



FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017

Dated April 29, 2019



PULSE OIL CORP.
Consolidated Financial Statements
December 31, 2018 and 2017
(Expressed in Canadian Dollars)

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INDEPENDENT AUDITORS' REPORT

To the Shareholders and Directors of
Pulse Oil Corp.

Opinion

We have audited the consolidated financial statements of Pulse Oil Corp. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of loss and comprehensive income (loss), cash flows and changes in equity for the years then ended and the related notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017 and the its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRSs).

Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements for the year ended December 31, 2017, which are presented for comparative purposes, were audited by another auditor who expressed an unmodified opinion on those financial statements on May 3, 2018.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Other Information

Management is responsible for the other information, which is comprised of the information included in the Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

Our opinion on the consolidated financial statements does not cover the other information and do not and will not express any form of assurance conclusion thereon. In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits and remain alert for indicators that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report. We have nothing to report in this regard.



Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audits resulting in this independent auditors' report is Ted McLellan.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
April 29, 2019

Pulse Oil Corp.

Consolidated Statements Financial Position

As at
Expressed in Canadian Dollars

	December 31, 2018 \$	December 31, 2017 \$ (Restated, Note 18)
Assets		
Current assets		
Cash and cash equivalents	10,286,827	859,656
Accounts receivable (Note 13)	231,423	305,510
Inventory	-	11,264
Prepaid expenses and advances (Note 11)	177,330	57,296
	10,695,580	1,233,726
Equipment (Notes 5 and 6)	114,880	126,725
Exploration and evaluation asset (Notes 5 and 7)	110,693	1,416
Oil and gas properties (Notes 5 and 18)	12,748,735	9,338,458
	12,974,308	9,466,599
	23,669,888	10,700,325
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 11)	2,621,838	216,138
Deferred premium on flow-through shares (Note 10)	668,256	130,597
Current portion of property acquisition liability (Notes 5 and 9)	370,960	171,205
	3,661,054	517,940
Long-term liabilities		
Property acquisition liability (Notes 5 and 9)	1,079,128	1,402,603
Reclamation provision (Note 8)	1,750,169	1,360,168
	2,829,297	2,762,771
Shareholders' equity		
Share capital (Note 10)	17,272,994	9,602,822
Reserves	2,081,169	37,590
Deficit	(2,174,626)	(2,220,798)
	17,179,537	7,419,614
	23,669,888	10,700,325

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

Nature of operations - Note 1
Subsequent event – Note 19

These consolidated financial statements were approved for issue by the Board of Directors on April 29, 2019 and are signed on its behalf by:

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

Pulse Oil Corp.

Consolidated Statements of Loss and Comprehensive Income (Loss)

For the years ended

Expressed in Canadian Dollars

	December 31, 2018 \$	December 31, 2017 \$
		(Restated, Note 18)
Revenue		
Oil and gas sales (Note 17)	2,668,817	706,827
Other income	1,926	-
Royalties	(176,550)	(69,367)
	2,494,193	637,460
Expenses		
Accounting and legal	148,247	83,474
Accretion on reclamation obligation (Note 8)	61,247	-
Interest expense (Note 9)	50,030	58,682
Acquisition related costs	-	111,834
Bank charges	2,066	1,818
Consulting fees	75,186	9,645
Corporate relations and development	90,340	40,991
Depletion (Note 5)	300,212	97,807
Depreciation (Note 6)	26,845	14,081
Director and management fees (Note 11)	119,666	36,000
Finder's fee (Note 4)	-	169,000
Insurance	9,220	6,848
License Fees	-	10,000
Office	77,615	41,853
Operating expenses on oil and gas properties (Note 11)	641,000	426,785
Transportation costs on oil and gas properties	307,248	115,596
Public company listing expense (Note 4)	-	534,382
Salaries and related benefits (Note 11)	480,802	145,173
Shareholder communications	132,932	35,232
Travel	55,243	51,069
	2,577,899	1,990,270
Loss before other items	(83,706)	(1,352,810)
Other items		
Interest income	185	6,820
Gain on change of control (Notes 5 and 18)	-	140,580
Recovery of deferred premium on flow-through liability (Note 10)	130,597	-
Foreign exchange loss	(904)	(6,522)
	129,878	140,878
Net income (loss) and net comprehensive income (loss) for the year	46,172	(1,211,932)
Basic and diluted earnings (loss) per share (Notes 12 and 18)	0.00	(0.02)
Weighted average number of common shares outstanding	94,946,207	74,252,651

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

Pulse Oil Corp.
Consolidated Statements of Changes in Equity

Expressed in Canadian Dollars

	Share capital Shares	Share capital Amount \$	Reserves \$	Deficit \$	Total equity \$
Balance at December 31, 2016	3,494,000	299,193	45,902	(267,258)	77,837
Net loss and comprehensive loss for the period				(22,944)	(22,944)
Balance at February 23, 2017	3,494,000	299,193	45,902	(290,202)	54,892
Recapitalization at time of the reverse takeover	-	(299,193)	(45,902)	290,202	(54,892)
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 4)	666,667	(100,000)	-	-	(100,000)
Shares issued for cash	56,137,521	7,323,863	-	-	7,323,863
Warrants exercised	325,000	55,250	-	-	55,250
Share issue costs	-	(626,669)	-	-	(626,669)
Option re-valued on acquisition (Note 4)	-	-	37,590	-	37,590
Net loss and comprehensive loss for the period	-	-	-	(1,211,932)	(1,211,932)
Balance at December 31, 2017 (restated, Note 18)	88,404,385	9,602,822	37,590	(2,220,798)	7,419,614
Shares issued for cash	55,114,964	8,818,394	2,081,169	-	10,899,563
Share issue costs	-	(1,272,312)	-	-	(1,272,312)
Options exercised	440,000	81,590	(37,590)	-	44,000
Warrants exercised	250,000	42,500	-	-	42,500
Net income and comprehensive income for the period	-	-	-	46,172	46,172
Balance at December 31, 2018	144,209,349	17,272,994	2,081,169	(2,174,626)	17,179,537

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

Pulse Oil Corp.

Consolidated Statements of Cash Flows

For the years ended
Expressed in Canadian Dollars

	December 31, 2018 \$	December 31, 2017 \$ (Restated, Note 18)
Cash flows from (used in) operating activities		
Net income (loss) and comprehensive income (loss) for the year	46,172	(1,211,932)
Items not affecting cash		
Public company listing expense	-	534,382
Gain on change of control	-	(140,580)
Accretion on reclamation obligation	61,246	-
Interest expense	50,030	58,682
Depletion	300,212	97,807
Depreciation	26,845	14,081
Recovery of deferred premium on flow-through shares	(130,597)	-
Finder's fee	-	100,000
Changes in non-cash working capital		
Accounts receivable	74,087	(287,372)
Prepaid expenses and advances	(120,034)	(57,296)
Accounts payable and accrued liabilities	1,589,635	25,988
Inventory	11,264	(11,264)
	1,908,860	(877,504)
Cash flows from financing activities		
Issuance of share capital	11,567,819	4,557,936
Share issue costs	(1,272,312)	(626,670)
Exercise of warrants	42,500	55,250
Exercise of options	44,000	-
Property acquisition liability	(173,750)	-
	10,208,257	3,986,516
Cash flows used in investing activities		
Purchase of oil and gas properties	(2,565,669)	(2,961,843)
Cash acquired on reverse take-over transaction	-	93,919
Equipment purchase	(15,000)	(32,656)
Exploration and evaluation asset	(109,277)	-
	(2,689,946)	(2,900,580)
Increase in cash and cash equivalent during the period	9,427,171	208,432
Cash and cash equivalents, beginning of period	859,656	651,224
Cash and cash equivalents, end of period	10,286,827	859,656

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

Supplemental cash flow information (Note 16)

Pulse Oil Corp.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

Expressed in Canadian Dollars

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 income of \$46,172 (2017 - \$1,211,932 loss). As at December 31, 2018, the Company had a cumulative deficit of \$2,174,626 (2017 - \$2,220,798). These 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 consolidated financial statements. These 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. BASIS OF PRESENTATION

Basis of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as adopted by the Chartered Professional Accountants of Canada.

Basis for consolidation

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

The 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.

Certain of the Company’s activities are conducted through participating, non-controlling interest arrangements, and the 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 subsidiaries’ functional currency, being the currency of the primary economic environment in which the subsidiary operates, is the Canadian dollar. The consolidated financial statements are presented in Canadian dollars.

Pulse Oil Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017
Expressed in Canadian Dollars

2. **BASIS OF PRESENTATION** - Continued

Critical judgments and sources of estimation uncertainty

The preparation of these 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 consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These consolidated financial statements include estimates, which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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.

Critical judgments

The following are critical judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements:

(i) *Joint arrangements*

The Company may be a party to an arrangement in which it does not have control. Judgment is required in determining whether joint control over such arrangements exists and if so, which parties have joint control and whether each arrangement is a joint venture or joint operation.

In assessing whether the Company has joint control, management analyzes the activities of each arrangement and determines which activities most significantly affect the returns of the arrangement. These activities are determined to be the relevant activities of the arrangement. If unanimous consent is required over the decisions about the relevant activities, the parties whose consent is required would have joint control over the arrangement. The judgments around which activities are considered the relevant activities of the arrangement are subject to analysis by each of the parties to the arrangement and may be interpreted differently. When performing this assessment, the Company considers decisions about activities such as managing the asset during its life, acquisition, expansion and dispositions of assets, financing, operating and capital decisions.

Management may also consider activities including the approval of budgets, appointment of key management personnel, representation on the board of directors and other factors. If management concludes that the Company has joint control over the arrangement, an assessment of whether the arrangement is a joint venture or joint operation is required. This assessment is based on whether the Company has rights to the assets and obligations for the liabilities relating to the arrangement, or whether it has rights to the net assets of the arrangement. In making this determination, management reviews the legal form of the arrangement, the terms of the contractual arrangement, and other facts and circumstances. In a situation where the legal form and the terms of the contractual arrangement do not give the Company rights to the assets and obligations for the liabilities, an assessment of other facts and circumstances is required, including whether the activities of the arrangement are primarily designed for the provision of output to the parties and whether the parties are substantially the only source of cash flows contributing to the arrangement. In such circumstances management may consider the application of other facts and circumstances to conclude that a joint arrangement is a joint operation is appropriate. This conclusion requires judgment and is specific to each arrangement.

Pulse Oil Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017
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2. **BASIS OF PRESENTATION** - Continued

Critical judgments and sources of estimation uncertainty - continued

- (ii) *Going concern*
The assessment of the Company's ability to continue as a going concern involves management judgment about the Company's resources and future prospects.
- (iii) *Completeness of contingent liabilities*
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.
- (iv) *Oil and gas - reserves*
The process of estimating reserves is complex. It requires significant estimates based on available geological, geophysical, engineering and economic data. To estimate the economically recoverable crude oil reserves and related future net cash flows, management incorporates many factors and assumptions including the expected reservoir characteristics, future commodity prices and costs and assumed effects of regulation by governmental agencies. Reserves are used to calculate the depletion of the capitalized petroleum properties and for impairment purposes.
- (v) *Oil and gas properties*
The Company evaluates exploration and evaluation assets and oil and gas properties for impairment if indicators exist. Cash flow estimates for impairment assessments require assumptions and estimates about the following primary elements—future prices, future operating and development costs, remaining recoverable reserves and discount rates. In assessing the carrying values of unproved properties, management makes assumptions about future plans for those properties, the remaining terms of the leases and any other factors that may be indicators of potential impairment.
- (vi) *Cash generating unit ("CGU")*
The Company's assets are aggregated into CGUs, based on the unit's ability to generate independent cash inflows. The determination of the Company's CGUs is based on management's judgments in regard to shared infrastructure, geographical proximity, resource type and materiality. Based on management's assessment, the Company's Bigoray and Queenstown properties each form separate CGUs.
- (vii) *Fair value of assets acquired in a business combination*
The determination of fair value of assets acquired requires management to make assumptions and estimates about future events. The assumptions and estimates with respect to determining the fair value of the assets acquired require judgment and include estimates of future cash flows.

Pulse Oil Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017
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2. **BASIS OF PRESENTATION** - Continued

Critical judgments and sources of estimation uncertainty - continued

Estimates

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:

(i) *Income taxes*

Provisions for income taxes are made using the best estimate of the amount expected to be paid based on a qualitative assessment of all relevant factors. The Company reviews the adequacy of these provisions at the end of the reporting period. However, it is possible that at some future date an additional liability could result from audits by taxing authorities. Where the final outcome of these tax-related matters is different from the amounts that were originally recorded, such differences will affect the tax provisions in the period in which such determination is made.

(ii) *Depletion and depreciation*

Estimates of depletion and depreciation using the unit of production method by reference to the ratio 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 equipment assets, depreciation is recognized in earnings on a 20% declining balance basis over the remaining useful life and is reviewed annually.

For exploration and evaluation Assets, all costs directly associated exploration 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.

(iii) *Valuation of the reclamation provision*

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.

Pulse Oil Corp.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

Expressed in Canadian Dollars

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalent

Cash consists of cash in bank and demand deposits. Cash equivalent include a short-term, highly liquid investment that is readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. At December 31, 2018, the company had cash equivalents of \$9,000,000 (2017 - \$nil) by way of a fully redeemable GIC with the Company's bank.

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. These estimated reserves are reviewed by independent reserve engineers at least annually. Proved and probable reserves are estimated by independent reserve engineers in accordance with Canadian Securities Regulation National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. Changes in reserve estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior year adjustments and are dealt with on a prospective basis.

Subsequent measurement

Costs incurred subsequent to the determination of technical feasibility and commercial viability of oil and gas properties are recognized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Capitalized oil and gas properties generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves and are accumulated on a field or geotechnical area basis.

The carrying amount of any replaced or sold component is derecognized at the time of replacement or sale. The costs of the day-to-day servicing of properties are recognized in earnings as incurred.

Impairment

The carrying amounts of the Company's oil and gas properties are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the cash-generating unit level ("CGU"), which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value less cost to sell is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal or using a net present value technique. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Pulse Oil Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2018 and 2017
Expressed in Canadian Dollars

3. **SIGNIFICANT ACCOUNTING POLICIES** - Continued

Oil and gas properties - continued

An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss. Impairment losses recognized in respect of CGU's are allocated to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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.

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.

Income taxes

Deferred income taxes are provided in full, using the liability method, on temporary differences arising between the income tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income taxes are determined using income tax rates and income tax laws that have been enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

Pulse Oil Corp.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2018 and 2017

Expressed in Canadian Dollars

3. SIGNIFICANT ACCOUNTING POLICIES - Continued

Equipment

Equipment is depreciated on a 20% declining balance basis over its remaining useful life, which is reviewed annually.

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. When a financing consists of units, the fair value of the warrant is determined by the residual value method, whereby the share is valued according to the trading price on announcement date with the residual value assigned to the warrant component.

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.

Earnings per share

Basic and diluted earnings 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 earnings per share is not separately presented, as the effect of securities exercisable into common shares would reduce the amount presented as earnings per share.

Inventory

Inventory consists of crude oil products. The carrying value of inventory includes all direct expenditures required to bring the inventory to its present location and condition. The Company values its inventory using the weighted average cost method and inventory is held at the lower of cost and net realizable value at each reporting period. If the carrying value exceeds the net realizable value, a write-down is recognized. A change in circumstance could result in a reversal of the write-down for inventory that remains on hand in a subsequent period.

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.

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.

Pulse Oil Corp.

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3. SIGNIFICANT ACCOUNTING POLICIES - Continued

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*

-
- 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 17. 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. Interest income is recognized as earned, provided that collection is assessed as being reasonably assured.

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, and as such, no adjustment was required upon the adoption of IFRS 15.

See Note 17 for additional disclosures relating to IFRS 15.

- 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.

Pulse Oil Corp.

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3. SIGNIFICANT ACCOUNTING POLICIES - Continued

New and amended accounting standards and interpretations adopted - continued

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 and cash equivalent	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 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 December 31, 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.

Pulse Oil Corp.

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4. 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.
- 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
	\$	589,274

Net Assets Acquired

Cash	\$	93,918
Accounts receivable		2,834
Accounts payable and accrued liabilities		(41,860)
Net assets acquired	\$	54,892
Public company listing expense		534,382
	\$	589,274

Pulse Oil Corp.
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4. **REVERSE TAKE-OVER TRANSACTION - ACQUISITION OF PULSE OIL CORP.** - Continued

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. See Note 9. These options were exercised in August 2018 (see Note 9).

5. **OIL AND GAS PROPERTIES**

A continuity of the Company's oil and gas properties is as follows:

Cost:

	Queenstown \$	Bigoray \$	Total \$
Balance, December 31, 2016	-	938,477	938,477
Additions	761,074	1,405,686	2,166,760
Acquisitions	1,338,083	4,997,885	6,335,968
Balance, December 31, 2017	2,099,157	7,342,048	9,441,205
Additions	2,364,634	1,017,101	3,381,735
Change in decommissioning liabilities (Note 8)	-	328,754	328,754
Balance, December 31, 2018	4,463,791	8,687,903	13,151,694

Accumulated Depletion:

	Queenstown \$	Bigoray \$	Total \$
Balance, December 31, 2016	-	4,940	4,940
Additions	23,550	74,257	97,807
Balance, December 31, 2017	23,550	79,197	102,747
Additions	59,383	240,829	300,212
Balance, December 31, 2018	82,933	320,026	402,959

Balance

	Queenstown \$	Bigoray \$	Total \$
December 31, 2016	-	933,537	933,537
December 31, 2017	2,075,607	7,262,851	9,338,458
December 31, 2018	4,380,858	8,367,877	12,748,735

Pulse Oil Corp.

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5. OIL AND GAS PROPERTIES

A) Bigoray:

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 Energy Ltd. ("Crimson") (collectively the "Pulse NCI") had negotiated an Asset Exchange Agreement with Obsidian Energy Ltd. ("Obsidian"). The transaction provided that the Pulse NCI exchange its 50% interest in the Central Alberta Bigoray Nisku-F Pool for Obsidian'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 (the "Property"), including all associated wells and infrastructure, and Obsidian owns a 100% interest in the Bigoray F-Pool and associated infrastructure.

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 the remaining working 66.7% interest in the Property from 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.

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).

The loan is secured by the Company's assets, is non-interest bearing and discounted to its fair value of \$1,531,376 at acquisition. 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.

Pulse Oil Corp.
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5. **OIL AND GAS PROPERTIES** - Continued

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.

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	\$4,997,885
Exploration and evaluation assets	\$1,416
Reclamation provision	\$(991,400)
	\$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:

Consideration	
Acquisition-date fair value of the non-controlling interest	\$2,140,580
Cost basis:	
Oil and gas properties	\$2,172,201
Reclamation obligation	(172,201)
Gain on change of control	\$140,580

During the year ended December 31, 2018, the Company discovered certain errors in the fair value calculation of the acquisition-date non-controlling interest. See Note 18.

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.

Pulse Oil Corp.
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5. **OIL AND GAS PROPERTIES** – Continued

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 valuing 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
		\$1,815,000
Allocation to fair value of:		
Oil and gas properties		\$1,338,083
Field Equipment		\$108,150
Reclamation provision		\$368,767
		\$1,815,000

6. **EQUIPMENT**

Cost

	Equipment	Field Equipment	Total
	\$	\$	\$
Balance, December 31, 2016	-	-	-
Acquisition (Note 5)	-	108,150	108,150
Additions	32,656	-	32,656
Balance, December 31, 2017	32,656	108,150	140,806
Additions	15,000	-	15,000
Balance, December 31, 2018	47,656	108,150	155,806

Accumulated amortization

	Equipment	Field Equipment	Total
	\$	\$	\$
Balance, December 31, 2016	-	-	-
Additions	3,266	10,815	14,081
Balance, December 31, 2017	3,266	10,815	14,081
Additions	7,378	19,467	26,845
Balance, December 31, 2018	10,644	30,282	40,926

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6. **EQUIPMENT - Continued**

Balance	Equipment	Field Equipment	Total
	\$	\$	\$
December 31, 2016	-	-	-
December 31, 2017	29,390	97,335	126,725
December 31, 2018	37,012	77,868	114,880

7. **EXPLORATION AND EVALUATION ASSETS**

The Company acquired certain exploration and evaluation assets (Note 4). A continuity of the assets is as follows:

Balance, December 31, 2016	\$	-
Acquisitions		1,416
Balance, December 31, 2017	\$	1,416
Additions		109,277
Balance, December 31, 2018	\$	110,693

8. **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.

	Queenstown	Bigoray	Total
	\$	\$	\$
Balance, December 31, 2016	-	-	-
Additions (Note 5)	368,768	991,400	1,360,168
Balance, December 31, 2017	368,768	991,400	1,360,168
Accretion	14,650	46,597	61,247
Additions	-	328,754	328,754
Balance, December 31, 2018	383,418	1,366,751	1,750,169

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)	\$ 1,730,000	\$ 447,000
Time range for settling the obligation	3-21 years	3-23 years
Credit-adjusted risk-free rate	2.5%	2.5%

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9. **PROPERTY ACQUISITION LIABILITY**

During the year ended December 31, 2017, the Company completed the Agreement with Crimson. As part of the Agreement, the Company has recorded a property acquisition liability as disclosed in Note 5. As at December 31, 2018, the liability had an outstanding face value of \$1,500,000 (2017 - \$1,673,750). continuity of the liability is as follows:

	2018	2017
	\$	\$
Balance, opening	1,573,808	-
Acquisition (Note 4)	-	1,531,376
Accretion	50,030	58,682
Repayments	(173,750)	(16,250)
Balance	1,450,088	1,573,808
Less: current portion	(370,960)	(171,205)
Long-term portion of property acquisition liability	1,079,128	1,402,603

10. **SHARE CAPITAL**

(a) **Authorized**

At December 31, 2018 and 2017, the Company's authorized share capital consisted of an unlimited number of common shares without par value.

(b) **Changes in share capital**

Year ended December 31, 2018

- (i) During the year ended December 31, 2018 440,000 options were exercised for \$0.10 per share for cash proceeds of \$44,000.
- (ii) During the year ended December 31, 2018 250,000 warrants were exercised for \$0.17 per share for cash proceeds of \$42,500.
- (iii) On November 20, 2018, Pulse raised gross proceeds of \$11,567,819 under a public offering and concurrent strategic private placement. The Pulse offering issued 11,137,600 flow-through common shares ("FT Shares") at a price of \$0.22 per FT Share and 15,953,555 Units of the Corporation at a price of \$0.21 per Unit for aggregate proceeds \$5,800,519, inclusive of the proceeds from the over-allotment option. Each Unit comprised one common share and one-half of one common share purchase warrant. Each warrant allowed the holder to purchase one common share of the Company at a price of \$0.30 for a period of one year. In addition to the public offering, Pulse completed a concurrent private placement with strategic investors, issuing 26,714,285 Units at a price of approximately \$0.2058 per Unit for aggregate gross proceeds of \$5,500,001. At closing, Pulse also paid an investment fee equal to 7% of the placement by issuing an additional 1,309,524 Units of Pulse. Total share issuance costs paid totalled \$1,272,312. No fair value was allocated to the flow through share premium or reserves. In connection with the FT Unit and Unit financing, the company recorded \$668,256 in deferred premium on flow-through shares and allocated a fair value of \$2,081,169 to warrant reserve.

At December 31, 2018, Pulse has 144,209,349 common shares issued including 7,074,026 shares held in escrow. 2,358,009 of these escrow shares will be released on March 7 2019, 2,358,009 on September 7, 2019, and the remaining 2,358,009 on March 7, 2020.

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10. **SHARE CAPITAL** - Continued

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

Year ended December 31, 2017

- (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 on flow-through shares of \$130,597. During the year ended December 31, 2018, the company renounced its required expenditures, and therefore, recorded a recovery on deferred premium on flow-through shares.

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. A total of \$626,669 were paid in share issuance costs.

- (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).

On November 27, 2017, Pulse’s share purchase warrants began trading on the TSX Venture Exchange under the symbol PUL.WT.

During the year ended December 31, 2017, 325,000 warrants were exercised for \$0.17 per share for cash proceeds of \$55,250.

At December 31, 2017, Pulse has 88,404,385 common shares issued and outstanding (fully diluted: 127,538,869).

(c) **Warrants**

As at December 31, 2018, the company had 60,433,166 warrants outstanding (2017 - 38,694,484). A continuity is as follows:

	Warrants	
	Number Outstanding	Weighted Average Exercise Price \$
Outstanding, December 31, 2016	-	-
Issued	39,019,484	0.17
Exercised	(325,000)	0.17
Outstanding December 31, 2017	38,694,484	0.17
Issued	21,988,682	0.30
Exercised	(250,000)	0.17
Outstanding December 31, 2018	60,433,166	0.22

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10. **SHARE CAPITAL** - Continued

(c) **Warrants** – continued

As at December 31, 2018, warrants outstanding were as follows:

Grant Date	Number Outstanding	Weighted Average Exercise Price \$	Weighted average remaining life
June 13, 2017	38,444,484	0.17	0.45
November 20, 2018	21,988,682	0.30	0.88
	60,433,166	0.22	0.61

(d) **Stock options and share-based compensation**

During the year ended December 31, 2017, as part of the acquisition of Pulse Oil Corp. (Note 4), the Company issued 440,000 options. Each option allows the holder to purchase one common share of the Company at a price of \$0.10 for two years. The options were valued at \$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 at acquisition, an expected volatility of 100% and an expected dividend yield of 0%.

As at December 31, 2018, there were no options outstanding. As at December 31, 2017 there were 440,000 options outstanding at an exercise price of \$0.10, with a remaining life of 0.65 years.

A continuity of stock options is as follows:

	Stock Options	
	Number Outstanding	Weighted Average Exercise Price \$
Outstanding, December 31, 2016	-	-
Acquisition of Pulse Oil Corp. (Note 4)	440,000	0.10
Outstanding December 31, 2017	440,000	0.10
Exercised	(440,000)	0.10
Outstanding December 31, 2018	-	-

11. **RELATED PARTY TRANSACTIONS AND BALANCES**

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

During the year ended December 31, 2018, the Company paid \$133,225 in operating expenses on oil and gas properties to a company controlled by a director and the CFO (2017 - \$49,000).

Included in prepaids and advances is an advance of \$40,000 to a company owned by the CFO.

Included in accounts payable and accrued liabilities is \$nil (2017 - \$25,000) due to related parties.

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11. **RELATED PARTY TRANSACTIONS AND BALANCES** – Continued

Below is a summary of key management compensation:

	2018	2017
	\$	\$
Salaries paid to the CEO	180,000	25,000
Directors fees paid to a company owned by a director	10,500	3,000
Director fees paid to a company controlled by a director and the CFO	11,500	3,000
Management fees paid to the CFO	90,000	30,000
Salaries paid to the COO	180,000	25,000
	472,000	86,000

12. **EARNINGS (LOSS) PER SHARE**

The calculations for basic earnings per share and diluted earnings per share are as follows:

	2018	2017
	\$	\$
Net income (loss) for the year	594,139	(1,759,899)
Basic weighted average number of shares outstanding	94,946,207	74,252,651
Effect of dilutive share options and warrants	30,925,179	-
Diluted weighted average number of shares outstanding	125,871,387	74,252,651

13. **ACCOUNTS RECEIVABLE**

As at December 31, 2018 and 2017, accounts receivable consists of:

	2018	2017
	\$	\$
Trade receivables	73,997	223,230
Goods and services taxes and other	157,426	82,280
	231,423	305,510

As at December 31, 2018, the Company has not recorded any allowance for doubtful accounts (2017 - \$nil)

Pulse Oil Corp.

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14. FINANCIAL INSTRUMENTS

As at December 31, 2018, the Company's financial instruments consist of cash, accounts receivable, accounts payable and property acquisition liability.

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	December 31, 2018	December 31, 2017
Cash and cash equivalents	FVTPL ⁽¹⁾	10,286,827	859,656
Accounts receivable	Amortized cost ⁽¹⁾⁽²⁾	73,597	223,230
Accounts payable	Amortized cost ⁽¹⁾⁽³⁾	2,467,326	216,138
Property acquisition liability	Amortized cost ⁽¹⁾⁽³⁾	1,450,088	1,573,808

⁽¹⁾ See Note 3 for adoption of IFRS 9.

⁽²⁾ This was classified as loans in receivables as at December 31, 2017.

⁽³⁾ These were classified as other financial liabilities as at December 31, 2017.

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

Fair value of financial instruments

- Carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate fair value due to their short-term nature
- 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 outflow.

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.

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14. FINANCIAL INSTRUMENTS - Continued

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. As at December 31, 2018, the company has cash of \$10,286,827 (2017 - \$859,656) to meet its current liabilities of \$3,661,054 (2017 - \$517,940).

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.

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 December 31, 2018 is in respect of accounts receivable of \$231,423 (December 31, 2017: 305,510). As at December 31, 2018, no provision for doubtful accounts has been recorded (December 31, 2017 - \$nil).

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14. FINANCIAL INSTRUMENTS - Continued

Credit risk - continued

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.

15. INCOME TAXES

The reconciliation of income taxes calculated at the Canadian statutory tax rate to the income tax expense is as follows:

	2018	2017
Net income (loss) before income taxes	\$ 46,172	\$ (1,211,932)
Canadian statutory income tax rate	27%	27%
Expected income tax recovery at statutory rate	12,000	(327,000)
Tax effect of:		
Permanent differences and other	(227,000)	(40,000)
Change in unrecognized deferred income tax assets	215,000	367,000
Deferred income tax recovery	\$ -	-

Deferred income tax assets and liabilities

The approximate tax effects of each type of temporary difference that gives rise to potential deferred income tax assets and liabilities are as follows:

	2018	2017
Oil and Gas Properties	\$ (47,000)	\$ -
Non-capital losses carried forward	47,000	-
Net deferred income tax assets (liabilities)	\$ -	\$ -

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15. **INCOME TAXES** - continued

Unrecognized deductible temporary differences:

Temporary differences and tax losses arising in Canada have not been recognized as deferred income tax assets because management has determined it is not probable that sufficient future taxable profits will be earned in Canada to recover such assets. Unrecognized deductible temporary differences are summarized as follows:

	2018	2017
Non-capital losses carried forward	\$ 597,000	\$ 637,000
Share issuance costs	275,000	1,000
Equipment	8,000	1,000
Oil and gas properties	-	26,000
Unrecognized deductible temporary differences	\$ 880,000	\$ 665,000

The Company has Canadian noncapital losses for income tax purposes of \$2,500,000 (2017 - \$2,452,000) which may be carried forward and offset against taxable income.

16. **SUPPLEMENTAL CASH FLOW INFORMATION**

Cash and cash equivalents are comprised of:

	2018	2017
Cash	\$ 1,286,827	\$ 859,656
Cash equivalents	9,000,000	-
Total Cash and Cash equivalents	\$ 10,286,827	\$ 859,656

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

	2018	2017
	\$	\$
Investing activity		
Issue of common shares for exploration and evaluation assets	-	2,441,525
Oil and Gas included in accounts payable	-	-
Issue of common shares for finder's fee	-	100,000
Additions to reclamation obligation	155,493	-
Financing activity		
Property acquisition liability ⁽¹⁾	816,066	1,573,808
Issue of common shares for share issuance costs	269,607	-
Conversion of subscription receipts to common shares	-	425,000

⁽¹⁾ Measured at amortized cost

In addition to the above non-cash transactions, Pulse completed a non-cash asset exchange agreement on October 1, 2017 with an arm's length company. The fair market value was not readily determinable therefore the transaction was valued at its carrying cost value of \$1,416.

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17. **OIL AND GAS SALES**

During the year ended December 31, 2018, the Company had revenues of \$2,668,817 (2017 - \$706,827). These revenues were derived wholly from the Company's Alberta oil and gas interests.

Year Ended	December 31, 2018 \$	December 31, 2017 \$
Crude oil	1,917,045	468,249
Natural gas	196,266	125,746
Natural gas liquid	555,506	112,832
Oil and gas sales	2,668,817	706,827

18. **RESTATEMENT OF 2017 FIGURES**

During the year ended December 31, 2018, the Company discovered certain calculation errors in the calculation of the final step acquisition of the Bigoray assets (Note 5). The Company had originally recognized an acquisition-date fair value of the NCI of the Bigoray assets to be \$1,592,613 with the amended calculation demonstrating a fair value of \$2,140,580, a difference of \$547,967. The Company had previously recognized a loss on acquisition of 407,387, which has been restated to a gain on acquisition of \$140,580.

A summary of the effect on the consolidated financial statements is as follows:

	December 31, 2017, as originally stated	change	December 31, 2017 restated
Statement of Financial Position			
Oil and gas properties	8,790,491	(547,967)	9,338,458
Deficit	2,768,765	547,967	2,220,798
Statement of Loss and Comprehensive Income (Loss)			
Gain (loss) on change of control	(407,387)	(547,967)	140,580
Net loss for the year	(1,759,899)	(547,967)	(1,211,932)
Loss per share, basic and diluted	\$ (0.02)	-	\$ (0.02)

Further, certain comparative figures have been reclassified to conform with current year presentation.

19. **SUBSEQUENT EVENT**

Subsequent to December 31, 2018, 1,000 warrants were exercised at a price of \$0.17 for proceeds of \$170.