

2021 President's Message to Shareholders

This is the Company We've Built

FINANCIAL HIGHLIGHTS

	Three months ended December 31,		Years ended December 31,	
	2020	2019	2020	2019
(thousands of dollars except per share data, numbers of shares and kilometres of seismic data)				
Revenue				
Data library sales	5,142	5,281	11,011	23,635
Other revenue	81	83	338	520
Total revenue	5,223	5,364	11,349	24,155
Amortization of seismic data library	2,493	3,500	11,348	14,200
Net earnings (loss)	287	(759)	(6,786)	(3,411)
Per share basic and diluted	0.01	(0.01)	(0.13)	(0.06)
Cash provided by operating activities	752	1,127	3,814	8,605
Per share basic and diluted	0.01	0.02	0.07	0.16
Cash EBITDA ^(a)	4,178	3,879	7,468	17,557
Per share basic and diluted ^(a)	0.08	0.07	0.14	0.33
Shareholder free cash flow ^(a)	2,978	2,981	5,373	13,605
Per share basic and diluted ^(a)	0.06	0.06	0.10	0.25
Capital expenditures				
Seismic data purchases, digitization and related costs	96	–	383	61,029
Property and equipment	–	41	7	439
Total capital expenditures	96	41	390	61,468
Weighted average shares outstanding				
Basic and diluted	53,793,317	53,793,317	53,793,317	53,793,317
Shares outstanding at period-end			53,793,317	53,793,317
Seismic library				
2D in kilometres			829,207	829,207
3D in square kilometres			65,310	65,310

FINANCIAL POSITION AND RATIOS

	December 31, 2020	December 31, 2019
(thousands of dollars except ratios)		
Working capital	5,601	687
Working capital ratio	3.6:1	1.1:1
Cash and cash equivalents	–	1,356
Total assets	56,742	69,504
Long-term debt	27,715	31,511
Cash EBITDA	7,468	17,557
Shareholders' equity	25,266	31,973
Long-term debt to cash EBITDA ratio	3.71	1.79
Long-term debt to equity ratio	1.10	0.99

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



For the CEO of a Calgary-based company that works with Western Canada's energy industry to deliver an upbeat message amidst an ongoing pandemic and following the industry's arguably worst year on record might seem surprising if not incongruous. But as bad as 2020 was, it could have been far worse, and Pulse Seismic Inc. is in a stronger position today than it was one year ago.

Despite having total revenue of only \$11.3 million in 2020, we continued to generate cash EBITDA and shareholder free cash flow, operated effectively and safely through the pandemic, paid down debt, further lowered costs, restated our credit facility and exited the year with a modest revival in sales, a trend that has continued in the first quarter of 2021.

We had entered 2020 with a positive outlook, coming off a good sales year in 2019 that benefited from our acquisition of Seitel Canada Ltd. (Seitel) which had doubled the size of our seismic data library. The new year quickly dashed our hopes. Russia and Saudi Arabia flooded international crude oil markets, COVID-19 came on the scene and was soon declared a global pandemic, the public policy response spiralled from limited measures to widespread lockdowns, and commodity prices collapsed. Suddenly, our positive outlook was replaced with extreme uncertainty and concern for the possible impacts on our business.

Pulse implemented its disaster recovery plan and ensured the safety of its employees. Foreseeing extended uncertainty, we negotiated amendments to our financial covenants for a one-year modification period. We further trimmed our already-low costs. It was also important to communicate with shareholders and keep them updated on what was happening with the business. We continued to work with our customers to get them the seismic data they needed on the best terms we could provide.

Overall, Pulse prepared for the very worst, and while the combined effects were devastating to Western Canada's oil and natural gas producing sector, the worst didn't happen to Pulse. As the end of the year approached, our revenues actually revived with a \$3 million transaction-based sale lifting the fourth quarter's overall sales almost to the level of 2019's closing quarter.

Operating Safely Amidst COVID-19

Our Company was well-suited to operating within the constraints and risks of the pandemic. We are already a largely digital company, with only two physical locations and a small team of 16 employees and management. Our foremost goal was to keep our people safe while continuing to meet our customers' needs. The Company's disaster recovery plan functioned well in aiding the transition for our employees to working from home. We significantly scaled back activities in the head office, moving a number of employees to the warehouse to assist in the ongoing digitization of the former Seitel data. Everyone was clearly happy to be working for an organization flexible and adaptable enough to make this kind of model work.

While we were pleased with how our systems worked and our employees adapted, our people did, of course, have to endure the disruptions to their normal working lives and to bear the impact of our first-ever Company-wide salary rollback. I would like to express my deep personal appreciation to every member of the Pulse team for their understanding, flexibility and fortitude and for the ongoing top quality of their work throughout this trying period.

Further Reducing Costs

One of Pulse's greatest strengths is its low cost structure. Throughout Western Canada's long industry downturn, we have emphasized keeping our costs low plus looking for further cost-reduction opportunities, and these efforts have shown their value in our ability to bring our break-even revenue level ever-lower.

Recognizing the uncertainty brought on by the pandemic, we therefore felt obliged to ask our staff and directors to dig deep in order to secure the Company and their livelihoods. All employees took salary reductions ranging from 7.5 percent to 20 percent. Director fees for the Chair of the Board were reduced by 50 percent and the remaining directors fees by 40 percent. Pulse's variable costs also came down along with lower sales. I should note that our data library, being a digital product, incurs almost no maintenance costs, while our IT expenses, including data storage and security, are entirely manageable. We also benefited from the Canada Emergency Wage Subsidy, receiving \$451,000 for the year, as well as \$124,000 in government rent subsidy. Lastly, lower interest rates in 2020, along with the decline in our debt balance, contributed to a year-over-year decrease in financing costs of \$466,000.

In sum, Pulse's total salaries, commissions and benefits plus other sales and general and administrative costs were approximately \$2.6 million or 41 percent lower in 2020 than in 2019. This materially lowered our break-even revenue level, kept our cash EBITDA margin ratio at a remarkable 68 percent (compared to 74 percent in 2019 and a 74 percent five-year average) and strengthened our ability to generate cash EBITDA and shareholder free cash flow.

Reducing Debt and Simplifying the Credit Facilities

Demonstrating the resiliency of our business model, and an important highlight of 2020, was the improvement to Pulse's financial position amidst near-record-low data library sales.

We had been proactive in preparing for the worst. With reduced clarity into near-term sales opportunities in the second quarter, to increase financial flexibility we negotiated modifications to the financial covenants on our senior debt facility. I am pleased to report that we did not need those modifications. Instead, in a severe financial environment in which many companies could not meet their obligations, Pulse continued paying interest and principal on its long-term debt and maintained its key financial ratios.

Recognizing an opportunity to reduce ongoing financing costs, towards year-end we amended and restated the terms of the senior credit facility, transforming it into a single revolving facility with a sole lender, TD Bank. We are grateful for the strong and continuing support of TD, a lender that understands the variable nature of the seismic data business, our "lumpy" sales profile and our debt repayment philosophy.

All-told, we repaid \$3.8 million of debt in 2020. Following stronger sales in the fourth quarter plus collection of some large accounts, in January 2021 we repaid an additional \$7.8 million. Our total debt thereby decreased from \$31.8 million at year-end 2019 to \$20.2 million at the end of January 2021, positioning us with approximately \$15.0 million undrawn on the revolving facility. The total debt includes \$10.0 million of subordinated debt, due by the end of 2023, with no requirement to repay principal before end of term. The overall result is that we have reduced our debt to a very manageable level only two years after a strategic acquisition that doubled our asset base and have materially reducing the go-forward costs of our credit arrangements, all in a difficult environment.

The voluntary reduction in borrowing capacity does not signal declining belief in future growth opportunities for Pulse's seismic data library. We are confident in the support of our lenders. Should we identify an acquisition opportunity that meets our strict criteria for technical quality, price and data resale opportunities, we believe the needed financing would become available. It simply made no sense to maintain higher borrowing capacity at higher cost at this time.

2021 and Beyond

In weathering the COVID-19 storm of 2020, Pulse proved its survivability under the worst conditions. Having further reduced its costs, continued to generate cash EBITDA and shareholder free cash flow, simplified its credit facility and, early in 2021, reduced senior debt to only \$10.2 million, Pulse has come out of an exceptionally weak and uncertain year stronger than when it entered. We feel solidly positioned for a range of possible industry conditions and business results in 2021. As previously announced in our February 17, 2021 news release, data library sales at that date had already totalled \$4.3 million.

You can read more on our view of industry conditions in the Outlook section of the MD&A for the year ended December 31, 2020. One positive trend that is expected to accelerate is the revival in merger-and-acquisition (M&A) activity. Corporate transactions in the oil and natural gas exploration and production sector are an important though unpredictable source of data relicensing sales (also described and disaggregated in our MD&A).

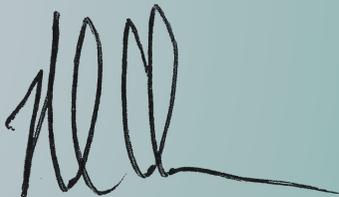
A new cycle of industry renewal would be most welcome not only for its associated transaction-based seismic-data library sales, but for instigating a wave of new-company formation as legacy assets are shed. This in turn sparks new phases of play-generation, capital formation, exploration and drilling - which necessitate access to seismic data. Reinvestment in Western Canada's oil and natural gas industry is critical to avoid a running down of assets and a slide in production. The higher commodity pricing we have been seeing plus, we hope, improving business confidence as mass-vaccination against COVID-19 occurs should be helpful over the coming quarters.

We remain, of course, cautious about the year ahead. There is no visibility as to the strength or endurance of these positive trends, nor as to the timing or size of our traditional or transaction-based sales. We are also continuing to examine ideas for potential new ways to monetize the data library asset.

In summary, Pulse is equally well-positioned to weather additional quarters of weaker industry activity, to benefit from an industry rebound, to use an episodic increase in seismic data licensing sales to the benefit of its shareholders, or to act on further opportunities to increase the size of its seismic data library. With our much lower debt, good start to 2021 sales and the widespread expectation of higher M&A activity, the Company we have built is in an excellent position to benefit from any industry recovery.

I would like to extend my sincere appreciation to the Pulse team, who worked with such diligence, loyalty and courage throughout the most unusual year that is now behind us, to our Board of Directors for their able governance, and to our shareholders for their loyalty to Pulse.

On behalf of the Board of Directors,

A handwritten signature in black ink, appearing to read 'Neal Coleman', with a long horizontal flourish extending to the right.

Neal Coleman
President, Chief Executive Officer and Director

March 22, 2021



www.pulseseismic.com