



FINANCIAL STATEMENTS  
FOR THE YEARS ENDED  
DECEMBER 31, 2019 AND 2018

Dated April 29, 2020



**PULSE OIL CORP.**  
**Consolidated Financial Statements**  
**December 31, 2019 and 2018**  
(Expressed in Canadian Dollars)

**INDEX**

Independent Auditor's Report	1-2
Consolidated Statements of Financial Position	3
Consolidated Statements of Loss and Comprehensive Loss	4
Consolidated Statement of Changes in Equity	5
Consolidated Statement of Cash Flows	6
Notes to the Consolidated Financial Statements	7-30



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**INDEPENDENT AUDITORS' REPORT**

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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, 2019 and 2018, and the consolidated statements of loss and comprehensive 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, 2019 and 2018 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.

**Emphasis of Matter - Material Uncertainty Related to Going Concern**

We draw attention to Note 1 of the accompanying financial statements, which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

**Emphasis of Matter – Restatement**

We draw attention to Note 17 of the consolidated financial statements, which describes the effects of the restatement of the consolidated statement of financial position as at December 31, 2018, and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the year then ended. Our opinion is not modified in respect of this matter.

**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*

# Pulse Oil Corp.

## Consolidated Statements Financial Position

Expressed in Canadian Dollars

	December 31, 2019 \$	December 31, 2018 \$ (Restated, Note 17)
<b>Assets</b>		
Current assets		
Cash and cash equivalents	379,205	10,286,827
Accounts receivable (Note 12)	184,379	231,423
Inventory	14,799	-
Prepaid expenses and advances (Note 10)	124,075	177,330
	702,458	10,695,580
Equipment (Notes 5)	1,195,642	114,880
Exploration and evaluation assets (Notes 6)	-	110,693
Oil and gas properties (Notes 4)	17,647,410	12,879,163
	18,843,052	13,104,736
	19,545,510	23,800,316
<b>Liabilities</b>		
Current liabilities		
Accounts payable and accrued liabilities (Note 10)	1,354,176	2,918,458
Deferred premium on flow-through shares	-	668,256
Current portion of property acquisition liability (Notes 8)	495,440	370,960
	1,849,616	3,957,674
Long-term liabilities		
Property acquisition liability (Notes 8)	605,511	1,079,128
Reclamation provision (Note 7)	2,185,516	2,004,428
	2,791,027	3,083,556
<b>Shareholders' equity</b>		
Share capital (Note 9)	18,521,245	17,272,994
Reserves	2,081,169	2,081,169
Deficit	(5,697,547)	(2,595,077)
	14,904,867	16,759,086
	19,545,510	23,800,316

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

Nature of operations and going concern - Note 1  
Subsequent events – Note 19

These consolidated financial statements were approved for issue by the Board of Directors on April 29, 2020 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 Loss

Expressed in Canadian Dollars

	For the years ended December, 31	
	2019	2018
	\$	\$
	(Restated, Note 17)	
<b>Revenue</b>		
Oil and gas sales (Note 16)	2,213,318	2,668,817
Other income	-	1,926
Royalties	(139,976)	(176,550)
	2,073,342	2,494,193
<b>Expenses</b>		
Accounting and legal	111,974	148,247
Accretion expense	70,109	48,513
Interest expense	-	50,030
Bank charges	1,263	2,066
Consulting fees	127,769	75,186
Corporate relations and development	12,038	90,340
Depletion (Note 4)	974,470	733,397
Depreciation (Note 5)	145,614	26,845
Director and management fees (Note 10)	132,998	119,666
Insurance	30,234	9,220
Office	71,549	77,615
Operating expenses on oil and gas properties (Note 10)	852,698	641,000
Transportation costs on oil and gas properties	513,812	307,248
Salaries and related benefits (Note 10)	489,712	480,802
Shareholder communications	89,828	132,932
Travel	56,579	55,243
	3,680,647	2,998,350
Loss before other items	(1,607,305)	(504,157)
<b>Other items</b>		
Interest income	74,040	185
Impairment on oil and gas properties (Note 4 (c))	(2,236,279)	-
Recovery of deferred premium on flow-through shares (Note 9)	668,256	130,597
Foreign exchange loss	(1,182)	(904)
	(1,495,165)	129,878
<b>Net loss and comprehensive loss for the year</b>	<b>(3,102,470)</b>	<b>(374,279)</b>
<b>Basic and diluted loss per share (Note 11)</b>	<b>(0.02)</b>	<b>(0.00)</b>
<b>Weighted average number of common shares outstanding</b>	<b>148,314,954</b>	<b>94,946,207</b>

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

	<u>Share capital</u> Number of Shares	<u>Share capital</u> Amount \$	Reserves \$	Deficit \$	Total equity \$
<b>Balance at December 31, 2017</b>	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 loss and comprehensive loss for the year	-	-	-	(374,279)	(374,279)
<b>Balance at December 31, 2018 (Restated, Note 17)</b>	144,209,349	17,272,994	2,081,169	(2,595,077)	16,759,086
Share issue costs	-	(6,860)	-	-	(6,860)
Warrants exercised	7,383,008	1,255,111	-	-	1,255,111
Net loss and comprehensive loss for the year	-	-	-	(3,102,470)	(3,102,470)
<b>Balance at December 31, 2019</b>	151,592,357	18,521,245	2,081,169	(5,697,547)	14,904,867

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

# Pulse Oil Corp.

## Consolidated Statements of Cash Flows

Expressed in Canadian Dollars

	For the years ended December 31,	
	2019	2018
	\$	\$
	(Restated, Note 17)	
<b>Cash flows from (used in) operating activities</b>		
Net loss and comprehensive loss for the year	(3,102,470)	(374,279)
Items not affecting cash		
Accretion expense	70,109	48,512
Interest expense	-	50,030
Depletion	974,470	733,397
Depreciation	145,614	26,845
Impairment on oil and gas properties	2,236,279	-
Recovery of deferred premium on flow-through shares	(668,256)	(130,597)
Changes in non-cash working capital		
Accounts receivable	47,044	74,087
Prepaid expenses and advances	53,255	(120,034)
Accounts payable and accrued liabilities	(1,771,794)	1,589,635
Inventory	(14,799)	11,264
	(2,030,548)	1,908,860
<b>Cash flows from financing activities</b>		
Issuance of share capital	-	11,567,819
Share issue costs	(6,860)	(1,272,312)
Exercise of warrants	1,255,111	42,500
Exercise of options	-	44,000
Property acquisition liability	(375,000)	(173,750)
	873,251	10,208,257
<b>Cash flows used in investing activities</b>		
Oil and gas properties expenditures	(7,522,055)	(2,565,669)
Equipment purchase	(1,226,376)	(15,000)
Exploration and evaluation assets expenditures	(1,894)	(109,277)
	(8,750,325)	(2,689,946)
<b>Increase (decrease) in cash and cash equivalents during the year</b>	(9,907,622)	9,427,171
Cash and cash equivalents, beginning of year	10,286,827	859,656
<b>Cash and cash equivalents, end of year</b>	379,205	10,286,827

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

Supplemental cash flow information (Note 15)

# Pulse Oil Corp.

## Notes to the Consolidated Financial Statements

### For the Years Ended December 31, 2019 and 2018

Expressed in Canadian Dollars

#### 1. NATURE OF OPERATIONS AND GOING CONCERN

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 incurred a net loss of \$3,102,470 and negative cash flow from operating of \$ 2,030,548 for the year ended December 31, 2019. As at December 31, 2019, the Company has working capital deficiency of \$1,147,158. 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 March 2020 pandemic outbreak of COVID-19 could have a negative impact on the stock market, including trading prices of the Company’s shares and its ability to raise new capital. Although these consolidated financial statements have been prepared and presented on a going concern basis, the factors outlined above raise significant doubt about the ability of the Company to continue as a going concern, in which case this basis of presentation will not be appropriate. These consolidated financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

#### 2. BASIS OF PRESENTATION

##### **Basis of compliance**

These consolidated financial statements have been prepared in accordance with 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.

These 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, revenue and expenses, on a line-by-line basis.

##### **Functional and presentation currency**

The parent’s and its subsidiaries’ functional currency, being the currency of the primary economic environment in which the subsidiaries operate, is the Canadian dollar. These consolidated financial statements are presented in Canadian dollars.

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**  
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 these 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 these 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, 2019 and 2018

Expressed in Canadian Dollars

## 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) *Impairment testing*

Impairment testing is based on discounted cash flow models prepared by management with assistance from third-party advisors when required. The inputs used are based on management's best estimates of what an independent market participant would consider appropriate and are reviewed by senior management. Changes in these inputs may alter the results of impairment testing, the amount of the impairment charges recorded in the consolidated statement of loss and comprehensive loss and the resulting carrying values of assets.

# Pulse Oil Corp.

## Notes to the Consolidated Financial Statements

### For the Years Ended December 31, 2019 and 2018

Expressed in Canadian Dollars

## 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 National Instrument 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 with 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, 2019 and 2018

Expressed in Canadian Dollars

#### 3. SIGNIFICANT ACCOUNTING POLICIES

##### **Cash and cash equivalents**

Cash consists of cash in bank and demand deposits. Cash equivalents include a short-term, highly liquid investment that is readily convertible to known amounts of cash and which is subject to an insignificant risk of change in value.

##### **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 CGU level, 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, 2019 and 2018

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

##### **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 properties. 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 these 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.

##### **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 stock 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.

# Pulse Oil Corp.

## Notes to the Consolidated Financial Statements

### For the Years Ended December 31, 2019 and 2018

Expressed in Canadian Dollars

#### 3. SIGNIFICANT ACCOUNTING POLICIES - Continued

##### **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 (loss) per share**

The calculation of earnings (loss) per share is based on the weighted average number of common shares outstanding in the period. Diluted earnings (loss) per share is calculated whereby all “in the money” stock options and warrants are assumed to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period. If the Company incurs net losses during the period, basic and diluted loss per share are the same as the exercise of options and warrants is considered to be anti-dilutive.

##### **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.

##### **Financial instruments**

###### *Financial assets*

The Company classifies its financial assets in the following categories: at fair value through profit or loss (“FVTPL”), at fair value through other comprehensive income (“FVTOCI”) or at amortized cost. The classification depends on the Company’s business model for managing the financial assets and terms of the related cashflow. Management determines the classification of its financial assets at initial recognition.

###### *(i) Amortized cost*

Financial assets that are held within a business model whose objective is to hold financial assets in order to collect contractual cash flows, and the contractual terms of these financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding, are subsequently measured at amortized cost using the effective interest rate method. The Company financial assets at amortized cost include its accounts receivable.

###### *(ii) FVTOCI*

Financial assets that are held within a business model whose objective is to hold financial assets in order to both collect contractual cash flows and sell financial assets, and that the contractual terms of the financial assets give rise on specified date to cash flows that are solely payments of principal and interest on the principal amount outstanding.

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**  
Expressed in Canadian Dollars

3. **SIGNIFICANT ACCOUNTING POLICIES - Continued**

**Financial instruments** - continued

Upon initial recognition of equity securities, the Company may make an irrevocable election (on an instrument-by-instrument basis) to designate its equity securities that would otherwise be measured at FVTPL to present subsequent changes in fair value in other comprehensive income. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognized by an acquirer in a business combination. Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognized in OCI. The cumulative gain or loss is not reclassified to profit or loss on disposal of the instrument; instead, it is transferred to retained earnings upon de-recognition. The Company currently has no financial assets designated as FVTOCI.

*(iii) FVTPL*

By default, all other financial assets are measured subsequently at FVTPL, which includes cash and cash equivalents.

*Financial liabilities*

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*(i) FVTPL*

This category comprises derivatives or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statements of financial position at fair value with changes in fair value recognized in the statements of comprehensive loss. The Company currently has no financial liabilities designated as FVTPL.

*(ii) Amortized cost*

Financial liabilities that are not contingent consideration of an acquirer in a business combination, held for trading or designated as at FVTPL, are measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The Company's accounts payable and accrued liabilities and property acquisition liability are classified at amortized cost.

*Impairment of Financial Instruments*

The Company recognizes allowances for losses on its financial assets measured at amortized cost based on the lifetime expected credit losses anticipated to occur from all expected defaults over the life of the financial asset. To calculate the expected credit loss, the Company 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.

# Pulse Oil Corp.

## Notes to the Consolidated Financial Statements

### For the Years Ended December 31, 2019 and 2018

Expressed in Canadian Dollars

#### 3. SIGNIFICANT ACCOUNTING POLICIES - Continued

##### 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.

##### Lease

The Company recognizes a right-of-use asset and a lease liability based on the present value of the future lease payments at the commencement date. The commencement date is when the lessor makes the leased asset available for use by the Company, typically the possession date. The discount rate used in the present value calculation for lease payments is the incremental borrowing rate for each leased asset or portfolio of leased assets with similar characteristics by reference to the Company's creditworthiness, the original term of the lease, the quality of the underlying leased asset, and the economic environment where the leased asset is located. The lease term is determined as the non-cancellable periods of a lease, together with periods covered by a renewal option if the Company is reasonably certain to exercise that option and a termination option if the Company is reasonably certain not to exercise that option.

Lease payments for short-term leases with a term of 12 months or less and leases of low-value assets are treated as operating leases, with rent expense recognized in cost of sales or selling, general and administrative expenses on a straight-line or other systematic basis.

Lease liabilities are measured at the present value of future lease payments, discounted using the Company's incremental borrowing rates, and include the fixed payments, variable lease payments that depend on an index or a rate, less any lease incentives receivable. Subsequent to initial measurement, the Company measures lease liabilities at amortized cost using the effective interest rate method. Lease liabilities are remeasured when there are changes to the lease payments, a change in lease term, a change in the assessment of an option to purchase the underlying asset, a change in expected residual value guarantee, or a change in future lease payments due to a change in index or rate tied to the payment.

Right-of-use assets are measured at the initial amount of the lease liabilities, lease payments made at or before the commencement date less any lease incentives received, initial direct costs if any, and decommissioning costs to restore the site to the condition required by the terms and conditions of the lease. Subsequent to initial measurement, the Company applies the cost model to the right-of-use assets and measures the asset at cost less any accumulated depreciation, accumulated impairment losses in accordance with IAS 36, and any remeasurements of the lease liabilities. Assets are depreciated from the commencement date on a straight-line basis over the earlier of the end of the assets' useful lives or the end of the lease terms.

During the year ended December 31, 2019, all of the Company's leases are short-term leases with a term of 12 months or less and are recorded as operating leases.

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**  
Expressed in Canadian Dollars

3. **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.

**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.

**Related parties**

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

**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, 2019, including the following standards:

- *IFRS 16 Leases*
- *IFRIC 23 Uncertainty over Income Tax Treatments*

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**  
Expressed in Canadian Dollars

3. **SIGNIFICANT ACCOUNTING POLICIES - Continued**

**New and amended accounting standards and interpretations adopted - continued**

- **IFRS 16** In January 2016, the IASB issued IFRS 16 – Leases (“IFRS 16”), which replaces IAS 17 – Leases and its associated interpretative guidance. IFRS 16 applies a control model to the identification of leases, distinguishing between a lease and a service contract based on whether the customer controls the asset. For those assets determined to meet the definition of a lease, IFRS 16 introduces significant changes to the accounting by leases, introducing a single, on-balance sheet accounting model that is similar to the current finance lease accounting, with limited exceptions for short-term leases or leases of low value assets. Lessor accounting remains similar to current accounting practice. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with Early adoption is permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting. A lessee can choose to apply IFRS 16 using either a full retrospective approach or a modified retrospective approach. The Company has applied IFRS 16 at the date it becomes effective using a modified retrospective approach. By applying this method, the comparative information for the 2018 fiscal year has not been restated.

At the inception of a contract, the Company assesses whether a contract is or contains a lease. If so, the Company recognizes a right-of-use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which consists of:

- The amount of the initial measurement of the lease liability
- Any lease payments made at or before the commencement date
- Any indirect costs incurred
- An estimate of costs to dismantle or remove the underlying asset or to restore the site on which the asset is located
- Any incentives received from the lessor

The Company has elected not to recognize right - of- use assets and lease liabilities for short-term lease that have a lease term of 12 months or less and leases of low value assets. The lease payments associated with these leases are expensed on a straight-line basis over the lease term.

The Company has reviewed all existing leases and concluded that all leases that were previously expensed over the lease term where considered to be either short-term leases or leases of low value assets, and therefore there is no impact to the consolidated financial statements upon adoption of IFRS 16.

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**  
Expressed in Canadian Dollars

3. **SIGNIFICANT ACCOUNTING POLICIES - Continued**

**New and amended accounting standards and interpretations adopted - continued**

- **IFRIC 23** IFRIC 23 requires an entity to determine whether uncertain tax positions are assessed separately or as a group; and assess whether it is probable that a tax authority will accept an uncertain tax treatment used, or proposed to be used, by an entity in its income tax filings. If the treatment is likely to be accepted, the entity should determine its accounting tax position consistently with the tax treatment used or planned to be used in its income tax filings. If not, the entity should reflect the effect of uncertainty in determining its accounting tax position. The Interpretation is effective for annual periods beginning on or after January 1, 2019.

The Company adopted IFRIC 23 in its consolidated financial statements for the annual period beginning on January 1, 2019, with no impact on the financial statements.

**Accounting standards and amendments issued but not yet adopted**

A number of new standards and amendments to existing standards have been issued by the IASB that are mandatory for accounting periods beginning on or after January 1, 2020, or later periods. The Company has not early adopted these new standards in preparing these financial statements. These new standards are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. **OIL AND GAS PROPERTIES**

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

**Cost:**

	Queenstown \$	Bigoray \$	Total \$
<b>Balance, December 31, 2017</b>	<b>2,099,157</b>	<b>7,342,048</b>	<b>9,441,205</b>
Additions	2,661,254	1,017,101	3,678,355
Changes in Decommissioning Liability (Note 7)	77,219	518,528	595,747
<b>Balance, December 31, 2018 (Restated, Note 17)</b>	<b>4,837,630</b>	<b>8,877,677</b>	<b>13,715,307</b>
Additions	1,260,546	6,342,102	7,602,648
Reclassification	111,171	1,416	112,587
Changes in Decommissioning Liability (Note 7)	230,829	32,932	263,761
<b>Balance, December 31, 2019</b>	<b>6,440,176</b>	<b>15,254,127</b>	<b>21,694,303</b>

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**  
Expressed in Canadian Dollars

4. OIL AND GAS PROPERTIES - Continued

Accumulated Depletion and impairment:

	Queenstown \$	Bigoray \$	Total \$
Balance, December 31, 2017	23,550	79,197	102,747
Additions	389,454	343,943	733,397
<b>Balance, December 31, 2018 (Restated, Note 17)</b>	<b>413,004</b>	<b>423,140</b>	<b>836,144</b>
Additions	589,821	384,649	974,470
Impairment	2,236,279	-	2,236,279
<b>Balance, December 31, 2019</b>	<b>3,239,104</b>	<b>807,789</b>	<b>4,046,893</b>

Balance:

	Queenstown \$	Bigoray \$	Total \$
December 31, 2018 (Restated, Note 17)	4,424,626	8,454,537	12,879,163
<b>December 31, 2019</b>	<b>3,201,072</b>	<b>14,446,338</b>	<b>17,647,410</b>

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

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 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.

C) Impairment:

Oil and gas properties were measured at fair value based on level 3 inputs on a non-recurring basis. During the year ended December 31, 2019, oil and gas properties with a carrying amount of \$19,883,690 were written down to their fair value of \$17,647,410, resulting in an impairment charge of \$2,236,279. The fair value of oil and gas properties was calculated based upon discounted cash flow projections. Cash flows used in impairment

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

Expressed in Canadian Dollars

4. **OIL AND GAS PROPERTIES - Continued**

evaluations are developed with many factors and assumptions including the expected reservoir characteristics, future commodity prices and costs and assumed effects of regulation by governmental agencies

5. **EQUIPMENT**

**Cost**

	Equipment \$	Field Equipment \$	Total \$
<b>Balance, December 31, 2017</b>	32,656	108,150	140,806
Additions	15,000	-	15,000
<b>Balance, December 31, 2018</b>	47,656	108,150	155,806
Additions	306,044	920,332	1,226,376
<b>Balance, December 31, 2019</b>	353,700	1,028,482	1,382,182

**Accumulated depreciation**

	Equipment \$	Field Equipment \$	Total \$
<b>Balance, December 31, 2017</b>	3,266	10,815	14,081
Additions	7,378	19,467	26,845
<b>Balance, December 31, 2018</b>	10,644	30,282	40,926
Additions	38,007	107,607	145,614
<b>Balance, December 31, 2019</b>	48,651	137,889	186,540

**Balance**

	Equipment \$	Field Equipment \$	Total \$
Balance, December 31, 2018	37,012	77,868	114,880
<b>Balance, December 31, 2019</b>	305,049	890,593	1,195,642

6. **EXPLORATION AND EVALUATION ASSETS**

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

<b>Balance, December 31, 2017</b>	\$	1,416
Additions		109,277
<b>Balance, December 31, 2018</b>	\$	110,693
Additions		1,894
Reclassification		(112,587)
<b>Balance, December 31, 2019</b>	\$	-

7. **RECLAMATION PROVISION**

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

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

Expressed in Canadian Dollars

7. **RECLAMATION PROVISION** - Continued

	Queenstown \$	Bigoray \$	Total \$
<b>Balance, December 31, 2017</b>	<b>368,768</b>	<b>991,400</b>	<b>1,360,168</b>
Accretion	10,850	37,663	48,513
Changes to estimates and additions (Note 4)	77,219	518,528	595,747
<b>Balance, December 31, 2018 (Restated, Note 17)</b>	<b>456,837</b>	<b>1,547,591</b>	<b>2,004,428</b>
Accretion	10,361	33,883	44,244
Changes to estimates and additions (Note 4)	230,829	32,932	263,761
Settlements	-	(126,917)	(126,917)
<b>Balance, December 31, 2019</b>	<b>698,027</b>	<b>1,487,489</b>	<b>2,185,516</b>

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)	\$ 1,697,180	\$ 695,262
Time range for settling the obligation	16 – 37 years	8-22 years
Credit-adjusted risk-free rate	2.5%	2.5%
Long term inflation rate	1.79% - 1.93%	1.71% - 1.93%

8. **PROPERTY ACQUISITION LIABILITY**

During the year ended December 31, 2017, the Company completed the Agreement with Crimson as disclosed in Note 4. As part of the Agreement, the Company has recorded a property acquisition liability.

The loan is secured by the Company's assets, is non-interest bearing and matures in 2022.

The contractual maturities in respect of the Company's property acquisition liability are as follows:

	December 31, 2019 \$	December 31, 2018 \$
Not later than one year	<b>500,000</b>	<b>375,000</b>
Later than one year and not later than five years	625,000	1,125,000
Less: Future interest charges	(24,049)	(49,912)
<b>Present</b>	<b>1,100,951</b>	<b>1,450,088</b>
Less: current portion	(495,440)	(370,960)
<b>Long-term portion of property acquisition liability</b>	<b>605,511</b>	<b>1,079,128</b>

The present value of the property acquisition liability was calculated using a discount rate of 2.00%.

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. 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. See note 19 – Subsequent Events for an update to the terms of the payment schedule.

# Pulse Oil Corp.

## Notes to the Consolidated Financial Statements

### For the Years Ended December 31, 2019 and 2018

Expressed in Canadian Dollars

#### 9. SHARE CAPITAL

##### (a) Authorized

At December 31, 2019 and 2018, 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, 2019

(i) During the year ended December 31, 2019, 7,383,008 warrants were exercised for \$0.17 per share for cash proceeds of \$1,255,111. There was no carrying value previously allocated to the warrants exercised.

At December 31, 2019, Pulse has 151,592,357 common shares issued including 2,358,009 shares held in escrow. These escrow shares were released on March 7, 2020.

###### 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. During the year ended December 31, 2019, the company renounced its required expenditures, and therefore, recorded a recovery on deferred premium on flow-through shares.

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 was released on March 7, 2019, 2,358,009 on September 7, 2019, and the remaining 2,358,009 on March 7, 2020.

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

Expressed in Canadian Dollars

9. **SHARE CAPITAL** - Continued

(c) **Warrants**

As at December 31, 2019, the company had 21,988,682 warrants outstanding (2018 – 60,433,166). A continuity is as follows:

	<b>Warrants</b>	
	Number Outstanding	Weighted Average Exercise Price \$
<b>Outstanding, December 31, 2017</b>	<b>38,694,484</b>	<b>0.17</b>
Issued	21,988,682	0.30
Exercised	(250,000)	0.17
<b>Outstanding December 31, 2018</b>	<b>60,433,166</b>	<b>0.22</b>
Exercised	(7,383,008)	0.17
Expired	(31,061,476)	0.17
<b>Outstanding December 31, 2019</b>	<b>21,988,682</b>	<b>0.30</b>

As at December 31, 2019, warrants outstanding and exercisable:

<b>Grant Date</b>	<b>Number Outstanding</b>	<b>Weighted Average Exercise Price \$</b>	<b>Weighted average remaining life</b>
November 20, 2018	21,988,682	0.30	0.89
	<b>21,988,682</b>	<b>0.30</b>	<b>0.89</b>

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

As at December 31, 2019 and 2018, there were no stock options outstanding.

10. **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, 2019, the Company paid \$408,579 in operating and capital expenses on oil and gas properties to a company controlled by a director and the CFO (2018 - \$133,225).

Included in accounts payable and accrued liabilities is \$19,273 (December 31, 2018 - \$nil) due to related parties.

Included in prepaid expenses and advances is an advance of \$nil (December 31, 2018 - \$40,000) to a company owned by the CFO.

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

Expressed in Canadian Dollars

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

Below is a summary of key management compensation:

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Salaries paid to the CEO	185,000	180,000
Directors fees paid to a company owned by a director	8,000	10,500
Director fees paid to a company controlled by a director and the CFO	-	11,500
Management fees paid to the CFO	100,000	90,000
Salaries paid to the COO	185,000	180,000
	<u>478,000</u>	<u>472,000</u>

11. **LOSS PER SHARE**

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

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
		(Restated, Note 17)
Net loss for the year	(3,102,470)	(374,279)
Basic weighted average number of shares outstanding	148,314,954	94,946,207
Diluted weighted average number of shares outstanding	148,314,954	94,946,207
Basic and diluted loss per share	(0.02)	(0.00)

12. **ACCOUNTS RECEIVABLE**

As at December 31, 2019 and 2018, accounts receivable consists of:

	<b>2019</b>	<b>2018</b>
	<b>\$</b>	<b>\$</b>
Trade receivables	154,280	73,997
Goods and services taxes and other	30,099	157,426
	<u>184,379</u>	<u>231,423</u>

As at December 31, 2019 and 2018, the Company has not recorded any allowance for doubtful accounts.

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

Expressed in Canadian Dollars

13. **FINANCIAL INSTRUMENTS**

**Categories of financial assets and financial liabilities**

As at December 31, 2019, the Company's financial instruments consist of cash, accounts receivable, accounts payable and property acquisition liability.

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

<b>Financial instrument</b>	<b>Category</b>	<b>December 31, 2019</b>	<b>December 31, 2018</b> (Restated, Note 17)
Cash and cash equivalents	FVTPL	379,205	10,286,827
Accounts receivable	Amortized cost	184,379	231,423
Accounts payable	Amortized cost	1,354,176	2,918,458
Property acquisition liability	Amortized cost	1,100,951	1,450,088

**Fair value of financial instruments**

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.

As at December 31, 2019 and 2018, Cash and cash equivalents of \$379,205 and \$10,286,827 were measured at fair value on a recurring basis and classified as Level 1.

The fair value of the Company's other financial instruments approximates their carrying value as at December 31, 2019 and 2018 because of the demand nature or short-term maturity of these instruments liabilities approximate fair value due to their short-term nature.

**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.

# Pulse Oil Corp.

## Notes to the Consolidated Financial Statements

### For the Years Ended December 31, 2019 and 2018

Expressed in Canadian Dollars

#### 13. 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, 2019, the Company has cash of \$379,205 (2018 - \$10,286,827) to meet its current liabilities of \$1,849,616 (2018 - \$3,957,674).

Contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2019 are as follows:

	<1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 1,354,176	—	—	—	\$ 1,354,176
Property acquisition liability	500,000	625,000	—	—	1,125,000
Reclamation provision	—	—	—	2,392,442	2,392,442
	\$ 1,854,176	625,000	—	\$ 2,392,442	\$ 4,871,618

##### **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 cash equivalents and accounts receivable. Cash and cash equivalents are held with Canadian banks, and the Company does not believe cash and cash equivalents 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

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

Expressed in Canadian Dollars

13. **FINANCIAL INSTRUMENTS** - Continued

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, 2019 is in respect of accounts receivable of \$184,379 (December 31, 2018 - \$231,423). As at December 31, 2019 and 2018, no provision for doubtful accounts has been recorded.

**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.

14. **INCOME TAXES**

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

	<b>2019</b>	<b>2018</b>
		(Restated, Note 17)
Net loss before income taxes	\$ 3,102,470	\$ 374,279
Canadian and Alberta statutory income tax rate	26%	27%
Expected income tax recovery at statutory rate	806,642	101,055
Tax effect of:		
Permanent differences and other	(638,642)	(316,055)
Change in unrecognized deferred income tax assets	(168,000)	215,000
Deferred income tax recovery	\$ -	-

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:

	<b>2019</b>	<b>2018</b>
Non-capital losses carried forward	\$ 1,526,000	\$ 597,000
Share issuance costs	255,000	275,000
Equipment	47,000	8,000
Oil and gas properties	(780,000)	-
Unrecognized deferred tax assets	\$ 1,048,000	\$ 880,000

The Company has Canadian non-capital losses for income tax purposes of \$5,900,000 (2018 - \$3,725,000), which may be carried forward and offset against taxable income.

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

Expressed in Canadian Dollars

15. **SUPPLEMENTAL CASH FLOW INFORMATION**

Cash and cash equivalents are comprised of:

	<b>2019</b>		<b>2018</b>	
Cash	\$	379,205	\$	1,286,827
Cash equivalents		-		9,000,000
<b>Total Cash and Cash equivalents</b>	<b>\$</b>	<b>379,205</b>	<b>\$</b>	<b>10,286,827</b>

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

	<b>2019</b>		<b>2018</b>	
	\$		\$	
<b>Investing activity</b>				
Additions to reclamation obligation		263,761		293,876
<b>Financing activity</b>				
Property acquisition liability <sup>(1)</sup>		-		816,066
Issue of common shares for share issuance costs		-		269,607

<sup>(1)</sup> Measured at amortized cost

There were no amounts of cash paid for interest or income taxes for the periods presented.

16. **OIL AND GAS SALES**

During the year ended December 31, 2019, the Company had revenues from oil and gas sales of \$2,213,318 (2018 - \$2,668,817). These revenues were derived wholly from the Company's Alberta oil and gas interests.

<b>Year Ended</b>	<b>December 31, 2019</b>		<b>December 31, 2018</b>	
	\$		\$	
Crude oil	1,717,400		1,917,045	
Natural gas	186,133		196,266	
Natural gas liquid	309,785		555,506	
<b>Oil and gas sales</b>	<b>2,213,318</b>		<b>2,668,817</b>	

17. **RESTATEMENT**

During the year ended December 31, 2019, certain errors were identified in the consolidated financial statements for the year ended December 31, 2018 previously filed on April 29, 2019:

***Oil and gas properties and depletion***

The Company did not include all estimated future development costs necessary to bring the oil and gas properties into production in its depletable base. In addition, the Company recorded certain expenditures incurred on oil and gas properties on or before December 31, 2018 during the year ended December 31, 2019. The subsequent adjustments resulted in a decrease in oil and gas properties of 135,565, and an increase in accounts payable and accrued liabilities of \$296,620 as at December 31, 2018, and an increase in depletion expense of \$433,185 for the year ended December 31, 2018.

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**

Expressed in Canadian Dollars

**17. RESTATEMENT - Continued**

***Reclamation provision and accretion***

The Company's adjustments to oil and gas properties noted above, along with an increasing of the long term inflation factor used in its determination of the reclamation provision, resulted in an additional adjustment. The subsequent adjustment resulted in an increase in oil and gas properties of \$266,993 and in the reclamation provision of \$254,259 as at December 31, 2018, and a decrease in accretion expense of \$12,734 for the year ended December 31, 2018.

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

	<b>December 31, 2018, as originally stated</b>	<b>change</b>	<b>December 31, 2018 restated</b>
<b>Statement of Financial Position</b>			
Oil and gas properties	12,748,735	130,428	12,879,163
Accounts payable and accrued liabilities	2,621,838	296,620	2,918,458
Reclamation provision	1,750,169	254,259	2,004,428
Deficit	(2,174,626)	(420,451)	(2,595,077)
<b>Statement of Loss and Comprehensive Income (Loss)</b>			
Accretion expense	61,247	(12,734)	48,513
Depletion	300,212	433,185	733,397
Net income (loss) for the year	46,172	(420,451)	(374,279)
Basic and diluted earnings (loss) per share	\$ (0.00)		\$ (0.00)

**18. MAJOR CUSTOMERS AND ECONOMIC DEPENDENCE**

The Company bids its sales on a month to month basis and normally sells approximately 100% of its monthly production to three to four major customer. Since the Company is able to sell the production to other readily available customers, the loss of any one customer would not have an adverse effect on our overall sales operations.

**19. SUBSEQUENT EVENTS**

(i) Subsequent to the yearend, the Company renegotiated the terms of the agreement associated with the property acquisition liability (Note 8) with Crimson. On February 19, 2020, the remaining \$1,000,000 outstanding effective April 1, 2020, was increased to \$1,109,931.04 with thirty-six (36) monthly payments of \$30,931.42 on the first day of each month commencing on April 1, 2020 and the final payment to be made on March 1, 2023. Pulse also negotiated, at its sole option, the ability to elect to accelerate payment by making a lump sum payment of \$750,000 to have the agreement paid in full. On March 26, 2020, the Company made a further amendment to the agreement by including two interest only payments of \$10,000 on May 1, 2020 and June 1, 2020, and subsequently, to resume the remaining 35 monthly payments of \$30,831.42 on July 1, 2020.

**Pulse Oil Corp.**  
**Notes to the Consolidated Financial Statements**  
**For the Years Ended December 31, 2019 and 2018**  
Expressed in Canadian Dollars

19. **SUBSEQUENT EVENTS - Continued**

(ii) During the first quarter of 2020, the World Health Organization declared a world-wide pandemic resulting from the coronavirus (COVID-19) outbreak. As the disease rapidly spread across the globe, many countries have required companies to limit or suspend business operations, implemented travel restrictions, and ordered individuals to stay at home. Additionally, the Organization of Petroleum Exporting Countries (OPEC), led by Saudi Arabia, has stated its intention to increase production after negotiating with Russia failed to come to an agreement to mutually reduce their output, causing further downward pressure on oil price futures markets. As a result of these conditions, in March 2020, the Company was forced to temporarily reduce its operations. The duration of the reduced operations is not currently determinable and no provision has been made in these financial statements for any effects that the Company may experience if the suspension/reduction is other than temporary.

Since the original announcement by Saudi Arabia, OPEC, in cooperation with many global energy producing nations, have agreed to reduce their production outputs to help stabilize the price of oil moving forward. With the continued supply issues and reduced demand caused by the COVID-1 outbreak, the effects of these measures have not been realized as of the date of this report.

The Company makes significant estimates related to oil reserves that could be materially impacted by a sustained decrease in oil price. To estimate the economically recoverable oil reserves and related future net cash flows, management incorporates many factors and assumptions including the expected reservoir characteristics, future oil prices and costs and assumed effects of regulation by governmental agencies. Reserves are used to calculate the depletion of the capitalized oil and gas properties and for impairment purposes. It is reasonably possible that if the lower oil prices continue for a sustained period, estimates made in the financial statements have been, or will be, materially and adversely impacted in the near term, including further reductions in revenue or impairment losses on existing long-lived assets.