JERICHO OIL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

December 31, 2017 and 2016

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Jericho Oil Corporation

We have audited the accompanying consolidated financial statements of Jericho Oil Corporation which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2017 and 2016, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Jericho Oil Corporation as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years ended December 31, 2017 and 2016 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS
Vancouver, British Columbia
March 30, 2018

Jericho Oil Corporation
Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	Note	December 31, 2017	December 31, 2016
Assets			
Current assets			
Cash		$ 5,292,783	$ 5,045,170
Accounts receivable		53,703	60,890
Prepaid expenses and deposits		154,003	265,410
		5,500,489	5,371,470
Non-current assets			
Petroleum properties	6	666,852	816,101
Equity investments	7	36,749,497	21,335,449
		37,416,349	22,151,550
Total assets		$ 42,916,838	$ 27,523,020
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	9	$ 244,493	$ 362,850
Non-current liabilities			
Decommissioning liabilities	10	137,346	142,845
Deferred income tax liability	19	-	718,000
Total liabilities		381,839	1,223,695
Shareholder's Equity			
Share capital	12	41,535,190	25,056,898
Subscriptions received	12	6,606,464	-
Contributed surplus	12	2,920,352	2,108,535
Accumulated other comprehensive loss		(230,276)	1,415,847
Deficit		(8,296,731)	(2,281,955)
		42,534,999	26,299,325
Total liabilities and shareholders' equity		$ 42,916,838	$ 27,523,020

Subsequent events (Note 20)

Approved on behalf of the Board on March 30, 2018

"Brian Williamson" *"Allen Wilson"*

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

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

	Note	Year Ended December 31, 2017	December 31, 2016
Net crude oil revenue		$ 391,431	$ 410,235
Operating expenses			
Production costs		312,184	418,056
Depletion		99,003	273,462
Accretion of decommissioning liabilities	10	4,020	30,476
General and administrative expenses	11	3,469,213	2,744,048
Foreign exchange (gain) loss		93,931	475,380
Total operating expense		3,978,351	3,941,422
Share of income (loss) from equity investments	7	(3,233,315)	5,662,629
Operating Income (loss)		(6,820,235)	2,131,442
Other income			
Other income		87,459	8,321
Impairment of petroleum properties	6	-	(1,125,386)
Gain on disposal ofpetroleum properties		-	53,494
Loss on disposal of exploration and evaluation assets		-	(277,839)
		87,459	(1,341,410)
Net income (loss) before income tax		(6,732,776)	790,032
Income tax			
Deferred income tax recovery	19	718,000	752,000
Net Income (loss) for the year		(6,014,776)	1,542,032
Other comprehensive income (loss)			
Items may be reclassified subsequently to income/loss			
Foreign currency exchange gain (loss) on translation of foreign subsidiary		(1,646,123)	(49,894)
Comprehensive income (loss) for the year		$ (7,660,899)	$ 1,492,138
Income (loss) per common share			
Basic		$ (0.07)	$ 0.02
Diluted		(0.07)	0.02
Weighted average number of common shares			
Basic		90,110,700	64,676,666
Diluted		90,110,700	65,995,438

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

Jericho Oil Corporation

Consolidated Statements of Changes in Equity

(Expressed in Canadian dollars)

	Number of shares (Note 12)	Share Capital (Note 12)	Subscriptions Received (Note 12)	Contributed Surplus	Accumulated Other Comprehensive Income(Loss)	Deficit	Total Equity
December 31, 2015	45,752,402	$ 11,818,060	$ 6,929,019	$ 1,444,455	$ 1,465,741	$ (3,823,987)	$ 17,833,288
Subscriptions received	-	-	(6,929,019)	-	-	-	(6,929,019)
Issue of common shares for cash	32,413,002	12,964,774	-	-	-	-	12,964,774
Issue of common shares under options exercise	75,000	48,530	-	(26,030)	-	-	22,500
Issue of common shares for services	600,000	276,000	-	-	-	-	276,000
Share issuance cost	-	(50,466)	-	7,000	-	-	(43,466)
Share-based payments	-	-	-	683,110	-	-	683,110
Other comprehensive loss	-	-	-	-	(49,894)	-	(49,894)
Net income for the year	-	-	-	-	-	1,542,032	1,542,032
December 31, 2016	78,840,404	$ 25,056,898	$ -	$ 2,108,535	$ 1,415,847	$ (2,281,955)	$ 26,299,325
Subscriptions received	-	-	6,606,464	-	-	-	6,606,464
Issue of common shares for cash	34,629,977	16,244,676	-	-	-	-	16,244,676
Issue of common shares under options exercise	400,000	211,182	-	(106,182)	-	-	105,000
Issue of common shares under warrants exercise	75,000	45,000	-	-	-	-	45,000
Share issuance cost	-	(22,566)	-	-	-	-	(22,566)
Share-based payments	-	-	-	917,999	-	-	917,999
Other comprehensive loss	-	-	-	-	(1,646,123)	-	(1,646,123)
Net loss for the year	-	-	-	-	-	(6,014,776)	(6,014,776)
December 31, 2017	113,945,381	$ 41,535,190	$ 6,606,464	$ 2,920,352	$ (230,276)	$ (8,296,731)	$ 42,534,999

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

Jericho Oil Corporation
Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year Ended	
	December 31, 2017	**December 31, 2016**
Cash flows from (used in) operating activities		
Income (loss) for the year	$ (6,014,776)	$ 1,542,032
Item not affecting cash		
Deferred income tax	(718,000)	(752,000)
Accretion of decommissioning liabilities	4,020	30,476
Depletion	99,003	273,462
Share-based payments	1,057,567	819,542
Impairment of petroleum properties	-	1,125,386
Loss on disposal of exploration and evaluation assets	-	277,839
Share of income (loss) from equity investments	3,233,315	(5,662,629)
Gain on disposal of petroleum properties	-	(53,494)
Changes in non-cash working capital items		
Increase in accounts receivables	7,187	343,907
Decrease in prepaid expenses and deposits	(28,160)	(339,424)
Increase (decrease) in accounts payable and accrued liabilities	(118,357)	187,575
Net cash used in operating activities	(2,478,201)	(2,207,328)
Cash flows from (used in) investing activities		
Acqusition of petroleum properties	-	(32,625)
Development costs for the year	-	(2,605)
Exploration costs for the year	-	(65,704)
Cost of investments in joint ventures	(20,243,083)	(1,101,110)
Proceeds from sale of exploration and evaluation assets	-	7,500
Proceeds from sale of interest in petroleum properties	-	49,680
Net cash used in investing activities	(20,243,083)	(1,144,864)
Cash flows from (used in) financing activities		
Proceeds from issuance of common shares	16,394,676	6,364,256
Share issuance costs	(22,566)	(43,467)
Subscriptions received	6,606,464	-
Net cash from financing activities	22,978,574	6,320,789
Change in cash	257,290	2,968,597
Effect of exchange rate changes on cash	(9,677)	401,442
Cash at beginning of year	5,045,170	1,675,131
Cash at end of year	$ 5,292,783	$ 5,045,170

Cash flows supplementary information (Note 17)

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

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 December 31, 2017, the Company primarily conducts its operations through its subsidiaries and various joint arrangements in the states of Oklahoma and Kansas. See Notes 6 and 7 for a detailed discussion of the Company's 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 consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements were approved and authorized for issue by the Board of Directors on March 30, 2018.

(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. 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.

(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

2. BASIS OF PRESENTATION (continued)

(c) Foreign currency translation (continued)

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 year. 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 of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

(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. from the date of incorporation on January 27, 2014, and February 18, 2015, respectively.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents. At December 31, 2017, the Company had no cash equivalents.

(b) Exploration and evaluation assets

Pre-license costs are recognized as an expense when incurred. Exploration and evaluation ("E&E") costs, including the costs of acquiring licenses, exploratory drilling and completion costs, and directly

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Exploration and evaluation assets (continued)

attributable general and administrative costs are initially capitalized as either tangible or intangible E&E assets according to the nature of the asset acquired. These costs are accumulated in cost centers by field or exploration area pending determination of technical feasibility and commercial viability. Ongoing carrying costs including the costs of non-producing lease rentals are capitalized to E&E assets. Proceeds received from the sale of E&E assets are recorded as a reduction to the carrying value of the asset. The technical feasibility and commercial viability of extracting a resource is considered to be determinable when proved and probable reserves are determined to exist. A review of each exploration license or area is carried out, at least annually, to ascertain whether proved and probable reserves have been discovered. Upon determination of proved and probable reserves, E&E assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to petroleum properties. E&E assets are regularly reviewed for impairment or whenever events or changes in circumstances indicate that the carrying amount of reserve properties exceeds their recoverable amount. When an impairment review is undertaken, the recoverable amount is assessed by reference to the higher of value in use (being the present value of expected future cash flows of the relevant cash-generating unit) and fair value less costs to sell. If the carrying amount of an asset exceeds the recoverable amount an impairment charge is recognized by the amount by which the carrying amount of the asset exceeds the fair value of the asset.

(c) Petroleum properties

Petroleum properties
Petroleum properties include crude oil development and production assets, including costs incurred in developing oil reserves and maintaining or enhancing production from such reserves and directly attributable general and administrative costs. Properties are measured at cost, less accumulated depletion and depreciation and accumulated impairment losses.

Gains and losses on disposal of petroleum properties, including crude oil interests, are determined by comparing the proceeds from disposal with the net carrying amount of petroleum properties and are recognized within “gain or loss on sale of assets” in the current period on the consolidated statement of loss and comprehensive income (loss).

Subsequent measurement
Costs incurred subsequent to the determination of technical feasibility and commercial viability of petroleum properties are recognized only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are recognized in earnings as incurred. Capitalized petroleum properties generally represent costs incurred in developing proved and/or probable reserves and bringing on or enhancing production from such reserves and are accumulated on a field or geotechnical area basis.

The carrying amount of any replaced or sold component is derecognized at the time of replacement or sale. The costs of the day-to-day servicing of properties are recognized in earnings as incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Petroleum properties *(continued)*

Depletion and depreciation
The net carrying value of development or production assets is depleted on a field by field basis using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves. These estimated reserves are reviewed by independent reserve engineers at least annually. Proved and probable reserves are estimated by independent reserve engineers in accordance with Canadian Securities Regulation National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. Changes in reserve estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior year adjustments and are dealt with on a prospective basis.

Inventory
Inventory consists of crude oil products. The carrying value of inventory includes all direct expenditures required to bring the inventory to its present location and condition. The Company values its inventory using the weighted average cost method and inventory is held at the lower of cost and net realizable value at each reporting period. If the carrying value exceeds the net realizable value, a write-down is recognized. A change in circumstance could result in a reversal of the write-down for inventory that remains on hand in a subsequent period.

Impairment
The carrying amounts of the Company's petroleum properties are reviewed at each reporting date for indicators of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the amount of the impairment, if any. The recoverable amount of an asset is evaluated at the cash-generating unit level ("CGU"), which is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or group of assets. The recoverable amount of a CGU is the greater of its fair value less costs to sell and its value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties, less the costs of disposal. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Petroleum properties (continued)

Impairment (continued)
Impairment losses recognized in prior years are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depletion and depreciation or amortization, if no impairment loss had been recognized.

(d) Revenues

Revenues associated with the production and sale of crude oil and gas are recognized when title to the product passes to the purchaser, the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, the risks and rewards of ownership of the product have been transferred to the purchaser, and the Company no longer retains control over the product sold. Revenue is measured net of discounts, customs duties, royalties, and taxes.

(e) Joint arrangements

As of December 31, 2017, the Company has working interests in joint arrangements to conduct oil and gas development and production activities on petroleum properties in Kansas and Oklahoma (see Note 6).

The Company classifies its interests in joint arrangements as either joint operations (if the company has rights to the assets and obligations for the liabilities, relating to an arrangement) or joint ventures (if the Company has rights only to the net assets of an arrangement). When making this assessment, the Company considers the structure of the arrangement, the legal form of any separate vehicles, the contractual terms of the arrangement and other facts and circumstances.

In the case of a joint operation, the Company includes its share of the assets, liabilities, revenues and expenses of the joint operation. The Company combines its share of such joint operations individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Company's consolidated financial statements. Income taxes are recorded based on the Company's share of the operation's activities.

A joint venture is a type of joint arrangement whereby the parties have joint control of the arrangement and have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Joint arrangements (continued)

The Company's investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture 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. The statement of comprehensive income (loss) reflects the Company's share of the results of operations of the joint venture.

After application of the equity method, the Company determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. At each reporting date, the Company determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss as "share of income (loss) from a joint venture" in the statement of comprehensive income (loss).

Upon loss of joint control over the joint venture, the Company measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in income (loss).

The financial statements of the joint venture are prepared for the same reporting period as the Company. Accounting policies of the joint venture and the Company are consistent.

(f) Provisions

I. Legal matters

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Provisions (continued)

II. Decommissioning provisions

The Company's activities give rise to dismantling, decommissioning and site disturbance remediation activities. Provisions are made for the estimated cost of site restoration and are capitalized in the relevant asset category.

Decommissioning provisions are measured at the present value of management's best estimate of expenditure required to settle the present obligation at the consolidated statement of financial position date. Subsequent to initial measurement, the obligation is adjusted at the end of each period to reflect the passage of time and changes in the estimated future cash flows underlying the obligation. The increase in the provision due to the passage of time is recognized as finance costs whereas increases/decreases due to changes in the estimated future cash flows are recorded against the related asset. Actual costs incurred upon settlement of the decommissioning provisions are charged against the provision to the extent the provision was established.

(g) Share-based payments

The Company grants options to purchase common shares to directors, officers, employees, consultants and certain service providers under its stock option plan. Share-based payments are measured at the fair value of the instruments issued and amortized over the vesting periods. The amount recognized as share-based payment expense during a reporting period is adjusted to reflect the number of awards expected to vest. The offset to the recorded cost is contributed surplus. The fair value of employee stock options is measured using the Black-Scholes Option Pricing Model.

Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on short-term government bonds). A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

Share-based payment arrangements with non-employees in which the Company receives goods or services are measured based on the estimated fair value of the goods or services received, unless the fair value cannot be estimated reliably, in which case the Company will measure their value by reference to the fair value of the equity instruments granted.

When stock options are exercised, the proceeds received, together with any related amount in contributed surplus, are credited to share capital.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Earnings/loss per share

Basic earnings/loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted. This follows the treasury method in which the dilutive effect on loss per share is recognized on the use of proceeds that could be obtained from the exercise of options, warrants, and similar instruments. It assumes the proceeds would be used to purchase common shares at the average market price during the year. Diluted loss per shares excludes all dilutive potential common shares if their effect is anti-dilutive.

(i) Other comprehensive income (Loss)

Comprehensive income (loss) is the change in the Company’s net assets that results from transactions, events and circumstances from sources other than the Company’s shareholders and includes items that are not included in profit or loss.

(j) Income taxes

The Company utilizes the liability method of accounting for income taxes. Under the liability method, deferred income tax assets and liabilities are recognized to reflect the expected deferred tax consequences arising from temporary differences between the carrying value and the tax bases of the assets and liabilities. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. Deferred income tax assets are recognized to the extent that it is probable that future taxable profit will be available against which the assets may be realized. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

(k) Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate resource properties. These equity financing transactions may involve issuance of common shares or units. A unit comprises a certain number of common shares and a certain number of share purchase warrants.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Warrants issued in equity financing transactions (continued)

Depending on the terms and conditions of each financing agreement, the warrants are exercisable into additional common shares prior to expiry at a price stipulated by the agreement. Warrants that are part of units are accounted for using the residual method, following an allocation of the unit price to the fair value of the common shares that were concurrently issued. Warrants that are issued as payment for an agency fee or other transactions costs are accounted for as share-based payments.

(l) Foreign currency translation

Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the consolidated statement of financial position date are retranslated at the period-end date exchange rates. Non-monetary items which are measured using historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Entities that have functional currencies other than the Canadian dollar are translated from their functional currencies into Canadian dollars on consolidation. Items in the consolidated statement of comprehensive income (loss) are translated using the average exchange rates that reasonably approximate the exchange rate on the transaction date. Items in the consolidated statement of financial position are translated at the closing spot exchange rate. Exchange differences on the translation of the net assets of entities with functional currencies other than the Canadian dollar are recognized in a separate component of equity through other comprehensive income.

(m) Leases

Leases in which the Company assumes substantially all risks and rewards of ownership are classified as finance leases. Assets held under finance leases are recognized at the lower of the fair value and present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses. The corresponding liability is recognized as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation to achieve a constant rate of interest on the remaining liability. Finance charges are recorded as a finance expense within profit and loss, unless they are attributable to qualifying assets, in which case they are capitalized.

Operating lease payments are recognized on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed, in which case that systematic basis is used. Operating lease payments are recorded within profit and loss unless they are attributable to qualifying assets, in which case they are capitalized.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments

All financial assets are initially recorded at fair value and classified into one of four categories: held to maturity, available-for-sale, loans and receivables, or at fair value through profit or loss ("FVTPL"). All financial liabilities are initially recorded at fair value and classified as either FVTPL or other financial liabilities. Financial instruments comprise cash and cash equivalents, accounts receivable, and accounts payable.

At initial recognition management has classified financial assets and liabilities as follows:

I. Financial Assets

Held-to-maturity
Held-to-maturity investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as held-to-maturity.

Loans and receivables
Loans and receivables are financial assets with fixed or determinable payments not quoted in an active market and are classified as loans and receivables. Such assets are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. The Company has classified its accounts receivable as loans and receivables.

Available-for-sale investments
Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss. The Company does not have any assets classified as available-for sale.

Financial assets at fair value through profit or loss
Financial assets are classified as FVTPL when the financial asset is held for trading or it is designated as FVTPL. A financial asset is classified as held for trading if: (i) it has been acquired principally for the purpose of selling in the near future; (ii) it is a part of an identified portfolio of financial instruments that the Company manages and has an actual pattern of short-term profit taking; or (iii) it is a derivative that is not designated and effective as a hedging instrument.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial instruments (continued)

I. Financial Assets (continued)

Financial assets classified as FVTPL are stated at fair value with any gain or loss recognized in profit or loss. The net gain or loss recognized incorporates any dividend or interest earned on the financial asset. The Company has classified its cash and cash equivalents at FVTPL.

Impairment of financial assets
At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

II. Financial Liabilities

Financial liabilities at fair value through profit or loss
Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings. The Company does not have any liabilities classified as fair value through profit or loss.

Other financial liabilities
Financial liabilities classified as other financial liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding. The Company has classified its accounts payable as other financial liabilities.

(o) Business Combinations

The Company uses the acquisition method to account for business acquisitions. The acquired identifiable net assets are measured at their fair value at the date of acquisition. Deferred taxes are recognized for any differences between the fair value and the tax basis of net assets acquired. Any excess of the purchase price over the fair value of the net assets acquired is recognized as goodwill. Any deficiency of the purchase price below the fair value of the net assets acquired is recorded as a gain in profit and loss. Associated transaction costs are expensed when incurred.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(p) Borrowing costs

Borrowing costs incurred that are attributable to qualifying assets are capitalized and included in the carrying amounts of qualifying assets until those qualifying assets are ready for their intended use, which would generally occur upon the advancement of the project past the exploration and evaluation and development stages to production at levels intended by management. Borrowing costs are capitalized as incurred while activities and expenditures necessary to prepare the qualifying assets for intended use are in progress. All other borrowing costs are expensed in the period in which they are incurred. In the case of funds borrowed that are directly attributable to qualifying assets, the amount capitalized represents the actual borrowing costs incurred on the specific borrowings.

4. NEW ACCOUNTING STANDARDS

New accounting standards adopted effective January 1, 2017

(a) Annual Improvements 2014-2016 cycle
(b) IAS 7 – Statement of Cash Flows

The amendments did not have an impact on the Company's consolidated financial statements.

Accounting standards and amendments issued but not yet effective

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2017, and have not been applied in preparing these consolidated financial statements.

The following new standards, amendments and interpretations have not been early adopted in these consolidated financial statements and are not expected to have a material effect on the Company's future results and financial position:

The following standards will be adopted by the Company effective January 1, 2018:

IFRS 2 'Share-based payments': In June 2016, the IASB issued the final amendments to IFRS 2 Share-based payments that clarify the classification and measurement of share-based payment transactions. This includes the effect of vesting and non-vesting conditions on the measurement of cash-settled share-based payments, share-based payment transactions with a net settlement feature for withholding tax obligations, and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled. The amendments are to be applied prospectively and are effective for annual periods beginning on or after January 1, 2018, with earlier application permitted. The Company is currently assessing the impact of this standard.

4. NEW ACCOUNTING STANDARDS (continued)

Accounting standards and amendments issued but not yet effective (continued)

IFRS 15 '*Revenue from Contracts with Customers':* In May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers ("IFRS 15") which supersedes IAS 11 – Construction Contracts, IAS 18 – Revenue, IFRIC 13 – Customer Loyalty Programmes, IFRIC 15 – Agreements for the Construction of Real Estate, IFRIC 18 – Transfers of Assets from Customers, and SIC 31 – Revenue – Barter Transactions Involving Advertising Services. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition.

IFRS 9 '*Financial Instruments':* The IASB intends to replace IAS 39 – Financial Instruments: Recognition and Measurement in its entirety with IFRS 9 – Financial Instruments ("IFRS 9") which is intended to reduce the complexity in the classification and measurement of financial instruments.

The following standard will be adopted by the Company effective January 1, 2019:

IFRS 16 'Leases': IFRS 16 will be effective for accounting periods beginning on or after January 1, 2019. Early adoption will be permitted, provided the Company has adopted IFRS 15. This standard sets out a new model for lease accounting.

IAS 28 '*Investments in Associates':* Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

IFRIC 23 Uncertainty over Income Tax Treatments: The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

- Whether tax treatments should be considered collectively
- Assumptions for taxation authorities' examinations
- The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- The effect of changes in facts and circumstances

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts within the consolidated financial statements. Judgments, estimates and underlying assumptions are reviewed on a continuous basis and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

In preparing the consolidated financial statements, management makes judgments regarding the application of IFRS for the Company's accounting policies. Significant judgments relate to the following areas:

Joint arrangements
The Company may be a party to an arrangement in which it does not have control. Judgment is required in determining whether joint control over such arrangements exists and if so, which parties have joint control and whether each arrangement is a joint venture or joint operation.

In assessing whether the Company has joint control, management analyzes the activities of each arrangement and determines which activities most significantly affect the returns of the arrangement. These activities are determined to be the relevant activities of the arrangement. If unanimous consent is required over the decisions about the relevant activities, the parties whose consent is required would have joint control over the arrangement. The judgments around which activities are considered the relevant activities of the arrangement are subject to analysis by each of the parties to the arrangement and may be interpreted differently. When performing this assessment, the Company considers decisions about activities such as managing the asset during its life, acquisition, expansion and dispositions of assets, financing, operating and capital decisions.

Management may also consider activities including the approval of budgets, appointment of key management personnel, representation on the board of directors and other factors. If management concludes that the Company has joint control over the arrangement, an assessment of whether the arrangement is a joint venture or joint operation is required. This assessment is based on whether the Company has rights to the assets and obligations for the liabilities relating to the arrangement, or whether it has rights to the net assets of the arrangement. In making this determination, management reviews the legal form of the arrangement, the terms of the contractual arrangement, and other facts and circumstances. In a situation where the legal form and the terms of the contractual arrangement do not give the Company rights to the assets and obligations for the liabilities, an assessment of other facts and circumstances is required, including whether the activities of the arrangement are primarily designed for the provision of output to the parties and whether the parties are substantially the only source of cash flows contributing to the arrangement. In such circumstances management may consider the application of other facts and circumstances to conclude that a joint arrangement is a joint operation is appropriate. This conclusion requires judgment and is specific to each arrangement.

Management has applied the use of other facts and circumstances to conclude that the extraction of petroleum in Eastern Kansas is a joint operation for the purposes of the consolidated financial statements (see Note 6). The other facts and circumstances considered are the provisions for output to the parties of the joint arrangement. The Company will take its share of the output from the assets directly over the life of the arrangement. Management has concluded that this, combined with other factors, gives the Company direct rights to the assets and obligations for the liabilities of these arrangements, proportionate to the Company's ownership interest.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Business combinations
The measurement of acquired assets and assumed liabilities are based on information available to the Company on the acquisition date. The estimate of fair value of acquired assets and assumed liabilities requires significant judgment which is largely based on projected cash flows, discount rates and other market conditions that are present on the date of acquisition. The acquired assets and assumed liabilities are recognized at fair value on the date the Company obtains control in a business combination.

Cash generating unit (CGU)
The Company's assets are aggregated into cash-generating units ("CGUs"), based on the unit's ability to generate independent cash inflows. The determination of the Company's CGUs is based on management's judgments in regard to shared infrastructure, geographical proximity, resource type and materiality. Based on management's assessment, the Company's properties in Eastern Kansas (Note 6) form one CGU, and the Company's four properties in Oklahoma each form separate CGUs.

Income taxes
Judgments are made by management at the end of the reporting period to determine the likelihood that deferred income tax assets will be realized from future taxable earnings. Assessing the recoverability of deferred income tax assets requires the Company to make judgments related to the expectations of future cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in profit or loss in the period in which the change occurs.

The consolidated financial statement areas that require significant estimates are set out in the following paragraphs:

Oil and gas — reserves
The process of estimating reserves is complex. It requires significant estimates based on available geological, geophysical, engineering and economic data. To estimate the economically recoverable crude oil reserves and related future net cash flows, management incorporates many factors and assumptions including the expected reservoir characteristics, future commodity prices and costs and assumed effects of regulation by governmental agencies. Reserves are used to calculate the depletion of the capitalized petroleum properties and for impairment purposes as described in Note 3(c).

Petroleum properties
The Company evaluates exploration and evaluation assets and petroleum properties for impairment if indicators exist. Cash flow estimates for impairment assessments require assumptions and estimates about the following primary elements—future prices, future operating and development costs, remaining recoverable reserves and discount rates. In assessing the carrying values of unproved properties, management makes assumptions about future plans for those properties, the remaining terms of the leases and any other factors that may be indicators of potential impairment.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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

Decommissioning provisions
In estimating the Company's future asset retirement obligations, the Company makes assumptions about activities that occur many years into the future including the cost and timing of such activities. The ultimate financial impact is not clearly known as asset removal and remediation techniques and costs are constantly changing, as are legal, regulatory, environmental, political, safety and other such considerations. In arriving at amounts recorded, numerous assumptions and estimates are made on ultimate settlement amounts, inflation factors, discount rates, timing and expected changes in legal, regulatory, environmental, political and safety environments.

Share-based payments
Management uses judgment when applying the Black-Scholes Option Pricing Model to determine the fair value of the options granted during the period and forfeiture rates. Volatility is calculated using historical trading data of the Company. The zero-coupon bond yield per the bank of Canada is used as the risk-free rate.

6. PETROLEUM PROPERTIES

The Company's joint operations recorded as petroleum properties discussed in this note are in the state of Kansas. These properties are comprised of three groups of leases. The Company recorded an impairment of petroleum properties located in Kansas in the amount of $1,125,386 to reduce the property costs to the estimated recoverable amount of $816,101 at December 31, 2016. The impairment resulted from a material decline in market prices for crude oil and gas during the year. The recoverable amount of the CGU was determined using a value in use approach based on 2016 year-end reserves report prepared by an independent engineer and a pre-tax discount rate of 10% for proved and probable reserves. The Company used an inflation rate of 2% and estimated life of the project of 10 years in its value in use calculation.

During the year ended December 31, 2016, the Company disposed of several leases for total cash consideration of $49,680 (US$37,500). These leases had no carrying value, and the amount of $49,680 was recognized as a gain on disposal of properties in the consolidated statement of comprehensive income.

6. PETROLEUM PROPERTIES (continued)

The following is the summary of cost and related accumulated depreciation for the Kansas properties for the years presented:

	December 31, 2017	December 31, 2016
Cost:		
Balance, beginning of year	$ 1,634,672	$ 2,955,092
Acquisition costs	-	12,193
Development costs	-	2,605
Change in estimate of decommissioning liability	-	4,185
Disposal of leases	-	(110,370)
Impairment	-	(1,125,386)
Movement in foreign exchange rates	(107,379)	(103,647)
Balance, end of year	1,527,293	1,634,672
Accumulated depletion:		
Balance, beginning of year	818,571	558,003
Depletion	99,003	273,525
Movement in foreign exchange rates	(57,133)	(12,957)
Balance, end of year	860,441	818,571
Carrying value	$ 666,852	$ 816,101

7. EQUITY INVESTMENTS

As of December 31, 2017, the majority of the Company's oil and gas operations were held in Oklahoma, with operations conducted through participation in various joint ventures. As discussed in Note 5, because the Company determined that these joint arrangements are considered joint ventures, its investments in its joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture 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.

The Company began its joint venture operations in 2015 through the acquisition of a 50% interest in a jointly controlled entity, Eagle Road Oil, LLC ("Eagle Road"). The Company paid a total $1,449,740 ($US 1,047,500) for its interest. Eagle Road is the operator of the Company's joint ventures in Oklahoma.

7. EQUITY INVESTMENTS (continued)

The Company acquired two additional joint venture interests at the end of 2015. The Company purchased a 50% interest in a jointly controlled entity, Lurgan Oil LLC ("Lurgan") for $2,030,858 ($US 1,467,383) with operations in Creek County, Oklahoma. Also, in December 2015, the Company purchased a 25% interest in a jointly controlled entity, Jericho Buckmanville Oil LLC ("Buckmanville") for $4,518,000 ($US 3,264,450). Buckmanville's properties are in the Searight and Pottawattomie Counties of Oklahoma. In October 2017, the Company purchased an additional 25% of Buckmanville for $4,573,054 (US$3,521,536) and increased its interest in Buckmanville to 50%.

In June 2016, Eagle Road entered into an agreement with EnerVest Energy Institutional Fund XIII-A, L.P. ("EnerVest") to acquire a 100% working interest in certain petroleum and natural gas leases located in Oklahoma ("Morrison Property"). Total cash consideration for the acquisition was $5,960,250 (US$4,500,000), and it was financed through a loan facility with East West Bancorp, Inc. The Company's main reason for this acquisition is to increase its portfolio of petroleum and natural gas properties in Oklahoma.

The acquisition was accounted for as a business combination, and Eagle Road recognized a gain on bargain purchase in 2016 of $13,534,084 (US$10,218,259). The bargain purchase gain arose due to the difference between purchase price paid for the acquisition and the fair values of the net assets acquired. The fair value of the petroleum property purchased was determined using a reserve report prepared by an independent engineer.

In September 2017, the Company purchased an equity interest in RSTACK Walnut, LLC "Walnut" for $3,744,000 (USD $3,000,000). Walnut holds an interest in 9,400 net surface acres in the oil window of the Anadarko Basin "STACK" play in a highly contiguous block located in Blaine County, Oklahoma. At the time of purchase, the Company acquired an 11% equity interest in Walnut and recorded its investment at cost. The Company exercised an option to increase its interest to 31% at the end of December 2017 for $7,546,500 (US $6,000,000). As a result of the increase to 31%, the Company concluded that it is able to exercise significant influence over Walnut. The investment in Walnut is considered to be an investment in associate and is recorded using the equity method from the date of the exercise of the option.

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

Carrying amounts of the Company's interests in equity investments as of December 31, 2017 and 2016 are as follows:

	Eagle Road	Lurgan	Buckmanville*	Rstack Walnut **	Total
Balance, December 31, 2016	$ 9,369,962	$ 4,558,884	$ 7,406,603	$ -	$ 21,335,449
Share of income/(loss)	(2,330,178)	(1,790,315)	887,178	-	(3,233,315)
Investment in interests	-	-	4,573,054	11,290,500	15,863,554
Advances	2,985,310	60,474	1,333,745	-	4,379,529
Movement in foreign exchange	(637,747)	(240,722)	(717,251)	-	(1,595,720)
Balance, December 31, 2017	$ 9,387,347	$ 2,588,321	$ 13,483,329	$ 11,290,500	$ 36,749,497

7. EQUITY INVESTMENTS (continued)

	Eagle Road	Lurgan	Buckmanville*	Total
Balance, December 31, 2015	$ 2,475,623	$ 4,668,101	$ 7,780,398	$ 14,924,122
Share of income/(loss)	6,211,512	(172,739)	(376,144)	5,662,629
Additional advances	662,250	202,416	236,444	1,101,110
Movement in foreign exchange	20,577	(138,894)	(234,095)	(352,412)
Balance, December 31, 2016	$ 9,369,962	$ 4,558,884	$ 7,406,603	$ 21,335,449

The Company's share of the income or (loss) during 2017 and 2016 is as follows:

Year Ended, 2017	Eagle Road	Lurgan	Buckmanville*	Rstack Walnut **	Total
100% Net income (loss) in US$	(3,588,753)	(2,757,300)	1,165,132	-	(5,180,922)
100% Net income (loss) in CDN$	(4,660,355)	(3,580,630)	1,513,040	-	(6,727,945)

Year Ended, 2017	Eagle Road	Lurgan	Buckmanville	Rstack Walnut **	Total
100% Net income (loss) in US$	(3,588,753)	(2,757,300)	1,165,132	-	(5,180,922)
Jericho's ownership	50%	50%	50% *	11% / 31%	
Jericho's share of net income (loss) in US$	(1,794,377)	(1,378,650)	683,180	-	(2,489,847)
Jericho's share of net income (loss) in CDN$	(2,330,178)	(1,790,315)	887,178	-	(3,233,315)

* The Company's interest in Buckmanville was increased from 25% to 50% on October 1, 2017.
** The Company acquired 11% interest of RSTACK Walnut on September 1, 2017. The Company increased its interest to 31% on December 29, 2017.

Year Ended, 2016	Eagle Road	Lurgan	Buckmanville	Total
100% Net income (loss) in US$	9,252,271	(257,301)	(1,120,560)	7,874,410
100% Net income (loss) in CDN$	12,423,024	(345,480)	(1,504,574)	10,572,970

Year Ended, 2016	Eagle Road	Lurgan	Buckmanville	Total
100% Net income (loss) in US$	9,252,271	(257,301)	(1,120,560)	7,874,410
Jericho's ownership	50%	50%	25%	
Jericho's share of net income (loss) in US$	4,626,136	(128,651)	(280,140)	4,217,345
Jericho's share of net income (loss) in CDN$	6,211,512	(172,739)	(376,144)	5,662,629

7. EQUITY INVESTMENTS (continued)

Summary financial information of the equity investments for the year ended December 31, 2017 and 2016, is as follows:

For the year ended December 31, 2017	Eagle Road	Lurgan	Buckmanville*	Rstack Walnut **	Total
Revenue	$ 5,197,292	$ 711,256	$ 5,604,130	$ -	$ 11,512,678
Production cost	(3,616,927)	(467,703)	(4,388,515)	-	(8,473,145)
Depletion and depreciation	(2,308,542)	(592,720)	(1,984,027)	-	(4,885,289)
Impairment write-down	(7,766,086)	(5,646,053)	-	-	(13,412,139)
Accretion of decommissioning provision	(75,069)	(4,109)	(78,482)	-	(157,660)
G&A and other operating	(1,032,237)	(79,096)	(346,576)	-	(1,457,909)
Interest expense	(109,536)	(46,002)	(240,482)	-	(396,020)
Deferred income tax recovery	5,050,750	2,543,797	2,946,992	-	10,541,539
Net Income (loss)	$(4,660,355)	$(3,580,630)	$ 1,513,040	$ -	$ (6,727,945)

As at December 31, 2017	Eagle Road	Lurgan	Buckmanville*	Rstack Walnut **	Total
Assets					
Cash and cash equivalents	$ 404,474	$ 43,027	$ 147,840	$ 8,195,545	$ 8,790,886
Current assets (excluding cash)	2,973,452	304,904	137,682	1,627,183	5,043,221
Non-current assets	30,195,764	5,629,754	38,865,723	27,177,055	101,868,296
Total assets	33,573,690	5,977,685	39,151,245	36,999,783	115,702,403
Liabilities					
Current liabilities	4,347,934	692,149	4,991,783	184,967	10,216,833
Intercompany	4,339,793	(491,903)	(3,922,130)	74,240	-
Non-current liabilities	6,111,318	600,797	6,362,735	747,481	13,822,331
Total liabilities	14,799,045	801,043	7,432,388	1,006,688	24,039,164
Equity	18,774,645	5,176,642	31,718,857	35,993,095	91,663,239
Total Liabilities and Equity	$ 33,573,690	$ 5,977,685	$ 39,151,245	$ 36,999,783	$ 115,702,403

Year ended December 31, 2016	Eagle Road	Lurgan	Buckmanville	Total
Revenue	$ 3,228,919	1,084,944	5,811,877	$ 10,125,740
Depletion and depreciation	(1,474,007)	(608,318)	(2,279,272)	(4,361,597)
Interest expense	(35,293)	(15,014)	(78,503)	(128,810)
Accretion of decommissioning provision	(51,812)	(14,261)	(261,336)	(327,409)
Gain on bargain purchase	13,534,084	-	-	13,534,084
Deferred income tax recovery	679,817	211,385	920,594	1,811,796
Other income (loss)	(3,458,684)	(1,004,216)	(5,617,934)	(10,080,834)
Income tax expense	-	-	-	-
Income (loss) for the year	$ 12,423,024	(345,480)	(1,504,574)	$ 10,572,970

7. EQUITY INVESTMENTS (continued)

As at December 31, 2016	Eagle Road	Lurgan	Buckmanville	Total
Assets				
Cash and cash equivalents	$ 669,767	180,434	12,625	$ 862,826
Current assets (excluding cash)	2,469,883	499,010	300,520	3,269,413
Non-current assets	37,166,234	12,734,109	44,814,697	94,715,040
Total assets	40,305,884	13,413,553	45,127,842	98,847,279
Liabilities				
Current liabilities	2,216,234	209,370	915,053	3,340,657
Non-current liabilities	19,343,124	4,086,415	14,586,377	38,015,916
Total liabilities	21,559,358	4,295,785	15,501,430	41,356,573
Equity	18,746,526	9,117,768	29,626,412	57,490,706
	$ 40,305,884	13,413,553	45,127,842	$ 98,847,279

During 2017, the Company's Eagle Road and Lurgan joint ventures recorded significant impairment charges on their oil and gas property assets. A combination of decreased forward oil prices and lower proved undeveloped and probable reserves led to the impairment losses in Eagle Road and Lurgan. The recoverable amounts of the CGU were determined using a value in use approach based on 2017 year-end reserves report prepared by an independent engineer and a pre-tax discount rate of 10% for proved and probable reserves. These impairment losses effectively reverse a significant portion of the increased oil and gas property values from bargain purchase gains recorded on business combinations during 2016 and 2015. Impairment losses were partially offset by the deferred tax recovery benefit.

The joint ventures and the associate, that the Company is a member of, have decommissioning liabilities in connection with its oil and gas projects. At December 31, 2017, present value of the obligation was US$4,900,000.

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 lowered to $10 million during 2017 to reduce unnecessary fees associated with unused borrowing commitments.

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 December 31, 2017, of $7,397,343 (US $5,896,646) matures on July 19, 2018. 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.

7. EQUITY INVESTMENTS (continued)

As a part of the security for the Facility, the joint ventures entered into a series of oil price put and swap contracts with Cargill, Incorporated ("Cargill"). Under the put option, the joint ventures secured sales of a portion of their petroleum production at prices between US$43-US$44.25 per barrel to July 2018. Under the swap contract, the joint ventures sold 3,500 barrels per month at a price of US$45 per barrel until December 31, 2017.

The joint ventures also bought two sets of costless collar contracts, one commencing in August 2017 and ending in March 2019 with the Company buying puts at $45 per barrel and selling calls at $53.75-$54.10. The second set starts in August 2018 and ends in September 2019 with the Company buying puts at $43 per barrel and selling calls at $53.18 per barrel. In addition, the Company bought calls from August 2018 to March 2019 at $60 per barrel. These contracts were not designated as hedges, and derivative accounting was applied.

8. EXPLORATION AND EVALUATION ASSETS

With the sale of the New Western interests in 2016, the company has no exploration and evaluation assets. The following table summarizes property acquisition and exploration costs:

	December 31, 2017	December 31, 2016
Balance	$ -	$ 300,407
Exploration costs	-	80,297
Decommissioning costs	-	(81,306)
Sales of petroleum	-	(14,312)
Movement in foreign exchange rates	-	534
	-	285,620
Sale of exploration and evaluation assets	-	(285,620)
	$ -	$ -

9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table shows accounts payable and accrued liabilities as at December 31, 2017 and December 31, 2016:

	December 31, 2017	December 31, 2016
Trade payables	$ 134,493	$ 248,720
Accrued liabilities	110,000	114,130
	$ 244,493	$ 362,850

10. DECOMMISSIONING LIABILITIES

The following table presents the reconciliation of the opening and closing aggregate carrying amount of the decommissioning provisions associated with the exploration and evaluation assets (Note 8) and petroleum properties (Note 6):

	December 31, 2017	December 31, 2016
Balance, beginning of year	$ 142,845	$ 315,400
Accretion expense	4,020	30,476
Change in estimation	-	(16,247)
Disposal of properties	-	(194,030)
Movement in foreign exchange rates	(9,519)	7,247
Balance, end of year	$ 137,346	$ 142,846

The present value of the obligation relating to the properties in Kansas (Note 6) of $137,346 (2016 - $142,846) was calculated using an average risk-free interest rate of 2.29% (2016 – 2.91%) and an inflation rate of 2% (2016 – 1.76%). The weighted-average life of the wells has been estimated at 10 years (2016 - 10 years). The undiscounted value of the obligation is $149,336 (2016 - $159,169).

11. GENERAL AND ADMINISTRATIVE EXPENSES

The following table presents the general and administrative expenses incurred during the years ended December 31, 2017 and 2016. The Company incurred salaries and wages to non-management employees in the amount of $204,873 (2016 - $160,830). These are classified within accounting and auditing fees, investor relations, and office and miscellaneous.

	Year Ended	
	December 31, 2017	**December 31, 2016**
General and administrative expenses		
Management fees	$ 495,725	$ 256,000
Share-based payments	1,057,567	819,542
Consulting fees	715,712	550,987
Accounting and auditing fees	283,598	269,752
Investor relations	324,400	266,395
Transfer agency and filing fees	104,385	52,721
Legal fees	230,354	298,357
Travel	96,384	79,826
Rent	43,036	38,863
Insurance	19,502	11,713
Office and miscellaneous	98,550	99,892
General and administrative expenses	**$ 3,469,213**	**$ 2,744,048**

12. SHARE CAPITAL AND EQUITY RESERVES

(a) Authorized share capital

Unlimited common shares without par value.

(b) Issued share capital

For the year ended December 31, 2017

In August, 2017 the Company closed a non-brokered private placement of 12,596,420 units at a price of $0.45 per unit for gross proceeds of $5,668,389. 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 $0.60 per share for a period of 36 months from closing.

On September 6, 2017 the Company closed a non-brokered private placement of 22,033,557 units at a price of $0.48 per unit for gross proceeds of $10,576,287. 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 $0.60 per share for a period of 36 months from closing.

During the year ended December 31, 2017, 400,000 stock options were exercised at an average price of $0.26 for gross proceeds of $105,000.

On September 30, 2017, 75,000 warrants were exercised at $0.60 per share for proceeds of $45,000.

During the year ended December 31, 2017, a total of 300,000 bonus shares vested, and the Company recorded a share-based payment expense in the amount of $139,568.

For the year ended December 31, 2016

On January 12, 2016, the Company closed a non-brokered private placement of 17,323,610 units at a price of $0.40 per unit for gross proceeds of $6,929,019. 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 $0.60 until January 12, 2018.

On April 13, 2016, the Company closed a non-brokered private placement of 1,625,000 units at $0.40 per unit for gross proceeds of $650,000. Each unit is comprised of one common share and one-half of warrant with each full warrant entitling the holder to purchase one common share of the Company at $0.60 until April 13, 2018.

On October 5, 2016, the Company approved the issuance of 600,000 common shares to employees and consultants of the Company. The fair value of the common shares was estimated at $276,000 based on the closing price on the grant date. A total of 300,000 shares vested on January 1, 2017 with the remaining shares vesting in equal installments of 75,000 shares on April 1, 2017, July 1, 2017, October 1, 2017 and January 1, 2018.

12. SHARE CAPITAL AND EQUITY RESERVES (continued)

(b) Issued share capital (continued)

On November 28, 2016, the Company closed a non-brokered private placement of 9,811,014 units at $0.40 per unit for gross proceeds of $3,924,404. 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 $0.60 until November 28, 2019.

On December 16, 2016, the Company issued 75,000 common shares for options exercised for cash proceeds of $22,500.

On December 28, 2016, the Company closed a non-brokered private placement of 3,653,378 units at $0.40 per unit for gross proceeds of $1,461,351. Each unit consisted of one common share and one-half warrant with each whole warrant entitling the holder to purchase one common share of the Company at $0.60 until December 28, 2019.

(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 December 31, 2017, 2,902,540 options are available for issuance under the plan.

The following is a continuity table of stock options outstanding as at December 31, 2017 and 2016:

	Number of options	Weighted average exercise price	
Outstanding, December 31, 2015	3,675,000	$	0.30
Exercised	(75,000)		0.30
Granted	1,725,000		0.45
Outstanding, December 31, 2016	5,325,000	$	0.35
Granted	2,783,000		0.52
Exercised	(400,000)		0.26
Outstanding December 31, 2017	7,708,000	$	0.42

12. SHARE CAPITAL AND EQUITY RESERVES (continued)

(c) Stock options (continued)

As at December 31, 2017, the following incentive stock options were outstanding:

Expiration date	Options outstanding and exercisable	Unvested options	Exercise price
01-Apr-19	3,100,000	-	$ 0.30
21-Oct-20	100,000	-	0.40
25-Aug-21	1,725,000	-	0.45
16-Jan-22	725,000	-	0.44
04-Jul-22	1,387,500	112,500	0.50
01-Sep-22	229,000	229,000	0.65
04-Oct-22	100,000	-	0.75
	7,366,500	341,500	$ 0.42

As at December 31, 2017, the weighted-average remaining contractual life of stock options outstanding was 2.95 years (2016 - 2.95 years).

During the year ended December 31, 2017, the Company recorded a share-based payment expense in the amount of $919,906 in connection with the options granted during the year (2016 - $683,110).

The fair value of the options granted during the years ended December 31, 2017 and 2016 were calculated using the Black-Scholes model with the following weighted average assumptions:

	2017	2016
Weighted average assumptions:		
Risk-free interest rate	1.41%	0.68%
Expected dividend yield	0%	0%
Expected option life (years)	5.00	5.00
Expected stock price volatility	80%	147%
Weighted average fair value at grant date	$0.27	$0.40

The Company uses expected stock price volatility of its peer group based on the volatility observed in historical periods.

12. SHARE CAPITAL AND EQUITY RESERVES (continued)

(d) Share purchase warrants

The number and weighted average exercise prices of warrants outstanding as at December 31, 2017 and 2016, were as follows:

	Number of warrants	Weighted average exercise price	
Outstanding, December 31, 2015	15,143,716	$	0.57
Granted	16,221,901		0.60
Expired	(10,913,198)		0.50
Outstanding, December 31, 2016	20,452,419	$	0.63
Granted	17,314,989		0.60
Exercised	(75,000)		0.60
Expired	(4,230,518)		0.75
Outstanding, December 31, 2017	33,461,890	$	0.60

The following table summarizes the warrants outstanding and exercisable at December 31, 2017:

Expiration Date	Number of warrants	Weighted average exercise price	
January 12, 2018	8,661,805	$	0.60
April 13, 2018	752,900		0.60
November 28, 2019	4,905,507		0.60
December 18, 2018	1,826,689		0.60
August 14, 2020	5,241,090		0.60
August 21, 2020	1,057,120		0.60
September 6, 2020	11,016,779		0.60
	33,461,890	$	0.60

As at December 31, 2017, the weighted-average remaining contractual life of warrants outstanding was 1.78 years (2016 - 1.62 years).

12. SHARE CAPITAL AND EQUITY RESERVES (continued)

(e) Earnings per share

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

	2017	2016
Net income (loss for the year)	$ 6,014,776	$ 1,542,032
Basic weighted average number of shares outstanding	90,110,700	64,676,666
Effect of dilutive share options and warrants	-	1,318,772
Diluted weighted average number of shares outstanding	90,110,700	65,995,438

13. RELATED PARTY TRANSACTIONS

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:

	Year Ended December 31, 2017	Year Ended December 31, 2016
Management fees	$ 481,725	$ 334,586
Directors' fees	14,000	6,000
Share-based payments	456,434	231,192
Legal fees paid or accrued to company owned by director	-	13,140
	$ 952,159	$ 584,918

At December 31, 2017, included in accounts payable and accrued liabilities is an amount of $8,370 payable to a director of the Company (2016 - $Nil).

At December 31, 2017, the Company had $Nil in advances and $33,968 in accounts payable to equity investments as described in Note 7 (2016 - $15,525 and $114,130).

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

14. FINANCIAL INSTRUMENTS AND RISK

As of December 31, 2017 and 2016, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, and accounts payable.

14. FINANCIAL INSTRUMENTS AND RISK (continued)

	December 31, 2017 $	December 31, 2016 $
Financial Assets:		
Fair value through profit or loss	5,292,783	5,045,170
Loans and receivables	53,703	60,890
Financial Liabilities:		
Other financial liabilities	134,493	248,720

See Note 3(n) 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.

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 December 31, 2017 as follows:

	Balance as at December 31, 2017 $	Quoted Prices in Active Markets for Identical Assets (Level 1) $	Significant Other Observable Inputs (Level 2) $	Significant Unobservable Inputs (Level 3) $
Financial Assets:				
Cash and cash equivalents	5,292,783	5,292,783	-	-

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.

14. FINANCIAL INSTRUMENTS AND RISK (continued)

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 receivable 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 of 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 15 to the consolidated financial statements. The Company held cash at December 31, 2017 in the amount of \$5,292,783 (2016 - \$5,045,170) in order to meet short-term business requirements.

At December 31, 2017, the Company had current liabilities of \$244,493 (2016 - \$362,850). Accounts payable and accrued liabilities are due within the current operating period. Contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2017 are as follows:

	<1 month	1-3 months	4 month - <1 year	2-4 years	Total
Accounts payable and accrued liabilities	$ 244,493	-	-	-	$ 244,493
	$ 244,493	-	-	-	$ 244,493

14. FINANCIAL INSTRUMENTS AND RISK (continued)

(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 December 31, 2017. 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 December 31, 2017:

Cash and cash equivalents	USD$	1,416,408
Receivables		25,380
Accounts payable and accrued liabilities		(76,970)
Net exposure	USD$	1,364,818
Canadian dollar equivalents	CDN$	1,712,164

The result of sensitivity analysis shows an increase or decrease of 10% in US$ exchange rate, with all other variables held constant, could have increased or decreased the net loss and comprehensive loss by approximately $171,216 (2016 - $307,406).

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.

15. 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 December 31, 2017, 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 its credit facility 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.

16. SEGMENTED INFORMATION, MAJOR CUSTOMERS AND ECONOMIC DEPEDENCE

At December 31, 2017, 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 6, 7, and 8.

The Company's revenues of $391,431 (2016 - $410,235) 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 one customer in Kansas. As of December 31, 2017, 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 investment loss of $3,233,315 (2016 – $5,662,629 investment income) is attributable to the Company's share of loss from its equity investments in Oklahoma (Note 7).

17. CASH FLOWS SUPPLEMENTARY INFORMATION

During 2016, the Company issued 600,000 common shares with an estimated fair value of $276,000. The amount has been excluded from the financing activities in the consolidated statements of cash flows as it is a non-cash financing activity.

18. GUARANTEES

The Company's subsidiary, Jericho Oklahoma, is one of the guarantors on the Facility with East West Bancorp, Inc. disclosed in Note 7.

19. INCOME TAXES

(a) Income tax expense

Income tax expense included in the consolidated statements of operations and comprehensive income is as follows:

		2017		2016
Current income tax expense	$	-	$	-
Deferred income tax recovery		(718,000)		(752,000)
Total income tax recovery	$	(718,000)	$	(752,000)

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

		2017		2016
Net income (loss) before income taxes	$	6,372,776	$	790,034
Canadian statutory income tax rate		26%		26%
Expected income tax recovery at statutory rate		1,750,000		205,000
Tax effect of:				
Permanent differences and other		130,000		(1,208,000)
Tax rate changes		(206,000)		–
Change in unrecognized deferred income tax assets		(956,000)		251,000
Deferred income tax recovery	$	(718,000)	$	(752,000)

(b) Deferred income tax assets and liabilities

The approximate tax effects of each type of temporary difference that gives rise to potential deferred income tax assets and liabilities are as follows:

		2017		2016
Non-capital losses carried forward	$	1,663,000	$	1,385,000
Exploration and evaluation assets		202,000		452,000
Decommissioning provisions		37,000		55,000
Equity investments		(1,396,000)		(2,610,000)
Unrecognized deferred income tax assets		(506,000)		–
Net deferred income tax assets (liabilities)	$	–	$	(718,000)

19. INCOME TAXES (continued)

(b) Deferred income tax assets and liabilities (continued)

The deferred tax liability presented in these consolidated financial statements is due to the difference in the carrying amounts and tax bases of the United States investments in equity investments, petroleum properties, and exploration and evaluation assets. The deferred tax liability is attributable to assets in the tax jurisdiction of Kansas and Oklahoma.

Unrecognized deductible temporary differences:

Temporary differences and tax losses arising in Canada have not been recognized as deferred income tax assets because management has determined it is not probable that sufficient future taxable profits will be earned in Canada to recover such assets. Unrecognized deductible temporary differences are summarized as follows:

		2017		2016
Non-capital losses carried forward	$	1,340,000	$	876,000
Share issuance costs		22,000		39,000
Cumulative eligible capital		34,000		33,000
Exploration and evaluation assets		47,000		45,000
Unrecognized deductible temporary differences	$	1,443,000	$	993,000

The Company has Canadian noncapital losses for income tax purposes of $4,961,000 (2016 - $3,367,000) which may be carried forward and offset against taxable income.

The Canadian non-capital losses expire as follows:

Year		Amount
2032	$	41,000
2033		128,000
2034		291,000
2035		671,000
2036		1,156,000
2037		1,080,000
2038		1,594,000
	$	4,961,000

The Company has United States net operating losses of $6,412,000 (2016 - $3,607,298) which can be applied against future operating income in the United States, which will begin to expire starting 2035.

20. SUBSEQUENT EVENTS

In January 2018, a joint venture that Jericho is a member of ("RSTACK Walnut") entered into an agreement with Staghorn STACK, LLC (Staghorn) to swap a portion of its undeveloped acreage in Blaine and Major County, Oklahoma. As part of the agreement, RSTACK Walnut will own a 46.87% working interest with a 37.5% net revenue interest in the Wardoom well which is being drilled by Staghorn in 2018.

In January 2018, RSTACK Walnut, entered into a farm-in agreement with Armor Energy to participate in the drilling of between two and five horizontal wells in Major County. RSTACK Walnut has the option upon the drilling and completion of two standard-lateral horizontal wells to earn a 50% interest in approximately 6,000 net leasehold acres. As part of this agreement, RSTACK Walnut expects to invest approximately US$2.5 million for the first well which is currently waiting on completion.

In connection with the above transactions and in anticipation of capital needs of RSTACK Walnut's other joint venture member increased its capital commitment in January 2018. Post commitment, Jericho will hold a 26.5% interest in the RSTACK Walnut joint venture.

On January 9, 2018, the Company closed a non-brokered private placement and issued 3,784,946 units at $0.60 per share for gross proceeds of $2,270,968. Each unit comprises one common share and one half of a warrant, exercisable into one common share at $0.90 for the period of 24 months from the date of closing.

During January 2018, a total of 8,625,314 warrants were exercised at a price of $0.60 for total proceeds of $5,175,188. On January 12, 2018, 260,416 warrants exercisable at $0.60 expired unexercised.

On March 20, 2018, a total of 398,166 warrants were exercised at a price of $0.60 for total proceeds of $238,900.