

JERICO OIL CORPORATION
CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

September 30, 2019 and 2018

NOTICE TO READER

Under National Instrument 51-102, Part 4, subsection 4.3 (3) (a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying un-audited interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Vancouver, B.C.

November 27, 2019

Condensed Consolidated Interim Statements of Financial Position
(unaudited)
(Expressed in Canadian dollars)

	Note	September 30, 2019	December 31, 2018
Assets			
Current assets			
Cash		\$ 2,294,934	\$ 3,963,688
Accounts receivable		18,894	38,190
Prepaid expenses and deposits		4,823	88,332
		2,318,651	4,090,210
Non-current assets			
Petroleum properties	4	582,576	644,439
Other assets		23,940	—
Equity investments	5	36,655,568	39,449,405
		37,262,084	40,093,844
Total assets		\$ 39,580,735	\$ 44,184,054
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 303,675	\$ 271,627
Non-current liabilities			
Decommissioning liabilities	6	152,414	153,691
Total liabilities		\$ 456,089	\$ 425,318
Shareholders' Equity			
Share capital	8	50,440,274	50,460,084
Contributed surplus	8	2,620,320	2,612,057
Accumulated other comprehensive income		1,876,345	3,047,795
Deficit		(15,812,293)	(12,361,200)
		39,124,646	43,758,736
Total liabilities and shareholders' equity		\$ 39,580,735	\$ 44,184,054

Approved on behalf of the Board on November 27, 2019

"Brian Williamson"

"Ben Holman"

(The accompanying notes are an integral part of the consolidated financial statements)

Jericho Oil Corporation
Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(unaudited)
(Expressed in Canadian dollars)

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2019	2018	2019	2018
Net crude oil revenue		\$ 56,942	\$ 106,273	\$ 177,218	\$ 319,127
Operating expenses					
Production costs		67,201	66,364	191,787	195,419
Depletion, depreciation and amortization		28,356	17,113	86,269	53,971
Accretion of decommissioning liabilities	6	1,083	1,041	3,269	3,077
General and administrative expenses	7	450,637	595,092	1,404,742	2,530,235
Foreign exchange (gain) loss		(38,989)	59,573	74,962	(63,247)
Total operating expenses		508,288	739,183	1,761,029	2,719,455
Share of loss from equity investments	5	(636,416)	(488,734)	(1,865,513)	(1,048,187)
Operating loss		(1,087,762)	(1,121,644)	(3,449,324)	(3,448,515)
Other income (loss)					
Interest income		32	—	136	—
Other loss		(531)	(20,932)	(1,905)	(20,932)
		(499)	(20,932)	(1,769)	(20,932)
Loss before income tax		(1,088,261)	(1,142,576)	(3,451,093)	(3,469,447)
Income tax					
Income tax expense		—	(23)	—	(3,207)
Loss for the period		\$ (1,088,261)	\$ (1,142,599)	\$ (3,451,093)	\$ (3,472,654)
Other comprehensive income (loss)					
Items may be reclassified subsequently to income/loss					
Foreign currency exchange gain (loss) on translation of foreign subsidiary		408,571	649,931	(1,171,450)	1,260,436
Comprehensive loss		\$ (679,690)	\$ (1,792,530)	\$ (4,622,543)	\$ (2,212,218)
Loss per common share					
Basic		\$ (0.01)	\$ (0.01)	\$ (0.03)	\$ (0.03)
Weighted average number of common shares					
Basic and diluted		128,649,369	126,749,937	128,649,369	126,749,937

(The accompanying notes are an integral part of the consolidated financial statements)

Jericho Oil Corporation
Condensed Consolidated Interim Statement of Changes in Equity
(unaudited)
(Expressed in Canadian dollars)

	Number of shares (Note 8)	Share Capital (Note 8)	Subscriptions Received (Note 8)	Contributed Surplus	Accumulated Other Comprehensive Income(Loss)	Deficit	Total Equity
December 31, 2017	113,945,381	\$ 41,535,190	\$ 6,606,464	\$ 2,920,352	\$ (230,276)	\$ (8,296,731)	\$ 42,534,999
Subscriptions received	—	—	(6,606,464)	—	—	—	(6,606,464)
Issue of common shares for cash	3,784,946	2,270,967	—	—	—	—	2,270,967
Issue of common shares under options exercise	875,000	566,182	—	—	—	—	566,182
Issue of common shares under warrant exercise	9,389,289	5,633,574	—	—	—	—	5,633,574
Share issuance cost	—	(2,286)	—	—	—	—	(2,286)
Share-based payments	—	—	—	12,970	—	—	12,970
Other comprehensive loss	—	—	—	—	1,260,436	—	1,260,436
Net loss for the year	—	—	—	—	—	(3,472,654)	(3,472,654)
September 30, 2018	127,994,616	\$ 50,003,627	\$ —	\$ 2,933,322	\$ 1,030,160	\$ (11,769,385)	\$ 42,197,724
December 31, 2018	128,669,142	\$ 50,460,084	\$ —	\$ 2,612,057	\$ 3,047,795	\$ (12,361,200)	\$ 43,758,736
Treasury shares	(61,000)	(18,910)	—	—	—	—	(18,910)
Share issuance cost	—	(900)	—	—	—	—	(900)
Share-based payments	—	—	—	8,263	—	—	8,263
Other comprehensive loss	—	—	—	—	(1,171,450)	—	(1,171,450)
Net loss for the year	—	—	—	—	—	(3,451,093)	(3,451,093)
September 30, 2019	128,608,142	\$ 50,440,274	\$ —	\$ 2,620,320	\$ 1,876,345	\$ (15,812,293)	\$ 39,124,646

(The accompanying notes are an integral part of the consolidated financial statements)

Jericho Oil Corporation
Condensed Consolidated Interim Statement of Cash Flows
(unaudited)
(Expressed in Canadian dollars)

	Nine Months Ended	
	September 30, 2019	September 30, 2018
Cash flows from (used in) operating activities		
Loss for the year	\$ (3,451,093)	\$ (3,472,654)
Adjustments for non-cash items:		
Accretion of decommissioning liabilities	3,269	3,077
Depletion, depreciation and amortization	86,269	53,971
Share-based payments	8,263	12,970
Share of loss from equity investments	1,865,513	1,048,187
Unrealized foreign exchange (gain) or loss	107,973	17,195
Finance expense - non-cash portion	1,905	—
Cash provided by (used in) operating assets and liabilities:		
Accounts receivable	19,296	17,175
Prepaid expenses and deposits	83,509	116,176
Accounts payable and accrued liabilities	7,674	66,371
Net cash used in operating activities	(1,267,422)	(2,137,532)
Cash flows from (used in) investing activities		
Contributions to equity investments	(219,326)	(719,768)
Net cash used in investing activities	(219,326)	(719,768)
Cash flows from (used in) financing activities		
Proceeds from issuance of common shares	—	8,470,723
Treasury shares purchased	(18,910)	—
Share issuance costs	(900)	(2,286)
Subscriptions received	—	(6,606,464)
Payments on lease obligations	(44,562)	—
Net cash from (used in) financing activities	(64,372)	1,861,973
Change in cash	(1,551,120)	(995,327)
Effect of exchange rate changes on cash	(117,634)	56,656
Cash at beginning of year	3,963,688	5,292,783
Cash at end of period	\$ 2,294,934	\$ 4,354,112

(The accompanying notes are an integral part of the consolidated financial statements)

JERICO OIL CORPORATION

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

Nine Months ended September 30, 2019 and 2018

1. NATURE OF OPERATIONS

Jericho Oil Corporation (“Jericho” or the “Company”) was incorporated on October 21, 2010 under the Laws of British Columbia. The Company trades on the TSX Venture Exchange under the symbol “JCO”, and on the OTC Market exchange under the symbol “JROOF”.

The Company’s principal activity is the acquisition, exploration, development and production of oil and natural gas fields in the United States of America (USA). As of September 30, 2019, the Company primarily conducts its operations through its subsidiaries and various joint arrangements in the states of Oklahoma and Kansas. See Notes 4 and 5 for a detailed discussion of the Company’s petroleum property and joint arrangements.

The head office, principal address and records office of the Company are located at Suite 350 – 750 West Pender Street, Vancouver, British Columbia, Canada, V6C 2T7.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”), and follow the same accounting policies and methods of application as the Company’s most recent annual financial statements but do not contain all of the information required for full annual financial statements. Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company’s most recent annual financial statements, which were also prepared in accordance with IFRS as issued by the IASB. These financial statements were approved and authorized for issue by the Board of Directors on November 27, 2019.

(b) Basis of presentation

These consolidated financial statements are expressed in Canadian dollars and have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. The foreign exchange rate at September 30, 2019 was \$US 1.00 equal to \$CAD 1.32 (December 31, 2018 - \$US 1.00 equal to \$CAD 1.36), and the average foreign exchange rate for the nine months ended September 30, 2019 was \$US 1.00 equal to \$CAD 1.33 (for the nine months ended September 30, 2018 - \$US 1.00 equal to \$CAD 1.29).

In addition, these consolidated financial statements have been prepared using the accrual basis of accounting on a going concern basis. The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements as if the policies have always been in effect.

JERICO OIL CORPORATION

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

Nine Months ended September 30, 2019 and 2018

(c) Foreign currency translation

Functional currencies

The functional and presentation currency of the Company is the Canadian dollar. The functional currency of the Company's US subsidiaries and joint arrangements is the U.S. dollar which is determined to be the currency of the primary economic environment in which the subsidiaries and joint arrangements operate.

Foreign currency transactions

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position reporting date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Foreign operations

Subsidiaries that have functional currencies other than the Canadian dollar translate their statement of operations items to Canadian dollars at the average rate during the period. Assets and liabilities are translated at exchange rates prevailing at the end of the reporting period. Exchange rate variations resulting from the retranslation at the closing rate of the net investment in these subsidiaries, together with differences between their statement of operations items translated at actual and average rates, are recognized in accumulated other comprehensive income (loss). On disposition or partial disposition of a foreign operation, the related cumulative amount of related exchange difference is recognized in the statement of operations.

(d) Significant accounting judgments and estimates

The preparation of consolidated financial statements, in compliance with IFRS, requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in the annual financial statements in Note 5 - CRITICAL ACCOUNTING POLICIES AND ESTIMATES.

(e) Basis of consolidation

The consolidated financial statements include the accounts of Jericho Oil Corporation and its 100% owned subsidiaries, Jericho Oil (Kansas) Corp. and Jericho Oil (Oklahoma) Corp.

Intercompany balances and transactions, including unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

JERICHO OIL CORPORATION

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

Nine Months ended September 30, 2019 and 2018

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company followed the same accounting policies in these interim financial statements as those disclosed in Note 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for the consolidated financial statements for the previous year ended December 31, 2018, except for the following adoption of new accounting standards effective January 1, 2019.

New accounting standards adopted effective January 1, 2019:

(a) IFRS 16 – Leases

The Company adopted IFRS 16 – Leases, which replaces previous IFRS guidance on leases under IAS 17. Under previous guidance, lessees had to determine if the lease was a finance or operating lease. Generally, finance leases were recognized on the balance sheet while operating leases were recognized in net income on the income statement. IFRS 16 brings leasing arrangements onto the balance sheet by creating a single model for lease accounting, which requires a right-of-use asset and liability to be recognized on the balance sheet. The Company adopted IFRS 16 using the modified retrospective approach whereby the Company recorded an approximate \$67,000 right-of-use asset (a non-current asset) and a corresponding lease liability in connection with its office lease. Eagle Road Oil, LLC, the Company's joint venture in Oklahoma, recognized approximately \$500,000 (USD\$375,000) as a right-of-use asset and a corresponding lease liability in connection with its office lease in Tulsa, Oklahoma. On adoption of IFRS 16, the Company's lease liabilities related to contracts classified as lease are measured at the discounted present value of the remaining minimum lease payments, excluding short-term and low-value leases. The right-of-use assets recognized were measured at amounts equal to the present value of the lease obligations and are amortized over the lease term. The weighted average incremental borrowing rate used to determine the lease obligation at adoption was approximately 6.25%. The Company elected to not apply lease accounting to leases with a lease term of 12 months of the date of initial application.

JERICO OIL CORPORATION

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

Nine Months ended September 30, 2019 and 2018

4. PETROLEUM PROPERTIES

The Company's joint operations recorded as petroleum properties are comprised of three groups of leases in the state of Kansas. The following is a summary of cost and related accumulated depletion for the Kansas properties for the periods presented:

	September 30, 2019	December 31, 2018
Cost:		
Balance, beginning of year	\$ 1,671,704	\$ 1,527,293
Movement in foreign exchange rates	(48,897)	144,411
Balance, end of period	1,622,807	1,671,704
Accumulated depletion:		
Balance, beginning of year	1,027,265	860,441
Depletion	43,177	76,657
Movement in foreign exchange rates	(30,211)	90,167
Balance, end of period	1,040,231	1,027,265
Carrying value	\$ 582,576	\$ 644,439

5. EQUITY INVESTMENTS

As of September 30, 2019, the majority of the Company's oil and gas operations were held in Oklahoma, with operations conducted through participation in various joint ventures and associates. The Company's interests in these joint ventures and associates are accounted for using the equity method. Under the equity method, the investment in a joint venture or an associate is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the joint venture since the acquisition date less distributions received and any impairment in the fair value of investment. At September 30, 2019 and December 31, 2018 the Company held the following joint ventures and associates:

	September 30, 2019	December 31, 2018
Eagle Road Oil, LLC ("Eagle Road")	50 %	50 %
Lurgan Oil, LLC ("Lurgan")	50 %	50 %
Jericho Buckmanville Oil, LLC ("Buckmanville")	50 %	50 %
RSTACK Walnut, LLC ("Walnut")	26.5 %	26.5 %
Cherry Rancher, LLC ("Cherry Rancher")	31 %	31 %

JERICO OIL CORPORATION

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

Nine Months ended September 30, 2019 and 2018

Carrying amounts of the Company's interests in equity method investments as of September 30, 2019 and December 31, 2018, are as follows:

	Eagle Road	Lurgan	Buckmanville	Walnut	Cherry Rancher	Total
Balance, December 31, 2018	\$ 9,856,667	\$ 3,225,102	\$ 14,888,746	\$ 11,464,761	\$ 14,128	\$ 39,449,404
Share of income/(loss)	(806,287)	(82,592)	(422,049)	(560,656)	6,071	(1,865,513)
Advances	199,387	19,939	—	—	—	219,326
Movement in foreign exchange	(286,004)	(94,097)	(433,895)	(333,217)	(436)	(1,147,649)
Balance, September 30, 2019	\$ 8,963,763	\$ 3,068,352	\$ 14,032,802	\$ 10,570,888	\$ 19,763	\$ 36,655,568

Details of the joint ventures' net assets and net income are shown below along with the Company's share of the investment and income/loss.

Results of operations of the equity investments for the nine months ended September 30, 2019 are as follows:

100%

Nine Months Ended

September 30, 2019

	Eagle Road	Lurgan	Buckmanville	Walnut	Cherry Rancher	Total
Revenue	\$ 2,031,977	\$ 559,174	\$ 4,425,045	\$ 2,078,907	\$ 26,608	\$ 9,121,711
Production cost	(925,554)	(388,108)	(3,424,588)	(853,322)	(7,000)	(5,598,572)
Depletion and depreciation	(1,378,986)	(249,550)	(1,258,032)	(2,070,812)	—	(4,957,380)
Accretion of decommissioning provision	(83,053)	(8,965)	(100,483)	(23,128)	—	(215,629)
Realized (loss) gain on derivatives	8,170	(2,285)	1,149	—	—	7,034
Unrealized (loss) gain on derivatives	(105,331)	(16,368)	(192,634)	—	—	(314,333)
G&A and other operating	(990,947)	(23,951)	(56,699)	(1,251,547)	—	(2,323,144)
Interest expense	(168,850)	(35,132)	(237,856)	—	—	(441,838)
100% Net income (loss)	\$ (1,612,574)	\$ (165,185)	\$ (844,098)	\$ (2,119,902)	\$ 19,608	\$ (4,722,151)
100% Net income (loss) in US\$	\$ (1,213,149)	\$ (124,269)	\$ (635,021)	\$ (1,594,816)	\$ 14,751	\$ (3,552,504)
Jericho's ownership	50 %	50 %	50 %	26 %	31 %	
Jericho's share of net income (loss)	\$ (806,287)	\$ (82,592)	\$ (422,049)	\$ (560,656)	\$ 6,071	\$ (1,865,513)
Jericho's share of net income (loss) in US\$	\$ (606,575)	\$ (62,135)	\$ (317,511)	\$ (421,785)	\$ 4,567	\$ (1,403,438)

JERICO OIL CORPORATION

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

Nine Months ended September 30, 2019 and 2018

Results of operations of the equity investment for the nine months ended September 30, 2018, are as follows:

100%
Nine Months Ended
September 30, 2018

	Eagle Road	Lurgan	Buckmanville	Walnut	Cherry Rancher	Total
Revenue	\$ 2,817,497	\$ 698,298	\$ 5,794,901	\$ 3,443,925	\$ 40,606	\$ 12,795,227
Production cost	(857,201)	(535,350)	(3,897,003)	(1,152,823)	(10,025)	(6,452,402)
Depletion and depreciation	(1,372,318)	(370,833)	(1,449,585)	(1,380,210)	—	(4,572,946)
Accretion of decommissioning provision	(45,496)	(4,322)	(54,990)	(15,850)	—	(120,658)
Realized (loss) gain on derivatives	(124,799)	(27,188)	(238,387)	—	—	(390,374)
Unrealized (loss) gain on derivatives	(331,142)	(35,836)	(571,097)	—	—	(938,075)
G&A and other operating	(963,844)	(27,069)	(83,607)	(1,038,273)	(386)	(2,113,179)
Interest and loan costs	(116,575)	(24,264)	(219,100)	—	—	(359,939)
100% Net income (loss)	\$ (993,878)	\$ (326,564)	\$ (718,868)	\$ (143,231)	\$ 30,195	\$ (2,152,346)
100% Net income (loss) in US\$	\$ (771,884)	\$ (253,622)	\$ (558,301)	\$ (111,240)	\$ 23,450	\$ (1,671,597)
Jericho's ownership	50 %	50 %	50 %	26 %	31 %	
Jericho's share of net income (loss)	\$ (496,939)	\$ (163,282)	\$ (359,434)	\$ (37,881)	\$ 9,349	\$ (1,048,187)
Jericho's share of net income (loss) in US\$	\$ (385,942)	\$ (126,811)	\$ (279,151)	\$ (29,420)	\$ 7,260	\$ (814,063)

Summary financial position information of the joint ventures as of September 30, 2019, is as follows. At September 30, 2019, current liabilities include \$7.6 million (USD \$5.8 million) related to the credit facility discussed below. Non-current liabilities include \$10.1 million (USD \$7.6 million) for asset retirement obligations and \$8.1 million (USD \$6.1 million) for deferred tax liability.

100%
As at September 30, 2019

	Eagle Road	Lurgan	Buckmanville	Walnut	Cherry Rancher	Total
Assets						
Cash and cash equivalents	\$ 58,775	\$ 1,300	\$ 52,051	\$ 3,179,803	\$ —	\$ 3,291,929
Current assets (excluding cash)	1,420,864	64,043	239,928	466,742	5	2,191,582
Non-current assets	31,979,408	7,604,777	43,634,308	37,240,119	—	120,458,612
Total assets	33,459,047	7,670,120	43,926,287	40,886,664	5	125,942,123
Liabilities						
Current liabilities	4,660,122	649,505	4,729,221	359,606	—	10,398,454
Intercompany	2,414,226	96,845	(2,401,727)	(45,515)	(63,829)	—
Non-current liabilities	8,457,226	787,066	8,516,959	1,051,525	—	18,812,776
Total liabilities	15,531,574	1,533,416	10,844,453	1,365,616	(63,829)	29,211,230
Equity	17,927,473	6,136,704	33,081,834	39,521,048	63,834	96,730,893
Total Liabilities and Equity	\$ 33,459,047	\$ 7,670,120	\$ 43,926,287	\$ 40,886,664	\$ 5	\$ 125,942,123

JERICHO OIL CORPORATION

Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

Nine Months ended September 30, 2019 and 2018

Summary financial position information of the joint ventures as of September 30, 2018 is as follows. At September 30, 2018, non-current liabilities include \$7.6 million (USD \$5.9 million) related to the credit facility discussed below, \$6.2 million (USD \$4.8 million) for asset retirement obligations and \$7.9 million (USD \$6.1 million) for deferred tax liability.

100%

As at September 30, 2018	Eagle Road	Lurgan	Buckmanville	Walnut	Cherry Rancher	Total
Assets						
Cash and cash equivalents	\$ 1,005,381	\$ 137,709	\$ 66,987	\$ 5,930,832	\$ —	\$ 7,140,909
Current assets (excluding cash)	2,557,117	7,730	357,614	781,354	28,569	3,732,384
Non-current assets	29,922,968	7,106,352	40,359,627	40,211,473	—	117,600,420
Total assets	33,485,466	7,251,791	40,784,228	46,923,659	28,569	128,473,713
Liabilities						
Current liabilities	2,263,882	375,018	1,077,643	2,704,263	—	6,420,806
Intercompany	3,958,193	(236,420)	(3,641,465)	(78,521)	(1,787)	—
Non-current liabilities	8,759,867	1,141,875	10,980,680	828,674	—	21,711,096
Total liabilities	14,981,942	1,280,473	8,416,858	3,454,416	(1,787)	28,131,902
Equity	18,503,524	5,971,318	32,367,370	43,469,243	30,356	100,341,811
Total Liabilities and Equity	\$ 33,485,466	\$ 7,251,791	\$ 40,784,228	\$ 46,923,659	\$ 28,569	\$ 128,473,713

During 2016, the Company's three joint ventures in Oklahoma entered a USD\$30 million Senior Secured Revolving Credit Facility (the "Facility") with East West Bancorp, Inc. The Facility is available for working capital requirements, capital expenditures, acquisitions, general corporate purposes, and to support letters of credit. The borrowing base of the Facility was USD\$7.5 million as of September 30, 2019.

The interest rate for the Facility is Wall Street Journal Prime Rate plus 0.75%. The Facility is subject to customary covenants, and the balance at September 30, 2019, of \$7.6 million (USD \$5.8 million) matures on August 20, 2020. The outstanding balance of the Facility is secured by a first lien on the oil and gas interests and mortgaged properties of the Eagle Road, Lurgan, and Buckmanville joint ventures.

During second quarter 2019, operating revenues and costs were impacted by severe weather in Oklahoma. Power outages and flooding required the temporary suspension of operations in some areas and delays in scheduled workovers. During the third quarter, operations in the Eagle Road joint venture were significantly impacted by an unscheduled outage on the purchaser's natural gas gathering system, resulting in lower product sales volumes and higher operating expenses for the quarter. The cumulative impact of these events caused the three joint venture companies to be in breach of the leverage covenant of the Facility for the third quarter of 2019. East West Bank granted a waiver for the breach and agreed to re-set the leverage covenant to restart in the fourth quarter of 2019 and has taken no other action against the joint venture companies.

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As a part of the security for the Facility, the joint ventures entered into a series of oil price put, call and swap contracts with Cargill, Incorporated ("Cargill") and East West Bank. These contracts were not designated as hedges, and derivative accounting is applied. The following is a summary of contracts in place during the first nine months ended 2019 and as of September 30, 2019:

Counterpart	Commodity	Contract Type	Price (a)	2019 (b)				2020 (b)		
				1Q	2Q	3Q	4Q	1Q	2Q	3Q
Cargill	Crude Oil	Fixed Price Calls	\$ 53.75	(150)	—					
Cargill	Crude Oil	Fixed Price Calls	\$ 60.00	150						
Cargill	Crude Oil	Fixed Price Puts	\$ 45.00	150						
East West Bank	Crude Oil	Fixed Price Puts	\$ 44.00	88	233	224				
East West Bank	Crude Oil	Fixed Price Calls	\$ 80.00				(130)	(133)		
East West Bank	Crude Oil	Fixed Price Puts	\$ 50.00				130	133		
East West Bank	Crude Oil	Fixed Price Calls	\$ 66.70						(115)	(114)
East West Bank	Crude Oil	Fixed Price Puts	\$ 48.00						115	114
Cargill	Natural Gas	Fixed Price Calls	\$ 3.07	(497)						
Cargill	Natural Gas	Fixed Price Puts	\$ 2.80	497						
Cargill	Natural Gas	Fixed Price Swaps	\$ 2.97	(187)	(330)	(293)				

(a) The price for crude oil is reported in \$/Bbl and the natural gas is reported in \$/MMBtu

(b) Crude oil volumes are reported in Bbl/day and natural gas volumes are reported in MMBtu/day

6. DECOMMISSIONING LIABILITIES

The following table presents the reconciliation of the opening and closing aggregate carrying amount of the decommissioning provisions associated with the petroleum properties (Note 4):

	September 30, 2019	December 31, 2018
Balance, beginning of year	\$ 153,691	\$ 137,346
Accretion expense	3,269	4,130
Movement in foreign exchange rates	(4,546)	12,215
Balance, end of period	\$ 152,414	\$ 153,691

The present value of the obligation relating to the properties in Kansas (Note 4) of \$152,414 (2018 - \$153,691) was calculated using an average risk-free interest rate of 2.87% (2018 – 2.87%) and an inflation rate of 1.92% (2018 – 1.92%). The weighted-average life of the wells has been estimated at 8 years (2018 - 8 years).

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7. GENERAL AND ADMINISTRATIVE EXPENSES

The following table presents the general and administrative expenses incurred during the three and nine months ended September 30, 2019 and 2018.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
General and administrative expense				
Management fees	\$ 59,340	\$ 147,209	\$ 259,387	\$ 513,853
Stock compensation expense	—	70,836	8,263	316,651
Consulting fees	69,790	97,595	285,201	410,829
Accounting and auditing fees	179,399	49,018	275,399	178,857
Investor relations	47,068	135,806	299,438	739,112
Transfer agency and filing fees	5,661	4,276	39,992	35,429
Legal fees	21,436	29,060	54,565	96,751
Travel	13,748	20,227	58,991	88,353
Rent (1)	—	14,325	—	42,885
Insurance	4,823	4,822	17,401	16,801
Office and miscellaneous	49,372	21,918	106,105	90,714
General and administrative expense	\$ 450,637	\$ 595,092	\$ 1,404,742	\$ 2,530,235

(1) The Company adopted IFRS 16 – *Leases* effective January 1, 2019. See Note 3 for additional information.

8. SHARE CAPITAL AND EQUITY RESERVES

(a) Authorized share capital

Unlimited common shares without par value.

(b) Issued share capital

For the three months ended September 30, 2019

During the three months ended September 30, 2019, the Company purchased 16,000 shares under its share buy-back program at an average price of \$0.29 per share.

For the three months ended June 30, 2019

During the three months ended June 30, 2019, the Company purchased 45,000 shares under its share buy-back program at an average price of \$0.32 per share.

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For the year ended December 31, 2018

During fourth quarter of 2018, 791,026 stock options were exercised at an average price of \$0.30 for gross proceeds of \$ 237,308. The Company also initiated a share buy-back program and 116,500 shares were purchased in the fourth quarter at an average price of \$0.48.

During third quarter of 2018, 500,000 stock options were exercised at an average price of \$0.30 for gross proceeds of \$150,000.

During second quarter of 2018, 365,729 warrants were exercised at \$0.60 per share for proceeds of \$219,437, and 375,000 stock options were exercised at an average price of \$0.30 per share for gross proceeds of \$112,500.

On January 9, 2018 the Company closed a non-brokered private placement of 3,784,946 units at a price of \$0.60 per unit for gross proceeds of \$2,270,968. Each unit is comprised of one common share and one-half warrant with each full warrant entitling the holder to purchase one common share of the Company at a price of \$0.90 per share for a period of 24 months from closing. The Company received \$2,193,535 in connection with this private placement during the year ended December 31, 2017.

During first quarter of 2018, 9,023,560 warrants were exercised at \$0.60 per share for proceeds of \$5,414,136. The Company received \$4,412,929 in connection with these warrant exercises during the year ended December 31, 2017.

(c) Stock options

The Company has a stock options plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The options vest on a date set by the directors and expire at a time set by the directors, being not more than 10 years from the date of grant, provided that any outstanding options will expire on a date to be determined by the directors following the date that the holder ceases to be a senior officer, director, employee or consultant of the Company, such period not being more than twelve months from the date of such cessation.

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At September 30, 2019, 7,841,814 options are available for issuance under the plan. The following is a continuity table of stock options outstanding as at September 30, 2019:

	Number of Options	Weighted Average Exercise Price	
Outstanding, December 31, 2017	7,708,000	\$	0.42
Granted	535,000		0.71
Exercised	(1,666,026)		0.30
Forfeited	(100,000)		0.50
Outstanding, December 31, 2018	6,476,974	\$	0.47
Expired	(1,433,974)		0.30
Forfeited	(24,000)		0.65
Outstanding September 30, 2019	5,019,000	\$	0.52

As at September 30, 2019, the following incentive stock options were outstanding:

Expiration date	Options outstanding and exercisable	Unvested options	Exercise price
21-Oct-20	100,000	—	0.40
25-Aug-21	1,725,000	—	0.45
16-Jan-22	725,000	—	0.44
4-Jul-22	1,400,000	—	0.50
1-Sep-22	434,000	—	0.65
4-Oct-22	100,000	—	0.75
4-Apr-23	375,000	—	0.80
23-Aug-23	160,000	—	0.50
	5,019,000	—	\$ 0.52

As of September 30, 2019, the weighted-average remaining contractual life of stock options outstanding was 2.48 years (2018 - 2.53 years).

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(d) Share purchase warrants

The number and weighted average exercise prices of warrants outstanding as at September 30, 2019 were as follows:

	Number of Warrants	Weighted-Average Exercise Price
Outstanding, December 31, 2018	25,704,658	\$ 0.62
Granted	—	—
Exercised	—	—
Expired	—	—
Outstanding, September 30, 2019	25,704,658	\$ 0.62

The following table summarizes the warrants outstanding and exercisable at September 30, 2019:

Expiration Date	Warrants Outstanding and Exercisable	Weighted-Average Exercise Price
November 28, 2019	4,733,007	\$ 0.60
December 28, 2019	1,764,189	0.60
January 9, 2020	1,892,473	0.90
August 14, 2020	5,241,090	0.60
August 21, 2020	1,057,120	0.60
September 6, 2020	11,016,779	0.60
Outstanding, September 30, 2019	25,704,658	\$ 0.62

As of September 30, 2019, the weighted-average remaining contractual life of warrants outstanding was 0.68 years (2018 - 1.43 years).

9. RELATED PARTY TRANSACTIONS AND BALANCES

Key management are the officers and directors of the Company. The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

	Nine Months Ended	
	September 30, 2019	September 30, 2018
Management fees	\$ 332,146	\$ 518,853
Directors' fees	30,000	40,000
Share-based payments	5,258	99,413
	\$ 367,404	\$ 658,266

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At September 30, 2019, included in accounts payable and accrued liabilities is \$Nil payable to directors of the Company (2018 - \$15,750).

Accounts payable and accrued liabilities to related parties are non-interest bearing, due on demand and with no specific terms of repayment.

10. FINANCIAL INSTRUMENTS AND RISK

As of September 30, 2019, and December 31, 2018, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, and accounts payable.

	September 30, 2019	December 31, 2018
Financial Assets:		
Fair value through profit or loss	\$ 2,294,934	\$ 3,963,688
Amortized cost	18,894	38,190
Financial Liabilities:		
Fair value through profit or loss	\$ 229,097	\$ 130,703

See Note 3(m) of the Company's 2018 annual report for classifications.

IFRS 7 *Financial instruments – disclosures*, establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. IFRS 7 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities. The Company considers its cash and cash equivalents to be at fair value using Level 1 inputs.

Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e. quoted prices for similar assets or liabilities).

Level 3 – Prices or valuation techniques that are not based on observable market data and require inputs that are both significant to the fair value measurement and unobservable.

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Financial assets and liabilities measured at fair value on a recurring basis are presented on the Company's consolidated statement of financial position as of September 30, 2019 as follows:

	Balance as at September 30, 2019	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<i>Financial Assets:</i>				
Cash and cash equivalents	\$ 2,294,934	\$ 2,294,934	—	—

The Company believes that the recorded value of accounts receivable and accounts payable approximate their current fair values because of their nature and relatively short maturity dates or durations and current market rates for similar instruments.

The Company thoroughly examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the previous year as to how these risks are reviewed and monitored by management. The types of financial instrument risk exposures and the objectives and policies for managing these risk exposures are described below:

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations.

The Company's cash and cash equivalents are held at a large Canadian financial institution in interest bearing accounts. The Company has no investments in asset-backed commercial paper. The Company's accounts receivables consist mainly of oil sales and purchase taxes remitted from the Government of Canada. The Company is exposed to a significant concentration of credit risk with respect to its trade accounts receivable balance because all its oil sales are with one counterparty. However, the Company has not recorded any allowance against its trade receivables because historically all balances owed have been settled in full when due (typically within sixty days of submission).

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due.

The Company manages liquidity risk through its management of capital as outlined in Note 11. The Company held cash at September 30, 2019 in the amount of \$2,294,934 (2018 - \$3,963,688) in order to meet short-term business requirements and strategic investments.

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Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

Nine Months ended September 30, 2019 and 2018

At September 30, 2019, the Company had current liabilities (due within the 12 months) of \$303,675 (December 31, 2018 - \$271,627). Contractual undiscounted cash flow requirements for financial liabilities as of September 30, 2019 are as follows:

	<1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 279,301	—	—	—	\$ 279,301
Lease obligation	24,374	—	—	—	24,374
	\$ 303,675	—	—	—	\$ 303,675

(c) Market risk

Market risk consists of interest rate risk, foreign currency risk and price risk. These are discussed further below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has no interest-bearing obligations at September 30, 2019. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash equivalents included in cash and cash equivalents as a result of lower interest rates is insignificant.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company is exposed to foreign currency risk to the extent that the following monetary assets and liabilities are denominated in US dollars at September 30, 2019:

Cash and cash equivalents	USD\$	1,613,127
Receivables		10,492
Accounts payable and accrued liabilities		(99,619)
Net exposure	USD\$	1,524,000
Canadian dollar equivalents	CDN\$	2,018,081

The result of sensitivity analysis shows that a 10 percent change in the US\$ exchange rate, with all other variables held constant, could impact the net loss by approximately CDN\$202 thousand.

Price risk

The Company's profitability and ability to raise capital to fund development of oil properties is subject to risks associated with fluctuations in oil prices. Management closely monitors oil prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

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11. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. The Company does not have any externally imposed capital requirements to which it is subject. As at September 30, 2019, the Company considers capital to consist of all components of shareholders' equity. The Company manages the capital structure and adjusts it based on changes in economic conditions and the risk characteristic of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue common shares, draw on the credit facility held by its joint ventures or dispose of assets to increase the amount of cash on hand.

To facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The annual and updated budgets are approved by the Board of Directors.

The Company does not pay out dividends at this stage of the Company's development to maximize ongoing development efforts.

The Company's investment policy is to invest its cash in highly liquid short-term interest-bearing instruments with maturities of 90 days or less from the original date of acquisition.

The Company expects its current capital resources to be sufficient to carry its exploration and development plans and operations through the next twelve months. Cost control measures have been implemented and best efforts will be made to raise additional capital.

12. SEGMENTED INFORMATION, MAJOR CUSTOMERS AND ECONOMIC DEPENDENCE

At September 30, 2019, all of the Company's non-current assets (other than financial instruments) are located in Kansas and Oklahoma, USA. Geographical information relating to the Company's non-current assets (other than financial instruments) is presented in Notes 4 and 5.

The Company's revenues of \$177,218 (2018 - \$319,127) are all attributable to the Company's Kansas properties where sales are recorded from shipments of crude oil and gas. All the Company's revenues are

derived from two major customers in Kansas. As of September 30, 2019, the Company does not consider itself to be economically dependent on this customer as transactions with this party can be easily replaced by transactions with other parties on similar terms and conditions.

The loss from equity investments of \$1,865,513 (2018 - \$1,048,187) is attributable to the Company's share of loss from its equity investments in Oklahoma (Note 5).