

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

September 30, 2020 and 2019

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, 2020

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,	
		2020	2019	2020	2019
Net crude oil revenue		\$ 2,696	\$ 56,942	\$ 52,423	\$ 177,218
Operating expenses					
Production costs		9,304	67,201	71,079	191,787
Depletion, depreciation and amortization		118	28,356	23,476	86,269
Accretion of decommissioning liabilities	6	1,092	1,083	3,329	3,269
General and administrative expenses	7	1,126,275	450,637	1,982,449	1,404,742
Foreign exchange (gain) loss		85,363	(38,989)	229,414	74,962
Total operating expenses		1,222,152	508,288	2,309,747	1,761,029
Share of loss from equity investments	5	(435,420)	(636,416)	(9,764,792)	(1,865,513)
Operating loss		(1,654,876)	(1,087,762)	(12,022,116)	(3,449,324)
Other income (loss)					
Interest income		—	32	—	136
Other income (loss)		(102)	(531)	12,512	(1,905)
Impairment of petroleum properties		—	—	(400,422)	—
		(102)	(499)	(387,910)	(1,769)
Loss before income tax		(1,654,978)	(1,088,261)	(12,410,026)	(3,451,093)
Loss for the period		\$ (1,654,978)	\$ (1,088,261)	\$ (12,410,026)	\$ (3,451,093)
Other comprehensive income (loss)					
Items may be reclassified subsequently to income/loss					
Foreign currency exchange gain (loss) on translation of foreign subsidiary		(456,362)	408,571	946,128	(1,171,450)
Comprehensive loss		\$ (2,111,340)	\$ (679,690)	\$ (11,463,898)	\$ (4,622,543)
Loss per common share					
Basic		\$ (0.01)	(0.01)	\$ (0.08)	\$ (0.03)
Diluted					
Weighted average number of common shares					
Basic and diluted		149,046,098	128,649,369	149,046,098	128,649,369

(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)	Contributed Surplus	Accumulated Other Comprehensive Income(Loss)	Deficit	Total Equity
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 income	—	—	—	(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
December 31, 2019	128,608,142	\$ 50,440,274	\$ 2,630,908	\$ 1,250,786	\$ (20,890,719)	\$ 33,431,249
Issue of common shares for cash	50,000,000	5,000,000	—	—	—	5,000,000
Share issuance cost	—	(60,300)	—	—	—	(60,300)
Share-based payments	—	—	763,525	—	—	763,525
Other comprehensive loss	—	—	—	945,086	—	945,086
Net loss for the year	—	—	—	—	(12,410,026)	(12,410,026)
September 30, 2020	178,608,142	\$ 55,379,974	\$ 3,394,433	\$ 2,195,872	\$ (33,300,745)	\$ 27,669,534

(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, 2020	September 30, 2019
Cash flows from (used in) operating activities		
Loss for the year	\$ (12,410,026)	\$ (3,451,093)
Adjustments for non-cash items:		
Accretion of decommissioning liabilities	3,329	3,269
Depletion, depreciation and amortization	23,476	86,269
Share-based payments	763,525	8,263
Impairment of petroleum properties	400,422	—
Share of loss from equity investments	9,764,792	1,865,513
Unrealized foreign exchange gain	(15,402)	107,973
Finance expense - non-cash portion	77	1,905
Cash provided by (used in) operating assets and liabilities:		
Accounts receivable	21,786	19,296
Prepaid expenses and deposits	(4,149)	83,509
Accounts payable and accrued liabilities	(105,844)	7,675
Net cash used in operating activities	(1,558,014)	(1,267,421)
Cash flows from (used in) investing activities		
Contributions to equity investments	(690,387)	(219,326)
Proceeds from sale of interest in petroleum properties	1,166	—
Net cash used in investing activities	(689,221)	(219,326)
Cash flows from (used in) financing activities		
Proceeds from issuance of common shares	5,000,000	—
Treasury shares purchased	—	(18,910)
Share issuance costs	(60,300)	(900)
Proceeds from government loan programs	65,395	—
Payments on lease obligations	(9,903)	(44,562)
Net cash from/(used in) financing activities	4,995,192	(64,372)
Change in cash	2,747,957	(1,551,119)
Effect of exchange rate changes on cash	44,562	(117,634)
Cash at beginning of period	1,579,451	3,963,688
Cash at end of period	\$ 4,371,970	\$ 2,294,934

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

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Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

Nine months ended September 30, 2020 and 2019

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, 2020, 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 2100 - 1055 W. Georgia Street, Vancouver, British Columbia, Canada, V6E 3P3.

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, 2020.

(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, 2020 was \$US 1.00 equal to \$CAD 1.33 (December 31, 2019 - \$US 1.00 equal to \$CAD 1.30), and the average foreign exchange rate for the nine months ended September 30, 2020 was \$US 1.00 equal to \$CAD 1.35 (for the nine months ended September 30, 2019 - \$US 1.00 equal to \$CAD 1.33).

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.

Certain immaterial amounts included in the nine months ended 2019 of the Condensed Consolidated Interim Statements of Comprehensive Income (Loss) and Condensed Consolidated Interim Statement of Cash Flows have been reclassified to conform to current presentation.

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(Expressed in Canadian dollars)

Nine months ended September 30, 2020 and 2019

(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.

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Notes to the Consolidated Financial Statements

(Expressed in Canadian dollars)

Nine months ended September 30, 2020 and 2019

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, 2019.

4. PETROLEUM PROPERTIES

The Company's joint operations recorded as petroleum properties are comprised of three groups of leases in the state of Kansas. At March 31, 2020, the Company recorded an impairment for these properties because of the material decline in oil prices and the global impact on demand from the COVID-19 pandemic. The recoverable amount of the CGU was determined using a value in use approach based on the 2019 year-end reserves report updated to March 31, 2020, and a discount rate of 10%.

The following is a summary of cost and related accumulated depletion for the Kansas properties for the periods presented:

	September 30, 2020	December 31, 2019
Cost:		
Balance, beginning of year	\$ 1,563,346	\$ 1,671,704
Impairment write-down	(400,422)	(29,190)
Sale of interest in petroleum properties	(1,166)	—
Movement in foreign exchange rates	43,383	(79,168)
Balance, end of period	1,205,141	1,563,346
Accumulated depletion:		
Balance, beginning of year	1,035,243	1,027,265
Depletion	13,900	58,224
Movement in foreign exchange rates	26,280	(50,246)
Balance, end of period	1,075,423	1,035,243
Carrying value	\$ 129,718	\$ 528,103

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Notes to the Consolidated Financial Statements

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Nine months ended September 30, 2020 and 2019

5. EQUITY INVESTMENTS

As of September 30, 2020, 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, 2020 and December 31, 2019, the Company held the following joint ventures and associates:

	September 30, 2020	December 31, 2019
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 %

Carrying amounts of the Company's interests in equity method investments as of September 30, 2020 and December 31, 2019, are as follows:

	Eagle Road	Lurgan	Buckmanville	Walnut	Cherry Rancher	Total
Balance, December 31, 2019	\$ 7,550,420	\$ 1,898,543	\$ 13,658,293	\$ 8,816,942	\$ 19,771	\$ 31,943,969
Share of income/(loss)	(4,097,942)	(1,262,938)	(3,668,415)	(737,854)	2,357	(9,764,792)
Advances	690,387	—	—	—	—	690,387
Movement in foreign exchange	221,399	60,058	384,952	235,742	468	902,619
Balance, September 30, 2020	\$ 4,364,264	\$ 695,663	\$ 10,374,830	\$ 8,314,830	\$ 22,596	\$ 23,772,183

Advances are generally made to Eagle Road as the Operator of the Company's joint ventures in Oklahoma. As the Operator, Eagle Road bears payroll costs, pays invoices and collects and distributes revenues on behalf of the other joint ventures. 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.

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Nine months ended September 30, 2020 and 2019

Results of operations of the equity investments for the nine months ended September 30, 2020 are as follows:

100%

Nine Months Ended

September 30, 2020

	Eagle Road	Lurgan	Buckmanville	Walnut	Cherry Rancher	Total
Revenue	\$ 1,068,538	\$ 301,987	\$ 2,453,752	\$ 589,625	\$ 15,232	\$ 4,429,134
Production cost	(561,417)	(321,091)	(2,495,801)	(402,658)	(6,956)	(3,787,923)
Depletion and depreciation	(879,023)	(169,754)	(1,137,785)	(1,308,732)	—	(3,495,294)
Impairment	(9,680,004)	(2,327,286)	(7,378,248)	(680,675)	—	(20,066,213)
Accretion of decommissioning provision	(52,997)	(9,381)	(67,739)	(18,884)	—	(149,001)
Realized (loss) gain on derivatives	15,283	5,094	30,565	—	—	50,942
Unrealized (loss) gain on derivatives	(2,916)	—	—	—	—	(2,916)
G&A and other operating	(753,212)	(18,369)	(71,670)	(963,031)	(677)	(1,806,959)
Interest expense	(126,841)	(24,479)	(159,585)	—	—	(310,905)
Loan forgiveness	112,719	37,404	225,191	—	—	375,314
Deferred income tax recovery	2,663,987	—	1,264,491	—	—	3,928,478
100% Net income (loss)	\$ (8,195,883)	\$ (2,525,875)	\$ (7,336,829)	\$ (2,784,355)	\$ 7,599	\$ (20,835,343)
100% Net income (loss) in USD\$	\$ (6,093,008)	\$ (1,878,701)	\$ (5,453,450)	\$ (2,060,591)	\$ 5,614	\$ (15,480,136)
Jericho's ownership	50 %	50 %	50 %	26.5 %	31 %	
Jericho's share of net income (loss)	\$ (4,097,942)	\$ (1,262,938)	\$ (3,668,415)	\$ (737,854)	\$ 2,357	\$ (9,764,792)
Jericho's share of net income (loss) in USD\$	\$ (3,046,504)	\$ (939,351)	\$ (2,726,725)	\$ (545,851)	\$ 1,740	\$ (7,256,690)

The Company reviews the petroleum properties of its joint ventures at each reporting date for indicators of impairment. At March 31, 2020, the Company considered the sustained impact on global oil demand caused by the COVID-19 pandemic and the significant decrease in oil prices to be indications of impairment. Accordingly, the recoverable amount of each CGU was estimated and compared to its fair value less costs to sell. As a result, a total impairment expense of \$20.1 million (USD \$14.9 million) was recorded during the first quarter and is reflected in the results of operations of the Company's joint ventures and associates for the first nine months of 2020.

The recoverable amounts for the CGUs were based on the 2019 year-end reserve report and revised economic assumptions as of May 2020. Compared with the year-end report, the independently prepared reference prices used to estimate the recoverable amounts decreased by 40%, 35%, and 21% for the years 2020, 2021, and 2022, and 17% thereafter.

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Results of operations of the equity investment 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)
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)
100% Net income (loss)	\$ (1,612,574)	\$ (165,185)	\$ (844,098)	\$ (2,119,902)	\$ 19,608	\$ (4,722,151)
100% Net income (loss) in USD\$	\$ (1,213,149)	\$ (124,269)	\$ (635,021)	\$ (1,594,816)	\$ 14,751	\$ (3,552,504)
Jericho's ownership	50 %	50 %	50 %	26.5 %	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 USD\$	\$ (606,575)	\$ (62,135)	\$ (317,511)	\$ (421,785)	\$ 4,567	\$ (1,403,438)

Summary financial position information of the joint ventures as of September 30, 2020, is presented in the table below.

100%

As at September 30, 2020	Eagle Road	Lurgan	Buckmanville	Walnut	Cherry Rancher	Total
Assets						
Cash and cash equivalents	\$ 281,912	\$ 1,308	\$ 503,908	\$ 2,236,174	\$ —	\$ 3,023,302
Current assets (excluding cash)	1,541,512	42,874	306,265	225,641	—	2,116,292
Non-current assets	18,456,318	2,861,915	36,172,098	29,866,696	—	87,357,027
Total assets	20,279,742	2,906,097	36,982,271	32,328,511	—	92,496,621
Liabilities						
Current liabilities	2,531,734	136,690	58,027	214,656	229	2,941,336
Intercompany	(115,184)	297,424	(74,333)	(74,666)	(33,241)	—
Non-current liabilities	9,134,721	1,080,654	11,202,381	1,195,116	—	22,612,872
Total liabilities	11,551,271	1,514,768	11,186,075	1,335,106	(33,012)	25,554,208
Equity	8,728,471	1,391,329	25,796,196	30,993,405	33,012	66,942,413
Total liabilities and equity	\$ 20,279,742	\$ 2,906,097	\$ 36,982,271	\$ 32,328,511	\$ —	\$ 92,496,621

At September 30, 2020, non-current liabilities include \$10.6 million (USD \$7.9 million) for asset retirement obligations, \$7.2 million (USD \$5.4 million, net of issuance costs) related to the loan discussed below and \$3.9 million (USD \$2.9 million) for deferred tax liability.

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Summary financial position information of the joint ventures as of September 30, 2019 is presented in the table below.

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

At September 30, 2019, non-current liabilities include \$7.7 million (USD \$5.9 million) related to the credit facility discussed below, \$10.0 million (USD \$7.6 million) for asset retirement obligations and \$8.0 million (USD \$6.1 million) for deferred tax liability.

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 Bank. The balance of the Facility, or approximately USD \$5.3 million, matured during the third quarter of 2020. The effects of COVID-19 began to impact the results of operations of the joint ventures in the first quarter of 2020, and they were not compliant with the leverage, interest, or liquidity ratios for the first two quarters of 2020. In August 2020, the joint ventures qualified for a loan under the Main Street Lending Program ("MSLP") of the United States Federal Reserve. The MSLP was established by the Federal Reserve to promote lending to small and medium-sized businesses for maintaining operations and payroll since the onset of the COVID-19 pandemic. The Federal Reserve participates in the loans by funding 95% of a loan through a special purpose vehicle ("Main Street SPV"), with the remaining portion funded by an eligible lending bank. Under the program, interest payments are deferred during the first year and principal payments are deferred for three years.

Under the MSLP program, the joint ventures received a term loan in September 2020 for USD \$5.6 million from Vast Bank, National Association ("Vast Bank"). Proceeds of the loan were used to pay off the Facility with East West Bank, payment of loan origination fees and expenses, and to fund general oil and gas business activities. The loan is subject to customary covenants, and is secured by a first lien on the oil and gas interests and mortgaged properties of the Eagle Road, Lurgan, and Buckmanville joint ventures. The carrying value of the loan, net of issuance costs, was \$7.2 million (USD \$5.4 million) as of September 30, 2020. The interest rate for the loan is the LIBOR rate plus 3.00 percent. The loan matures on August 21, 2025. Under the program, interest payments are deferred during the first year and capitalized to the outstanding principal balance at the end of the first year. Principal payments are also deferred, with 15 percent of the balance due

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on the third and fourth-year anniversaries of the loan, and the remaining amount is due at the end of the fifth year.

In April of 2020, Eagle Road, the operator of the Company's joint ventures, obtained a loan under the Paycheck Protection Program administered by the Small Business Administration of the US government. The loan amount is approximately \$330,000, with a two-year term and an interest rate of one percent. All payments are deferred for the first six months of the loan term and all or a portion of the loan may be forgiven if the proceeds are used for eligible expenditures.

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, 2020	December 31, 2019
Balance, beginning of year	\$ 150,578	\$ 153,691
Accretion expense	3,329	4,350
Movement in foreign exchange rates	3,796	(7,463)
Balance, end of period	<u>\$ 157,703</u>	<u>\$ 150,578</u>

The present value of the obligation relating to the properties in Kansas (Note 4) of \$157,703 (2019 - \$150,578) was calculated using an average risk-free interest rate of 1.92% (2019 – 1.92%) and an inflation rate of 1.61% (2019 – 1.61%). The weighted-average life of the wells has been estimated at 8.1 years (2019 – 8.1 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, 2020 and 2019.

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2020	2019	2020	2019
General and administrative expense (1)				
Management fees	\$ 81,547	\$ 152,099	\$ 293,384	\$ 332,146
Directors' fees	—	10,000	—	30,000
Share-based payments	733,293	—	763,525	8,263
Consulting fees	145,264	69,790	362,186	285,201
Accounting and auditing fees	58,042	76,640	178,881	172,640
Investor relations	37,144	47,068	168,805	299,438
Transfer agency and filing fees	4,685	5,661	23,591	39,992
Legal fees	19,249	21,436	29,162	54,565
Travel	1,344	13,748	24,527	58,991
Short-term lease obligation	9,000	—	22,952	—
Insurance	5,064	4,823	15,474	17,401
Office and miscellaneous	31,643	49,372	99,962	106,105
General and administrative expense	\$ 1,126,275	\$ 450,637	\$ 1,982,449	\$ 1,404,742

(1) Certain immaterial amounts included in the three and nine months ended September 30, 2019 have been reclassified to conform to current presentation.

8. SHARE CAPITAL AND EQUITY RESERVES

(a) Authorized share capital

Unlimited common shares without par value.

(b) Issued share capital

For the nine months ended September 30, 2020

In June 2020, the Company closed a fully subscribed non-brokered private placement of 50,000,000 units at a price of \$0.10 per unit for gross proceeds of \$5,000,000. Each unit is comprised of one common share and one warrant with each warrant exercisable for one additional common share at a price of \$0.13 per share for a period of 36 months from the date of issuance.

For the year ended December 31, 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.

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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.

(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.

At September 30, 2020, 4,150,814 options are available for issuance under the plan. The following is a continuity table of stock options outstanding as at September 30, 2020:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2018	6,476,974	\$ 0.47
Granted	100,000	0.30
Expired	(1,433,974)	0.30
Forfeited	(24,000)	0.65
Outstanding, December 31, 2019	5,119,000	\$ 0.52
Granted	8,691,000	0.17
Forfeited	(100,000)	0.45
Outstanding, September 30, 2020	13,710,000	\$ 0.29

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As at September 30, 2020, the following incentive stock options were outstanding:

Expiration date	Options outstanding and exercisable	Unvested options	Exercise price
October 21, 2020	100,000	—	0.40
August 25, 2021	1,675,000	—	0.45
January 5, 2022	300,000	—	0.42
January 16, 2022	375,000	—	0.45
July 4, 2022	1,400,000	—	0.50
September 1, 2022	434,000	—	0.65
October 4, 2022	100,000	—	0.75
April 4, 2023	375,000	—	0.80
August 10, 2023	160,000	—	0.50
August 1, 2024	100,000	—	0.30
February 1, 2025	687,500	687,500	0.25
June 30, 2023	647,750	1,943,250	0.15
June 30, 2025	4,725,000	—	0.15
	11,079,250	2,630,750 \$	0.29

As of September 30, 2020, the weighted-average remaining contractual life of stock options outstanding was 3.15 years (2019 - 2.27 years).

(d) Share purchase warrants

The number and weighted average exercise prices of warrants outstanding as at September 30, 2020 were as follows:

	Number of Warrants	Weighted-Average Exercise Price
Outstanding, December 31, 2019	19,207,462	\$ 0.63
Granted	50,000,000	0.13
Expired	(19,207,462)	0.63
Outstanding, September 30, 2020	50,000,000	\$ 0.13

The following table summarizes the warrants outstanding and exercisable at September 30, 2020:

Expiration Date	Warrants Outstanding and Exercisable	Weighted-Average Exercise Price
June 10, 2023	50,000,000	\$ 0.13
Outstanding, September 30, 2020	50,000,000	\$ 0.13

As of September 30, 2020, the weighted-average remaining contractual life of warrants outstanding was 2.69 years (2019 – 0.60 years).

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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, 2020	September 30, 2019
Management fees	\$ 293,384	\$ 332,146
Directors' fees	—	30,000
Share-based payments	497,206	8,263
	<u>\$ 790,590</u>	<u>\$ 370,409</u>

At September 30, 2020, included in accounts payable and accrued liabilities is \$6,085 payable to a company controlled by the Chief Executive Officer ("CEO") of the Company (2019 - \$Nil).

At September 30, 2020, the Company had \$Nil in advances and \$206,633 in accounts payable to equity investments as described in Note 5 (2019 - \$Nil and \$295,489).

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, 2020, and December 31, 2019, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, and accounts payable.

	September 30, 2020	December 31, 2019
Financial Assets:		
Fair value through profit or loss	\$ 4,371,970	\$ 1,579,451
Amortized cost	—	19,269
Financial Liabilities:		
Amortized cost	\$ 329,770	\$ 362,484

See Note 3(m) of the Company's 2019 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.

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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.

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, 2020 as follows:

	Balance as at September 30, 2020	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	\$ 4,371,970	\$ 4,371,970	—	—

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.

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The Company manages liquidity risk through its management of capital as outlined in Note 11. The Company held cash at September 30, 2020 in the amount of \$4,371,970 (2019 - \$1,579,451) in order to meet short-term business requirements and strategic investments.

At September 30, 2020, the Company had current liabilities (due within the 12 months) of \$404,701 (December 31, 2019 - \$520,371). Contractual undiscounted cash flow requirements for financial liabilities as of September 30, 2020 are as follows:

	<1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 404,701	—	—	—	\$ 404,701
Decommissioning liabilities	—	—	—	158,585	158,585
Loans	—	65,395	—	—	65,395
	\$ 404,701	\$ 65,395	\$ —	\$ 158,585	\$ 628,681

(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, 2020. 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, 2020:

Cash	USD\$	3,038,299
Receivables		—
Accounts payable and accrued liabilities		(201,551)
Net exposure	USD\$	2,836,748
Canadian dollar equivalents	CDN\$	3,779,116

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\$377,911.

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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.

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, 2020, 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 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. Additional cost control measures have been implemented since the COVID-19 pandemic. The Company also received \$65,395 of government loan programs resulting from the COVID-19 pandemic. See Note 8 for discussion of a capital raise completed in second quarter 2020 for gross proceeds of \$5,000,000.

12. SEGMENTED INFORMATION, MAJOR CUSTOMERS AND ECONOMIC DEPENDENCE

At September 30, 2020, 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 \$52,423 (2019 - \$177,218) 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, 2020, 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 \$9,764,792 (2019 – \$1,865,513) is attributable to the Company's share of loss from its equity investments in Oklahoma (Note 5).