



Dear Fellow Shareholders:

As we sat down to write this same letter last year the future looked bleak. The price of crude oil in the United States had just averaged \$30 per barrel for the month of February 2016. Prognosticators were calling for prices to fall even further with Goldman Sachs claiming the global surplus of crude oil could drive prices as low as \$20 per barrel. Fear was further exacerbated and on display by the lowest energy sector weighting in a decade as reported by Bank of America Merrill Lynch's August 2016 Global Survey. When measured against the broader S&P500 market, the holdings by global portfolio managers were a factor of six standard deviations below the long-term weighting average (energy is about 7% of the S&P500). North American exploration and production ("E&P") company bankruptcies had reached 60 by the end of February, eventually claiming 114 companies by year-end. All told, E&P bankruptcies wiped out \$73 billion worth of unsecured and secured debt obligations along with billions more of shareholder equity according to Haynes & Boone, LLP. Put simply, fear had gripped the oil and gas market in 2016.

Psychology has taught us that our brains automatically take mental shortcuts when making decisions, often relying on immediate examples, events or related situations. As a result, our brains might judge that those events or situations are more frequent and possible than others. Many readers have experienced the temporary rise in the subjective probability of a crash after seeing several news reports about plane or car crashes. We are more susceptible to think that these crashes are much more likely to occur than supported by data and resulting probabilities (we focus on the numerator more than the denominator). This phenomenon allows people, when faced with the need to make a decision, to quickly arrive at a conclusion (sometimes helpful). The term for this phenomenon, first coined in 1973 by psychologists Amos Tversky and Daniel Kahneman, is what we now know as the 'availability heuristic.'

Consequently, investors' actions and decision-making often inadvertently result in predictable biases and the creation of opportunities for value investors who can stay the course. The focus of most investors on the fear of short-term volatility usually runs contrary to long-term business fundamentals. Things that come to mind more easily or frequently, the idea of *continued losses in a falling market*, are *believed / perceived* to be far more common and more accurate reflections of the real world. However, the amount of concern is not adequately sensitive to the probability of continued losses. Successful debiasing is crucial to long-term investment success and as a long-term value-oriented organization your Company aims to employ this task and not fall victim to the availability heuristic (the 'noise').

For example, Jericho made three investments in 2015 totaling approximately \$6.29mm. Shortly thereafter, we watched oil move from \$45 per barrel touching the lows in February of \$26 per barrel. During this time, I was reminded of the availability heuristic and the potential for predictable biases that cloud judgment and decision-making. However, one of the keys to long-term investment success, and a guiding principle for us at Jericho, is maintaining the conviction to remain invested in down markets. As such, we continued shopping for distressed

assets that fell under the burden of unfortunate capital structures and bankruptcy court proceedings. We ran toward the fire.

In running toward the fire, your Company acquired producing wells and drillable leaseholds in Central Oklahoma for a cash consideration of USD\$2.14 million. The asset package is in an area complementary to Jericho's existing operations in Oklahoma and represents your Company's fifth acquisition within the region since January 2015. In aggregate, we added net daily production of approximately 112 barrels of oil equivalent (77% liquids) and 15,600 net acres (77% held-by-production). The asset's production comes from 19 horizontal wells in the Mississippian and Woodford formations. Critically, the asset also has 41 currently non-producing horizontal wellbores which have lacked the required capital to return to production or to re-stimulate. Importantly, we assigned no value to these orphaned wells in our acquisition price. The acquired wells were drilled in 2013 (a long time ago in terms of oil and gas technology) and since then new-well oil production from one average rig has increased three-fold over the last five years with year-over-year increases of an incremental 30-40% because of new technologies, increased frack density and increased proppant volumes. It is with our strong capital structure and our planned re-stimulation program using optimized completion techniques that your Company hopes to grow production significantly from the asset's current production base which will deliver strong risk-adjusted returns for our shareholders.

Another piece of the Company's asset acquisition was undeveloped leasehold located in Central Garfield County. Recent activity around our acreage position seeks to prove the extension and viability of the Northern STACK oil play. Well-funded operators continue to surround the position with promising and consistent results. We are actively evaluating the industry movement and look forward to updating you on the prospectivity of the acreage in the Meramec and Osage formations. To this end, we have or are in the process of re-leasing most of the acreage at attractive rates compared to recent public market acquisitions which have approached \$10,000 / acre.

Market valuations for assets in out-of-favor basins are largely underpinned by current low-oil price driven cash flows allowing your Company to acquire free development upside optionality which, over time, should drive a step change in cash flow growth. Of importance, to fund this acquisition, we took to the debt markets at an attractive time.

A key differentiator over the last 24 months has been the absence of debt from Jericho's capital structure. In last year's letter, however, we mentioned that we would look to employ a more efficient capital structure by leveraging our current asset base to take full advantage of the distressed marketplace. Accordingly, in August 2016, your Company entered into a USD\$30mm Senior Secured Revolving Credit Facility (the "Facility") with East West Bancorp, Inc. (NASDAQ: EWBC) with an initial borrowing base set at \$10mm. The Facility bears interest of WSJ Prime plus 75 basis points along with customary financial covenants.

The favorability of their terms was and continues to be a testament to our clean balance sheet and the quality of our existing portfolio of assets. Moreover, this Facility allows us to accelerate our roll-up of undervalued, high quality Central Oklahoma oil and gas assets. Until now, we have financed our acquisitions and property development exclusively through the strong support of our equity shareholders and this Facility marked an exciting step forward in positioning our capital structure to support further growth and opportunities.

To ensure a prudent margin of safety for our equity shareholders and reduce exposure to market risks, the Company actively hedged 75 per cent of the next two years' worth of oil and natural gas production. As a producer of oil and natural gas, we are naturally a price taker. As such, the Company seeks to limit the volatility and unknown risks associated with future oil and natural gas prices for currently projected production volumes. A level of certainty of price for our products allows the Company to limit the impact of variability of product pricing on its profitability and engage in proper capital allocation projects which aim to grow production and reserves cost-effectively.

Performance Review

In 2016, Jericho deployed ~\$3.03mm (\$2.14mm for acquisitions of Proved Developed assets and \$895k in capital expenditures). Jericho's opportunistic acquisition strategy in concert with its organic growth initiatives led to strong year over year production and reserves growth, the main drivers of the Company's intrinsic value (all dollar amounts

are the Present Value of future cash flows discounted at 10% before tax derived from YE2016 Independent Reserve Report using forecast pricing, \$USD):

- Daily production increased 29% from Q4-15 to Q4-16
- Proved plus Probable (2P) reserves total \$41.9mm or 4.2mm barrels of oil equivalent, 147% increase y-o-y
- Proved (1P) reserves total \$27.9mm or 2.3mm barrels of oil equivalent, 77% increase y-o-y
- Proved Developed (PDP + PDNP) reserves totaled 1.6mm barrels of oil equivalent, 72% increase y-o-y
- Jericho replacedⁱ its 2016 production by 144% with the increase in PDP reserves and 1,289% with the increase in 1P reserves mostly through a successful acquisition and the deployment of incremental capital to field-level initiatives
- The Company's 2016 average finding, development and acquisition ("FD&A") costs are \$4.34/boeⁱⁱ for Proved Developed reserves
- In comparing the cost of getting that Proved Developed boe out of the ground with the cash earned per boe, the Company generated a 1.78x recycle ratioⁱⁱⁱ, based on a full-year 2016 operating netback of \$7.74/boe despite a challenging oil price environment
- Proved Developed reserves accounted for 78% of the Total Proved reserves value
- Approximately 75% of Proved reserves were crude oil (boe basis)

The net asset value on a 2P NPV10% valuation is approximately \$40.7mm or USD\$0.52 per common share outstanding, excluding any value for undeveloped land and assuming net debt^{iv} of \$(1.27mm) and 78,840,404 common shares outstanding. When compared to the Company's current USD share price (May 31, 2017), Jericho trades at an ~25% discount to its 2P NAV. It's my belief, that over time, our share price will reflect the underlying asset value and future growth prospects that your Company has built over the last 3 years.

Legacy assets in Kansas experienced an impairment charge of \$838k reflecting a decline in the value of its reserves due primarily to continued low crude oil prices. The impairment charge represents the difference between the cost of the assets at acquisition and the 'current' value of the assets as measured by our third-party reserves engineering firm.

Despite our growth and successes to date (including some failures along the way), your Company remains unsatisfied. In addition to our strong PDP base production and cash flow, Jericho continues to look for new and exciting opportunities that will drive Jericho's growth for years to come. These opportunities will likely fall within our Oklahoma area of expertise and focus on exploration of currently producing and prospective horizons.

State of the Oil Market

It's important to echo words from last year's letter: this recovery will not be without volatility. Every region of the world curtailed spending in 2016, as North America led the way with the total rig count in the US falling from 1,931 in September 2014 to less than 400 in March 2016. The drop in US crude oil production was evident falling from a high point of 9.7mm barrels of oil per day in April 2015 to 8.5mm in July 2016. As a result, global excess supply turned into a supply deficit in late 2016, drawing millions of barrels of oil from storage, helping to reduce the historic glut. This reduction in crude oil inventories and the expectation thereof helped bolster the price of crude oil to approximately \$50 per barrel by the end of 2016. Two important factors, however, are coming to a head in 2017.

To-date, the US shale industry has shown tremendous resiliency, due in large part, to continued growth in efficiency gains amongst strong advancements in technology. Simply put, more oil is being produced per active rig than at any point in the last 80 years. This has the effect of lowering the 'break-even' costs required to make a risk-adjusted profit on a newly drilled well. The shale oil cost curve has been reset. New-well oil production from one average rig has increased three-fold over the last five years with year-over-year increases of an incremental 30-40% because of new technologies, increased frack density and increased proppant volumes. This 'reset' of the shale oil cost curve has had the dramatic effect of increasing US production even in the face of \$45 per barrel crude oil prices.

On the other side has been the role of OPEC and the implementation of the Algiers Accord made in November 2016. The Accord called for the reduction in production of the 14 OPEC member states in addition to key non-OPEC member countries (i.e., Russia) for a 6-month period. The cuts, in aggregate, totaled approximately 1.8mm barrels

of oil per day (or 1.5 percent of total global production). While market watchers remained skeptical about the Cartel's ability to comply with its Accord, even after their decision to extend cuts another 9 months, strong compliance thus far (~90 percent) has buoyed the market and kept a floor under oil prices. In total, crude oil prices have been pinned in a range, supported by production cuts from OPEC and other states but capped by rising U.S. shale oil production.

Looking forward, we continue to believe prices should return to a long-term average between \$60 – 70 per barrel to properly incentivize new supply for a growing oil-demand world. While the OPEC vs. US Shale war wages on in 2017, Jericho will continue to maximize growth with a strong focus for return on capital metrics. Capital efficiency in conjunction with strong production growth has regularly led to equity outperformance over short, medium and long-term horizons. This is your Company's goal. The portfolio of development opportunities your Company has amassed allows us to make quick, short-cycle investment decisions in the event prices move in one direction or the other. Whether we commence a drilling program, re-stimulation program or continue to focus on our cost structure your Company's nimbleness will be its most important asset.

To our team: your dedication and tireless effort to build a long-lasting company from scratch is nothing short of extraordinary. You come to work every day looking to make a difference that will move this Company forward and I thank you for that.

Brian Williamson

Director, Jericho Oil Corporation &
President (Jericho Oklahoma)

ⁱ Replacement ratio, a non-IFRS financial measure, is an indicator of a company's ability to replace its production and grow reserves, calculated as the sum of the reserve additions from defined sources divided by production for the corresponding period.

ⁱⁱ Recycle ratio, a non-IFRS financial measure, represents the cash earned per boe produced (the numerator) versus the cost of getting that boe out of the ground (the denominator). It serves as a proxy for a company's return on capital over a defined period of time.

ⁱⁱⁱ The Company deployed approximately \$3.03mm on exploration costs plus Proved Property Acquisition Costs plus Development Costs which yielded an increase in year-over-year Proved Develop reserves of approximately 699k barrels of oil equivalent.

^{iv} Net debt as defined by the Company's credit agreement as of 12.31.16; Total debt of approximately \$2.48mm less cash on hand of approximately \$3.75mm