pulse seismic

2022 President's Message to Shareholders

2022

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Financial Highlights

(thousands of dollars except per share data, numbers of shares and kilometres of seismic data)	Three months ended December 31, 2021	Three months ended December 31, 2020	Years ended December 31, 2021	Years ended December 31, 2020
Revenue				
Data library sales	**16,172**	5,142	**48,717**	11,011
Other revenue	**133**	81	**433**	338
Total revenue	**16,305**	5,223	**49,150**	11,349
Amortization of seismic data library	**2,500**	2,493	**10,010**	11,348
Net earnings (loss)	**8,158**	287	**21,514**	(6,786)
Per share basic and diluted	**0.15**	0.01	**0.40**	(0.13)
Cash provided by operating activities	**4,010**	752	**29,799**	3,814
Per share basic and diluted	**0.07**	0.01	**0.55**	0.07
Cash EBITDA [(a)]	**13,936**	4,200	**42,696**	7,553
Per share basic and diluted [(a)]	**0.26**	0.08	**0.79**	0.14
Shareholder free cash flow [(a)]	**10,828**	2,977	**32,082**	5,346
Per share basic and diluted [(a)]	**0.20**	0.06	**0.60**	0.10
Capital expenditures				
Seismic digitization and related costs	**62**	96	**350**	383
Property and equipment	**–**	–	**8**	7
Total capital expenditures	**62**	96	**358**	390
Weighted average shares outstanding				
Basic and diluted	**53,791,997**	53,793,317	**53,792,984**	53,793,317
Shares outstanding at period-end			**53,784,717**	53,793,317
Seismic library				
2D in kilometres			**829,207**	829,207
3D in square kilometres			**65,310**	65,310

Financial Position and Ratios

(thousands of dollars except ratios)	December 31, 2021	December 31, 2020
Working capital	**9,749**	5,601
Working capital ratio	**2.7:1**	3.6:1
Total assets	**52,899**	56,742
Long-term debt	**2,265**	27,715
Cash EBITDA [(a)] for the years ended December 31	**42,696**	7,553
Shareholders' equity	**44,141**	25,266
Long-term debt to cash EBITDA ratio	**0.05**	3.67
Long-term debt to equity ratio	**0.05**	1.10

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

The past year demonstrated the strengths of Pulse's business model and the virtues of our financial management approach. Having come through 2020 with low sales, we still achieved positive cash EBITDA and shareholder free cash flow that year. With declining debt, record-low costs and an improved balance sheet, we navigated into 2021 in good financial health. As the owners of Canada's largest licensable seismic dataset, we were poised to participate in any industry rebound.

The vast improvement in business conditions throughout 2021 lifted Pulse's annual data library sales by 342 percent year-over-year to $48.7 million, the cash margin to 87 percent from 68 percent in 2020, cash EBITDA by 465 percent to $42.7 million and shareholder free cash flow by 500 percent to $32.1 million. These are incredible results, demonstrating that economic uncertainty can move markets and industries up as well as down.

The primary driver of Pulse's success in 2021 was the high volume of transaction-based data library sales triggered by corporate merger-and-acquisition (M&A) activity in the oil and natural gas industry. But with industry field activities beginning what today appears to be a sustained recovery, the Company's traditional sales also increased. And, importantly for Pulse's long-term success, we generated increasing revenues from clients pursuing projects related to the long-term global energy transition that also benefit from the use of seismic data, such as lithium exploration and extraction, carbon capture and underground storage (CCUS), and helium-based resource development.

DEBT-FREE, PROFITABLE AND DIVIDEND-PAYING

The further strengthening of Pulse's balance sheet was foundational to capital-allocation decisions made towards year-end, so let me begin here. In the first quarter we repaid $8.8 million of bank debt, bringing our total debt down to $19.2 million. Strong quarterly results – including sales of $4.7 million in Q1 and $19.0 million in Q2 – enabled us to repay a further $8.7 million by the end of June, $7.3 million in the third quarter and the remaining $3.2 million in October. By then Pulse was debt-free, with its $25.0 million revolving credit facility unused. The credit facility was renewed and extended in December, with a three-year term, renewable annually, maturing in January 2025.

This debt had been used to help finance the acquisition in 2019 of Seitel Canada Ltd.'s seismic data, which doubled the size of Pulse's seismic data library. The Seitel data immediately began to make sales for Pulse, and by the end of last year had generated a cumulative $38.1 million. This is almost exactly the amount borrowed to help finance the transaction (the remainder was financed using cash on hand).

Becoming debt-free, continuing to generate strong sales of $8.8 million in Q3 and having a further $9.7 million in revenue guaranteed to be recognized by the second quarter of 2022 together enabled Pulse's Board of Directors and executive team to make capital-allocation decisions of direct benefit to shareholders. The $9.7 million referenced was related to a transaction-based sale of $17.0 million signed in the second quarter of 2021, with $7.3 million of data delivered upon signing. The delivery of the remaining data in the fourth quarter enabled revenue to be recognized earlier than anticipated, resulting in Pulse's second-highest annual revenue ever.

Pulse's approach to capital allocation included paying a regular dividend for many years. From 2003 to 2018, Pulse had returned approximately $108.8 million to its shareholders through dividends and share buybacks. We had suspended the regular quarterly dividend in response to a deep industry downturn in 2015, but had paid a one-time special dividend in 2017 after generating a record $29.5 million data sale. By the fall of 2021 our debt-free balance sheet, cash on hand, continuing strong sales and an improving industry outlook satisfied our criteria.

On October 27th Pulse announced that it was paying a special dividend of $0.04 per share and re-instituting a regular quarterly dividend in the fourth quarter at a rate of $0.0125 per share. This represented a combined distribution of $2.8 million to shareholders. Also, at the end of October, we announced the resumption of Pulse's longstanding practice of buying back shares on the open market through a normal course issuer bid, thereby returning capital to shareholders.

Along with the rest of Pulse's Board and executive team, I'm extremely pleased that we are back to being a dividend-paying company, in keeping with our policy of distributing cash to shareholders when it is prudent to do so. This demonstrates our confidence in Pulse's business model and remains one of our overall strategic priorities.

MAKING THE MOST OF OUR SEISMIC ASSETS

In addition to always attentively servicing Pulse's clients in the Company's traditional focus area – the oil and natural gas industry – we are marketing the data library to the growing number of companies and organizations that require a detailed understanding of subsurface geology in order to reduce technical risks and maximize success in "new energy" projects related to the global energy transition. While it is quite clear that fossil fuels will furnish the large majority of the world's energy requirements for decades to come, the relative growth in new energy initiatives is significant and increasing – including in western Canada. Industry and governments are working actively to identify opportunities, test concepts and launch developments. Investment is significant and growing.

Given the large and unavoidable carbon dioxide emissions from the oil sands, natural gas processing and petrochemical manufacture, there is increasing potential for more CCUS projects. To complement private-sector initiatives, the Government of Alberta has committed over $1.2 billion to support large CCUS projects. The province also recently unveiled a royalty rate for helium production, providing helium exploration companies with regulatory certainty. Some of Alberta's first commercial helium discoveries were recently announced. In recognition that global demand for lithium is already substantial and, forecasts suggest, will continue to increase, Alberta is also keenly interested in advancing its lithium mining potential. These are all major initiatives, and the key players are demonstrating their seriousness.

The government of Saskatchewan is also committed to support the development of that provinces helium industry and in November 2021 implemented the Helium Action Plan (HAP). This integrated approach to helium sector development aims to improve competitiveness and increase investment across the helium value chain. The government of Saskatchewan believes the province will be a world leader in helium production and supply over the next decade. We believe that new energy initiatives represent an opportunity for Pulse. Last year, a significant percentage of our sales of legacy two-dimensional (2D) seismic data were related to new energy projects. I would consider this to be very encouraging for future data sales revenue.

Also last year Pulse hired a geophysicist with over 27 years of experience in the Western Canada Sedimentary Basin. He has been centrally involved in working with our industry partners to explore the use of sophisticated processing technologies that provide advanced interpretation and visualization of seismic data. By reducing exploration risks in the traditional as well as new-energy spaces, the application of such technologies could increase the effectiveness and range of uses of Pulse's seismic dataset for existing and prospective new customers.

COST STRUCTURE

We at Pulse take great pride in operating with a very lean cost structure. As stated above, we had a cash margin of 87 percent in 2021, but even in the very low sales year of 2020 the cash margin was 68 percent. Given the extreme variability in revenue from year to year, every member of our team is committed to close oversight of costs in their areas of responsibility, and we benefit greatly every year from that diligence.

By the end of April we will exit the former Seitel data warehouse, having finished digitizing all of the physical data, thereby completing this capital project, and also reducing monthly lease and project-related costs. Additionally, at the end of November, we will have fulfilled our lease obligation for the former Seitel downtown office space, further reducing future monthly costs. Financing costs will also decrease significantly this year and are anticipated to include only the minimal standby fees on our revolving credit facility.

THE YEAR AHEAD

Let me also refer you to the Outlook section on page 5 of our Management's Discussion and Analysis for the year ended December 31, 2021.

The oil and natural gas industry has become financially very disciplined, with most companies limiting their capital expenditures to cash flow or below. Investors have eschewed production-growth-at-any-cost and are instead insisting on low corporate debt, payment of cash dividends and return of capital through share buybacks. While this is understandable, reinvestment in Western Canada is critical to avoid a running down of assets and a slide in production. A cycle of industry renewal is needed to instigate a wave of new-company formation as legacy assets are shed. This in turn would trigger new phases of play-generation, capital formation, exploration and drilling, production additions and infrastructure build-out. As this unfolds, the transfer of assets would encourage transaction-based seismic data library relicensing sales, while the increased field exploration would be conducive to traditional sales.

Overall trends in Western Canada are positive and Pulse continues to regard conditions as favorable for both types of seismic data sales. Numerous producing oil and natural gas asset packages are on the market, suggesting potential transactions in 2022. Drilling rates are on the rebound. Globally, there is growing recognition that crude oil and natural gas remain critical to the world's energy mix. Added to this are the extreme geopolitical concerns regarding the nature and reliability of certain supplying countries. This should be highly positive for investment in western Canada's industry.

As always, we caution that Pulse's seismic data sales can vary significantly from year to year, and quarter to quarter. We continue to believe in the long-term prospects of Western Canada's oil and natural gas industry – and in the ability of our remarkable region's entrepreneurial business culture to recognize, pursue and develop the growing array of new-energy opportunities.

As in previous years, Pulse is ready for a range of industry conditions. Being debt-free and with cash in the bank, we are even stronger than before. Pulse's low cost structure enables the Company to generate significant free cash flow at a relatively modest level of sales. And we are very well-positioned to capture additional revenue thanks to our massive asset that provides a presence in all of the major non-oil-sands oil and natural gas plays across western Canada.

Complementing this long-term positioning is the Company's relevance to new energy initiatives. We are seeing an expanded business horizon and potential positive impact on future revenues through our exposure to companies exploring a greater range of geological reservoirs, thereby widening the uses of our seismic data. As our 2D data sales into the new-energy space again demonstrate, Pulse's seismic data does not degrade or expire, incurs minimal maintenance costs, is digitally stored and backed up in secure facilities, and can be relicensed an unlimited number of times for an indefinite period.

Let me close by extending my thanks and appreciation to Pulse's skilled and dedicated team of employees, to the Board of Directors for their sound judgment and governance, and to the Company's supportive and committed shareholders, who see the true value of Pulse.

On behalf of the Board of Directors,

Neal Coleman
President, Chief Executive Officer and Director

March 30, 2022

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