**JERICHO OIL CORPORATION**
**MANAGEMENT DISCUSSION AND ANALYSIS ("MD&A")**

For the quarter ended March 31, 2016
(Expressed in CDN$ unless otherwise indicated)
This document is current in all material respects up to May 30, 2016

Jericho Oil Corporation ("Jericho" or the "Company") was incorporated on October 21, 2010 under the Laws of British Columbia and was listed on the TSX Venture Exchange after completion of its initial public offering on May 29, 2012. The Company's name, formerly Dakar Resource Corp., was changed on February 27, 2014. The Company trades on the TSX Venture Exchange under the symbol "JCO", and on the OTC exchange under the symbol "JROOF". The principal address of the Company is located at Suite 1100-888 Dunsmuir Street, Vancouver, British Columbia, Canada, V6C 3K4.

The Company incorporated a subsidiary, Jericho Oil (Kansas) Corp., in the State of Delaware, United States, on January 27, 2014, and another subsidiary, Jericho Oil (Oklahoma) Corp., also in the State of Delaware, on February 18, 2015.

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 and the current consolidated interim 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 30, 2016.

## FORWARD-LOOKING STATEMENTS

This MD&A contains or incorporates, by reference, forward-looking statements. All statements other than statements of historical fact included or incorporated by reference and that address activities, events or developments that we expect or anticipate may or will occur in the future are forward-looking statements. While any forward-looking statements, and any assumptions upon which they are based, are made in good faith and reflect our current judgment regarding the direction of our business; actual results may vary, sometimes materially, from any estimates, predictions, projections, assumptions or other suggestions of future performance herein. Undue reliance should not be placed on these forward-looking statements, which are based upon our assumptions and are subject to known and unknown risks and uncertainties and other factors, some of which are beyond our control, which may cause actual results, levels of activity and achievements to differ materially from those estimated or projected and expressed in or implied by such statements. We undertake no obligation to update publicly or revise any forward-looking statements contained herein, and such statements are expressly qualified by this cautionary statement.

## OVERALL PERFORMANCE AND RESULTS OF OPERATIONS

Key to the Company's growth is the successful build out of its business model of purchasing and developing overlooked and undervalued oil properties across North America within legacy producing, reservoirs. Successful implementation of Jericho's model generates high-margin, oil production from known reservoirs. The Company partners with, and utilizes, its own on-the-ground operators with deep and extensive knowledge of basin geologies and successful drilling histories in each respective region. The Company's target regions are generally located in fragmented areas, with high ratios of operators-to-production with no one producer dominating the production landscape in the region or areas where capital structures were highly levered in exploration and development.

Both of these scenarios exist in the Mid-Continent region of the United States. However, the recent down-turn in oil prices has resulted in the company focusing on stressed capital structures and destressed operators with limited capital market alternatives. The current lower price environment has afforded Jericho the opportunity to acquire production, reserves and cash flow, at appreciable discounts to the long-term intrinsic value of oil and gas assets. While many companies "manage" through the historical oil price downturn, Jericho has shifted its focus from drilling and development to creating shareholder value through acquisitions. As larger, highly leveraged companies increasingly go after more expensive and costly reserves, their business models may be impacted by the recent precipitous oil price drop. As a result, a variety of these companies are now looking to shore up balance sheets by selling their "non-core" assets. As such, Jericho will look to grow by acquisition, but remains patiently aggressive in its pricing and evaluation of growth acquisitions.

### Kansas Platform

The Company's Kansas reserves have been substantially impacted by the lower price environment. In its continued effort to minimize costs, Jericho has embarked on a cost cutting program including shutting in leases that cannot produce profitably at current prices.

### Oklahoma Platform

Oklahoma, Jericho's second platform in the Mid-Continent region, is a natural continuation of the Company's strategy to acquire producing assets in known legacy basins. In the last ten years, Oklahoma's production base has grown dramatically with a focus on the utilization of horizontal development to exploit several conventional and unconventional reservoirs including the Mississippian Age Limestone (Miss Lime). Many of these horizontal wells targeting the Miss Lime now produce at a stable rate with low year over year decline levels and thus also fit within Jericho's target acquisition strategy of long life assets. Moreover, Oklahoma ranks fifth in crude oil production, fourth in natural gas production and continues to be an industry friendly state.

During the year ended December 31, 2015, the Company acquired interests in several joint ventures in Oklahoma.

In March 2015, the Company acquired a 50% working interest in 1,850 acres in northeastern Oklahoma for US$48,163. The property is in exploration stage.

Jericho made two further acquisitions in Oklahoma in the fourth quarter of 2015. On December 4, 2015, the Company entered into a joint venture in which it has a 50% interest in a jointly controlled entity, Lurgan Oil LLC ("Lurgan"). The Company paid $2,030,858 ($US 1,467,383) for its interest.

On December 10, 2015, the Company entered into a joint venture in which it has a 25% interest in a jointly controlled entity, Jericho Buckmanville Oil LLC ("Buckmanville") for $4,518,000 ($US 3,264,450) for its interest.

These joint ventures have interests in producing wells in Oklahoma.

The first Q4 2015 acquisition through Lurgan, Creek County, is a series of producing Horizontal Wells, Disposal Wells and infrastructure. The asset contains six (6) recently drilled horizontal Mississippian Lime wells and associated disposal wells. At acquisition the asset produced 119 gross BOE a day and included approximately 10,000 acres in four townships in Creek County. The acreage spans a highly prolific region with optionality in multiple vertical and horizontally completed producing zones including: Mississippian Lime, Red Fork, Bartlesville, Hogshooter, Skinner and Cleveland.

The second Q4 2015 acquisition through Buckmanville was a group of Horizontal and Vertical Producing Assets located in Oklahoma's Seminole, Pottawatomie, Cleveland, Lincoln and Payne Counties and includes vertical producing wells, recently drilled horizontal wells and water disposal wells. This Central Oklahoma acreage, like the Creek County acquisition, covers a region with stacked producing reservoirs including: Mississippian Lime, Woodford, Hunton, Wilcox, Layton, Skinner, Red Fork and Viola. At acquisition the asset produced 427 BOEs a day and included ~30,000 acres.

During the quarter ending March 31, 2016 the joint ventures were profitable at the field level in spite of a further downturn in oil prices. Gross monthly production averaged 22,845 BOEPD and daily gross production averaged 745 BOEPD for the collective Oklahoma joint ventures. Lease Operating Cash Costs for the Joint Ventures, net of intercompany charges[1] was $13.97 per barrel.

Net income was affected by non-operating non-cash items such as depletion and foreign exchange currency changes. Spot OK Sweet Crude Oil prices averaged $28.78, $27.09 and $34.62 respectively for

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[1] Intercompany Charges include the payment of Salt Water Disposal Fees paid by Eagle Road and Administrative Overhead paid to Eagle Road Oil. The cash cost per barrel with these intercompany charges included was $20.74 per barrel.

the first three months of the year. Crude Purchasing Contracts were renegotiated to reduce the delivery costs down to $1.50 from $3.50+ for Jericho Buckmanville and Lurgan.

The operating team continued to grow with senior technical additions in Geology, Engineering and Land Management. The majority of the quarter was spent integrating, studying and streamlining field operations. Our workover and cleanout program began in March. The Joint Venture, Jericho Buckmanville (Jericho 25% W.I.), absorbed a series of additional costs in the quarter as it was unable to process any post-closing transaction charges due to the seller filing for Bankruptcy Protection in March.

### Subsequent to the quarter end

Post quarter-end oil prices have increased and Jericho Buckmanville engaged in a series of fixed for variable hedging transactions. The Joint Venture sold 4,500 barrels of crude per month for May 2016 to December 2016 at $45.00 per barrel. It also entered into a Calendar 2017 call option at $45.00. The call option includes a a one-day option for the hedge provider on December 29, 2016 to elect to purchase 3,500 barrels a month for 2017 at $45.00 a barrel

Jericho has remained patiently aggressive throughout the pricing downturn evaluating and diligencing assets across the Mid-Continent. A key going forward acquisition consideration is having the ability to operate asset(s) at a break-even level of at least $40 WTI (West Texas Intermediate) pricing within approximately six months of acquisition. In our experience, market conditions are extremely hard to predict. The most prudent strategy is to manage for a longer-term lower price environment allowing our shareholders to be surprised only to the upside. We anticipate acquisition opportunities in the current environment to be plentiful but will remain conservative and prudent in evaluating and pricing opportunities. Overall, Jericho acquired 45,000 acres in 2015, the majority of which has significant development opportunities at slightly higher price levels and many rework and re-stimulation candidates at current price levels. The focus will be to maintain, and in certain situations, grow the Oklahoma land bank in 2016.

Carrying amounts of interest in joint ventures:

| | | Eagle Road | Lurgan | Buckmanville | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2015 | $ | 2,475,623 | 4,668,101 | 7,780,398 | 14,924,121 |
| | | | | | |
| Share of income/(loss) for the period | | (56,146) | (64,583) | (9,368) | (130,096) |
| Additional advances | | 90,909 | 64,935 | - | 155,844 |
| Movement in foreign exchange | | (152,580) | (287,709) | (479,529) | (919,818) |
| Balance, March 31, 2016 | $ | 2,357,806 | 4,380,744 | 7,291,501 | 14,030,051 |

Summary of financial information of the joint ventures:

| **Period ended March 31, 2016** | | Eagle Road | Lurgan | Buckmanville |
|---|---|---|---|---|
| Revenue | $ | 163,155 | 617,456 | 1,217,087 |
| Depletion and depreciation | | (183,490) | (179,912) | (283,151) |
| Interest income | | 38 | - | - |
| Other income (loss) | | (91,994) | (566,709) | (971,407) |
| Income/ loss for the period | $ | (112,292) | (129,165) | (37,471) |

| **As at December 31, 2015** | | Eagle Road | Lurgan | Buckmanville |
|---|---|---|---|---|
| Assets | | | | |
| Cash and cash equivalents | $ | 674,269 | 144,547 | 154,165 |
| Current assets (excluding cash) | | 241,031 | 131,229 | 760,432 |
| Non-current assets | | 6,445,623 | 12,102,148 | 39,152,918 |
| Total assets | | 7,360,924 | 12,377,924 | 40,067,515 |
| | | | | |
| Liabilities | | | | |
| Current liabilities | | 836,338 | 1,282 | -48,383 |
| Non-current liabilities | | 1,809,025 | 3,615,154 | 10,949,894 |
| Total liabilities | | 2,645,364 | 3,616,435 | 10,901,511 |
| | | | | |
| Equity | | 4,715,560 | 8,761,489 | 29,166,004 |
| | $ | 7,360,924 | 12,377,924 | 40,067,515 |

The table below shows the company's performance based on its share of the joint ventures restated on a cash basis:

| | | Eagle Road | Lurgan | Buckmanville | Total |
|---|---|---|---|---|---|
| Balance, December 31, 2015 | $ | 2,475,623 | 4,668,101 | 7,780,398 | 14,924,121 |
| Revenue | | 81,577 | 308,728 | 304,272 | 694,577 |
| Interest income | | 19 | - | - | 19 |
| Other income (loss) | | (45,997) | (283,354) | (242,852) | (572,203) |
| Balance, March 31, 2016 | | 2,511,222 | 4,693,474 | 7,841,818 | 15,046,514 |
| Change in period | $ | 35,599 | 25,374 | 61,420 | 122,393 |

Even though the company faced oil price headwinds and absorbed costs due to both the transition from a company going into bankruptcy, and the building of its operational and administrative infrastructure in Tulsa, it has achieved a net cash positive result.

During the year ended December 31, 2015, the joint ventures recorded a bargain purchase gain on their business acquisitions of $20,809,964. The bargain purchase gains were based on the fair values of the assets purchased and the liabilities assumed. The fair value of the petroleum properties purchased was determined using a reserve report prepared by an independent engineer.

## ENVIRONMENTAL LIABILITIES

We recognize that there are concerns over the potential environmental effects of developing oil and gas projects. We are researching methods to improve extraction and processing to enhance the sustainability of our projects. We accrue environmental and reclamation obligations over the life of our oil and gas production operations (see Note 11 in the consolidated financial statements for the quarter ended March 31, 2016).

## OFF-BALANCE-SHEET ARRANGEMENTS

As of the date of the MD&A, the Company does not have any off-balance-sheet arrangements that have, or are reasonably likely to have, a current or future effect on the results of operations or financial condition of the Company, including, and without limitation, such considerations as liquidity and capital resources.

## SELECTED FINANCIAL INFORMATION

## SUMMARY OF QUARTERLY RESULTS (CDN$)

| Quarter Ended | 3/31/2016 | 12/31/2015 | 09/30/2015 | 06/30/2015 | 03/31/2015 | 12/31/2014 | 09/30/2014 | 06/30/2014 |
|---|---|---|---|---|---|---|---|---|
| Net (Loss) for the period | ($874,974) | ($1,357,842) | $237,209 | ($497,266) | $518,541 | ($80,101) | ($287,051) | ($1,141,659) |
| Basic and diluted loss per share | ($0.02) | ($0.01) | $0.01 | ($0.01) | $0.01 | ($0.00) | ($0.05) | ($0.04) |

## QUARTERLY ANALYSIS

**Jericho Oil Corporation**

- The net loss for the quarter ended March 31, 2016, of $874,974 (2015 $518,541), included $91,295 (2015 $175,647 with higher oil prices) in revenues from Kansas, and Oklahoma $694,577), $1,001,663 in foreign exchange losses due to Canadian dollar increases, (2015 -$879,719 foreign exchange gain due to US dollar appreciation), comparable consulting fees of $117,008 and $103,881 in 2015 consulting fee, and $228,242 in depletion cost in 2016 compared with $61,664 in 2015. The company has more projects in 2016.

- The net loss for the quarter ended December 31, 2015 of $1,357,842 was due to an impairment write-down on Kansas property of $4,141,504, offset by a share of income from joint ventures of $6,788,887. The net loss was also a result of a deferred tax expense recognized in the quarter of

$1,470,000 due to the difference between accounting and tax value of investments in joint ventures.

- The net income for the quarter ended September 30, 2015, of $237,209 was due to a foreign exchange gain of $708,879 recognized in the quarter.

- The net loss for the quarter ended June 30, 2015 of $476,266 was due to a foreign exchange loss for the quarter of $72,973.

- The net income for the quarter ended March 31, 2015, of $518,541 was due to a foreign exchange gain due to US dollar appreciation of $879,719.

- The net loss for the quarter ended December 31, 2014, of $80,101 was due to a stock compensation expense of $430,500, $136,644 in depletion costs, offset by a $496,990 foreign exchanges gain.

- The net loss for the quarter ended September 30, 2014 of $287,051 was due to higher investor relation fees of $100,779.

- The net loss for the quarter ended June 30, 2014 of $1,141,659 was due to stock compensation expense of $762,224 and investor relations fees of $138,566.

## SELECTED ANNUAL INFORMATION

The following table shows selected financial information for the periods ended March 31, 2016, December 31, 2015, and December 31, 2014:

| | Quarter ende<br>31-Mar-16 | Year ended<br>31-Dec-14 | Year ended<br>31-Dec-14 |
|---|---|---|---|
| Revenue | 91,295 | 678,711 | 766,031 |
| Net income (loss) | (874,974) | (1,099,358) | (162,305) |
| Net income per share | (0.02) | (0.02) | (0.05) |
| Cash | 1,231,754 | 1,675,131 | 4,738,525 |
| Total assets | 18,093,415 | 19,793,963 | 11,004,060 |
| Total non-current financial liabilities | - | - | - |
| Distributions or cash dividends declare for each class of share | - | - | - |

## LIQUIDITY AND CAPITAL RESOURCES

The activities of the Company, principally the acquisition and development of prospective oil and gas properties, are financed through the completion of equity transactions such as equity offerings and the exercise of stock options and warrants and cash flow from acquired production.

As at March 31, 2016, the Company had cash of $1,231,754 (December 31, 2015 -$1,675,131), total assets of $18,093,415 (December 31, 2015 - $19,793,963), and working capital of $1,535,941 (December 31, 2014 - $1,967,071).

There is no assurance that future equity capital will be available to the Company in the amounts or at the times desired by the Company or on terms that are acceptable to it, if at all.

The Company has increasing, but as yet, limited operating revenues and therefore must utilize its current cash reserves, funds obtained from the exercise of warrants and other financing transactions to maintain its capacity to meet ongoing operating activities.

As at March 31, 2016, the Company had 63,076,012 common shares issued and outstanding (December 31, 2015 - 45,752,402). On April 8, 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 a warrant. Each whole warrant is exercisable into one additional share at $0.60 per share for two years from closing. The shares and warrants are subject to a four month hold period from the date of closing. The Company paid finders' fees of $6,160 and issued 15,400 warrants to the finders. Please refer to Note 13 of the company's financial statements for the period to March 31, 2016 for complete detail of the company's share capital.

Liquidity requirements are managed based upon forecast cash flows to ensure that there is sufficient working capital to meet the Company's obligations. The Company's liquidity as at the date of the MD&A is sufficient to meet the Company's corporate, administrative and commitments for the next twelve months, if not earlier in the event of any unexpected events. The Company's main funding requirements are for its development of its Kansas & Oklahoma oil interests and corporate overheads. While the Company has been successful in raising such financing in the past, its ability to raise additional equity financing may be affected by numerous factors beyond the Company's control, including, but not limited to, adverse market conditions and/or commodity price changes and economic downturn. There can be no assurance that the Company will be successful in obtaining any additional financing required to continue its business operations.

## TRANSACTIONS WITH RELATED PARTIES

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 month ended March 31 2016 | | Three month ended March 31 2015 |
|---|---|---|---|---|
| Management fees | $ | 58,500 | $ | 51,000 |
| Directors' fees | | 1,500 | | - |
| Legal fees paid or accrued to company owned by director | | 9,954 | | 2,391 |
| | $ | 69,954 | $ | 53,391 |

Included in accounts payable and accrued liabilities is $1,500 in amounts payable to directors (2014 - $Nil). This amount is due on demand and has no specific terms of repayment.

At March 31, 2016, the Company had $339,195 in advances to joint venture described in Note 10 that has been included in accounts receivable as other receivables (Note 7).

## SIGNIFICANT ACCOUNTING POLICIES

For Summary of Significant Accounting Policies, please refer to the Note 3 in the consolidated interim statements for the Company for the quarter ended December 31, 2015.

## NEW ACCOUNTING STANDARDS

### New accounting standards adopted effective January 1, 2015

There were no new or revised accounting standards scheduled for mandatory adoption on January 1, 2015, and thus no standards were adopted in 2015.

### 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, 2015, 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 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.

## CRITICAL ACCOUNTING ESTIMATES

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.

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 they do 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.

The Company may be a party to an arrangement in which they do 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 9). 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.

*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 regards to shared infrastructure, geographical proximity, resource type and materiality. Based on management's assessment, the Company's properties in Eastern Kansas (Note 9) form one CGU, and the Company's 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.

*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.

## 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 March 31, 2016, the Company considers capital to consist of all components of shareholders' equity. The Company manages the capital structure and makes adjustments to it in light of 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, raise debt or dispose of assets to increase the amount of cash.

In order 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.

At this stage of the Company's development, in order to maximize ongoing development efforts, the Company does not pay out dividends.

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.

## CONTINGENT LIABILITIES

On October 21, 2015 the Company's subsidiary Jericho Oil (Kansas) Corp was served, along with two other parties, with a legal action by the owners of the Kitchen properties, situated in the Company's oil rights in eastern Kansas. The suit alleges that the Company through its operator on the property, Kansas Resource and Development LLC, has caused damage to the Kitchen property, and is seeking damages in the range of $73,000 (USD$50,000) accordingly. Jericho Oil (Kansas) Corp is denying the claims. The operator of the property who is also named in the action, is defending the action.

## FINANCIAL INSTRUMENTS AND RISK

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

| | March 31, 2016<br>$ | December 31, 2015<br>$ |
|---|---|---|
| Financial Assets: | | |
| Fair value through profit or loss | 1,231,754 | 1,675,131 |
| Loans and receivables | 370,718 | 404,797 |
| Financial Liabilities: | | |
| Other financial liabilities | 138,693 | 111,620 |

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 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 statements of financial position as at March 31, 2016 as follows:

| | Balance as at March 31, 2016 | Quoted Prices in Active Markets for Identical Assets | Significant Other Observable Inputs | Significant Unobservable Inputs |
|---|---|---|---|---|
| | | (Level 1) | (Level 2) | (Level 3) |
| | $ | $ | $ | $ |
| *Financial Assets:* | | | | |
| Cash and cash equivalents | 1,231,754 | 1,231,754 | - | - |

The Company believes that the recorded value of accounts receivable and accounts payable approximate their current fair values because of their nature and relatively short maturity dates or durations and current market rates for similar instruments.

The Company thoroughly examines the various financial instrument risks to which it is exposed, and assesses the impact and likelihood of those risks. Where material, these risks are reviewed and monitored by management. There have not been any significant changes from the previous year as to how these risks are reviewed and monitored by management. The types of financial instrument risk exposures and the objectives and policies for managing these 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 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 to-date all balances owed have been settled in full when due (typically within 60 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 6 to the condensed consolidated interim financial statements. The Company had cash and cash equivalents at March 31, 2016 in the amount of $1,231,754 (2015 - $4,238,525) in order to meet short-term business requirements. At March 31, 2016, the Company had current liabilities of $167,193 (2015 - $175,275). Accounts payable and accrued liabilities are due within the current operating period. Contractual undiscounted cash flow requirements for financial liabilities as at March 31, 2016 are as follows:

| | <1 month<br>$ | 1-3 months<br>$ | 4 month - <1 year<br>$ | 2-4 years<br>$ | Total<br>$ |
|---|---|---|---|---|---|
| Accounts payable and accrued liabilities | 167,193 | - | - | - | 167,193 |
| | 167,193 | - | - | - | 167,193 |

(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 March 31, 2016. 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 March 31, 2016.

*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.

*Exploration, Development and Production Risks*

The acquisition of leasehold interests and the selection of prospects for oil and natural gas drilling, the drilling, ownership and operation of oil and natural gas wells, and the ownership of non-operating interests in oil and natural gas properties is highly speculative. There is no certainty that prospects will produce oil or natural gas or commercial quantities of oil or natural gas. Additionally, the amount of time it will take to recover any oil or gas is unpredictable. Oil and natural gas operations involve many risks that even experience, knowledge and careful evaluation may not be able to overcome. The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves.

Without the continual addition of new reserves, any existing reserves the Company may have at any particular time, and the production there from, will decline over time as such existing reserves are exploited. A future increase in the Company's reserves will depend not only on its ability to explore and develop properties it may have from time to time, but also on its ability to select and acquire suitable producing properties and prospects. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participations are identified, management of the Company may determine that current markets, terms of acquisitions and participation or pricing conditions make such acquisitions or participations uneconomic.

There is no assurance commercial quantities of oil and natural gas will be discovered or acquired by the Company. Further, completion of a well does not assure a profit on the investment or recovery of drilling, completion and operating costs. Delays and added expenses may also be caused by poor weather conditions affecting, among other things, the ability to lay pipelines or otherwise transport or market hydrocarbons. In addition, ground water, impenetrable substances, various clays and lack of porosity and permeability may hinder or restrict production or even make production impractical or impossible. While diligent field operations and effective maintenance operations can contribute to maximizing production rates over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

*Operational Dependence*

An unrelated party operates all of the producing wells in Kansas. As a result of the Company's lack of exclusive control over the operation of the assets or their associated costs, the Company's financial performance could be adversely affected. The Company's return on assets operated by others therefore depends upon a number of factors that may be outside of the Company's control, including the timing and amount of capital expenditures, the operator's expertise, the approval of other participants, and the selection of technology and risk management practices.

*Regulatory*

Oil and natural gas operations (exploration, production, pricing, marketing and transportation) are subject to extensive controls and regulations imposed by various levels of government, which may be amended from time to time. Governments may regulate or intervene with respect to price, taxes, royalties and the exportation of oil and natural gas. Such regulations may be changed from time to time in response to economic or political conditions. The implementation of new regulations or the modification of existing regulations affecting the oil and natural gas industry could reduce demand for crude oil and natural gas and increase the Company's costs, any of which may have a material adverse effect on the Company's business, financial condition, results of operations and prospects. In order to conduct oil and gas operations, the Company will require licenses from various government authorities. There can be no assurance that the Company will be able to obtain all of the licenses and permits that may be required to conduct operations that it may wish to undertake.

*Environmental*

All phases of the oil and natural gas business present environmental risks and hazards and are subject to environmental regulation pursuant to a variety of federal laws, local laws and regulations. Environmental legislation provides for, among other things, restrictions and prohibitions on spills, releases or emissions of various substances produced in association with oil and natural gas operations. The legislation also requires that wells and facility sites be operated, maintained, abandoned and reclaimed to the satisfaction of applicable regulatory authorities. Compliance with such legislation can require significant expenditures and a breach of applicable environmental legislation may result in the imposition of fines and penalties, some of which may be material. Environmental legislation is evolving in a manner expected to result in stricter standards and enforcement, larger fines and liability and potentially increased capital expenditures and operating costs. The discharge of oil, natural gas or other pollutants into the air, soil or water may give rise to liabilities to governments and third parties and may require the Company to incur costs to remedy such discharge. Although the Company believes that it is in material compliance with current applicable environmental regulations no assurance can be given that environmental laws will not result in a curtailment of production or a material adverse effect on the Company's business, financial condition, results of operations and prospects. Given the evolving nature of the debate related to climate change and the control of greenhouse gases and resulting requirements, it is not possible to predict the impact on the Company and its operations and financial condition.

## OUTLOOK

The Company's long-term goal is to evaluate and develop oil properties, to seek partners for some of its properties as market conditions permit, and to continue to seek out new opportunities. There is no guarantee that the Company will discover or successfully develop such properties.

## PROPOSED TRANSACTIONS

None.

## SHARE CAPITAL UPDATE

As at the date of this report, the Company had the following share capital outstanding:

| | |
|---|---|
| Shares issued and outstanding | 64,701,012 |
| Stock options outstanding | 3,675,000 |
| Share purchase warrants outstanding | 12,892,323 |
| Common shares fully diluted | 81,268,335 |

## DIRECTORS AND OFFICERS

The Company's directors and officers as at the date of this report are:

| **Directors:** | **Officers:** | **Title** |
|---|---|---|
| Allen Wilson | Allen Wilson | Chief Executive Officer |
| Steve Kenwood | Robin Peterson | Chief Financial Officer |
| Nicholas W. Baxter | | |
| Gerald R. Tuskey | | |

There were no resignations or appointments of Directors or Officers during the quarter.

## ADDITIONAL INFORMATION

**Additional information relating the Company is available on SEDAR at www.sedar.com**

**Board Approval**

The contents of this management's discussion and analysis have been approved and its mailing has been authorized by the Board of Directors of the Company.

**On Behalf Of the Board of Directors**

/s/ Allen Wilson

Allen Wilson