



CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS
FOR THE NINE MONTHS ENDED
SEPTEMBER 30, 2018

Dated November 29, 2018



Pulse Oil Corp.

Condensed Consolidated Statements of Financial Position

Unaudited
Expressed in Canadian Dollars

TSX-V: PUL

	September 30, 2018 \$	December 31, 2017 \$
Assets		
Current assets		
Cash	252,172	859,656
Accounts receivable	521,317	305,510
Inventory	-	11,264
Prepays	139,150	57,296
	912,639	1,233,726
Equipment and tangible assets (Note 5)	1,069,877	126,725
Exploration and evaluation asset (Note 4 and 5)	76,357	1,416
Oil and gas properties (Notes 4 and 5)	8,694,340	8,790,491
	9,840,574	8,918,632
	10,753,213	10,152,358
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 7)	350,193	216,139
Deferred premium on flow-through shares (Note 8)	130,598	130,597
Current portion of property acquisition liability (Note 4)	309,186	171,205
	789,977	517,941
Long Term Liabilities		
Property acquisition liability (Note 4)	1,196,055	1,402,603
Reclamation provision (Note 6)	1,360,167	1,360,167
	2,556,222	2,762,770
Shareholders' equity		
Share capital (Note 8)	9,732,356	9,602,822
Other capital reserves	-	37,590
Deficit	(2,325,342)	(2,768,765)
	7,407,014	6,871,647
	10,753,213	10,152,358

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

Nature of operations - Note 1
Commitment – Note 15

These condensed consolidated financial statements were approved for issue by the Board of Directors on November 29, 2018 and are signed on its behalf by:

Approved by the Board “Garth Johnson”, Director “Drew Cadenhead”, Director

Pulse Oil Corp.

Condensed Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

Unaudited

Expressed in Canadian Dollars

TSX-V: PUL

	Three Months Ended September 30, 2018 \$	Three Months Ended September 30, 2017 \$	Nine Months Ended September 30, 2018 \$	Nine Months Ended September 30, 2017 \$
Revenue				
Oil and gas sales (Note 14)	924,618	168,351	2,199,944	340,465
Other income	1,084	-	1,949	-
Royalties	(63,202)	(14,362)	(142,985)	(32,079)
	862,500	153,989	2,058,908	308,386
Expenses				
Accounting and legal	34,656	38,750	77,910	96,772
Bank charges	848	463	1,627	1,368
Consulting fees	27,224	3,685	56,256	448
Corporate relations and development (recovery)	70,572	(8,095)	107,112	47,225
Depletion	78,373	10,676	202,822	54,127
Finder's fee	-	-	-	169,000
Insurance	-	6,850	-	6,850
License fees	-	-	-	10,000
Management fees (Note 11)	16,000	15,000	50,000	15,000
Office	20,982	13,588	58,441	34,273
Operating expenses on oil and gas properties (Note 11)	199,050	132,723	493,898	247,755
Transportation costs on oil and gas properties	88,028	18,496	221,427	45,316
Public company listing expense (Note 3)	-	-	-	506,798
Regulatory and filing fees	795	-	21,821	-
Salaries and related benefits (Note 11)	75,279	16,496	243,586	65,076
Share-holder communications	9,750	204	35,440	23,232
Travel	16,724	14,980	43,490	41,521
	638,281	263,816	1,613,830	1,364,761
Income (loss) before other items	224,219	(109,827)	445,078	(1,056,375)
Other item				
Gain on Asset	-	245	960	245
Foreign exchange gain (loss)	(1,613)	57	(2,615)	(6,441)
	(1,613)	302	(1,655)	(6,196)
Net income (loss) and net comprehensive income (loss) for the period				
	222,606	(109,525)	443,423	(1,062,571)
Basic gain (loss) per share (Note 10)	0.00	(0.00)	0.01	(0.02)
Diluted gain (loss) per share	0.00	(0.00)	0.00	(0.02)
Weighted average number of common shares outstanding				
	88,884,421	73,961,348	88,640,148	60,378,010

The accompanying notes are an integral part of these condensed consolidated financial statements

Pulse Oil Corp.

Condensed Consolidated Statements of Changes in Equity

Unaudited
Expressed in Canadian Dollars

TSX-V: **PUL**

	Share capital Shares	Share capital Amount \$	Reserves \$	Deficit \$	Total equity \$
Balance at September 30, 2016	4,494,000	299,193	44,695	(209,684)	134,204
Seed share cancellation	(1,000,000)	-	-	-	-
Net loss and comprehensive loss for the period	-	-	-	(57,574)	(57,574)
Balance at December 31, 2016	3,494,000	299,193	44,695	(267,258)	76,630
Net loss and comprehensive loss for the period	-	-	-	(22,944)	(22,944)
Balance at February 23, 2017	3,494,000	299,193	44,695	(290,202)	53,686
Recapitalization at time of the reverse takeover	-	(299,193)	(44,695)	290,202	(53,686)
Issue of shares at time of reverse takeover	27,781,197	2,950,378	-	(1,008,866)	1,941,512
Finder Fee Shares issued at the time of the reverse takeover. (Note 3)	666,667	(100,000)	-	-	(100,000)
Common shares issued	42,019,484	5,347,338	-	-	5,347,338
Share issue costs	-	(626,669)	-	-	(626,669)
Option re-valued on acquisition (Note 3)	-	-	37,590	-	37,590
Net loss and comprehensive loss for the period	-	-	-	(1,062,571)	(1,062,571)
Balance at September 30, 2017	73,961,348	7,571,047	37,590	(2,071,437)	5,537,200
Common shares issued	14,443,037	2,031,775	-	-	2,031,775
Net loss and comprehensive loss for the period	-	-	-	(697,328)	(697,328)
Balance at December 31, 2017	88,404,385	9,602,822	37,590	(2,768,765)	6,871,647
Common shares issued	690,000	86,500	-	-	86,500
Share issue costs	-	5,444	-	-	5,444
Option exercised in period	-	37,590	(37,590)	-	-
Net income and comprehensive income for the period	-	-	-	443,423	443,423
Balance at September 30, 2018	89,094,385	9,732,356	-	(2,325,342)	7,407,014

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

Pulse Oil Corp.

Condensed Consolidated Statements of Cash Flows

Unaudited
Expressed in Canadian Dollars

TSX-V: **PUL**

	Nine Months Ended September 30, 2018 \$	Nine Months Ended September 30, 2017 \$
Cash flows from (used in) operating activities		
Net income (loss) and comprehensive income (loss) for the period	443,423	(1,062,571)
Items not affecting cash		
Public company listing expense (Note 3)	-	506,798
Depletion	202,822	54,127
Finder's fee	-	100,000
Changes in non-cash working capital		
(Increase) in accounts receivable and prepaids	(297,661)	(282,991)
(Increase) decrease in accounts payable and accrued liabilities	130,905	(51,964)
(Increase) decrease in inventory	11,264	(38,388)
	490,753	(774,989)
Cash flows from financing activities		
Issuance of share capital	86,500	4,812,935
Share issue cost paid	5,444	(625,794)
Decrease in property acquisition liability	(65,416)	-
	26,528	4,187,141
Cash flows used in investing activities		
Purchase of oil and gas properties	(106,673)	(2,493,687)
Capital expenditures	(1,018,092)	-
Cash acquired on reverse take-over transaction (Note 3)	-	93,919
	(1,124,765)	(2,399,768)
Increase (decrease) in cash during the period	(607,484)	1,012,384
Cash, beginning of period	859,656	651,224
Cash, end of period	252,172	1,663,608

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

Supplemental cash flow disclosure (Note 13)

Pulse Oil Corp.

Notes to the Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018

Unaudited
Expressed in Canadian Dollars

TSX-V: **PUL**

1. Nature of operations

Pulse Oil Corp. (the “Company”, “Pulse”) is a company incorporated on September 17, 2012 under the *Business Corporation Act of Alberta*, Canada. On August 28, 2013 the Company’s shares began trading on the TSV Venture Exchange (“TSX-V”) under the symbol “WLP.P” and on December 1, 2016 the Company’s trading symbol changed to “PUL”.

On February 24, 2017, Pulse received approval from the TSX-V to close its Qualifying Transaction as detailed in the Company’s Filing Statement dated February 15, 2017 that is filed on SEDAR. As a result, the Company is no longer considered to be a Capital Pool Company and on March 7, 2017, the Company’s shares resumed trading on the TSX-V as a Tier 2 Oil and Gas Company under the symbol “PUL”.

On September 8, 2017, Pulse’s subsidiary changed its name from Hydrate Resources Corp. (“HRC”) to Pulse Oil Operating Corp. (“Pulse OpCo”).

The Company’s primary business is to be an active oil and gas producer and explorer in the oil and gas business with a focus in Canada. In order to fund its potential future operations and commitments, the Company is dependent on its ability to generate cash flow from its oil and gas operations and to secure additional financing through debt, equity issuances or other available means. The Company earned a profit of \$443,423 for the nine-month period ended September 30, 2018 (nine month period ended September 30 2017: loss of \$1,062,571). As at September 30, 2018, the Company had a cumulative deficit of \$2,325,342 (September 30, 2017: \$2,071,437). Management of the Company believes that it has sufficient funds to pay its ongoing administrative expenses and its liabilities for the period through April 2020 as they normally fall due. These condensed consolidated financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”) appropriate for a going concern. The going concern basis of accounting assumes the Company will continue to realize the value of its assets and discharge its liabilities and other obligations in the ordinary course of business. Should the Company be required to realize the value of its assets in other than the ordinary course of business, the net realizable value of its assets may be materially less than the amounts shown in the condensed consolidated financial statements. These condensed consolidated financial statements do not include any adjustments to the amounts and classifications of assets and liabilities that may be necessary should the Company be unable to repay its liabilities and meet its other obligations in the ordinary course of business or continue operations.

2. Summary of significant accounting policies

Basis of compliance

These condensed consolidated financial statements have been prepared in accordance with International Accounting Standards (“IAS”) 34, *Interim Financial Reporting*.

Basis for presentation

These condensed consolidated financial statements have been prepared on the historical cost basis.

The condensed consolidated financial statements include the financial statements of the Company and its wholly-owned subsidiaries, Pulse OpCo, a company incorporated in British Columbia, Canada and HRC (NZ) Limited, a company incorporated in New Zealand.

The preparation of these condensed consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes could differ from these estimates.

Pulse Oil Corp.

Notes to the Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018

Unaudited
Expressed in Canadian Dollars

TSX-V: PUL

2. Summary of significant accounting policies - continued

Certain of the Company's activities are conducted through participating; non-controlling interest arrangements, and the condensed consolidated financial statements reflect the Company's proportionate share of the assets, liabilities, revenues and expenses, on a line-by-line basis.

Functional and presentation currency

The parent and its subsidiary's functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar.

Critical judgments and sources of estimation uncertainty

The preparation of these condensed consolidated financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the condensed consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These condensed consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated financial statements. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects future periods. Estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Estimation uncertainty

The following are key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year:

- (i) Estimates of depletion and depreciation using the unit of production method by reference to the ration of production in the period to the related proven and probable reserves, adding estimated future development costs ("FDC") necessary to bring those reserves into production into the depletable base. The estimates underlying the FDC values are reviewed by independent reserve evaluators on an annual basis.

Proved and probable reserves are estimated using independent reserve evaluator reports in accordance with Canadian Securities Regulation NI 51-101, and represent the estimated quantities of oil, natural gas and natural gas liquids which geological, geophysical and engineering data demonstrate with a specified degree of certainty to be recoverable in future years from known reservoirs and which are considered commercially producible.

In determining reserves for use in the depletion and impairment calculations, a barrel of oil equivalent ("boe") conversion ratio of six thousand cubic feet of natural gas ("mcf") to one barrel of oil ("bbl") is used as an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. All boe conversions in the reserve reports are derived by converting natural gas to oil in the ratio of six mcf of gas to one bbl.

For other Property, Plant & Equipment assets, depreciation is recognized in earnings on a 20% declining balance basis over its remaining useful life and is reviewed annually.

Pulse Oil Corp.

Notes to the Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018

Unaudited
Expressed in Canadian Dollars

TSX-V: PUL

2. Summary of significant accounting policies - continued

For Exploration and Evaluation Assets, all costs directly associated with petroleum and natural gas reserves are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include costs to acquire acreage and exploration rights, geological and geophysical costs, asset retirement costs, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net earnings as exploration expense.

- (ii) The calculation of the reclamation provision includes estimates of the future costs to settle the liability, the timing of cash flows to settle the liability, the credit-adjusted risk-free interest rate and future inflation rates. The impact of differences between actual and estimated costs, timing and inflation on the future consolidated financial statements may be material.
- (iii) Contingencies are resolved only when one or more events transpire. As a result, the assessment of contingencies inherently involves estimating the outcome of future events.
- (iv) Estimates of the fair value of assets acquired or liabilities assumed in non-cash transactions use the highest and best use method of valuation between arms-length parties.

New and amended accounting standards and interpretations adopted

The Company has applied revised IFRSs issued by the IASB that are mandatorily effective for accounting periods that begin on or after January 1, 2018, including the following standards:

- *IFRS 9 – Financial Instruments*
- *IFRS 15 – Revenue from Contracts with Customers*

For periods ending prior to January 1, 2018, the accounting policies followed are as disclosed in the Annual Financial Statements.

- **IFRS 15** Effective January 1, 2018, the Company adopted IFRS 15 – *Revenue from Contracts with Customers* (“IFRS 15”) which replaces IAS 11 – *Construction Contracts*, IAS 18 – *Revenue* and several revenue related interpretations. The Company adopted IFRS using the modified retrospective approach. Under this transitional provision, the cumulative effect of initially applying IFRS 15 is recognized as an adjustment to retained earnings. No adjustment to retained earnings was required upon adoption of IFRS 15. Additional disclosure required under IFRS 15 related to disaggregation of revenue is provided in Note 15. The Company’s newly adopted accounting policy relating to IFRS 15 is as follows:

Revenue Recognition

Revenue from the sale of crude oil, natural gas and natural gas liquids is measured as per the consideration specified in contracts with customers. Revenue is recognized when the customer obtains control of the goods. The company satisfies its performance obligations and the customer obtains control of the products upon delivery of the crude oil, natural gas and natural gas liquids.

The Company does not currently have any contracts with customers where the period between the transfer of the promised goods or services to the customer and payment by the customer exceeds one year. As a result, the Company does not adjust any of the transaction prices for the time value of money.

Pulse Oil Corp.

Notes to the Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018

Unaudited
Expressed in Canadian Dollars

TSX-V: PUL

2. Summary of significant accounting policies - continued

- IFRS 9 Effective January 1, 2018, the Company adopted IFRS 9 – *Financial Instruments* (“IFRS 9”) retrospectively. In accordance with transitional provisions, comparative figures have not been restated. No adjustment to retained earnings was required upon adoption of IFRS 9. The Company’s newly adopted accounting policies relating to IFRS 9 are as follows:

Financial Assets and Liabilities

Classification of financial assets under IFRS 9 is based on the contractual cash flow characteristics and the company’s business model for managing the financial asset. The principal classification categories for financial assets include amortized cost, fair value through other comprehensive income (“FVOCI”) and fair value through profit and loss (“FVTPL”), replacing the previous categories under IAS 39 – *Financial Instruments: Recognition and Measurement* of held to maturity, FVTPL, loans and receivables and available for sale. The classifications of financial liabilities under IFRS 9 include amortized cost and FVTPL, replacing IAS 39 categories of other financial liabilities and FVTPL.

There were no adjustments to the carrying amounts of financial assets and financial liabilities as a result of changes in the classification categories from IAS 39 to IFRS 9. The following table summarizes the measurement categories of Pulse’s financial instruments under IAS 39 and IFRS 9:

Financial Instruments	Measurement Category	
	IAS 39	IFRS 9
Cash	FVTPL	FVTPL
Accounts receivable	Loans and receivable	Amortized Cost
Accounts payable and accrued liabilities	Other financial liabilities	Amortized Cost
Property acquisition liability	Other financial liabilities	Amortized Cost

Impairment of Financial Assets

IFRS 9 replaces the ‘incurred loss’ model under IAS 39 with an ‘expected credit loss’ model for financial assets carried at amortized cost, contract assets and FVOCI. Pulse applied the expected credit loss model to its financial assets classified as amortized cost using the simplified approach applying a provision matrix whereby accounts are grouped into categories based on counterparty characteristics and aging categories. The application of the expected credit loss model did not result in an adjustment upon transition.

Impairment tests for assets within the oil and gas properties are performed when there is an indication of impairment. An assessment is made to determine whether there are any indications of impairment at each reporting date. If the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, the asset is tested as part of a Cash Generating Unit (“CGU”), which is defined as the lowest level for which there are separately identifiable cash inflows. An impairment loss is recognized for the amount by which the carrying value of the individual asset or CGU exceeds its recoverable amount. An impairment loss is charged to profit and loss so as to reduce the carrying amount of the asset to its recoverable amount. Impairment losses are reversed for all CGU’s and individual assets to the extent that events or circumstances give rise to changes in the estimate of recoverable amount since the period the impairment was recorded.

Pulse Oil Corp.

Notes to the Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018

Unaudited
Expressed in Canadian Dollars

TSX-V: **PUL**

2. Summary of significant accounting policies - continued

Impairment of Financial Instruments

The Company recognizes allowances for losses on its financial assets measured at amortized costs based on the lifetime expected credit losses anticipated to occur from all expected defaults over the life of financial asset. To calculate the expected credit loss, Pulse applies the simplified approach applying a provision matrix whereby financial assets are grouped into categories based on counterparty characteristics and aging categories. The Company considers past experience and forward-looking information if such information is reasonable and supportable, available without undue costs and effort, and can have a significant impact on the loss estimate.

Loss allowances for financial assets measured at amortized cost are deducted from the gross carrying amount of the assets and impairment losses are recognized in profit and loss.

Future Accounting Standards and Amendments:

The following new standards and amendments have been issued but are not effective during the period ended September 30, 2018. Management is currently assessing the impact that these accounting standards and amendments will have on its financial statements.

- IFRS 16 IFRS 16 is a new standard that sets out the principles for recognition, measurement, presentation, and disclosure of leases including guidance for both parties to a contract, the lessee and the lessor. The new standard eliminates the classification of leases as either operating or finance leases as is required by IAS 17 and instead introduces a single lessee accounting model. Effective for annual periods beginning on or after January 1, 2019.

Oil and gas properties

The costs to acquire rights to a developed and producing oil and gas property, including completing property assessment surveys, and tangible assets acquired for use in the oil and gas activities are capitalized to assets within the oil and gas properties.

Also capitalized to the oil and gas properties are costs directly associated with the development of oil and gas reserves, such as geological and geophysical surveys, drilling development wells, and costs to construct and install development infrastructure.

Depletion

The net carrying value of oil and gas properties is depleted using the unit-of-production method by reference to the ratio of production in the year to the related total proved and probable reserves of oil and gas, taking into account estimated future development costs necessary to bring those reserves into production.

Business combinations

The Company accounts for business combinations using the acquisition method when control is transferred to the Company. The consideration transferred in the acquisition is measured at fair value, as are the identifiable net assets acquired. Any goodwill that arises is tested annually for impairment. Transaction costs are expensed as incurred, except if related to the issue of debt or equity securities.

The consideration transferred does not include amounts related to the settlement of pre-existing relationships. Such amounts are recognized in profit and loss.

Pulse Oil Corp.

Notes to the Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018

Unaudited
Expressed in Canadian Dollars

TSX-V: **PUL**

2. Summary of significant accounting policies - continued

Any contingent consideration is measured at fair value at the date of acquisition. If an obligation to pay contingent consideration that meets the definition of a financial instrument is classified as equity, then it is not re-measured at fair value at each reporting date and subsequent changes in the fair value of the contingent consideration are recognized in profit or loss.

Reclamation provision

An obligation to incur restoration, rehabilitation and environmental costs arises when environmental disturbance is caused by the oil and gas development and production activities by or on behalf of the Company. Reclamation provisions are measured at the present value of management's best estimate of future cash flows required to settle the present obligation, using the credit-adjusted risk-free interest rate. The credit-adjusted risk-free interest rate reflects the current market and risks specific to the liability.

On initial recognition, the estimated net present value of future reclamation cost is recorded as a liability and a corresponding amount is added to the capitalized cost of the related asset. The liability increases over time through periodic charges to profit and loss. The provision is evaluated at the end of each reporting period for changes in the estimated amount or timing of settlement of the obligation.

The Company is subject to laws and regulations relating to environmental matters, including land reclamations and discharge of hazardous materials, in the jurisdiction in which it operates. The Company may be found to be responsible for damages caused by prior owners and operators of its oil and gas property. The Company believes it has conducted its development and production activities in compliance with applicable environmental laws and regulations.

Cash and cash equivalents

Cash consists of cash in bank and demand deposits. Cash equivalents include short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. At September 30, 2018 and 2017 the Company did not have any cash equivalents.

Share capital

Common shares issued by the Company are classified as equity. Costs directly attributable to the issue of common shares, share purchase warrants and share options are recognized as a deduction from equity, net of any related income tax effects.

Loss per share

Basic and diluted loss per share is determined by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is not separately presented, as the effect of securities exercisable into common shares would reduce the amount presented as loss per share.

Foreign currency

Transactions in foreign currencies are translated to Canadian dollars at exchange rates on the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated to Canadian dollars at the period end exchange rate. Non-monetary assets held at historical cost are not retranslated subsequent to initial recognition. Foreign currency differences arising on translation are recognized in profit or loss.

Pulse Oil Corp.

Notes to the Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018

Unaudited
Expressed in Canadian Dollars

TSX-V: **PUL**

2. Summary of significant accounting policies - continued

Share-based payment

Equity-settled share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the goods or the services.

Related parties

Related parties are parties that have the ability to control or to exercise significant influence over the Company.

Flow-through shares

The Company has adopted an accounting policy whereby flow-through share proceeds are allocated between the offering of the common shares and the premium associated with the sale of income tax benefits when the common shares are offered, if any. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A liability is recognized for the premium paid by the investors and reversed in the statement of loss and comprehensive loss as the Company spends flow-through share proceeds.

3. Reverse Take-over Transaction - Acquisition of Pulse Oil Corp.

On February 24, 2017, the Company completed a reverse takeover transaction ("RTO") with Pulse OpCo, pursuant to which the Company acquired all of the issued and outstanding shares of Pulse OpCo. This transaction qualified as the Company's Qualifying Transaction as required and approved by the TSX Venture Exchange.

The substance of the transaction was a reverse acquisition of a non-operating company. The transaction does not constitute a business combination since the non-operating Capital Pool Company does not meet the accounting definition of a business. As a result, the transaction has been accounted for as a capital transaction, with Pulse OpCo being identified as the accounting acquirer. The transaction was measured with reference to the fair value of the pre-acquisition equity transactions for Pulse OpCo because that fair value was more readily determinable at the time.

Pulse OpCo (legal subsidiary) has been treated as the accounting parent and the Company (legal parent) has been treated as the accounting subsidiary in these consolidated financial statements. As Pulse OpCo was deemed to be the acquirer for accounting purposes, its assets, liabilities, and operations since incorporation are included in the consolidated financial statements at their historical carrying values. Pulse's results of operations have been included from the date of the RTO. The legal capital continues to be that of Pulse, the legal parent.

On December 22, 2016 Pulse OpCo received \$425,000 in subscription receipts, committing to issue 2,833,333 Pulse OpCo shares. Pulse issued 2,833,333 shares to the subscription holders upon closing of the RTO on February 24, 2017. The fair value measurement of the consideration for the Pulse Shares was established using the price established for the December 22, 2016 Pulse OpCo private placement.

The terms of the transaction were as follows:

- Pursuant to the Acquisition Agreement between Pulse and Pulse OpCo, each Pulse OpCo Share was exchanged for Pulse Shares at a ratio of 1 Pulse OpCo Share to 0.95 Pulse Share. In total, Pulse issued to the holders of securities of Pulse OpCo, 27,781,197 Pulse Shares, inclusive of the shares issued for the subscriptions.

Pulse Oil Corp.

Notes to the Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018

Unaudited
Expressed in Canadian Dollars

TSX-V: **PUL**

3. Reverse Take-over Transaction - Acquisition of Pulse Oil Corp. - continued

- Pursuant to the Acquisition Agreement, Pulse acquired all of the outstanding Pulse OpCo Shares. Pulse OpCo became a wholly owned subsidiary of Pulse.

In addition, a Finder's Fee was paid on the completion of the Qualifying Transaction by way of \$69,000 in cash and an issuance of 666,667 Pulse Shares at a price of \$0.15 per share for a fair value of \$100,000.

Consideration

3,667,895 shares issued at \$0.15	\$ 551,684
440,000 stock options	37,590
	<u>\$ 589,274</u>

Net Assets Acquired

Cash	\$ 93,918
Accounts receivable	2,834
Accounts payable and accrued liabilities	(41,860)
Public company listing expense	534,382
	<u>\$ 589,274</u>

In connection with this transaction, 440,000 options were carried over from Pulse and re-valued at the date of closing of the transaction with a fair value of \$37,590 using the Black-Scholes option pricing model, based on a risk-free rate of 0.64%, an expected life of 1.49 years, an expected volatility of 100% and an expected dividend yield of 0%. The options were exercised prior to their expiry in August 2018 (see note 8).

4. Acquisition of oil and gas properties

A) Bigoray:

On October 31, 2016, the Company acquired the right to earn up to a 50% interest in an oil and gas operation (the "Property") located in the Bigoray area of Alberta from Crimson Energy Ltd. and Crimson Oil and Gas Ltd. (collectively referred to as Crimson) for cash consideration of \$ 750,000 and a commitment to fund the first \$ 3 million in capital costs to develop and enhance the Property by March 31, 2017. The agreement was subsequently amended as follows:

- (i) The deadline for the \$ 3,000,000 capital cost commitment was revised to:
 - a. \$ 250,000 to be paid by March 20, 2017 (completed),
 - b. an additional \$ 1,000,000 to be paid by June 30, 2017 (completed), and
 - c. an additional \$ 1,750,000 to be paid by September 29, 2017 (further amended).

On October 31, 2017, Pulse completed an Asset Purchase and Sale Agreement (the "Agreement") signed on October 20, 2017. Pursuant to the Agreement, Pulse acquired 100% of the remaining working interest in the Property from its controlling interest partner (Crimson). All assets, liabilities and net income were recorded prior to the agreement at their proportionate share. The acquisition price and structure are described in detail below.

1. \$500,000 in cash payable at closing, subject to standard closing adjustments; and
2. Issuance of 14,118,037 Pulse common shares at an issue price of \$0.14 per Common Share, equal to an aggregate fair value of \$1,976,525 and subject to required regulatory hold periods.

Pulse Oil Corp.

Notes to the Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018

Unaudited
Expressed in Canadian Dollars

TSX-V: **PUL**

4. Acquisition of oil and gas properties - continued

- a. One-third of the issued shares (4,705,542 shares) were released for trading on March 1, 2018, the initial expiry of the required regulatory hold period, with the balance of the shares (9,412,495) to be released one-third (1/3, or 3,137,185 shares) every six (6) months, commencing after the expiry of the regulatory hold periods (September 1, 2018, March 1, 2019 and September 1, 2019, respectively) ;

Cash installments as follows:

- a. \$8,125.00 per month effective November 1, 2017 until June 1, 2018 (total \$65,000); and
- b. \$62,500 per quarter beginning July 1, 2018 for four quarters (total \$250,000); and
- c. \$125,000 per quarter for 11 quarters (total \$1,375,000).

Pulse also has certain clauses attached to the acquisition structure that allow, at no penalty, accelerated payments to be made to shorten the duration of the payment schedule. Fair value was established at the acquisition date for each of the assets and liabilities acquired in the business combination.

On October 20, 2017, the Company completed an Asset Exchange Agreement that was signed on September 20, 2017. The participating, non-controlling interest arrangement formed by Pulse and Crimson (the "Pulse NCI") had negotiated an Asset Exchange Agreement with an intermediate-sized oil and gas producer ("PubCo"). The transaction provided that the Pulse NCI exchange its 50% interest in the Central Alberta Bigoray Nisku-F Pool for PubCo's 75% interest in the nearby Bigoray Nisku-D Pool. After completion on October 20, 2017, the Pulse NCI owned 100% of the Bigoray Nisku-D and Nisku-E Pool acreages owned by Pulse's partners, including all associated wells and infrastructure, and PubCo owns a 100% interest in the Bigoray F-Pool and associated infrastructure. The fair market value of the transaction was not readily determinable therefore the transaction was valued at its carrying cost value of \$1,416.

The completion of the acquisition of 100% of the Bigoray interests has been accounted for as an acquisition of a business. The fair value of the oil and gas operation was categorized as Level 3 on the IFRS fair value hierarchy. The company valued the property on a reserve value basis, assigning 85% value to proven reserves and 14% of probable reserves. This follows management's policy of valuing reserves at a maximum fair value of 90% for proved reserves and 25% for probable reserves.

Consideration	
Cash	\$500,000
Property acquisition liability	\$1,531,376
Issuance of common shares	\$1,976,525
	\$4,007,901
Allocation to fair value of:	
Oil and gas properties	\$3,140,655
Exploration and evaluation assets	\$1,416
Reclamation provision	\$865,830
	\$4,007,901

According to the acquisition agreement, Pulse became the operator of the property on November 1, 2017.

The business combination was achieved in stages. The acquisition-date fair value of the non-controlling interest in the operation held by Pulse immediately before the change-in-control date was determined and a resulting loss on change of control was calculated as follows:

Pulse Oil Corp.
Notes to the Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2018

Unaudited
 Expressed in Canadian Dollars

TSX-V: **PUL**

4. **Acquisition of oil and gas properties - continued**

Consideration	
Acquisition-date fair value of the non-controlling interest	\$1,592,613
<hr/>	
Cost basis:	
Oil and gas properties	\$2,000,000
<hr/>	
Loss on change of control	\$407,387

As security for the property acquisition liability, Crimson maintains a first and fixed charge on all of the assets transferred to Pulse in the business combination.

B) Queenstown:

On June 13, 2017, Pulse completed a business combination of an oil and natural gas operation located in the Queenstown area of the Province of Alberta from an arm's length private company. The consideration paid to the Vendor was \$1.35 million cash, subject to customary post-closing adjustments and the issuance of three million common shares of Pulse at a market value of \$0.155 per share. The assets include producing and non-producing oil and gas assets in which Pulse has acquired a 100% working interest in 30,878 net acres of land, including seven wells, a royalty interest in an additional three wells and at least twenty, 3D seismically defined, infill development drilling locations in the Queenstown area of Alberta. Fair value was established at the acquisition date for each of the assets acquired in the business combination. The oil and gas operation was valued as Level 3 on the fair value hierarchy. The company valued the property on a reserve value basis, assigning 90% value to proved reserves and 15% of probable reserves. This follows management's policy of valuating reserves at a maximum fair value of 90% for proved reserves and 25% for probable reserves. The fair value of tangible assets was valued as Level 3 on the IFRS fair value hierarchy. The valuation of the tangible assets was determined to be of equivalent value to similar assets purchased in the market.

Consideration	
Cash	\$1,350,000
Issuance of common shares	\$465,000
<hr/>	
	\$1,815,000
Allocation to fair value of:	
Oil and gas properties	\$1,338,083
Tangible assets	\$108,150
Reclamation provision	\$368,767
<hr/>	
	\$1,815,000

Pulse Oil Corp.
Notes to the Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2018

Unaudited
 Expressed in Canadian Dollars

TSX-V: **PUL**

5. **Property and Equipment**

	Oil and Gas Properties \$	Equipment \$	Tangible Assets \$	Exploration and Evaluation Assets \$	Nine Months Ended September 30, 2018 \$
Cost:					
Balance – beginning of year	8,893,237	32,656	108,150	1,416	9,035,459
Changes during the period	106,671	114,091	829,061	74,941	1,124,764
Balance – end of period	8,999,908	146,747	937,211	76,357	10,160,223
Accumulated impairment, depletion and depreciation:					
Balance – beginning of year	102,747	3,266	10,815	-	116,828
Depletion and depreciation	202,821	-	-	-	202,821
Balance end of period	305,568	3,266	10,815	-	319,649
Net book value:					
At end of period	8,694,340	143,481	926,396	76,357	9,840,574

During measurement periods of twelve months from the acquisition dates, the Company continues its evaluation of the classification of assets acquired in the business combinations described in Note 4.

	Oil and Gas Properties \$	Equipment \$	Nine Months Ended September 30, 2017 \$
Cost:			
Balance – beginning of year	938,477	-	938,477
Changes during the period	3,574,569	-	3,574,569
Balance – end of period	4,513,046	-	4,513,046
Accumulated impairment, depletion and depreciation:			
Balance – beginning of year	-	-	-
Depletion and depreciation	54,127	-	54,127
Balance – end of period	54,127	-	54,127
Net book value:			
At end of period	4,458,919	-	4,458,919

6. **Reclamation provision**

The reclamation provision is the estimated cost of restoring and retiring the Bigoray and Queenstown Assets oil and gas property. The following table reconciles the estimated beginning and ending carrying amounts of the reclamation provision.

	Bigoray \$	Queenstown \$
Reclamation provision, beginning of year	991,400	368,767
Reclamation provision, end of period (September 30, 2018)	991,400	368,767

Pulse Oil Corp.
Notes to the Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2018

Unaudited
 Expressed in Canadian Dollars

TSX-V: **PUL**

6. **Reclamation provision** - continued

The assumptions used for the calculation of the provision on the Bigoray and Queenstown Assets are as follows:

	Bigoray \$	Queenstown \$
Estimated cash flows to settle the obligation (undiscounted)	1,706,766	650,731
Time range for settling the obligation	21 years ⁽¹⁾	23 years ⁽¹⁾
Credit-adjusted risk-free rate	2.5%	2.5%

⁽¹⁾ Certain assets have potential cash obligations that may occur between 3 and 23 years

7. **Accounts payable and accrued liabilities**

	September 30, 2018 \$	December 31, 2017 \$
Accounts payable and accrued liabilities	350,193	216,139

The carrying amounts of accounts payable and accrued liabilities, as presented above are reasonable approximations of their fair values.

8. **Share capital**

(a) **Authorized**

At September 30, 2018 and 2017, the Company's authorized share capital consisted of an unlimited number of common shares without par value.

(b) **Reconciliation of changes in share capital**

- (i) On June 13, 2017, Pulse issued 25,959,724 units of the Company (the "Basic Units") at a price of \$0.12 per Basic Unit for gross proceeds of \$3,115,167. Each Basic Unit was comprised of one common share of Pulse and one common share purchase warrant (a "Warrant"). Each Warrant entitles the holder thereof to acquire one common share at an exercise price of \$0.17 per common share for a period of 24 months (June 13, 2019). Pulse issued 13,059,760 units of the Company (the "Flow-Through Units") at a price of \$0.13 per share for gross proceeds of \$1,697,768. Each Flow-Through Unit consisted of one common share issued on a flow-through basis pursuant to the Income Tax Act (Canada) (a "Flow-Through Share") and one Warrant (also on the same terms and conditions as the Warrants issued pursuant to the Basic Units). The Company recorded a deferred premium of \$130,597 on the Flow-Through Units.

In addition, Pulse issued 3,000,000 common shares at a price of \$0.155 for a value of \$465,000 to an arms-length private company in connection with the business combination of its Queenstown assets.

Pulse Oil Corp.
Notes to the Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2018

Unaudited
 Expressed in Canadian Dollars

TSX-V: **PUL**

8. **Share capital** - continued

- (ii) On October 31, 2017, Pulse issued 14,118,037 common shares at a price of \$0.14 per common in connection with the completion of the Asset Purchase and Sale Agreement with Crimson Energy Ltd. The common shares are subject to the required regulatory hold periods (See Note 4).
- (iii) On November 27, 2017, Pulse's Share Purchase Warrants began trading on the TSX Venture Exchange under the symbol PUL.WT.

During the period ended September 30, 2018, 440,000 options were exercised at a price of \$0.10 for proceeds of \$44,000 and 250,000 share purchase warrants were exercised at a price of \$0.17 for proceeds of \$42,500.

At September 30, 2018, Pulse has 89,094,385 common shares issued and outstanding (fully diluted: 127,538,869).

See Note 16: Subsequent events

Warrants

	Warrants		
	Number Outstanding	Exercise Price	Expiry Date
Outstanding December 31, 2017	38,694,484	\$0.17	June 13, 2019
Warrants exercised during period	250,000	\$0.17	-
Outstanding September 30, 2018	38,444,484	\$0.17	June 13, 2019

See Note 16: Subsequent events

9. **Stock options and share-based compensation**

	Stock Options	
	Number Outstanding	Weighted Average Exercise Price
Outstanding December 31, 2017	440,000	\$ 0.10
Options exercised during the period	440,000	\$ 0.10
Outstanding September 30, 2018	-	-

See Note 3: Reverse takeover transaction – for Black Scholes calculation.

10. **Basic and diluted gain or loss per share**

Basic and diluted gain or loss per share is determined by dividing the gain or loss the by the weighted average number of common shares outstanding during the reporting period. Diluted gain or loss per share, which reflects the maximum possible dilution from the potential exercise of warrants and stock options, is the same as basic gain or loss per share for the periods ended September 30, 2018 and 2017.

Pulse Oil Corp.
Notes to the Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2018

Unaudited
 Expressed in Canadian Dollars

TSX-V: **PUL**

11. **Related party disclosures**

The Company had the following transactions with related parties:

	September 30, 2018		September 30, 2017	
	3 months ended	9 months ended	3 months ended	9 months ended
	\$	\$	\$	\$
Management fees and salaries	76,000	230,000	15,000	15,000
Operating expenses on oil and gas properties paid to companies controlled by a director or officer	38,250 ¹	94,350	34,000	34,000
	114,250	324,350	49,000	49,000

1 \$38,250 was paid to Base Engineering, a company co-owned by the CFO, a Director of Pulse, and a party unrelated to Pulse. These funds were further distributed to unrelated parties for work conducted in relation to operating Pulse's assets.

The Company has identified all of the directors and senior officers as its key management personnel. All amounts due to related parties bear no interest and are due on demand.

12. **Financial instruments**

Categories of financial assets and financial liabilities

The carrying values of the Company's financial instruments are classified into the following categories:

Financial instrument	Category	September 30,	December 31,
		2018	2017
		\$	\$
Cash	FVTPL	252,172	859,656
Accounts receivable	Amortized cost	521,317	305,510
Accounts payable and accrued liabilities	Amortized cost	350,193	216,139
Property acquisition liability	Amortized cost	1,505,241	1,573,808

Fair value

IFRS 7 establishes a fair value hierarchy for financial instruments measured at fair value that reflects the significance of inputs in making fair value measurements as follows:

- Level 1 - applied to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.
- Level 2 - applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Pulse Oil Corp.

Notes to the Condensed Consolidated Financial Statements

For the Nine Months Ended September 30, 2018

Unaudited
Expressed in Canadian Dollars

TSX-V: **PUL**

12. Financial instruments – continued

- Level 3 - applies to assets or liabilities for which there are unobservable market data.

Fair value of financial instruments

- Carrying values of cash and accounts receivable and accounts payable and accrued liabilities approximate fair value due to their short-term nature, and are classified as Level I financial instruments.
- The property acquisition liability was initially recorded as a Level 3 instrument, based on management's estimates of the timing and amounts of expected cash outflows and a credit-adjusted discount rate of 2.5%.

Financial Instruments and Risk Management

The Company is exposed to various risks that arise from its business environment and the financial instruments it holds. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk exposures and explains how these risks and its capital structure are managed.

Capital management

The Company's objective is to maintain its capital base to maintain investor, creditor and market confidence and to sustain future development of the business. The Company manages its capital structure and makes adjustments to it, as it is able to, in light of changing economic conditions and the risks associated with working within the oil and natural gas industry. The Company considers its capital structure to include shareholders' equity and working capital. In order to maintain or adjust the capital structure, the Company may issue shares, issue debentures or obtain new credit facilities.

In order to facilitate the management of its capital structure, the Company prepares annual capital expenditure budgets, which are updated throughout the year depending on a variety of factors such as current and forecast prices, actual capital deployment and general industry conditions. There has been no change to this approach for the year.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they become due. The Company's approach to managing liquidity risk is to ensure, as far as reasonable, that it will have sufficient liquidity to meet its liabilities when they come due. Typically, the Company will ensure that it has sufficient cash on hand to meet expected operational expenses for a period of 60 days, including the servicing of financial obligations. To achieve this objective, the Company's use of capital expenditure budgets, cash flow forecasts and authorizations for expenditures on both operated and non-operated projects assist the Company in management of liquidity risk.

The Company may need to seek a combination of debt, equity and/or asset divestitures to meet its operational requirements.

Credit risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial assets subject to credit risk include cash and accounts receivable. Cash is held with Canadian banks, and the Company does not believe cash would be subject to material credit risk. Accounts receivable credit risk arises principally from sales of oil and gas products to various customers.

Pulse Oil Corp.
Notes to the Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2018

Unaudited
 Expressed in Canadian Dollars

TSX-V: **PUL**

12. **Financial instruments – continued**

On entering into any business contract, the extent to which the arrangement exposes the Company to credit risk is considered. The Company's policy to mitigate credit risk associated with these balances is to establish relationships with reputable counterparties. The creditworthiness of new counterparties is assessed and in some instances the Company may require new counterparties to obtain a letter of credit or provide an advance of funds. Receivables from petroleum and natural gas sales are normally collected on the 25th day of the month following production. In addition, future risk exists with potential partners; as disagreements occasionally arise that increase the potential for non-collection. The Company does not typically obtain collateral from oil and gas product customers.

The Company's maximum exposure to credit risk at September 30, 2018 is in respect of accounts receivable of \$521,317 (September 30, 2017: 205,055). As at September 30, 2018, no provision for doubtful accounts has been recorded (June 30, 2017 - nil).

Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Prices for oil and natural gas are impacted by not only the relationship between the Canadian and United States dollar, but also world economic events that can affect supply and demand levels. Changes in commodity prices can expose the Company to fluctuations in its net earnings. Commodity prices changes will impact revenues and impairment amounts calculated. The Company does not have any commodity price or foreign currency hedge contracts in place.

Interest rate risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates.

13. **Supplemental cash flow information**

The Company has conducted non-cash investing and financing transactions as follows:

	September 30, 2018	December 31, 2017
	\$	\$
Investing activity		
Issue of common shares for exploration and evaluation assets	-	2,441,525
Issue of common shares for finder's fee	-	100,000
	-	2,541,525
Financing activity		
Property acquisition liability ⁽¹⁾	1,505,241	1,573,808
Conversion of subscription receipts to common shares	-	425,000
	1,505,241	1,998,808

⁽¹⁾ Measured at amortized cost

Pulse Oil Corp.
Notes to the Condensed Consolidated Financial Statements
For the Nine Months Ended September 30, 2018

Unaudited
 Expressed in Canadian Dollars

TSX-V: **PUL**

14. **Oil and gas sales**

Nine Months Ended	September 30, 2018 \$	September 30, 2017 \$
Crude oil	1,557,714	221,994
Natural gas	151,211	52,720
Natural gas liquid	491,019	65,751
Oil and gas sales	2,199,944	340,465

15. **Commitment**

The Company has an outstanding commitment to incur \$611,327 of qualifying expenditures under the Flow-through share agreement that was completed on June 13, 2017.

16. **Subsequent Events**

On October 15, 2018, the Company announced the public equity offering and concurrent strategic private placement to fund Bigoray enhanced oil recovery and multi-well drill program and the filing of the preliminary short form prospectus.

On October 17, 2018, the Company filed an amended preliminary short form prospectus. The final short form prospectus was filed on November 12, 2018.

On November 20, the Company announced the closing of \$11,300,520 equity financing, including exercise of over-allotment option and start of EOR, reactivations and drilling. The Company issued 11,137,600 flow-through Common Shares at \$0.22/share and 15,953,555 units of the Corporation consisting of one Common Share and one-half of one Common Share purchase warrant at a price of \$0.21/unit for aggregate proceeds of \$5,800,519. In addition, the Company completed a concurrent private placement with certain strategic investors, issuing 26,714,285 units of the Company at a price of approximately \$0.2058 per unit for aggregate gross proceeds of \$5,500,001.11. The company also paid an investment fee equal to 7% of the Placement by issuing an additional 1,309,524 units of pulse. Each unit consists of one Common Share and one-half of one Common Share purchase warrant.