JERICHO OIL CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

March 31, 2018 and 2017

NOTICE TO READER

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

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

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

Vancouver, B.C.

May 29, 2018

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

	Note	March 31, 2018	December 31, 2017
Assets			
Current assets			
Cash		$ 5,531,492	$ 5,292,783
Accounts receivable	6	75,307	53,703
Prepaid expenses and deposits		161,323	154,003
		5,768,122	5,500,489
Non-current assets			
Petroleum properties	4	664,860	666,852
Equity investments	5	37,657,685	36,749,497
		38,322,545	37,416,349
Total assets		$ 44,090,667	$ 42,916,838
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	$ 289,403	$ 244,493
Non-current liabilities			
Decommissioning liabilities	8	142,194	137,346
Deferred income tax liability		-	-
Total liabilities		$ 431,597	$ 381,839
Shareholder's Equity			
Share capital	10	49,220,293	41,535,190
Subscriptions received	10	-	6,606,464
Contributed surplus	10	2,963,810	2,920,352
Accumulated other comprehensive loss		816,912	(230,276)
Deficit		(9,341,945)	(8,296,731)
		43,659,070	42,534,999
Total liabilities and shareholders' equity		$ 44,090,667	$ 42,916,838

Subsequent events (Note 15)

Approved on behalf of the Board on May 29, 2018

"Brian Williamson" *"Ben Holman"*

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

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

	Note	Three Months Ended March 31, 2018	Three Months Ended March 31, 2017
Net crude oil revenue		$ 111,372	$ 105,734
Operating expenses			
Production costs		66,076	79,795
Depletion		20,150	34,761
Accretion of decommissioning liabilities	8	1,007	3,521
General and administrative expenses	9	987,298	791,490
Foreign exchange (gain) loss		(110,876)	173,301
Total operating expenses		963,655	1,082,868
Share of income (loss) from equity investments	5	(192,931)	(170,894)
Operating Income (loss)		(1,045,214)	(1,148,028)
		-	-
Net income (loss) before income tax		(1,045,214)	(1,148,028)
Deferred income tax recovery		-	-
Net Income (loss) for the period		(1,045,214)	(1,148,028)
Other comprehensive income (loss)			
Items may be reclassified subsequently to income/loss			
Foreign currency exchange gain (loss) on translation of foreign subsidiary		1,047,188	(65,987)
Comprehensive income (loss)		$ 1,974	$ (1,214,015)
Income (loss) per common share			
Basic		$ (0.01)	$ (0.01)
Diluted		(0.01)	(0.01)
Weighted average number of common shares			
Basic		125,117,395	78,840,404
Diluted		125,117,395	105,342,823

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

Jericho Oil Corporation

Condensed Consolidated Interim Statement of Changes in Equity

(unaudited)

(Expressed in Canadian dollars)

	Number of shares (Note 10)	Share Capital (Note 10)	Subscriptions Received (Note 10)	Contributed Surplus	Accumulated Other Comprehensive Income(Loss)	Deficit	Total Equity
December 31, 2016	78,840,404	$ 25,056,898	$ -	$ 2,108,535	$ 1,415,847	$ (2,281,955)	$ 26,299,325
Issue of common shares under options exercise	-	-	-	300,932	-	-	300,932
Share-based payments	-	-	-	22,467	-	-	22,467
Other comprehensive loss	-	-	-	-	(65,987)	-	(65,987)
Net income for the period	-	-	-	-	-	(1,148,028)	(1,148,028)
March 31, 2017	78,840,404	$ 25,056,898	$ -	$ 2,431,934	$ 1,349,860	$ (3,429,983)	$ 25,408,709

December 31, 2017	113,945,381	$ 41,535,190	$ 6,606,464	$ 2,920,352	$ (230,276)	$ (8,296,731)	$ 42,534,999
Subscriptions received	-	-	(6,606,464)	-	-	-	(6,606,464)
Issue of common shares for cash	3,784,946	2,270,967	-	-	-	-	2,270,967
Issue of common shares under warrant exercise	9,023,560	5,414,136	-	-	-	-	5,414,136
Share-based payments	-	-	-	43,458	-	-	43,458
Other comprehensive loss	-	-	-	-	1,047,188	-	1,047,188
Net loss for the period	-	-	-	-	-	(1,045,214)	(1,045,214)
March 31, 2018	126,753,887	$ 49,220,293	$ -	$ 2,963,810	$ 816,912	$ (9,341,945)	$ 43,659,070

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

	Three Months Ended	
	March 31, 2018	March 31, 2017
Cash flows from (used in) operating activities		
Income (loss) for the period	$ (1,045,214)	$ (1,148,027)
Item not affecting cash		
Accretion of decommissioning liabilities	1,007	3,521
Depletion	20,150	34,761
Share-based payments	43,458	358,291
Share of income from equity investments	192,931	170,894
Changes in non-cash working capital items		
Increase in accounts receivables	(21,604)	20,394
Decrease in prepaid expenses and deposits	(7,320)	(268,862)
Increase (decrease) in accounts payable and accrued liabilities	44,910	(63,160)
Net cash used in operating activities	(771,682)	(892,188)
Cash flows from (used in) investing activities		
Contributions to equity investments	(80,941)	(529,533)
Net cash used in investing activities	(80,941)	(529,533)
Cash flows from (used in) financing activities		
Proceeds from issuance of common shares	7,685,103	300,932
Subscriptions received	(6,606,464)	-
Net cash from in financing activities	1,078,639	300,932
Change in cash	226,016	(1,120,789)
Effect of exchange rate changes on cash	12,692	142,354
Cash at beginning of period	5,292,783	5,045,170
Cash at end of period	$ 5,531,491	$ 4,066,735

(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 United States OTC Market exchange under the symbol "JROOF". 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.

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 March 31, 2018, the Company primarily conducts its operations through its subsidiaries and various joint arrangements in the states of Oklahoma and Kansas. See Notes 4 and 5 for a detailed discussion of the Company's joint arrangements.

2. BASIS OF PRESENTATION

(a) Statement of Compliance

These condensed interim consolidated financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 Interim Financial Reporting under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"), and follow the same accounting policies and methods of application as the Company's most recent annual financial statements but do not contain all of the information required for full annual financial statements.

Accordingly, these condensed consolidated interim financial statements should be read in conjunction with the Company's most recent annual financial statements, which were also prepared in accordance with IFRS as issued by the IASB.

The financial statements were approved and authorized for issue by the Board of Directors on May 29, 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.

2. BASIS OF PRESENTATION (continued)

(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 is the U.S. dollar which is determined to be the currency of the primary economic environment in which the subsidiaries operate.

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

Foreign operations
Subsidiaries that have functional currencies other than the Canadian dollar translate their statement of operations items to Canadian dollars at the average rate during the 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 judgements 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 the annual financial statements in Note 5 - CRITICAL ACCOUNTING POLICIES AND ESTIMATES.

(e) Basis of consolidation

The consolidated financial statements include the financial statements 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

The Company followed the same accounting policies in these interim financial statements as those disclosed in Note 3 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES for the consolidated financial statements for the previous year ended December 31, 2017, except for the following adoption of new accounting standards effective January 1, 2018.

New accounting standards adopted effective January 1, 2018:

(a) IFRS 2 – Share-based payments
(b) IFRS 15 – Revenues from Contracts with Customers
(c) IFRS 9 – Financial Instruments

(a) IFRS 2, Share-based Payments

The Company adopted IFRS 2 Share-based Payments which clarifies 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.

(b) IFRS 15, Revenue from Contracts with Customers

The Company adopted IFRS 15 'Revenue from Contracts with Customers on January 1, 2018. IFRS 15 establishes a comprehensive five-step framework for the timing and measurement of revenue recognition. The adoption of IFRS 15 was not material to our revenues or operating income (loss) or to our consolidated balance sheet because our performance obligations, which determine when and how revenue is recognized, are not materially changed under the new standard. Revenue associated with our contracts will continue to be recognized as control of product is transferred to the customer.

(c) IFRS 9, Financial Instruments

The Company adopted IFRS 9 "Financial Instruments" on January 1, 2018. IFRS 9 replaces IAS 39 – "Financial Instruments: Recognition and Measurement". IFRS 9 reduces complexity in the classification and measurement of financial instruments. The adoption of IFRS 9 did not impact the Company's consolidated financial statements.

(Expressed in Canadian dollars)

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Accounting standards and amendments issued but not yet adopted

IFRS 16, "Leases" will be effective for accounting periods beginning on or after January 1, 2019. This standard sets out a new model for lease accounting, bringing off-balance sheet leasing arrangements onto the balance sheet. The Company intends to adopt IFRS 16 in its financial statements for the annual period beginning on January 1, 2019 and does not anticipate that the adoption of IFRS 16 will have a material impact on the Company's financial statements due to the nature of its operations.

4. PETROLEUM PROPERTIES

The Company's petroleum properties discussed in the following note are in the state of Kansas. These properties are comprised of three groups of leases. Production from these properties continues with minimal investment during 2018 and 2017. The following is a summary of cost and related accumulated depreciation for the Kansas properties for the periods presented:

	March 31, 2018	December 31, 2017
Cost:		
Balance, beginning of year	$ 1,527,293	$ 1,634,672
Movement in foreign exchange rates	42,489	(107,379)
Balance, end of period	1,569,782	1,527,293
Accumulated depletion:		
Balance, beginning of year	860,441	818,571
Depletion	20,150	99,003
Movement in foreign exchange rates	24,331	(57,133)
Balance, end of period	904,922	860,441
Carrying value	$ 664,860	$ 666,852

5. EQUITY INVESTMENTS

As of March 31, 2018, the majority of the Company's oil and gas operations were held in Oklahoma, with operations conducted through participation in various joint ventures. The Company's interests in these 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 two jointly controlled entities, Eagle Road Oil, LLC ("Eagle Road"), and Lurgan Oil LLC ("Lurgan"). The Company also purchased a 25% interest in another jointly controlled entity, Jericho Buckmanville Oil LLC ("Buckmanville"). In October 2017, the Company purchased an additional 25% of Buckmanville,

(Expressed in Canadian dollars)

5. EQUITY INVESTMENTS (continued)

increasing its interest to 50%. Eagle Road is the operator of the Company's joint ventures in Oklahoma.

During 2017, the Company acquired a combined 31% equity interest in RSTACK Walnut, LLC "Walnut". 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.

In first quarter 2018, Walnut entered 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, Walnut funded its share of drilling cost of approximately US$2.5 million for a 46.87% working interest (and 37.5% net revenue interest) in the Wardroom well drilled by Staghorn in first quarter 2018.

Walnut also entered into a farm-in agreement with Armor Energy in first quarter 2018 to participate in the drilling of between two and five horizontal wells in Major County. 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 will be completed and tested in second quarter 2018.

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

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

Carrying amounts of interests in joint ventures at March 31, 2018 is as follows:

	Eagle Road	Lurgan	Buckmanville	Rstack Walnut	Total
Balance, December 31, 2017	$ 9,387,347	$ 2,588,321	$ 13,483,329	$ 11,290,500	$ 36,749,497
Share of income/(loss)	(121,107)	59,138	(141,293)	10,330	(192,931)
Advances	63,235	-	17,706	-	80,941
Movement in foreign exchange	260,025	73,162	372,690	314,302	1,020,179
Balance, March 31, 2018	$ 9,589,500	$ 2,720,621	$ 13,732,432	$ 11,615,132	$ 37,657,685

(Expressed in Canadian dollars)

5. EQUITY INVESTMENTS (continued)

Carrying amounts of interests in joint ventures at March 31, 2017 is as follows:

	Eagle Road	Lurgan	Buckmanville	Total
Balance, December 31, 2016	$ 9,369,962	$ 4,558,884	$ 7,406,603	$21,335,449
Share of income/(loss)	(97,364)	(29,155)	(44,375)	(170,894)
Advances	529,533	-	-	529,533
Movement in foreign exchange	(87,343)	(43,594)	(70,811)	(201,748)
Balance, March 31, 2017	$ 9,714,787	$ 4,486,135	$ 7,291,417	$21,492,340

Results of operations of the joint ventures for the three months ended March 31, 2018 is as follows:

Three Months Ended March,31, 2018	Eagle Road	Lurgan	Buckmanville	Rstack Walnut	Total
Revenue	$ 1,301,702	$ 374,379	$ 1,462,280	$ 989,840	$ 4,128,201
Production cost	(716,826)	(115,657)	(1,025,241)	(329,955)	(2,187,679)
Depletion and depreciation	(420,127)	(130,210)	(432,315)	(242,402)	(1,225,054)
Accretion of decommissioning provision	(14,896)	(1,415)	(19,642)	(5,052)	(41,005)
Realized (loss) gain on hedging	(21,641)	(4,505)	(40,677)	-	(66,823)
Unrealized (loss) gain on hedging	(109,606)	9,692	(155,610)	-	(255,524)
G&A and other operating	(227,596)	(7,091)	(8,933)	(373,371)	(616,991)
Interest expense	(33,224)	(6,916)	(62,449)	-	(102,589)
Net Income (loss)	$ (242,214)	$ 118,277	$ (282,587)	$ 39,060	$ (367,464)

Results of operations of the joint ventures for the three months ended March 31, 2017 is as follows:

Three Months Ended, March,31, 2017	Eagle Road	Lurgan	Buckmanville	Total
Revenue	$ 1,406,398	$ 176,473	$ 1,708,027	$ 3,290,897
Production cost	(1,035,714)	(112,544)	(1,278,382)	(2,426,640)
Depletion and depreciation	(173,501)	(49,750)	(199,597)	(422,847)
Accretion of decommissioning provision	(29,839)	(1,047)	(28,889)	(59,775)
Realized (loss) gain on hedging	(58,633)	(24,825)	(129,774)	(213,232)
Unrealized (loss) gain on hedging	(92,575)	(39,195)	(204,899)	(336,670)
G&A & other operating	(193,183)	(8)	(5,861)	(199,052)
Interest expense	(17,681)	(7,414)	(38,125)	(63,219)
Net Income (loss) for the quarter	$ (194,728)	$ (58,310)	$ (177,501)	$ (430,539)

(Expressed in Canadian dollars)

5. EQUITY INVESTMENTS (continued)

Summary financial position information of the joint ventures for the three months ended March 31, 2018 is as follows:

As at March 31, 2018	Eagle Road	Lurgan	Buckmanville	Rstack Walnut	Total
Assets					
Cash and cash equivalents	$ 405,020	$ 44,225	$ 142,120	$ 10,424,687	$ 11,016,052
Current assets (excluding cash)	3,066,740	576,648	155,805	2,381,075	6,180,268
Non-current assets	30,917,987	5,668,666	41,009,062	33,452,238	111,047,953
Total assets	34,389,747	6,289,539	41,306,987	46,258,000	128,244,273
Liabilities					
Current liabilities	4,461,025	678,811	6,121,268	1,881,600	13,142,704
Intercompany	4,295,476	(471,782)	(3,924,797)	101,103	-
Non-current liabilities	6,454,298	641,268	6,761,248	794,058	14,650,872
Total liabilities	15,210,799	848,297	8,957,719	2,776,761	27,793,576
Equity	19,178,948	5,441,242	32,349,268	43,481,239	100,450,697
Total Liabilities and Equity	$ 34,389,747	$ 6,289,539	$ 41,306,987	$ 46,258,000	$ 128,244,273

Summary financial position information of the joint ventures for the three months ended March 31, 2017 is as follows:

As at March 31, 2017	Eagle Road	Lurgan	Buckmanville	Total
Assets				
Cash and cash equivalents	$ 118,714	$ 59,015	$ 22,100	$ 199,829
Current assets (excluding cash)	2,805,072	337,892	358,113	3,501,077
Non-current assets	38,262,983	12,015,493	40,815,686	91,094,162
Total assets	41,186,769	12,412,400	41,195,900	94,795,068
Liabilities				
Current liabilities	2,412,614	225,500	1,487,960	4,126,073
Intercompany	4,765,522	(831,447)	(3,934,075)	-
Non-current liabilities	14,180,142	4,046,076	14,476,346	32,702,563
Total liabilities	21,358,277	3,440,129	12,030,231	36,828,637
Equity	19,828,492	8,972,271	29,165,669	57,966,431
Total Liabilities and Equity	$ 41,186,769	$12,412,400	$ 41,195,900	$94,795,068

(Expressed in Canadian dollars)

5. EQUITY INVESTMENTS (continued)

The Company's share of the income or (loss) during the first quarter 2018 is as follows:

Three Months Ended March,31, 2018	Eagle Road	Lurgan	Buckmanville	Rstack Walnut	Total
100% Net income (loss) in US$	(191,519)	93,522	(223,441)	30,884	(290,554)
100% Net income (loss) in CDN$	(242,214)	118,277	(282,587)	39,060	(367,464)
Jericho's ownership	50%	50%	50%	26%	
Jericho's share of net income (loss) in US$	(95,760)	46,761	(111,721)	8,168	(152,551)
Jericho's share of net income (loss) in CDN$	(121,107)	59,138	(141,293)	10,330	(192,931)

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

Three Months Ended, March,31, 2017	Eagle Road	Lurgan	Buckmanville	Total
100% Net income (loss) in US$	(147,094)	(44,046)	(134,081)	(325,222)
100% Net income (loss) in CDN$	(194,728)	(58,310)	(177,501)	(430,539)
Jericho's ownership	50%	50%	25%	
Jericho's share of net income (loss) in US$	(73,547)	(22,023)	(33,520)	(129,091)
Jericho's share of net income (loss) in CDN$	(97,364)	(29,155)	(44,375)	(170,894)

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 March 31, 2018, of $7,603,136 (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.

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.

(Expressed in Canadian dollars)

6. ACCOUNTS RECEIVABLE

The following table presents accounts receivable for the periods presented:

		March 31, 2018		December 31, 2017
Trade receivable	$	64,957	$	39,487
Other		10,350		14,216
	$	75,307	$	53,703

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The following table shows accounts payable and accrued liabilities for the periods presented:

		March 31, 2018		December 31, 2017
Trade payables	$	254,403	$	134,493
Accrued liabilities		35,000		110,000
	$	289,403	$	244,493

8. DECOMMISSIONING LIABILITIES

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

		March 31, 2018		December 31, 2017
Balance, beginning of year	$	137,346	$	142,845
Accretion expense		1,007		4,020
Movement in foreign exchange rates		3,841		(9,519)
Balance, end of period	$	142,194	$	137,346

The present value of the obligation relating to the properties in Kansas (Note 4) of $142,194 (2017 - $137,346) was calculated using an average risk-free interest rate of 2.91% (2017 – 2.91%) and an inflation rate of 1.76% (2017 – 1.76%). The weighted-average life of the wells has been estimated at 10 years (2017 - 10 years). The undiscounted value of the obligation is $267,126 (2017 - $259,897).

(Expressed in Canadian dollars)

9. GENERAL AND ADMINISTRATIVE EXPENSES

The following table presents the general and administrative expenses incurred during the three months ended March 31, 2018 and 2017.

	Three Months Ended			
	March 31, 2018		March 31, 2017	
General and administrative expense				
Management fees	$	144,639	$	68,300
Stock compensation expense		43,458		358,291
Consulting fees		138,137		243,060
Accounting and auditing fees		25,814		8,094
Income taxes		3,972		-
Investor relations		471,594		69,101
Transfer agency and filing fees		28,288		11,866
Legal fees (recovery)		36,083		(19,444)
Travel		28,880		8,571
Rent		14,234		10,439
Insurance		7,156		6,722
Office and miscellaneous		45,043		26,490
General and administrative expense	$	987,298	$	791,490

10. SHARE CAPITAL AND EQUITY RESERVES

(a) Authorized share capital

Unlimited common shares without par value.

(b) Issued share capital

For the three months ended March 31, 2018
On January 9, 2018 the Company closed a non-brokered private placement of 3,784,946 units at a price of $0.60 per unit for gross proceeds of $2,270,968. Each unit is comprised of one common share and one-half warrant with each full warrant entitling the holder to purchase one common share of the Company at a price of $0.60 per share for a period of 24 months from closing.

During first quarter 2018, 9,023,560 warrants were exercised at $0.60 per share for proceeds of $5,414,136.

10. SHARE CAPITAL AND EQUITY RESERVES (continued)

(b) Issued share capital (continued)

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.

(c) Stock options

The Company has a stock option plan which authorizes the Company 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 directors set the vesting and expiration dates with the expiration date not more than 10 years from the date of grant. Any outstanding options will expire on a date to be determined by the directors but not to exceed twelve months following the date that the holder ceases to be a senior officer, director, employee or consultant of the Company. At March 31, 2018, and December 31, 2017, 4,967,389 and 3,686,538 options were available for issuance under the plan, respectively.

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND EQUITY RESERVES (continued)

(c) Stock options (continued)

The following is a continuity table of stock options outstanding as of March 31, 2018 and December 31, 2017:

	Number of Options	Weighted Average Exercise Price	
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
Granted	-		-
Exercised	-		-
Outstanding March 31, 2018	7,708,000		0.42

During first quarter 2018, the Company recorded a share-based payment expense in the amount of $43,458 (2017 - $22,467) in connection with options vesting during the quarter.

As of March 31, 2018, the following incentive stop options were outstanding:

Expiration date	Options outstanding and exercisable	Unvested options	Exercise price	
1-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
4-Jul-22	1,443,750	56,250		0.50
1-Sep-22	343,500	114,500		0.65
4-Oct-22	100,000	-		0.75
	7,537,250	170,750	$	0.42

(Expressed in Canadian dollars)

10. SHARE CAPITAL AND EQUITY RESERVES (continued)

(d) Share purchase warrants

The number and weighted average exercise prices of warrants outstanding as of March 31, 2018 were as follows:

	Number of Warrants	Weighted-Average Exercise Price	
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
Granted	1,892,473		0.60
Exercised	(9,023,560)		0.60
Expired	(260,416)		0.60
Outstanding, March 31, 2018	26,070,387	$	0.60

The following table summarizes the warrants outstanding and exercisable at March 31, 2018:

Expiration Date	Warrants Outstanding and Exercisable	Weighted-Average Exercise Price	
April 13, 2018	365,729	$	0.60
November 28, 2018	4,733,007		0.60
December 18, 2019	1,764,189		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
January 9, 2020	1,892,473		0.60
	26,070,387	$	0.60

(Expressed in Canadian dollars)

11. 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:

	Three Months Ended			
		March 31, 2018		March 31, 2017
Management fees	$	143,139	$	89,800
Directors' fees		1,500		5,500
Share-based payments		-		103,370
	$	144,639	$	198,670

At March 31, 2018, included in accounts payable and accrued liabilities is an amount of $1,500 payable to directors of the Company (2017 - $Nil). These types of amounts are due on demand and have no specific terms of repayment.

12. FINANCIAL INSTRUMENTS AND RISK

The Company's non-derivative financial instruments recognized on the consolidated balance sheet consist of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities. These non-derivative financial instruments are recognized at fair value. The fair values of these current financial instruments approximate their carrying value due to their nature and short-term maturity.

The Company examines the various financial instrument risks to which it is exposed and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the previous year as to how these risks are reviewed and monitored by management. The types of financial instrument risk exposures and the objectives and policies for managing these risks exposures is 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's accounts receivable consists mainly of oil sales and purchase taxes remitted from the Government of Canada. The Company is exposed to a significant concentration of credit risk with respect to its trade accounts receivable balance because all its oil sales are with one counterparty. However, the Company has not experienced any collection issues with its counterparty.

12. FINANCIAL INSTRUMENTS AND RISK (continued)

(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 13. The Company held cash at March 31, 2018 in the amount of $5,531,492 (December 31, 2017 - $5,292,783) to meet short-term business requirements.

At March 31, 2018, the Company had current liabilities of $289,403 (December 31, 2017 - $244,493). Accounts payable and accrued liabilities are due within the current operating period. Contractual undiscounted cash flow requirements for financial liabilities as at March 31, 2018 are as follows:

	<1 month	1-3 months	4 month - <1 year	2-4 years	Total
Accounts payable and accrued liabilities	289,403	-	-	-	289,403
	289,403	-	-	-	289,403

(c) Market risk

Market risk consists of interest rate risk, foreign currency risk and price risk. These are discussed 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 March 31, 2018. The risk that the Company will realize a loss because of a decline in the fair value of the cash equivalents included in cash and cash equivalents because 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 as at March 31, 2018:

Cash and cash equivalents	USD$	3,298,319
Receivables		34,193
Accounts payable and accrued liabilities		(105,387)
Net exposure	USD$	3,227,125
Canadian dollar equivalents	CDN$	4,161,055

12. FINANCIAL INSTRUMENTS AND RISK (continued)

(c) Market risk – *Foreign currency risk* (continued)

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 CDN$416,106 or US$322,712.

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.

13. 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 is not subject to any externally imposed capital requirements. As of March 31, 2018, 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.

14. SEGMENTED INFORMATION, MAJOR CUSTOMERS AND ECONOMIC DEPENDENCE

At March 31, 2018, all the Company's non-current assets (other than financial instruments) are in Kansas and Oklahoma, USA. Geographical information relating to the Company's non-current assets (other than financial instruments) is presented in Notes 4 and 5.

The Company's revenues of $111,372 (March 31, 2017 – $105,734) are all attributable to the Kansas properties where sales are recorded from shipments of crude oil concentrate and gas production. The investment loss of $192,931 (March 31, 2017 - $170,894) relates to the Company's share of income of joint ventures in Oklahoma. For derivative related income or losses from Oklahoma projects please see Note 5 Equity Investments.

All the Company's revenues are derived from one customer in Kansas. As of March 31, 2018, 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.

15. SUBSEQUENT EVENTS

In second quarter 2018, the Company along with its Joint Venture Equity partner executed a term sheet to extend its existing Senior Secured Credit Facility with East-West Bank for a period of 24 months from closing.