



FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2021 AND 2020

Dated May 2, 2022



PULSE OIL CORP.
Consolidated Financial Statements
December 31, 2021 and 2020
(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, 2021 and 2020, 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 the significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2021 and 2020 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS).

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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the year ended December 31, 2021. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Oil and gas properties - Refer to Notes 2 and 4 of the accompanying Financial Statements.

Key audit matter description

Oil and gas properties are measured by depleting the assets on a unit-of-production basis ("depletion expense") and are evaluated for impairment using the future net cash flows of the underlying proved and probable oil and natural gas reserves. The Company engages an independent reservoir engineer to estimate oil and natural gas reserves using estimates, assumptions and engineering data. The development of the Company's reserves and the related future net cash flows used to evaluate the depletion and impairment requires the reservoir engineer, to make significant estimates and assumptions related to future oil and natural gas prices, discount rates, reserves, and the future operating and development costs.

Given the significant judgments related to future oil and natural gas prices, discount rates, reserves, and future operating and development costs, these estimates and assumptions are subject to a high degree of estimation uncertainty. Auditing these estimates and assumptions required auditor judgement in applying audit procedures and in evaluating the results of those procedures. This resulted in an increased extent of audit effort.

As at December 31, 2021, there were indicators of impairment reversal identified by management on Queenstown property. As a result of impairment reversals tests performed, the Company recognized an impairment reversal of \$456K on Queenstown property.

Our response to Key Audit Matter:

1. We evaluated the independent reservoir engineer's report by checking the following inputs used in the reserve report:
 - Oil and gas prices:
 - Oil and gas prices are highly judgmental. We independently developed a reasonable range of forecasts based on external data obtained, against which we compared the consultant's oil and gas price assumptions in order to challenge whether they are reasonable. In developing this range, we obtained a variety of reputable and reliable third party forecasts, peer information and other relevant market data.
 - Reserves and resources estimates:
 - A key input for oil and gas property valuation is the oil and gas production forecast, which is based on underlying reserves estimates and field specific development assumptions. The work of management's expert was used to evaluate the reasonableness of forecasted production volume. As a basis for using their work, we read the reserve reports provided by management's expert and assessed the scope of work and findings of these third parties. We test checked the data for mathematical accuracy, assumption and methods used by management's expert.
2. We assessed the competence, capability and objectivity of the reservoir engineers involved in the preparation of the reserve report.
3. We obtained management's assessment of impairment and reviewed it to ensure its reasonability.
4. We obtained confirmation from the reservoir engineers that they are independent of the Company and its management and the work performed by them is in compliance with the code of ethics issued by The Association of Professional Engineers and Geoscientists of Alberta, "APEGA".

Emphasis of Matter - Material Uncertainty Related to Going Concern

We draw attention to Note 1 of the accompanying consolidated 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.

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 we 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.

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.

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 IFRS, 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.

Auditors' 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 auditors' 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 skepticism 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

May 2, 2022

Pulse Oil Corp.
Consolidated Statements of Financial Position
As at December 31, 2021 and 2022

Expressed in Canadian Dollars

	2021 \$	2020 \$
Assets		
Current assets		
Cash and cash equivalents	145,605	102,511
Accounts receivable (Note 11)	528,572	45,057
Inventory	9,755	14,799
Prepaid expenses and advances	93,234	76,341
	777,166	238,708
Equipment (Note 5)	1,281,350	975,047
Oil and gas properties (Note 4)	17,958,328	16,010,004
	19,239,678	16,985,051
Total Assets	20,016,844	17,223,759
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (Note 9)	1,802,434	2,172,645
Term loan (Note 14)	399,405	-
Current portion of property acquisition liability (Note 7)	379,057	479,129
	2,580,896	2,651,774
Long-term liabilities		
Property acquisition liability (Note 7)	463,269	506,103
Term loans (Note 14)	120,000	120,000
Reclamation provision (Note 6)	2,651,230	2,217,344
Deferred income taxes (Note 13)	186,294	-
	3,420,793	2,843,447
Shareholders' equity		
Share capital (Note 8)	19,204,608	18,521,245
Reserves	2,861,310	2,081,169
Deficit	(8,050,763)	(8,873,876)
	14,015,155	11,728,538
Total liabilities and shareholders' equity	20,016,844	17,223,759

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

Nature of operations and going concern - Note 1

Subsequent event – Note 18

These consolidated financial statements were approved for issue by the Board of Directors on May 2, 2022 and are signed on its behalf by:

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

Pulse Oil Corp.

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) For the years ended December 31, 2021 and 2020

Expressed in Canadian Dollars

	2021 \$	2020 \$
Revenue		
Oil and gas sales (Note 16)	3,246,921	990,245
Other income (Note 15)	40,000	85
Royalties	(148,414)	(24,494)
	3,138,507	965,836
Expenses		
Accounting and legal	102,357	467,358
Accretion expense (Note 6 & 7)	63,165	63,107
Bank charges	1,815	1,556
Consulting fees	119,037	229,610
Corporate relations and development	-	5,110
Depletion (Note 4)	862,907	446,957
Depreciation (Note 5)	251,179	241,188
Director and management fees (Note 9)	82,792	100,000
Insurance	54,893	36,333
Office expenses	42,835	53,997
Operating expenses on oil and gas properties (Note 9)	806,566	547,096
Regulatory and filing fees	24,533	28,711
Salaries and related benefits (Note 9)	243,524	390,189
Shareholder communications	32,162	11,876
Transportation costs on oil and gas properties	401,315	229,012
Travel	659	17,340
	3,089,739	2,869,440
Income (loss) before income taxes and other items	48,768	(1,903,604)
Other items		
Interest expense (Note 14)	(19,804)	(2,989)
Reversal of impairment on oil and gas properties (Note 4)	467,558	(1,213,428)
Gain on debt settlement (Note 15)	614,044	-
Loss on property acquisition liability modification (Note 7)	(100,285)	(100,059)
Tax recovery	-	44,676
Foreign exchange loss	(874)	(925)
	960,639	(1,272,725)
Income (loss) before income taxes	1,009,407	(3,176,329)
Deferred income tax expense (Note 13)	186,294	-
Net income (loss) and comprehensive income (loss) for the year	823,113	(3,176,329)
Basic and diluted earnings (loss) per share (Note 10)	0.00	(0.02)
Weighted average number of common shares outstanding	253,068,115	151,592,357

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

Pulse Oil Corp.
Consolidated Statements of Changes in Equity
For the years ended December 31, 2021 and 2020
Expressed in Canadian Dollars

	Share capital	Share capital			
	Number of Shares	Amount \$	Reserves \$	Deficit \$	Total equity \$
Balance at December 31, 2019	151,592,357	18,521,245	2,081,169	(5,697,547)	14,904,867
Net loss and comprehensive loss for the year	-	-	-	(3,176,329)	(3,176,329)
Balance at December 31, 2020	151,592,357	18,521,245	2,081,169	(8,873,876)	11,728,538
Common shares issued from rights exercise (Note 8b)	151,592,357	1,515,924	-	-	1,515,924
Share issue costs (Note 8b)	-	(52,420)	-	-	(52,420)
Warrants issued as part of rights exercise (Note 8c)	-	(780,141)	780,141	-	-
Net income and comprehensive income for the year	-	-	-	823,113	823,113
Balance at December 31, 2021	303,184,714	19,204,608	2,861,310	(8,050,763)	14,015,155

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

Pulse Oil Corp.
Consolidated Statements of Cash Flows
For the years ended December 31, 2021 and 2020
Expressed in Canadian Dollars

	2021 \$	2020 \$
Cash flows from (used in) operating activities		
Net income (loss) for the year	823,113	(3,176,329)
Items not affecting cash		
Deferred income tax expense	186,294	-
Accretion expense	63,165	63,107
Depletion	862,907	446,957
Depreciation	251,179	241,188
Impairment (reversal of impairment) on oil and gas properties	(467,558)	1,213,428
Loss on property acquisition liability modification	100,285	100,059
Gain on debt settlement	(614,044)	-
Changes in non-cash working capital		
Accounts receivable	(483,515)	139,322
Prepaid expenses and advances	(16,893)	47,734
Accounts payable and accrued liabilities	243,833	818,469
Inventory	5,044	-
Total cash flows from (used in) operating activities	953,810	(106,065)
Cash flows from (used in) financing activities		
Share issue costs	(52,420)	-
Issuance of Shares	1,515,924	-
Term loan	399,405	120,000
Property acquisition liability	(256,628)	(247,057)
Total cash flows from (used in) financing activities	1,606,281	(127,057)
Cash flows used in investing activities		
Oil and gas properties expenditures	(1,959,515)	(22,979)
Equipment purchase	(557,482)	(20,593)
Total cash flows used in investing activities	(2,516,997)	(43,572)
Increase (decrease) in cash and cash equivalents during the year	43,094	(276,694)
Cash and cash equivalents, beginning of year	102,511	379,205
Cash and cash equivalents, end of year	145,605	102,511

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

Pulse Oil Corp.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

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 Op Co”).

The Company earned net income of \$823,115 (2020 - \$3,176,329 net loss) and cash flow from operating activities of \$953,810 (2020 cash used in operating activities - \$(106,065)). As at December 31, 2021, the Company had a working capital deficiency of \$1,803,730 (2020 - \$2,413,066) due to operating commitment of \$2,580,896 due in an year. The Company’s primary business is to be an active oil and gas producer and explorer with a focus in Canada. Oil and gas sector is capital intensive industry. Company plans to invest in its properties to facilitate extraction of its oil and gas reserves.. 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. All of these matters and conditions indicate the existence of a material uncertainty that may raise significant doubt about the Company’s ability to continue as a going concern. The Company’s ability to continue its operations and to realize assets at their carrying values is dependent upon obtaining additional financing and successfully generating positive cash flows from profitable operations.

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 consolidated financial statements. Management’s plan to meet the Company’s current and future obligations are to raise equity capital through private placements and rely on the financial support of its shareholders and parties related to the current shareholders to meet its financing needs. It also plans to invest in its properties to facilitate later extraction of its oil and gas reserves.

2. BASIS OF PRESENTATION

Basis of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”)

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 Oil Operating Corp, a company incorporated in British Columbia, Canada and HRC (NZ) Limited, a company incorporated in New Zealand. (HRC) NZ limited was dormant for the year ended December 31, 2021.

Pulse Oil Corp.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

Expressed in Canadian Dollars

2. BASIS OF PRESENTATION - Continued

Basis for consolidation - continued

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'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.

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 revenues and 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, and operating and capital decisions.

Pulse Oil Corp.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

Expressed in Canadian Dollars

2. BASIS OF PRESENTATION - Continued

Critical judgments and sources of estimation uncertainty

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.

(i) *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.

(ii) *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.

(iii) *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.

(iv) *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 judgements about, assumptions and estimates used to derive 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.

Pulse Oil Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020
Expressed in Canadian Dollars

2. BASIS OF PRESENTATION - Continued

Critical judgments and sources of estimation uncertainty - continued

(v) *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.

(vi) *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 judgement about best estimates that independent market participants 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.

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 are made using the unit of production method by reference to the ratio of production in the period to the related proven and probable reserves and 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.

Pulse Oil Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020
Expressed in Canadian Dollars

2. BASIS OF PRESENTATION - Continued

Critical judgments and sources of estimation uncertainty - continued

For equipment assets, depreciation is recognized in earnings on a 20% declining balance basis over the estimated 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.

3. SIGNIFICANT ACCOUNTING POLICIES

Cash and cash equivalents

Cash consists of cash and demand deposits. Cash equivalents include short-term, highly liquid investments which are readily convertible to known amounts of cash and which are 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.

Pulse Oil Corp.
Notes to the Consolidated Financial Statements
For the Years Ended December 31, 2021 and 2020
Expressed in Canadian Dollars

3. SIGNIFICANT ACCOUNTING POLICIES - Continued

Oil and gas properties - continued

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 values using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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 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.

Pulse Oil Corp.

Notes to the Consolidated Financial Statements

For the Years Ended December 31, 2021 and 2020

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3. SIGNIFICANT ACCOUNTING POLICIES - Continued

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 recorded at historical cost less accumulated amortization and impairment charges. 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.

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, diluted loss per share from the potential exercise of options and warrants is not presented if it 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.

Pulse Oil Corp.

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES - Continued

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 cash flow. Management determines the classification of its financial assets at initial recognition.

(i) Amortized cost

Financial assets that are held within a business model with the objective of holding financial assets in order to collect contractual cash flows, and the contractual terms of these financial assets give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amounts outstanding, are subsequently measured at amortized cost using the effective interest rate method. The Company’s financial asset carried at amortized cost is its accounts receivable.

(ii) FVTOCI

Financial assets that are held within a business model with the objective of holding 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 dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are classified as FVTOCI.

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 through 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 consolidated statements of financial position at fair value with changes in fair value recognized in the consolidated statements of comprehensive income (loss). The Company currently has no financial liabilities designated as FVTPL.

Pulse Oil Corp.
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3. SIGNIFICANT ACCOUNTING POLICIES - Continued

Financial instruments

(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 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.

Revenue recognition

Revenue from the sale of crude oil, natural gas and natural gas liquid is measured based on 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 liquid. 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.

Pulse Oil Corp.

Notes to the Consolidated Financial Statements

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3. SIGNIFICANT ACCOUNTING POLICIES - Continued

Lease - continued

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 measurements 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, 2021, all of the Company's leases are short-term leases with a term of 12 months or less and are recorded as operating leases, with lease payments expensed as incurred.

Share-based payments

Share-based payments to employees and others providing similar services are measured at the estimated fair value of the instruments issued on the grant date and amortized over the vesting periods. 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

There were no new and amended accounting standards and interpretations mandatorily effective for accounting periods that begin on or after January 1, 2021 that are relevant to the financial reporting of the Company.

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, 2021, or later periods. The Company has not early adopted these new standards in preparing these consolidated financial statements. These new standards are either not applicable or are not expected to have a significant impact on the Company's consolidated financial statements.

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4. OIL AND GAS PROPERTIES

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

Cost:

	Queenstown \$	Bigoray \$	Total \$
Balance, December 31, 2019	6,440,176	15,254,127	21,694,303
Additions	-	22,979	22,979
Balance, December 31, 2020	6,440,176	15,277,106	21,717,282
Additions	233,805	2,109,868	2,343,673
Balance, December 31, 2021	6,673,981	17,386,974	24,060,955

Accumulated depletion and impairment:

	Queenstown \$	Bigoray \$	Total \$
Balance, December 31, 2019	3,239,104	807,789	4,046,893
Additions	43,993	402,964	446,957
Impairment loss	1,213,428	-	1,213,428
Balance, December 31, 2020	4,496,525	1,210,753	5,707,278
Additions	285,409	577,498	862,907
Reversal of impairment loss	(467,558)	-	(467,558)
Balance, December 31, 2021	4,314,376	1,788,251	6,102,627

Balance:

	Queenstown \$	Bigoray \$	Total \$
December 31, 2020	1,943,651	14,066,353	16,010,004
December 31, 2021	2,359,605	15,598,723	17,958,328

Impairment loss and reversal of impairment loss:

Oil and gas properties were measured at fair value based on level 3 inputs on a non-recurring basis. At December 31, 2021, oil and gas properties with a carrying amount of \$17,490,770 were assessed to determine whether there were any indications that an impairment loss recognized in prior years may have decreased. It was observed that the discounted cash flow models, using the independent reserve evaluator reports prepared in accordance with Canadian Securities Regulation National Instrument 51-101, indicated a change in estimates used to determine the Queenstown property's recoverable amount, which resulted in a reversal of impairment loss of \$467,558 for the year.

During the year ended December 31, 2020, oil and gas properties with a carrying amount of \$17,223,432 were written down to their estimated fair value of \$16,010,004, resulting in an impairment charge of \$1,213,428.

Cash flows used in impairment 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

Pulse Oil Corp.
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5. EQUIPMENT

Cost

	Equipment \$	Field Equipment \$	Total \$
Balance, December 31, 2019	353,700	1,028,482	1,382,182
Additions	-	20,593	20,593
Balance, December 31, 2020	353,700	1,049,075	1,402,775
Additions	240,057	317,425	557,482
Balance, December 31, 2021	593,758	1,366,500	1,960,257

Accumulated depreciation

	Equipment \$	Field Equipment \$	Total \$
Balance, December 31, 2019	48,651	137,889	186,540
Additions	61,010	180,178	241,188
Balance, December 31, 2020	109,661	318,067	427,728
Additions	73,235	177,943	251,179
Balance, December 31, 2021	182,896	496,010	678,907

Balance

	Equipment \$	Field Equipment \$	Total \$
Balance, December 31, 2020	244,039	731,008	975,047
Balance, December 31, 2021	410,862	870,488	1,281,350

6. 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.

	Queenstown \$	Bigoray \$	Total \$
Balance, December 31, 2019	698,027	1,487,489	2,185,516
Accretion	10,063	21,329	31,392
Settlements	-	436	436
Balance, December 31, 2020	708,090	1,509,254	2,217,344
Accretion	14,269	35,458	49,727
Additions	-	384,159	384,159
Balance, December 31, 2021	722,359	1,928,871	2,651,230

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6. RECLAMATION PROVISION - Continued

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

	Bigoray	Queenstown
Estimated cash flows to settle the obligation (undiscounted)	\$ 1,932,941	718,289
Time range for settling the obligation	7 – 36 years	7-21 years
Credit-adjusted risk-free rate	2.5%	2.5%
Long term inflation rate	1.68% - 1.87%	1.68% - 1.88%

7. PROPERTY ACQUISITION LIABILITY

During the year ended December 31, 2017, the Company completed its acquisition of the Bigoray property. As part of this property acquisition, the Company assumed an acquisition liability. 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, the creditor maintains a first and fixed charge on all of the assets transferred to Pulse in the business combination. The loan is secured by the Company's assets is non-interest bearing, and matures in 2023. The Company also has certain clauses attached to the acquisition structure that allow it, at no penalty, to accelerate payments to be made to shorten the duration of the payment schedule.

On February 19, 2020, the remaining \$1,000,000 outstanding was increased to \$1,109,930, payable by 36 monthly payments of \$30,831 due on the first day of each month commencing on April 1, 2020, with the final payment to be made on March 1, 2023. The Company also negotiated, at its sole option, the ability to elect to accelerate payment by making a final lump sum payment of \$750,000 if the principal amount owing totals less than \$750,000. 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 to resume subsequently the remaining 35 monthly payments of \$30,831 on July 1, 2020, with the final payment to be made on May 1, 2023. On May 20, 2021, the Company made a further amendment to the agreement to make a single payment of \$75,000 to be paid on June 1, 2021. Three payments of \$15,000 were paid on July 1, 2021, August 1, 2021 and September 1, 2021. On October 1, 2021, 30 monthly payments of \$31,932 commenced with the final payment to be made on March 1, 2024 for a total payment of \$957,960.

The following table summarizes the continuity for the property acquisition liability:

Balance, December 31, 2020	985,232
Repayments	(256,628)
Loss on property acquisition liability modification	100,285
Accretion	13,437
Balance, December 31, 2021	842,326

Pulse Oil Corp.
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7. PROPERTY ACQUISITION LIABILITY - Continued

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

	December 31, 2021	December 31, 2020
	\$	\$
Not later than one year	383,184	483,303
Later than one year and not later than five years	478,980	524,134
Less: Future interest charges	(19,838)	(22,205)
Present value	842,326	985,232
Less: current portion	(379,057)	(479,129)
Long-term portion of property acquisition liability	463,269	506,103

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

8. SHARE CAPITAL

(a) **Authorized**

At December 31, 2021 and 2020, 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, 2021**

During the year ended December 31, 2021, the Company had the following transaction:

On April 30, 2021, Pulse closed an exercise of rights offering (the "Rights Offering") raising total gross proceeds of \$1,515,924 by issuing 151,592,357 shares. The Company incurred share issuance costs of \$52,420. As part of the Rights Offering, Pulse entered into a Standby Commitment Agreement (the "Standby Commitment Agreement"), on March 27, 2021 whereby the Standby Purchaser was issued an aggregate of 37,500,000 bonus non-transferable share purchase warrants (the "Warrants"). Each Warrant is exercisable for sixty (60) months from the date of issuance into one Common Share at a price of \$0.05 per Common Share. For the year ended December 31, 2021, the Company recorded a stock-based compensation expense of \$780,141.

At December 31, 2021, Pulse has 303,184,714 common shares outstanding.

• **Year ended December 31, 2020**

During the year ended December 31, 2020, there were no changes to share capital.

At December 31, 2020, Pulse has 151,592,357 common shares outstanding.

Pulse Oil Corp.
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8. SHARE CAPITAL - Continued

(c) **Warrants**

The Company uses the Black-Scholes option-pricing model to estimate the fair value for all stock-based compensation. The assumptions used in this pricing model, and the resulting fair values per option, for the warrants granted as part of Rights Offering exercise during the year ended December 31, 2021, are as follows:

Number of warrants	37,500,000
Grant Date of warrants	April 30, 2021
Stock Price @ Grant Date	\$0.02
Exercise Price	\$0.05
Expected Life of the warrants	5
Volatility	138%
Risk-Free Rate	0.93%

As at December 31, 2021, the company had 37,500,000 warrants outstanding (2020 – nil) as follows:

	Warrants	
	Number Outstanding	Weighted Average Exercise Price \$
Outstanding December 31, 2019	21,988,682	0.30
Expired	(21,988,682)	0.30
Outstanding December 31, 2020	-	-
Issued	37,500,000	0.05
Outstanding December 31, 2021	37,500,000	0.05

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

As at December 31, 2021 and 2020, there were no stock options outstanding.

9. 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, 2021, the Company paid nil in operating and capital expenses on oil and gas properties to a company controlled by a director and the CFO (2020 - \$32,000).

Included in accounts payable and accrued liabilities is \$138,360 (December 31, 2020 - \$174,033) due to related parties for accrued wages and management fees to the CEO, COO, and CFO.

Pulse Oil Corp.
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9. RELATED PARTY TRANSACTIONS AND BALANCES - Continued

Below is a summary of key management compensation:

	2021	2020
	\$	\$
Salaries paid to the CEO	198,640	115,625
Management fees paid to the CFO	107,684	62,500
Salaries paid to the COO	19,040	92,500
	325,364	270,625

10. EARNINGS (LOSS) PER SHARE

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

	2021	2020
	\$	\$
Net income (loss) for the year	823,115	(3,176,329)
Basic and diluted weighted average number of shares outstanding	253,068,115	151,592,357
Basic and diluted earnings (loss) per share	0.00	(0.02)

11. ACCOUNTS RECEIVABLE

As at December 31, 2021 and 2020, accounts receivable consists of:

	2021	2020
	\$	\$
Trade receivables	516,818	39,069
Goods and services taxes and other	11,754	5,988
	528,572	45,057

As at December 31, 2021 and 2020, the Company has not recorded any allowance for doubtful accounts.

12. FINANCIAL INSTRUMENTS

Categories of financial assets and financial liabilities

As at December 31, 2021, 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:

Financial instrument	Category	December 31, 2021	December 31, 2020
Cash and cash equivalents	FVTPL	145,605	102,511
Accounts receivable	Amortized cost	528,572	45,057
Accounts payable	Amortized cost	1,744,253	1,851,270
Property acquisition liability	Amortized cost	842,326	985,232

Pulse Oil Corp.

Notes to the Consolidated Financial Statements

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12. FINANCIAL INSTRUMENTS - Continued

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, 2021 and 2020, Cash and cash equivalents of \$145,605 and \$102,511, respectively, 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, 2021 and 2020 because the demand nature or short-term maturity of these instruments approximate fair value.

Financial instruments and risk management

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

Capital management

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

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

Liquidity risk

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

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12. FINANCIAL INSTRUMENTS - Continued

The Company may need to seek a combination of debt, equity and cash equivalents asset divestitures to meet its operational requirements. As at December 31, 2021, the Company has cash of \$145,605 (2020 - \$102,511) to meet its current liabilities of \$2,580,896 (2020 - \$2,651,774).

Contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2021 are as follows:

	<1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 1,802,434	—	—	\$ —	\$1,802,434
Property acquisition liability	379,057	463,269	—	—	842,326
CEBA loan	—	120,000	—	—	120,000
Term loan	399,405	—	—	—	399,405
Reclamation provision	—	—	—	2,651,230	2,651,230
	\$ 2,580,896	\$ 583,269	\$ —	\$ 2,651,230	\$ 5,815,395

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 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, 2021 is in respect of accounts receivable of \$528,572 (December 31, 2020 - \$45,057). As at December 31, 2021 and 2020, 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.

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13. INCOME TAXES

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

	2021	2020
Net income (loss) before current income taxes	\$ 1,009,407	\$ (3,176,329)
Canadian and Alberta statutory income tax rate	23%	24%
Expected income tax expense (recovery) at statutory rate	232,082	(762,001)
Tax effect of:		
Permanent differences and other	806,372	15,001
Change in unrecognized deferred income tax assets	(852,160)	747,000
Deferred income tax expense	\$ 186,294	\$ -

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:

	2021	2020
Non-capital losses carried forward	\$ 2,366,906	\$ 2,692,000
Share issuance costs	66,392	146,000
Equipment	183,305	115,000
Oil and gas properties	(1,866,758)	(1,163,000)
Term loan	(4,600)	5,000
Unrecognized deferred tax assets	(931,539)	(1,795,000)
Deferred tax liability	\$ (186,294)	\$ -

The Company has Canadian non-capital losses for income tax purposes of \$9,300,000 (2020 - \$10,500,000), which may be carried forward and offset against taxable income.

14. TERM LOAN

As at December 31, 2021 and 2020, term loan consists of:

	2021	2020
CEBA Loan	\$ 120,000	\$ 120,000
Term Loan	399,405	-
Total	\$ 519,405	\$ 120,000

CEBA Loan

In the year ended December 31, 2020, the Company received the \$120,000 interest free Canada Emergency Business Account (CEBA) loan. The program is operated by the Government of Canada. If the loan balance is paid on or before December 31, 2023, there will be loan forgiveness of 25% on the first tranche received of the loan of \$80,000 and 50% on the second tranche received of the loan of \$40,000.

Term Loan

In the year ended December 31, 2021, the Company received a term loan of \$385,000 with an interest of rate of 25% computed annually. The interest on the loan was ceased to applied after May, 6, 2021. A total interest payable as at December 31, 2021 is \$14,405. As at December 31, 2021, this loan is non-interest bearing and payable on demand.

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15. OTHER INCOME

In the year ended December 31, 2021, the Company received operating grants of \$40,000 under the Small and Medium Enterprise Relaunch Grant program provided by the Province of Alberta.

In the year ended December 31, 2021, the Company negotiated settlement terms on a number of outstanding debts. These settlement amounts resulted in a gain of \$614,044.

16. OIL AND GAS SALES

During the year ended December 31, 2021, the Company had revenues from oil and gas sales of \$3,246,921 (2020 - \$990,245). These revenues were derived wholly from the Company's Alberta oil and gas interests.

Year Ended	December 31, 2021	December 31, 2020
	\$	\$
Crude oil	2,201,637	777,116
Natural gas	379,687	74,061
Natural gas liquid	665,597	139,069
Oil and gas sales	3,246,921	990,246

17. 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 customers. 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 overall sales operations.

18. SUBSEQUENT EVENT

On February 17, 2022, the Company announced a private placement financing of approximately \$12.5 million at a price of \$0.05 per unit with each unit consisting of one common share and one share purchase warrant exercisable for a period of one year from the close of the financing. The exercise price of purchase warrants is \$0.065. The Company plans to use the proceeds to acquire the necessary infrastructure and secure a reliable supply of NGL solvent needed to execute Pulse's plans for the EOR project. The private placement financing is expected to close in Q2 2022.