JERICHO OIL CORPORATION

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

June 30, 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.

August 21, 2018

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

	Note	June 30, 2018	December 31, 2017
Assets			
Current assets			
Cash		$ 5,023,877	$ 5,292,783
Accounts receivable	6	41,081	53,703
Prepaid expenses and deposits		106,319	154,003
		5,171,277	5,500,489
Non-current assets			
Petroleum properties	4	661,995	666,852
Equity investments	5	38,378,685	36,749,497
		39,040,680	37,416,349
Total assets		$ 44,211,957	$ 42,916,838
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	$ 294,744	$ 244,493
Non-current liabilities			
Decommissioning liabilities	8	146,264	137,346
Deferred income tax liability		-	-
Total liabilities		$ 441,008	$ 381,839
Shareholder's Equity			
Share capital	10	49,681,626	41,535,190
Subscriptions received	10	-	6,606,464
Contributed surplus	10	3,036,018	2,920,352
Accumulated other comprehensive loss		1,680,091	(230,276)
Deficit		(10,626,786)	(8,296,731)
		43,770,949	42,534,999
Total liabilities and shareholders' equity		$ 44,211,957	$ 42,916,838

Subsequent events (Note 15)

Approved on behalf of the Board on August 21, 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)

		Three months ended June 30,		Six months ended June 30,	
	Note	**2018**	**2017**	**2018**	**2017**
Net crude oil revenue		$ 101,482	$ 101,005	$ 212,854	$ 206,739
Operating expenses					
Production costs		62,979	79,515	129,055	159,310
Depletion		16,708	35,721	36,858	70,482
Accretion of decommissioning liabilities	8	1,029	3,577	2,036	7,098
General and administrative expenses	9	951,817	545,678	1,935,143	1,337,168
Foreign exchange (gain) loss		(11,944)	339,446	(122,820)	512,747
Total operating expenses		1,020,589	1,003,937	1,980,272	2,086,805
Share of income (loss) from equity investments	5	(366,522)	(4,995)	(559,453)	(175,889)
Operating Income (loss)		(1,285,629)	(907,927)	(2,326,871)	(2,055,955)
Other income					
Other income		-	60,217	-	60,217
		-	60,217	-	60,217
Income (loss) before income tax		(1,285,629)	(847,710)	(2,326,871)	(1,995,738)
Income tax					
Income tax expense		788	-	(3,184)	-
Net Income (loss) for the period		(1,284,841)	(847,710)	(2,330,055)	(1,995,738)
Other comprehensive income (loss)					
Items may be reclassified subsequently to income/loss					
Foreign currency exchange gain (loss) on translation of foreign subsidiary		863,179	(245,611)	1,910,367	(311,598)
Comprehensive income (loss)		$ (421,662)	$ (1,093,321)	$ (419,688)	$ (2,307,336)
Income (loss) per common share					
Basic		$ (0.01)	$ (0.01)	$ (0.02)	$ (0.03)
Diluted		(0.01)	(0.01)	(0.02)	(0.02)
Weighted average number of common shares					
Basic		126,200,155	79,140,404	126,200,155	79,140,404
Diluted		126,200,155	105,342,823	126,200,155	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	300,000	146,102	-	252,297	-	-	398,399
Share-based payments	-	-	-	-	-	-	-
Other comprehensive loss	-	-	-	-	(311,598)	-	(311,598)
Net income for the period	-	-	-	-	-	(1,995,738)	(1,995,738)
June 30, 2017	79,140,404	$ 25,203,000	$ -	$ 2,360,832	$ 1,104,249	$ (4,277,693)	$ 24,390,388

	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, 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 options exercise	375,000	242,649	-	-	-	-	242,649
Issue of common shares under warrant exercise	9,389,289	5,633,574	-	-	-	-	5,633,574
Share issuance cost	-	(754)	-	-	-	-	(754)
Share-based payments	-	-	-	115,666	-	-	115,666
Other comprehensive loss	-	-	-	-	1,910,367	-	1,910,367
Net loss for the period	-	-	-	-	-	(2,330,055)	(2,330,055)
June 30, 2018	127,494,616	$ 49,681,626	$ -	$ 3,036,018	$ 1,680,091	$ (10,626,786)	$ 43,770,949

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

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

	Six months ended June 30,	
	2018	**2017**
Cash flows from (used in) operating activities		
Income (loss) for the period	$ (2,330,055)	$ (1,148,027)
Item not affecting cash		
Accretion of decommissioning liabilities	2,036	3,521
Depletion	36,858	34,761
Share-based payments	115,666	358,291
Share of income from equity investments	559,453	170,894
Changes in non-cash working capital items		
Increase in accounts receivables	12,622	20,394
Decrease in prepaid expenses and deposits	47,684	(268,862)
Increase (decrease) in accounts payable and accrued liabilities	50,251	(63,160)
Net cash used in operating activities	(1,505,485)	(892,188)
Cash flows from (used in) investing activities		
Contributions to equity investments	(369,371)	(529,533)
Net cash used in investing activities	(369,371)	(529,533)
Cash flows from (used in) financing activities		
Proceeds from issuance of common shares	7,142,238	300,932
Subscriptions received	(6,606,464)	-
Net cash from financing activities	1,539,972	300,932
Change in cash	(334,884)	(1,120,789)
Effect of exchange rate changes on cash	65,978	142,354
Cash at beginning of period	5,292,783	5,045,170
Cash at end of period	$ 5,023,877	$ 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 June 30, 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 August 21, 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:

		June 30, 2018		December 31, 2017
Cost:				
Balance, beginning of year	$	1,527,293	$	1,634,672
Movement in foreign exchange rates		86,445		(107,379)
Balance, end of period		1,613,738		1,527,293
Accumulated depletion:				
Balance, beginning of year		860,441		818,571
Depletion		36,858		99,003
Movement in foreign exchange rates		54,444		(57,133)
Balance, end of period		951,743		860,441
Carrying value	$	661,995	$	666,852

5. EQUITY INVESTMENTS

As of June 30, 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.

As of June 30, 2018, the Company holds a 50% interest in three jointly controlled entities, Eagle Road Oil, LLC ("Eagle Road"), Lurgan Oil LLC ("Lurgan"), and Jericho Buckmanville Oil LLC ("Buckmanville"). Eagle Road is the operator of the Company's joint ventures in Oklahoma. The Company also holds a 26.5% equity interest in RSTACK Walnut, LLC "Walnut".

(Expressed in Canadian dollars)

5. EQUITY INVESTMENTS (continued)

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 and placed on production 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, Walnut invested approximately US$3.5 million for the first well which was completed and put on production late in second quarter 2018.

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

Carrying amounts of the Company's interests in joint ventures at June 30, 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)	(363,087)	(30,563)	(212,683)	46,880	(559,453)
Advances	63,905	255,620	49,846	-	369,371
Movement in foreign exchange	457,129	135,354	664,668	562,119	1,819,270
Balance, June 30, 2018	$ 9,545,294	$ 2,948,732	$ 13,985,160	$ 11,899,499	$ 38,378,685

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.

(Expressed in Canadian dollars)

5. EQUITY INVESTMENTS (continued)

Results of operations of the joint ventures for the six months ended June 30, 2018 is as follows:

CAD$ 100%

Six months ended June 30, 2018	Eagle Road	Lurgan	Buckmanville	Walnut	Total
Revenue	$ 1,852,459	$ 517,498	$ 3,820,595	$ 2,064,488	$ 8,255,040
Production cost	(658,753)	(277,182)	(2,618,792)	(705,893)	(4,260,620)
Depletion and depreciation	(894,162)	(235,467)	(862,052)	(473,999)	(2,465,680)
Accretion of decommissioning provision	(30,107)	(2,860)	(37,942)	(10,350)	(81,259)
Realized (loss) gain on hedging	(53,835)	(12,284)	(104,592)	-	(170,711)
Unrealized (loss) gain on hedging	(274,334)	(24,255)	(464,700)	-	(763,289)
G&A and other operating	(597,194)	(11,952)	(25,846)	(696,989)	(1,331,981)
Interest expense	(70,247)	(14,623)	(132,037)	-	(216,907)
100% Net income (loss) in CDN$	**$ (726,173)**	**$ (61,125)**	**$ (425,366)**	**$ 177,257**	**$ (1,035,407)**
100% Net income (loss) in US$	$ (568,166)	$ (47,826)	$ (332,811)	$ 138,688	$ (810,115)
Jericho's ownership	50%	50%	50%	26%	
Jericho's share of net income (loss) in CDN$	**$ (363,087)**	**$ (30,563)**	**$ (212,683)**	**$ 46,880**	**$ (559,452)**
Jericho's share of net income (loss) in US$	$ (284,083)	$ (23,913)	$ (166,406)	$ 36,679	$ (437,722)

Results of operations of the joint ventures for the six months ended June 30, 2017 is presented in the following table. For the six-month period presented below, the Company owned a 25 percent interest in Buckmanville. Certain prior period amounts have been reclassified to conform with current period presentation.

CAD$ 100%

Six months ended June 30, 2017	Eagle Road	Lurgan	Buckmanville	Total
Revenue	$ 2,172,931	$ 343,203	$ 3,233,620	$ 5,749,754
Production cost	(1,156,723)	(220,960)	(2,516,434)	(3,894,117)
Depletion and depreciation	(464,375)	(111,205)	(396,120)	(971,700)
Accretion of decommissioning provision	(60,150)	(2,111)	(58,234)	(120,495)
Realized (loss) gain on hedging	(71,826)	(30,410)	(180,802)	(283,039)
Unrealized (loss) gain on hedging	(91,542)	(38,756)	(202,610)	(332,908)
G&A and other operating	(420,013)	(2,526)	(23,470)	(446,009)
Interest expense	(49,081)	(21,088)	(110,240)	(180,409)
100% Net income (loss) in CDN$	**$ (140,780)**	**$ (83,853)**	**$ (254,290)**	**$ (478,923)**
100% Net income (loss) in US$	$ (105,508)	$ (62,844)	$ (190,580)	$ (358,932)
Jericho's ownership	50%	50%	25%	
Jericho's share of net income (loss) in CDN$	**$ (70,390)**	**$ (41,926)**	**$ (63,573)**	**$ (175,889)**
Jericho's share of net income (loss) in US$	$ (52,754)	$ (31,422)	$ (47,645)	$ (131,821)

(Expressed in Canadian dollars)

5. EQUITY INVESTMENTS (continued)

Summary financial position information of the joint ventures as of June 30, 2018 is as follows. Current liabilities include $7.8 million (US $5.9 million) related to the credit facility discussed below. At June 30, 2018, Non-current liabilities include $6.2 million for asset retirement obligations and $8.0 million for deferred tax liability.

CAD$ 100% **As at June 30, 2018**	Eagle Road	Lurgan	Buckmanville	Walnut	Total
Assets					
Cash and cash equivalents	$ 978,886	$ 174,439	$ 73,149	$ 6,814,966	$ 8,041,440
Current assets (excluding cash)	2,451,104	488,116	214,148	1,479,332	4,632,700
Non-current assets	30,977,943	6,477,536	40,963,984	39,274,585	117,694,048
Total assets	34,407,933	7,140,091	41,251,281	47,568,883	130,368,188
Liabilities					
Current liabilities	4,521,090	863,308	5,613,310	2,301,351	13,299,059
Intercompany	4,332,827	(274,535)	(3,941,241)	(117,051)	0
Non-current liabilities	6,463,481	653,855	6,620,694	837,403	14,575,433
Total liabilities	15,317,398	1,242,628	8,292,763	3,021,703	27,874,492
Equity	19,090,535	5,897,463	32,958,518	44,547,180	102,493,696
Total Liabilities and Equity	$ 34,407,933	$ 7,140,091	$ 41,251,281	$ 47,568,883	$ 130,368,188

Summary financial position information of the joint ventures as of December 31, 2017 is as follows. As previously mentioned, Jericho's interest in the RSTACK Walnut joint venture changed from 31 percent at the end of 2017 to a 26.5% interest in January 2018. At December 31, 2017, Non-current liabilities include $6.1 million for asset retirement obligations and $7.6 million for deferred tax liability.

CAD$ 100% **As at December 31, 2017**	Eagle Road	Lurgan	Buckmanville	Rstack Walnut	Total
Assets					
Cash and cash equivalents	$ 404,474	$ 43,027	$ 147,840	$ 8,195,545	$ 8,790,886
Current assets (excluding cash)	2,973,452	304,904	137,682	1,627,183	5,043,221
Non-current assets	30,195,764	5,629,754	38,865,723	27,177,055	101,868,296
Total assets	33,573,690	5,977,685	39,151,245	36,999,783	115,702,403
Liabilities					
Current liabilities	4,347,934	692,149	4,991,783	184,967	10,216,833
Intercompany	4,339,793	(491,903)	(3,922,130)	74,240	-
Non-current liabilities	6,111,318	600,797	6,362,735	747,481	13,822,331
Total liabilities	14,799,045	801,043	7,432,388	1,006,688	24,039,164
Equity	18,774,645	5,176,642	31,718,857	35,993,095	91,663,239
Total Liabilities and Equity	$ 33,573,690	$ 5,977,685	$ 39,151,245	$ 36,999,783	$ 115,702,403

(Expressed in Canadian dollars)

5. EQUITY INVESTMENTS (continued)

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 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 June 30, 2018, of $7,767,704 (US $5,896,646) was extended in July for two years until August 2020. The borrowing base was reduced from $10 million to $7.5 million as part of the extension. 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, which entails 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 buying puts at $43 per barrel and selling calls at $53.18 per barrel. In addition, the joint venture group bought calls from August 2018 to March 2019 at $60 per barrel. These contracts were not designated as hedges, and derivative accounting is applied.

6. ACCOUNTS RECEIVABLE

The following table presents accounts receivable for the periods presented:

		June 30, 2018		December 31, 2017
Trade receivable	$	41,081	$	39,487
Other		-		14,216
	$	41,081	$	53,703

(Expressed in Canadian dollars)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

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

	June 30, 2018	December 31, 2017
Trade payables	$ 259,744	$ 134,493
Accrued liabilities	35,000	110,000
	$ 294,744	$ 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):

	June 30, 2018	December 31, 2017
Balance, beginning of year	$ 137,346	$ 142,845
Accretion expense	2,036	4,020
Movement in foreign exchange rates	6,882	(9,519)
Balance, end of period	$ 146,264	$ 137,346

The present value of the obligation relating to the properties in Kansas (Note 4) of $146,264 (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 and six-months ended June 30, 2018 and 2017.

	Three Months ended June 30,		Six Months ended June 30,	
	2018	2017	2018	2017
General and administrative expense				
Management fees	$ 222,005	$ 62,900	$ 366,644	$ 131,200
Stock compensation expense	202,357	34,892	245,815	393,183
Consulting fees	175,097	130,400	313,234	373,460
Accounting and auditing fees	104,025	83,991	129,839	92,085
Investor relations	131,712	40,761	603,306	109,862
Transfer agency and filing fees	2,865	8,641	31,153	20,507
Legal fees (recovery)	31,608	117,012	67,691	97,568
Travel	39,246	25,875	68,126	34,446
Rent	14,326	10,439	28,560	20,878
Insurance	4,823	4,260	11,979	10,982
Office and miscellaneous	23,753	26,507	68,796	52,997
General and administrative expense	$ 951,817	$ 545,678	$ 1,935,143	$ 1,337,168

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 June 30, 2018

During second quarter 2018, 365,729 warrants were exercised at $0.60 per share for proceeds of $219,437, and 375,000 stock options were exercised at an average price of $0.30 for gross proceeds of $112,500.

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 $0.90 per share for a period of 24 months from closing.

10. SHARE CAPITAL AND EQUITY RESERVES (continued)

(b) Issued share capital (continued)

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

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 June 30, 2018, and December 31, 2017, 5,041,462 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 June 30, 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	375,000	0.80
Exercised	(375,000)	0.30
Outstanding June 30, 2018	7,708,000	$ 0.44

During the first six months of 2018, the Company recorded share-based payment expense in the amount of $61,524 (2017 - $393,183) in connection with options vesting during the period.

As of June 30, 2018, the following incentive stock options were outstanding:

Expiration date	Options outstanding and exercisable	Unvested options	Exercise price
1-Apr-19	2,725,000	-	$ 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	1,500,000	-	0.50
1-Sep-22	458,000	-	0.65
4-Oct-22	100,000	-	0.75
4-Apr-23	275,000	100,000	0.80
	7,608,000	100,000	$ 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 June 30, 2018 were as follows:

	Number of Warrants	Weighted-Average Exercise Price	
Outstanding, December 31, 2017	33,461,890	$	0.60
Granted	1,892,473		0.90
Exercised	(9,389,289)		0.60
Expired	(260,416)		0.60
Outstanding, June 30, 2018	25,704,658	$	0.62

The following table summarizes the warrants outstanding and exercisable at June 30, 2018:

Expiration Date	Warrants Outstanding and Exercisable	Weighted-Average Exercise Price	
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		0.90
Outstanding, June 30, 2018	25,704,658	$	0.62

(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:

	Six months ended June 30,	
	June 30, 2018	June 30, 2017
Management fees	$ 399,644	$ 178,165
Directors' fees	12,000	7,500
Share-based payments	99,413	70,816
	$ 511,057	$ 256,481

At June 30, 2018, $30,736 payable to directors of the Company (2017 - $Nil) was included in accounts payable and accrued liabilities. 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 June 30, 2018 in the amount of $5,023,877 (December 31, 2017 - $5,292,783) to meet short-term business requirements.

At June 30, 2018, the Company had current liabilities of $269,506 (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 June 30, 2018 are as follows:

	<1 month	1-3 months	4 month - <1 year	2-4 years	Total
Accounts payable and accrued liabilities	294,588	-	-	-	294,588
	294,588	-	-	-	294,588

(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 June 30, 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 June 30, 2018:

Cash and cash equivalents	USD$	2,917,411
Receivables		23,570
Accounts payable and accrued liabilities		(94,326)
Net exposure	USD$	2,846,655
Canadian dollar equivalents	CDN$	3,748,475

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$374,848 or US$284,665.

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 June 30, 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 June 30, 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 $212,854 for the first six months of 2018 (2017 – $206,739) are all attributable to the Kansas properties where sales are recorded from shipments of crude oil concentrate and gas production. The investment loss of $(559,453) (2017 – ($175,889)) relates to the Company's share of income of joint ventures in Oklahoma.

All the Company's revenues are derived from one customer in Kansas. As of June 30, 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 July 2018, the Company along with its Joint Venture Equity partner extended its existing Senior Secured Credit Facility with East-West Bank for a period of 24 months.