreciation related to such assets was \$2.9 million and \$2.7 million at December 31, 2018 and 2017, respectively. Depreciation on the assets recorded under capital leases is included in depreciation expense.

The Company leases office space in downtown Calgary under an operating lease. Rental expense for each of the years ended December 31, 2018 and 2017 was approximately \$0.5 million.

SEITEL CANADA LTD.
NOTES TO FINANCIAL STATEMENTS - Continued

Future minimum lease payments for the four years subsequent to December 31, 2018, and in the aggregate are as follows (in thousands):

	Capital Leases	Operating Leases
2019	\$ 452	\$ 253
2020	452	253
2021	452	253
2022	151	232
Total minimum lease payments	1,507	\$ 991
Less amount representing interest	(152)	
Present value of net minimum lease payments	<u>\$ 1,355</u>	

Capital leases are comprised of a sale leaseback agreement entered into by the Company in 2002 on a warehouse building and land located in Calgary. The term of the lease is 20 years with remaining annual lease payments of \$452,340 until April 2022.

NOTE G-COMMITMENTS AND CONTINGENCIES

The Company is involved from time to time in ordinary, routine claims and lawsuits incidental to its business. In the opinion of management, uninsured losses, if any, resulting from the ultimate resolution of these matters should not be material to the Company's financial position, results of operations or cash flows. However, it is not possible to predict or determine the outcomes of the legal actions brought against it or by it, or to provide an estimate of all additional losses, if any, that may arise. At December 31, 2018, the Company did not have any amounts accrued with respect to litigation and claims.

NOTE H-STOCKHOLDER'S EQUITY

During the year ended December 31, 2018, the Company made distributions to its parent company, Seitel Canada Holdings, Inc. of approximately \$35.3 million and recorded those distributions as return of capital. The distributions consisted of \$32.1 million in cash and \$3.2 million of intercompany receivables.

NOTE I-FAIR VALUE MEASUREMENTS

Authoritative guidance on fair value measurements provides a framework for measuring fair value and establishes a fair value hierarchy that prioritizes the inputs used to measure fair value, giving the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 inputs) and the lowest priority to unobservable inputs (Level 3 inputs).

The Company uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. In measuring the fair value of the Company's assets and liabilities, market data or assumptions are used that the Company believes market participants would use in pricing an asset or liability, including assumptions about risk when appropriate. The Company's assets that are measured at fair value on a recurring basis include the following (in thousands):

	Total	Fair Value Measurements Using		
		Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
At December 31, 2018:				
Cash equivalents	\$ 1,359	\$ 1,359	\$ —	\$ —
At December 31, 2017:				
Cash equivalents	\$ 33,791	\$ 33,791	\$ —	\$ —

The Company had no transfers of assets between any of the above levels during the years ended December 31, 2018 or 2017.

Cash equivalents represent the Company's interest earning bank accounts with Royal Bank of Canada. All investments have original maturities of three months or less. The original costs of these assets approximate fair value due to their short-term maturity.

NOTE J-RELATED PARTY TRANSACTIONS

The Company incurs certain expenses from related parties. The majority of these expenses relate to management services provided by U.S. employees of affiliated entities and represents actual time incurred on behalf of the Company plus a markup. Additional intercompany charges include a portion of the salary and incentive compensation for Seitel Canada Ltd.'s President who is a U.S. employee and travel costs for U.S. employees traveling to/from Canada for business with and on behalf of the Company. During the years ended December 31, 2018 and 2017, the Company was charged \$1.5 million and \$1.4 million, respectively for intercompany expenses.

Other related party transactions relate to data processing services performed by SDP as described in Note C - "Seismic Data Library." Those costs are capitalized to the seismic data library and do not impact the statements of operations.

As of December 31, 2018 and 2017, amounts due from (to) related parties were \$(0.2) million and \$2.7 million, respectively. Amounts included in these balances represent historical cross-border transactions with affiliates, including certain transactions excluded from continuing operations. The due from (to) related parties balances were not included in assets held for sale since these balances were paid/settled in 2018 and in 2019 (prior to the January 2019 Transaction). Interest was charged on outstanding balances with affiliates using Royal Bank of Canada's prime rate plus 2.5%. For each of the years ended December 31, 2018 and 2017, the Company recognized interest income of approximately \$0.1 million.

NOTE K-STATEMENT OF CASH FLOW INFORMATION

For purposes of the statement of cash flows, the Company considers all highly liquid investments or debt instruments with an original maturity of three months or less to be cash equivalents.

Income taxes paid during 2018 and 2017 were \$5.3 million and \$0.6 million, respectively. In 2018, the Company received income tax refunds of \$2.4 million.

In 2018, the Company recognized non-cash revenue of \$0.2 million from selections on non-monetary exchange contracts. In 2017, the Company had negative non-cash additions to its seismic data library of approximately \$14,000 related to an adjustment to a prior year non-monetary exchange.

During the year ended December 31, 2018, the Company contributed \$3.2 million of intercompany receivables to its parent, Seitel Canada Holdings, Inc.

NOTE L-SUBSEQUENT EVENTS

On January 15, 2019, Seitel Canada Holdings, Inc. entered into a Share Purchase Agreement (the "Purchase Agreement") with Pulse Seismic, Inc. to sell all of the issued and outstanding shares of the Company (previously defined as the "January 2019 Transaction"). Under the terms of the Purchase Agreement, Pulse will pay an aggregate purchase price of approximately \$53 million, net of cash and subject to working capital adjustments as described in the Purchase Agreement, plus an earn out equal to 50% of the cash resales generated from the seismic data library acquired by Pulse over the two years following closing, up to a maximum of \$5 million. The transactions contemplated by the Purchase Agreement were consummated on January 15, 2019.

Immediately before closing the January 2019 Transaction, certain assets were sold to Seitel Canada Holdings, Inc., the Company's parent, for \$10.2 million. The sale will result in a \$6.4 million gain for the Company and the proceeds from the sale will be recorded as a return of capital to Seitel Canada Holdings, Inc. The assets sold included ownership in jointly owned U.S. seismic data library assets, internally developed software and certain hardware and software along with related maintenance agreements.

SCHEDULE "B"

UNAUDITED PRO FORMA CONSOLIDATED FINANCIAL
STATEMENTS

(attached)

PULSE SEISMIC INC.
PRO FORMA CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Unaudited
As at December 31, 2018

(in thousand of CANADIAN dollars)	Historical PULSE	Historical SEITEL	Pro Forma Adjustments	Note	Pro Forma Consolidated
Assets					
Current Assets					
Cash and cash equivalents	23,016	1,371	(21,256)	b	3,131
Trade and other receivables	3,314	259	-		3,573
Income tax assets	1,036	-	-		1,036
Prepaid expenses and other current assets	281	102	-		383
Assets held for sale	-	3,755	(3,755)	c	-
Total current assets	27,647	5,487	(25,011)		8,123
Seismic data library	11,024	9,461	51,283	d	71,768
Property and equipment	103	926	459	e	1,488
Deposits	-	93	-		93
Goodwill	-	50,009	(50,009)	f	-
Deferred financing costs	73	-	-		73
Total Assets	38,847	65,976	(23,278)		81,545
Liabilities and shareholders' equity					
Current Liabilities					
Trade and other payables	976	1,022	(128)	g	1,870
Deferred revenue	867	1,361	214	h	2,442
Due to affiliates	-	155	(155)	i	-
Employee compensation payable	-	325	-		325
Current portion of long-term debt	-	-	1,500	j	1,500
Current portion of capital lease obligations	-	377	299	k	676
Current portion of deferred payment	-	-	2,500	l	2,500
Total current liabilities	1,843	3,240	4,230		9,313
Obligations under capital lease	-	978	637	m	1,615
Long-term debt	-	-	31,113	n	31,113
Deferred payment	-	-	2,500	l	2,500
Deferred income tax liabilities	1,674	681	(681)	o	1,674
Other long-term payable	92	-	-		92
Total liabilities	3,609	4,899	37,799		46,307
Shareholders' equity					
Share capital	74,581	-	-		74,581
Common Stock	-	285	(285)	p	-
Additional paid-in capital	-	172,433	(172,433)	p	-
Contributed surplus	2,385	-	-		2,385
Deficit	(41,728)	(111,641)	111,641	p	(41,728)
Total shareholders' equity	35,238	61,077	(61,077)		35,238
Total liabilities and shareholders' equity	38,847	65,976	(23,278)		81,545

See the accompanying notes to the Unaudited Pro Forma Consolidated Financial Statements, which are an integral part of this pro forma financial information.

PULSE SEISMIC INC.
PRO FORMA CONSOLIDATED STATEMENTS OF NET LOSS AND COMPREHENSIVE LOSS
Unaudited
For the year ended December 31, 2018

(in thousand of CANADIAN dollars, except per share amounts)	Historical PULSE	Historical SEITEL	Pro Forma Adjustments	Pro Forma Note	Pro Forma Consolidated
Revenue					
Data library sales	10,188	4,321	-		14,509
Participation surveys and other revenues	-	2,764			2,764
Total Revenue	10,188	7,085	-		17,273
Operating expenses					
Amortization of seismic data library	7,337	8,709	(8,709)	q	16,312
			8,975		
Salaries, internal commissions and benefits	3,476	-	2,174	r	5,650
Other selling, general and administrative costs	2,030	5,138	(2,174)	r	4,911
			(158)	s	
			75	t	
Cost of sales	-	75	(75)	t	-
Impairment of goodwill	-	49,882	(49,882)	u	-
Depreciation	71	-	-		71
Total operating expenses	12,914	63,804	(49,774)		26,944
Results from operating activities	(2,726)	(56,719)	49,774		(9,671)
Financing expenses	155	112	2,661	v	2,928
Interest income	(473)	(433)	906	w	-
Net financing costs	(318)	(321)	3,567		2,928
Foreign exchange (gain)/loss	-	(1,156)	1,156	x	-
Gain on disposal of assets	-	(29)			(29)
Loss before income taxes	(2,408)	(55,213)	45,051		(12,570)
Current income tax	684	(1)	-		683
Deferred income tax reduction	(1,362)	(2,423)	(292)	y	(4,077)
Income tax reduction	(678)	(2,424)	(292)		(3,394)
Net loss and comprehensive loss	(1,730)	(52,789)	45,343	-	(9,176)
Net loss per share, basic and diluted	(0.03)	-	-		(0.17)

See the accompanying notes to the Unaudited Pro Forma Consolidated Financial Statements, which are an integral part of this pro forma financial information.

Pulse Seismic Inc.

Notes to the unaudited PROFORMA Consolidated Financial Statements

(in thousands of CDN dollars, except as otherwise noted)

Note 1 Description of the Acquisition

On January 15, 2019 the Company acquired 100 percent of the shares of Seitel Canada Ltd. Purchase consideration included an initial cash payment of \$53.6 million on closing, plus potential additional payments of up to \$5.0 million, in aggregate, within two years of closing. The amount of additional payments is 50% of sales revenue generated from the former Seitel database prior to December 31, 2020. Pulse also assumed an estimated \$4.2 million in additional future liabilities.

The initial consideration of \$53.6 million was paid at closing in cash and financed by a combination of Pulse's cash on hand of \$20.6 million and \$33.0 million of debt. In connection with the acquisition, Pulse has amended and restated its syndicated credit agreement. The facilities are now comprised of \$15.0 million in term debt, all of which was utilized for the acquisition, and a \$30.0 million revolving facility, \$8.0 million of which was drawn for the acquisition. Additionally, there is a subordinated debt agreement in place for \$10.0 million.

Note 2 Basis of Presentation

The *pro forma* financial statements give *pro forma* effect to the Acquisition in accordance with Section 8.4(7) of NI 51-102 by applying *pro forma* adjustments to Seitel's and Pulse's historical consolidated financial statements. The *pro forma* financial statements have been derived from the respective historical consolidated financial statements of Seitel and Pulse, along with certain adjustments and assumptions made to give effect to the Acquisition. Adjustments in accordance with NI 51-102 include only adjustments to conform Seitel's financial statement amounts to Pulse's accounting policies and adjustments for those *pro forma* events that are (a) directly attributable to the Acquisition for which there are firm commitments and (b) for which the complete financial effects are objectively determinable. No adjustments have been made to eliminate non-recurring effects of the Acquisition that are not expected to continue in the statement of earnings in future periods. The *pro forma* adjustments are based upon available information and certain assumptions that management of Pulse each believes are reasonable under the circumstances.

The *pro forma* financial statements combines and provides the following:

Historical Information of Seitel and Pulse	Historical Dates and Giving Effect	Resulting Information
Consolidated statements of financial position	As of December 31, 2018	Unaudited <i>pro forma</i> consolidated statement of financial position, referred to as the <i>pro forma</i> statement of financial position
Consolidated statements of loss and comprehensive loss	For the year ended December 31, 2018	Unaudited <i>pro forma</i> consolidated statements of loss and comprehensive loss, referred to as the <i>pro forma</i> statements of loss and comprehensive loss. Adjustments have been applied to an assumed acquisition date of January 1, 2018 for purposes of the <i>pro forma</i> statements of loss and comprehensive loss

The *pro forma* financial statements are presented for illustrative purposes only and does not include, among other things, estimated cost synergies, adjustments related to restructuring or integration activities, further acquisitions or disposals not yet known or probable, or impacts of Acquisition-related change in control provisions that are currently not factually supportable and/or probable of occurring. Therefore, the *pro forma* consolidated financial statements are presented for informational purposes only and are not necessarily indicative of what Pulse's actual financial condition or results of operations would have been had the Acquisition been completed on the date indicated, nor does it purport to project Pulse's future financial position or results of operations for any future period or as of any future date. Accordingly, the combined business, assets, results of operations and financial condition may differ significantly from those indicated.

The *pro forma* financial statements should be read in conjunction with Seitel's audited financial statements for the year ended December 31, 2018 and Pulse's audited financial statements for the same period.

Under securities law, the Acquisition is defined as a business acquisition. For accounting purposes, the Acquisition has been determined to be accounted for as an asset acquisition and has been reflected as such in the *pro forma* financial statements as required by International Financial Reporting Standard 3 - Business Combinations ("IFRS 3") of the International Accounting Standards Board ("IASB").

At the date of preparation of the *pro forma* financial statements, certain *pro forma* adjustments have been made as identified herein. See Note 4 for further details.

Note 3 Significant Accounting Policies

The accounting policies used in the preparation of the *pro forma* financial statements are those set out in Pulse's audited consolidated financial statements as at and for the year ended December 31, 2018, which were prepared in accordance with International Financial Reporting Standards as issued by the IASB ("IFRS"). The *pro forma* financial statements are presented in Canadian dollars which is Pulse's reporting currency. Seitel's audited consolidated financial statements as at and for the year ended December 31, 2018 were prepared in accordance with United States Generally Accepted Accounting Principles ("US GAAP"). The *pro forma* financial statements have been prepared based on the historical financial statements of Seitel and Pulse. For the purposes of the *pro forma* financial statements, Pulse completed a review of adjustments needed to conform Seitel's historical financial statements to Pulse's and concluded that there were no adjustments required to conform Seitel's financial statements from US GAAP to IFRS ("IFRS adjustments").

Certain reclassifications were made to align the presentation of Seitel's historical financial statements with Pulse's current presentation, as set out in Note 6. The reclassifications have no impact on the historical statements of operations of Seitel and accordingly no impact on the *pro forma* statements of loss and comprehensive loss of Pulse.

Note 4 Pro Forma Adjustments

(a) Pro Forma Purchase Price and Purchase Price Allocation

At the date of preparation of the *pro forma* financial statements, certain *pro forma* adjustments have been made as identified herein; however, the fair values of Seitel's identifiable assets and liabilities to be assumed and the full impact of applying acquisition accounting have not been fully determined. After reflecting the *pro forma* adjustments made herein, the excess of the purchase consideration over the adjusted book values of Seitel's net assets excluding the seismic data library has been included in the fair value of the seismic data library. Property, plant and equipment includes a finite-lived asset and accordingly is subject to amortization. The actual amount assigned to the fair values of the identifiable assets and liabilities acquired will result in changes to earnings in periods subsequent to the acquisition, and those changes could be material.

PULSE SEISMIC INC.

Unaudited details of the Acquisition are as follows as of January 15, 2019

(in thousand of CANADIAN dollars)

	Book Value	Fair Value	Note
Cash from Pulse		20,600	
Cash from senior debt facility		23,000	
Cash from subordinated debt facility		10,000	
Future payments to Seitel		5,000	
Capitalized transaction costs		269	b
Estimated purchase price consideration	-	58,869	
Assets Acquired:			
Cash and cash equivalents	715	715	
Trade and other receivables	420	420	
Prepaid expenses and other current assets	145	118	
Deposits on leases	93	93	
Seismic data library	9,461	61,446	
Property and equipment	1,816	1,385	e
Goodwill	50,009	-	f
Trade and other payables	(1,570)	(1,442)	g
Deferred revenue	(1,384)	(1,575)	h
Capital lease liability	(2,237)	(2,291)	k,m
Net assets	57,468	58,869	

- (b) The Acquisition was funded using \$20.6 million of cash and \$33.0 million of debt on closing. There is also up to \$5.0 million in deferred payment. Acquisition costs incurred consist of banking, accounting, legal, tax and other costs associated with the completion of the Acquisition. Total costs are estimated to be \$656,000 before tax. These were paid by Pulse from cash and cash equivalents. \$387,000 is included as deferred financing charges in loans and borrowings. Transaction costs of \$269,000 were capitalized as part of the seismic data library consistent with the treatment of an asset acquisition, these costs were capitalized.
- (c) The assets held for sale by Seitel were not included in the Acquisition.
- (d) The Seitel seismic data library fair value was calculated using the estimated purchase price consideration less the net fair value of all the other assets and the other liabilities.
- (e) An initial assessment was made of Seitel's property and equipment to estimate the fair value and the property and equipment has no fair value for Pulse other than the capital lease for the data storage warehouse.
- (f) The Seitel goodwill had no value to Pulse and based on the IFRS 3, the Acquisition met the criteria of an asset acquisition and no new goodwill was recorded on the Acquisition.
- (g) Trade and other payables were reviewed by Pulse and the provisions related to past survey projects was reduced to actual deemed at the date of the Acquisition. This was confirmed with provincial authorities.
- (h) Seitel's deferred revenue was revalued to the fair value of the data to be delivered in the future.
- (i) Due to affiliates was eliminated and is not applicable. Seitel was a subsidiary of Seitel Canada Holdings, Inc., a US based company.
- (j) The current portion of long-term debt includes the \$1.5 million annual mandatory payment related to the syndicated restated credit agreement.
- (k) The current portion of the capital lease obligation includes the fair value of the current portion of the capital lease obligation related to the Seitel data storage warehouse and the off-market component of the acquired Seitel office lease, which is now available for sublease until November 2022.
- (l) The share purchase agreement includes a potential \$5 million payment deferral due to the Vendor, which has been recorded as a deferred payment that will be paid out at a rate representing 50% of the sales revenue generated from the former Seitel database over the next two years. Pulse estimates that 50% of the \$5 million will be paid in the first year and 50% in the second year.
- (m) The long-term obligations under capital lease include the fair value of the long-term portion of the capital lease obligation related to the Seitel warehouse lease and the off market component of the acquired office lease.
- (n) The long-term debt includes the \$ 23.0 million borrowed under the syndicated credit facility and the \$10 million subordinated debt with Edgepoint, described in section 2.4 of the Business Acquisition Report, less the current portion of long-term debt (\$1.5 million) and the deferred financing charges (\$387,000).
- (o) No deferred tax was recorded at the date of the Acquisition since the transaction was accounted for as an asset acquisition as opposed to an acquisition of a business.
- (p) Seitel's stockholders' equity, which includes Share Capital, Additional Paid-In Capital and Deficit, has been eliminated in the *pro forma* consolidated statement of financial position.
- (q) The amortization of seismic data library is calculated based on Pulse's accounting policy, straight-line over seven years.
- (r) The Seitel salaries, internal commissions and benefits were reclassified from the other selling, general and administrative costs to comply with Pulse's financial presentation.
- (s) The off market component of the Seitel office lease would be capitalized as part of the seismic data library on a pro-forma basis and result in an adjustment to reduce Other, selling, general and administrative expense and increase amortization of the seismic data library.
- (t) Cost of sales has been reclassified to other selling, general and administrative costs to comply with Pulse's financial presentation.
- (u) The impairment of goodwill was eliminated because there was no goodwill recorded as a result of the acquisition.
- (v) A provision for interest expense would need to be recognized due to the increased borrowings on credit facilities that would have been required by Pulse to finance the Acquisition. Proforma interest expense would have been \$2.9 million consisting of \$2.8 million in interest and standby fee charges on increased credit balances and \$129,000 in the amortization of deferred financing charges. Additionally, there would be interest expense related to the capitalized off market Seitel office lease of \$64,000.
- (w) Due to the increased borrowings on credit facilities that would have been required by Pulse to finance the Acquisition, no cash surplus would have been invested to generate interest income.
- (x) Seitel was a subsidiary of Seitel Canada Holdings, Inc. a US based company. Pulse would not have had any US operations and/or transactions in 2018.
- (y) The statutory rate of 27% in Canada has been applied in the *pro forma* adjustments made for the year ended December 31, 2018.

Note 5 Net loss per Share Information

Pro forma net loss per share

	Year Ended December 31, 2018
Basic net loss per share ¹	
Net loss attributable to shareholders – basic (thousands)	9,176
Weighted average shares – basic and diluted	53,838,106
Net loss per share – basic and diluted (dollars)	0.17

(1) Net loss per share calculations are based on dollar amounts rounded to the nearest thousand.

Note 6 Reclassification and Adjustments

The following reclassifications were made to align the presentation of Seitel's historical financial statements with Pulse's current presentation:

- Reclassifications to align Seitel's statements with Pulse's financial statement line items
- An adjustment to effect the statements for expected changes as a result of closing of the Acquisition. The off market component of the Seitel office lease has been capitalized as part of the seismic data library. The liability has been split between a current and a long-term capital lease liability.