



JERICOHO ENERGY VENTURES INC.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

September 30, 2021 and 2020

Jericho Energy Ventures Inc.
Condensed Consolidated Interim Statements of Financial Position
(unaudited)
(Expressed in Canadian dollars)

	Note	September 30, 2021	December 31, 2020
Assets			
Current assets			
Cash		\$ 2,210,728	\$ 3,543,176
Accounts receivable		11,910	3,025
Prepaid expenses and deposits		76,494	12,495
		<u>2,299,132</u>	<u>3,558,696</u>
Non-current assets			
Petroleum properties	4	235,788	192,452
Equity investments	5	15,890,870	15,898,613
Intangible assets	6	3,859,533	—
Investments and other non-current assets	6	1,951,858	6,375
		<u>21,938,049</u>	<u>16,097,440</u>
Total assets		\$ 24,237,181	\$ 19,656,136
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities		\$ 611,885	\$ 403,568
Non-current liabilities			
Decommissioning liabilities	7	9,780	76,538
Loans		40,000	64,276
Total liabilities		\$ 661,665	\$ 544,382
Shareholders' Equity			
Share capital	9	64,058,817	55,208,874
Contributed surplus		3,973,920	3,612,825
Accumulated other comprehensive income		1,257,057	1,308,774
Deficit		(45,714,278)	(41,018,719)
		<u>23,575,516</u>	<u>19,111,754</u>
Total liabilities and shareholders' equity		\$ 24,237,181	\$ 19,656,136

Approved on behalf of the Board on November 29, 2021

"Brian Williamson"

"Ben Holman"

(The accompanying notes are an integral part of these condensed consolidated interim financial statements)

Jericho Energy Ventures Inc.
Condensed Consolidated Interim Statements of Comprehensive Income (Loss)
(unaudited)
(Expressed in Canadian dollars)

	Note	Three Months Ended September 30,		Nine Months Ended September 30,	
		2021	2020	2021	2020
Net product revenue		\$ 10,550	\$ 2,696	\$ 49,551	\$ 52,423
Operating expenses					
Production costs		6,750	9,304	33,496	71,079
Depletion, depreciation and amortization		1,453	118	2,577	23,476
Accretion of decommissioning liabilities	7	69	1,092	207	3,329
General and administrative expenses	8	1,184,635	1,126,275	4,638,419	1,982,449
Foreign exchange (gain)/loss		(101,352)	(85,737)	4,925	58,314
Total operating expenses		1,091,555	1,051,052	4,679,624	2,138,647
Share of income (loss) from equity investments	5	312,183	(435,420)	206,566	(9,764,792)
Operating loss		(768,822)	(1,483,776)	(4,423,507)	(11,851,016)
Other income (loss)					
Other income (loss)		(137,449)	(102)	24,363	12,512
Impairment of petroleum properties		—	—	—	(400,422)
Gain on disposal of petroleum properties		—	—	95,574	—
Write-off of prepayment on investment	6	(391,989)	—	(391,989)	—
		(529,438)	(102)	(272,052)	(387,910)
Loss for the period		(1,298,260)	(1,483,878)	(4,695,559)	(12,238,926)
Other comprehensive loss					
Items that may be reclassified subsequently to income (loss)					
Foreign currency exchange gain (loss) on translation of foreign subsidiaries		364,073	(457,404)	(51,717)	945,086
Comprehensive loss		\$ (934,187)	\$ (1,941,282)	\$ (4,747,276)	\$ (11,293,840)
Loss per common share					
Basic		\$ (0.01)	(0.01)	\$ (0.02)	\$ (0.08)
Weighted average number of common shares					
Basic and diluted		204,923,890	149,046,098	204,923,890	149,046,098

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

Jericho Energy Ventures Inc.
Condensed Consolidated Interim Statement of Changes in Equity
(unaudited)
(Expressed in Canadian dollars)

	Number of shares (Note 9)	Share Capital (Note 9)	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
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	4,828,900	—	—	—	4,828,900
Share issuance cost	—	(60,300)	—	—	—	(60,300)
Share-based payments	—	—	763,525	—	—	763,525
Other comprehensive income	—	—	—	945,086	—	945,086
Net loss for the year	—	—	—	—	(12,238,926)	(12,238,926)
September 30, 2020	178,608,142	\$ 55,208,874	\$ 3,394,433	\$ 2,195,872	\$ (33,129,645)	\$ 27,669,534
December 31, 2020	178,608,142	\$ 55,208,874	\$ 3,612,825	\$ 1,308,774	\$ (41,018,719)	\$ 19,111,754
Issue of common shares from acquisition (Note 6)	6,700,000	3,015,000	—	—	—	3,015,000
Issue of common shares under warrant exercise	34,498,727	4,443,619	—	—	—	4,443,619
Issue of common shares under options exercise	1,875,000	1,397,162	(758,412)	—	—	638,750
Share issuance cost	—	(5,838)	—	—	—	(5,838)
Share-based payments	—	—	1,119,507	—	—	1,119,507
Other comprehensive loss	—	—	—	(51,717)	—	(51,717)
Net loss for the year	—	—	—	—	(4,695,559)	(4,695,559)
September 30, 2021	221,681,869	\$ 64,058,817	\$ 3,973,920	\$ 1,257,057	\$ (45,714,278)	\$ 23,575,516

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

Jericho Energy Ventures Inc.
Condensed Consolidated Interim Statement of Cash Flows
(unaudited)

	Nine Months Ended	
	September 30, 2021	September 30, 2020
Cash flows from (used in) operating activities		
Loss for the period	\$ (4,695,559)	\$ (12,238,926)
Adjustments for non-cash items:		
Accretion of decommissioning liabilities	207	3,329
Depletion, depreciation and amortization	2,577	23,476
Share-based payments	1,119,507	763,525
Impairment of petroleum properties	—	400,422
Share of (income) loss from equity investments	(206,566)	9,764,792
Distributions received from equity investments	150,152	—
Gain on disposal of petroleum properties	(95,574)	—
Write-off of prepayment on investment	391,989	—
Loan forgiveness	(23,855)	—
Unrealized foreign exchange gain (loss)	24,265	(15,402)
Finance expense - non-cash portion	—	77
Cash provided by (used in) operating assets and liabilities:		
Accounts receivable	(8,885)	21,786
Prepaid expenses and deposits	(63,999)	(4,149)
Accounts payable and accrued liabilities	142,605	(105,844)
Net cash used in operating activities	(3,263,136)	(1,386,914)
Cash flows from (used in) investing activities		
Prepayment on investment	(391,989)	—
Development costs for the period	(76,109)	—
Contributions to equity investments	—	(690,387)
Proceeds from sale of petroleum properties	54,302	1,166
Investment in intangible assets	(771,859)	—
Investment in equity securities	(1,902,450)	—
Purchase of vehicles and equipment	(44,234)	—
Net cash used in investing activities	(3,132,339)	(689,221)
Cash flows from (used in) financing activities		
Proceeds from issuance of common shares	5,082,369	4,828,900
Share issuance costs	(5,838)	(60,300)
Proceeds from government loans	—	65,395
Payments on lease obligations	—	(9,903)
Net cash from financing activities	5,076,531	4,824,092
Change in cash	(1,318,944)	2,747,957
Effect of exchange rate changes on cash	(13,504)	44,562
Cash at beginning of period	3,543,176	1,579,451
Cash at end of period	\$ 2,210,728	\$ 4,371,970

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

JERICO ENERGY VENTURES INC.

Notes to the Condensed Consolidated Interim Financial Statements

(Expressed in Canadian dollars)

Nine months ended September 30, 2021 and 2020

1. NATURE OF OPERATIONS

Jericho Energy Ventures Inc., formerly 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 “JEV”, 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, 2021, 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.

In first quarter 2021, the Company acquired the assets of California-based Hydrogen Technologies Inc. (“HTI”). In third quarter 2021, the Company participated in a Series-A financing for H2U Technologies, Inc. (“H2U”). See Note 6 for a discussion of the Company’s acquisition of HTI’s assets and investment in H2U.

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 consolidated interim 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 29, 2021.

(b) Basis of presentation

These condensed consolidated interim 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, 2021 was \$US 1.00 equal to \$CAD 1.27 (December 31, 2020 - \$US 1.00 equal to \$CAD 1.27), and the average foreign exchange rate for the nine months ended September 30, 2021 was \$US 1.00 equal to \$CAD 1.25 (for the nine months ended September 30, 2020 - \$US 1.00 equal to \$CAD 1.35).

In addition, these condensed consolidated interim 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 ENERGY VENTURES INC.

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(Expressed in Canadian dollars)

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(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 estimates and judgments

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 4 - CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS.

(e) Basis of consolidation

The consolidated financial statements include the accounts of Jericho Energy Ventures Inc. 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.

JERICO ENERGY VENTURES INC.

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Nine months ended September 30, 2021 and 2020

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company followed the same accounting policies in these interim consolidated 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, 2020.

4. PETROLEUM PROPERTIES

At September 30, 2021, the Company's joint operations recorded as petroleum properties include one well in Oklahoma. During second quarter 2021, the Company sold the remaining leases in Kansas. During 2020, the Company recorded an impairment for its properties in Kansas 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 year-end reserves report and a discount rate of 10%.

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

	September 30, 2021	December 31, 2020
Cost:		
Balance, beginning of period	\$ 1,220,744	\$ 1,563,346
Development cost additions	76,109	178,604
Sale of interest in petroleum properties	(1,003,461)	(111,657)
Change in estimate of decommissioning liability	—	2,681
Impairment write-down	—	(402,506)
Movement in foreign exchange rates	(56,209)	(9,724)
Balance, end of period	237,183	1,220,744
Accumulated depletion:		
Balance, beginning of period	1,028,292	1,035,243
Depletion	1,376	14,161
Sale of interest in petroleum properties	(974,355)	—
Movement in foreign exchange rates	(53,918)	(21,112)
Balance, end of period	1,395	1,028,292
Carrying value	\$ 235,788	\$ 192,452

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Notes to the Condensed Consolidated Interim Financial Statements

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5. EQUITY INVESTMENTS

As of September 30, 2021, 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, 2021 and December 31, 2020, the Company held the following joint ventures and associates:

	September 30, 2021	December 31, 2020
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, 2021 and December 31, 2020, are as follows:

	Eagle Road	Lurgan	Buckmanville	Walnut	Cherry Rancher	Total
Balance, December 31, 2020	\$ 4,154,786	\$ 191,073	\$ 6,932,578	\$ 4,471,381	\$ 148,795	\$ 15,898,613
Share of income/(loss)	11,458	17,548	200,043	(50,640)	28,157	206,566
Distribution received	—	—	—	—	(150,152)	(150,152)
Movement in foreign exchange	(16,812)	(544)	(25,605)	(18,941)	(2,255)	(64,157)
Balance, September 30, 2021	\$ 4,149,432	\$ 208,077	\$ 7,107,016	\$ 4,401,800	\$ 24,545	\$ 15,890,870

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 (loss) are shown below along with the Company's share of the investment and income/loss.

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Results of operations of the equity investments for the nine months ended September 30, 2021 are as follows:

100%**Nine Months Ended**

September 30, 2021	Eagle Road	Lurgan	Buckmanville	Walnut	Cherry Rancher	Total
Revenue	\$ 1,736,470	\$ 413,595	\$ 4,010,311	\$ 1,087,790	\$ 110,147	\$ 7,358,313
Production cost	(413,397)	(268,354)	(2,550,708)	(459,262)	(19,318)	(3,711,039)
Depletion and depreciation	(677,669)	(89,725)	(859,962)	(278,114)	—	(1,905,470)
Accretion of decommissioning provision	(21,151)	(5,147)	(32,687)	(12,483)	—	(71,468)
G&A and other operating	(924,663)	(4,045)	(32,870)	(529,026)	—	(1,490,604)
Interest expense	(89,710)	(11,229)	(133,998)	—	—	(234,937)
Loan forgiveness	413,037	—	—	—	—	413,037
100% Net income (loss)	\$ 22,917	\$ 35,095	\$ 400,086	\$ (191,095)	\$ 90,829	\$ 357,832
100% Net income (loss) in USD\$	\$ 18,313	\$ 28,044	\$ 319,711	\$ (152,705)	\$ 72,582	\$ 285,945
Jericho's ownership	50 %	50 %	50 %	26.5 %	31 %	
Jericho's share of net income (loss)	\$ 11,458	\$ 17,548	\$ 200,043	\$ (50,640)	\$ 28,157	\$ 206,566
Jericho's share of net income (loss) in USD\$	\$ 9,158	\$ 14,022	\$ 159,856	\$ (40,467)	\$ 22,500	\$ 165,069

Results of operations of the equity investment 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 gain on derivatives	15,283	5,094	30,565	—	—	50,942
Unrealized loss on derivatives	(2,916)	—	—	—	—	(2,916)
G&A and other operating	(753,212)	(18,369)	(71,670)	(963,031)	(677)	(1,806,959)
Interest and loan costs	(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	\$ (7,256,691)

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 three months of 2020 and is reflected in the results of operations of the Company's joint ventures and associates.

JERICO ENERGY VENTURES INC.

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(Expressed in Canadian dollars)

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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.

Summary financial position information of the joint ventures as of September 30, 2021, is presented in the table below.

100%

As at September 30, 2021	Eagle Road	Lurgan	Buckmanville	Walnut	Cherry Rancher	Total
Assets						
Cash and cash equivalents	\$ 1,013,132	\$ 980	\$ 46,913	\$ 600,333	\$ —	\$ 1,661,358
Current assets (excluding cash)	2,160,900	31,922	164,767	267,970	8,235	2,633,794
Non-current assets	17,545,882	1,830,049	26,159,615	16,897,138	—	62,432,684
Total assets	20,719,914	1,862,951	26,371,295	17,765,441	8,235	66,727,836
Liabilities						
Current liabilities	2,664,162	130,068	42,784	208,811	196	3,046,021
Intercompany	1,204,133	213,998	(1,407,483)	58,047	(68,695)	—
Non-current liabilities	8,552,805	1,102,732	8,717,488	1,321,297	—	19,694,322
Total liabilities	12,421,100	1,446,798	7,352,789	1,588,155	(68,499)	22,740,343
Equity	8,298,814	416,153	19,018,506	16,177,286	76,734	43,987,493
Total liabilities and equity	\$ 20,719,914	\$ 1,862,951	\$ 26,371,295	\$ 17,765,441	\$ 8,235	\$ 66,727,836

At September 30, 2021, non-current liabilities include \$10.9 million (USD \$8.6 million) for asset retirement obligations, \$7.1 million (USD \$5.6 million, net of issuance costs) related to the loan discussed below and \$1.0 million (USD \$0.8 million) for deferred tax liability.

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(Expressed in Canadian dollars)

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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.

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. 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.

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. As of September 30, 2021 the carrying value of the loan, net of issuance costs, was \$6.9 million (USD \$5.4 million). 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 on the third and fourth-year anniversaries of the loan, and the remaining amount is due at the end of the fifth year.

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Notes to the Condensed Consolidated Interim Financial Statements

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In April of 2020, Eagle Road, the operator of the Company's joint ventures, obtained a loan under the Paycheck Protection Program ("PPP") administered by the Small Business Administration ("SBA") of the US government. The loan amount is approximately USD \$330,000, with a two-year term and an interest rate of one percent. The loan was forgiven in the third quarter of 2021.

In February 2021, Eagle Road obtained an additional loan under the PPP administered by the SBA of the US government. The additional loan amount is approximately USD \$310,000, with a five-year term and an interest rate of one percent. All or a portion of the loan may be forgiven if the proceeds for eligible are used for eligible expenditures.

6. ACQUISITIONS

On January 22, 2021, the Company acquired the assets of California-based Hydrogen Technologies Inc. ("HTI") for aggregate consideration of \$3,110,000 consisting of 6,700,000 shares issued at a fair value of \$0.45 per share, the closing price of the Company's shares on January 22, 2021, and the assumption of liabilities of approximately \$95,000. Per the terms of the asset purchase agreement, the consideration shares are restricted based on the earlier of certain commercial milestones or 12 months from the closing date. The consideration shares were issued with these restrictions on April 7, 2021. The Company also hired the former management team of HTI.

The Company considered the acquisition of HTI to be an asset acquisition because all of the fair value of the gross assets acquired are concentrated in a group of similar identifiable assets. HTI held intellectual property primarily through two patents for an industrial and commercial steam generation technology that enables zero-emissions hydrogen to generate heat, hot-water, and high-temperature steam. Those patents were assigned to the Company on January 22, 2021. Accordingly, the Company recorded the acquisition as Intangible assets – Patents. Additional acquisition transaction costs of approximately \$211,000 were capitalized as part of the Intangible asset cost. Since acquiring the assets of HTI, the Company has incurred approximately \$538,000 in development expenditures for professional engineering services necessary for completing manufacturing designs in preparation of commercial development.

In the third quarter of 2021, the Company participated in a Series-A financing for H2U Technologies, Inc. ("H2U"), and invested \$1.9 million (USD \$1.5 million) in preferred shares of H2U. The preferred shares are convertible into common shares at the election of the investor. H2U is a company focused on developing electrolyser technology and catalyst that serve the growing hydrogen market. H2U will use the proceeds of its funding to develop its proprietary technology. The Company accounts for its investment in H2U at fair value, and is included in Investments and other non-current assets on the Consolidated Statement of Financial Position.

In the third quarter of 2021, the Company expensed approximately \$392,000 of acquisition related costs incurred for a potential acquisition that the Company determined was not likely to consummate.

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7. 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, 2021	December 31, 2020
Balance, beginning of period	\$ 76,538	\$ 150,578
Accretion expense	207	4,397
Additions	—	9,679
Change in estimation	—	2,681
Sale of properties	(63,417)	(87,619)
Movement in foreign exchange rates	(3,548)	(3,178)
Balance, end of period	\$ 9,780	\$ 76,538

The present value of the obligation relating to petroleum properties (Note 4) of \$9,780 (2020 - \$76,538) was calculated using an average risk-free interest rate of 0.37% and an inflation rate of 1.81%. The weighted-average life of the wells has been estimated at 5.5 years.

8. GENERAL AND ADMINISTRATIVE EXPENSES

The following table presents the general and administrative expenses incurred during the three and nine months ended September 30, 2021 and 2020. Management fees in 2021 include costs incurred since January 2021 for the management team of HTI as discussed in Note 6.

	Three Months Ended		Nine Months Ended	
	2021	2020	2021	2020
General and administrative expense				
Management fees	\$ 207,996	\$ 81,547	\$ 585,967	\$ 293,384
Business development costs	179,430	—	435,434	—
Share-based payments	135,742	733,293	1,119,507	763,525
Consulting fees	134,239	145,264	445,828	362,186
Accounting and auditing fees	67,921	58,042	231,654	178,881
Investor relations	262,236	37,144	1,196,358	168,805
Transfer agency and filing fees	2,374	4,685	29,823	23,591
Legal fees	94,731	19,249	261,855	29,162
Travel	29,562	1,344	53,483	24,527
Short-term lease obligation	6,357	9,000	36,250	22,952
Insurance	7,317	5,064	19,321	15,474
Office, computer and miscellaneous	56,730	31,643	222,939	99,962
General and administrative expense	\$ 1,184,635	\$ 1,126,275	\$ 4,638,419	\$ 1,982,449

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9. 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, 2021

On January 22, 2021, the Company acquired the assets of California-based Hydrogen Technologies Inc. Consideration included the Company's obligation to issue 6,700,000 shares at a fair value of \$0.45 per share, the closing price of the Company's shares on January 22, 2021. The consideration shares were issued on April 7, 2021.

During the nine months ended September 30, 2021, 1,875,000 stock options were exercised at a weighted average price of \$0.34 per share for gross proceeds of \$638,750. In addition, 34,498,727 warrants were exercised at \$0.13 per share for gross proceeds of \$4,484,834. Proceeds received totaled approximately \$4,443,619 due to foreign exchange rate changes on funds received.

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. Proceeds received totaled approximately \$4,829,900 due to foreign exchange rate changes on funds received. 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.

(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, 2021, 5,968,187 options are available for issuance under the plan. The following is a continuity table of stock options outstanding as at September 30, 2021:

	Number of Options	Weighted Average Exercise Price
Outstanding, December 31, 2019	5,119,000	\$ 0.52
Granted	8,691,000	0.17
Expired	(100,000)	0.40
Forfeited	(100,000)	0.45
Outstanding, December 31, 2020	13,610,000	\$ 0.24
Granted	4,465,000	0.49
Exercised	(1,875,000)	0.34
Outstanding, September 30, 2021	16,200,000	\$ 0.30

As at September 30, 2021, the following incentive stock options were outstanding:

Expiration date	Options outstanding and exercisable	Unvested options	Exercise price
January 5, 2022	300,000	—	\$ 0.25
January 16, 2022	250,000	—	0.45
January 16, 2022	125,000	—	0.25
July 4, 2022	950,000	—	0.50
July 4, 2022	450,000	—	0.25
September 1, 2022	434,000	—	0.25
October 5, 2022	100,000	—	0.75
April 4, 2023	200,000	—	0.25
April 4, 2023	175,000	—	0.80
August 10, 2023	160,000	—	0.25
August 1, 2024	100,000	—	0.30
February 1, 2025	1,375,000	—	0.25
June 15, 2023	2,391,000	—	0.15
June 15, 2025	4,725,000	—	0.15
January 21, 2024	1,125,000	1,725,000	0.45
January 21, 2026	700,000	—	0.45
February 3, 2024	500,000	—	0.60
February 7, 2024	215,000	—	0.65
April 14, 2024	50,000	—	0.90
May 19, 2024	100,000	—	0.75
January 23, 2023	50,000	—	0.90
	14,475,000	1,725,000	\$ 0.30

As of September 30, 2021, the weighted-average remaining contractual life of stock options outstanding was 2.51 years (2020 - 2.85 years).

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(d) Share purchase warrants

The number and weighted average exercise prices of warrants outstanding as at September 30, 2021 were as follows:

	Number of Warrants	Weighted-Average Exercise Price
Outstanding, December 31, 2020	50,000,000	\$ 0.13
Exercised	(34,498,727)	0.13
Outstanding, September 30, 2021	15,501,273	\$ 0.13

The following table summarizes the warrants outstanding and exercisable at September 30, 2021:

Expiration Date	Warrants	
	Outstanding and Exercisable	Weighted-Average Exercise Price
June 10, 2023	15,501,273	\$ 0.13
Outstanding, September 30, 2021	15,501,273	\$ 0.13

As of September 30, 2021, the weighted-average remaining contractual life of warrants outstanding was 1.69 years (2020 – 2.44 years).

10. RELATED PARTY TRANSACTIONS AND BALANCES

Key management are the officers and directors of the Company. Management fees in 2021 include costs incurred since January 2021 for the management team of HTI as discussed in Note 6.

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, 2021	September 30, 2020
Management fees	\$ 585,967	\$ 293,384
Share-based payments	260,095	497,206
	\$ 846,062	\$ 790,590

At September 30, 2021, included in accounts payable and accrued liabilities is \$13,827 payable to a company controlled by the Chief Executive Officer (“CEO”) of the Company (\$3,452 at December 31, 2020).

At September 30, 2021, the Company had \$Nil in advances and \$200,876 in accounts payable to equity investments as described in Note 5 (\$Nil and \$70,939 at December 31, 2020).

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

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11. FINANCIAL INSTRUMENTS AND RISK

As of September 30, 2021, and December 31, 2020, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, investments in equity securities, and accounts payable.

	September 30, 2021	December 31, 2020
Financial Assets:		
Fair value through profit or loss	\$ 4,113,178	\$ 3,543,176
Amortized cost	—	117
Financial Liabilities:		
Amortized cost	\$ 524,547	\$ 311,364

See Note 3(m) of the Company's 2020 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, 2021 and December 31, 2020 as follows:

	Balance as at September 30, 2021	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	\$ 2,210,728	\$ 2,210,728	\$ —	\$ —
Investment in equity securities	1,902,450	—	—	1,902,450
	\$ 4,113,178	\$ 2,210,728	\$ —	\$ 1,902,450

	Balance as at December 31, 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	\$ 3,543,176	\$ 3,543,176	\$ —	\$ —

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 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).

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(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 12. The Company held cash at September 30, 2021 in the amount of \$2,210,728 (2020 - \$3,543,176) in order to meet short-term business requirements and strategic investments.

At September 30, 2021, the Company had current liabilities (due within the 12 months) of \$611,885 (December 31, 2020 - \$403,568). Contractual undiscounted cash flow requirements for financial liabilities as of September 30, 2021 are as follows:

	<1 year	2-3 Years	4-5 Years	Thereafter	Total
Accounts payable and accrued liabilities	\$ 611,885	\$ —	\$ —	—	\$ 611,885
Decommissioning liabilities	—	—	—	7,377	7,377
	\$ 611,885	\$ —	\$ —	7,377	\$ 619,262

(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, 2021. 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, 2021:

Cash	USD\$	1,346,169
Receivables		6,600
Accounts payable and accrued liabilities		(429,149)
Net exposure	USD\$	923,620
Canadian dollar equivalents	CDN\$	1,171,427

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\$117,143.

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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.

12. 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, 2021, 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. See Note 9 for discussion of a capital raise completed in second quarter 2020 for gross proceeds of \$5,000,000, and for detail about the related warrants exercised in 2021.

13. SEGMENTED INFORMATION, MAJOR CUSTOMERS AND ECONOMIC DEPENDENCE

At September 30, 2021, all of the Company's non-current assets (other than financial instruments) are located in 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 \$49,551 (2020 - \$52,423) are primarily attributable to the Company's property in Oklahoma and the Kansas properties in 2020 where sales are recorded from shipments of crude oil and gas. In May 2021, the Company sold the remaining leases in Kansas. For the nine months ended September 30, 2021 and 2020, the Company's revenues are derived from three major customers in Oklahoma and Kansas. As of September 30, 2021, 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 income from equity investments of \$206,566 (2020 – loss from equity investments of \$9,764,792) is attributable to the Company's share of income from its equity investments in Oklahoma (Note 5).