JERICHO OIL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Canadian Dollars)

December 31, 2015 and 2014

MANNING ELLIOTT
ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Jericho Oil Corporation

We have audited the accompanying consolidated financial statements of Jericho Oil Corporation which comprise the consolidated statement of financial position as at December 31, 2015 and 2014, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years ended December 31, 2015 and 2014, and the related notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Jericho Oil Corporation as at December 31, 2015 and 2014, and its financial performance and its cash flows for the years ended December 31, 2015 and 2014 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Manning Elliott LLP

CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, British Columbia

April 29, 2016

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

	Note	December 31, 2015	December 31, 2014
Assets			
Current assets			
Cash and cash equivalents		$ 1,675,131	$ 4,738,525
Accounts receivable	7	404,797	108,213
Prepaid expenses and deposits		62,418	43,967
		2,142,346	4,890,705
Non-current assets			
Exploration and evaluation assets	8	300,407	-
Other	13	30,000	-
Petroleum properties	9	2,397,088	6,113,955
Investments in joint ventures	10	14,924,122	-
		17,651,617	6,113,955
Total assets		**$ 19,793,963**	**$ 11,004,660**
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	12, 14	$ 175,275	$ 365,760
Non-current liabilities			
Decommissioning liabilities	11	315,400	224,088
Deferred income tax liability	18	1,470,000	-
Total liabilities		**1,960,675**	**589,848**
Shareholders' Equity			
Share capital	13	11,818,060	11,720,896
Subscriptions received	13	6,929,019	-
Contributed surplus	13	1,444,455	1,450,979
Accumulated other comprehensive income (loss)		1,465,741	(32,434)
Deficit		(3,823,987)	(2,724,629)
		17,833,288	10,414,812
Total liabilities and shareholders' equity		**$ 19,793,963**	**$ 11,004,660**

Commitments (Note 9)
Contingent liabilities (Note 17)
Subsequent events (Note 19)
Approved on behalf of the Board on April 29, 2016:

"Allen Wilson" **Director** "Steve Kenwood" **Director**

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

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

	Note	Years ended December 31 2015	2014
Net crude oil revenue		$ 678,711	$ 766,031
Operating Expenses			
Accounting and auditing fee	14	202,473	136,109
Accretion of decommissioning liabilities		8,985	-
Amortization		10,290	-
Consulting fees		422,969	267,589
Depletion	9	357,296	136,644
Foreign exchange (gain) loss		582,071	(493,067)
Insurance		29,611	17,083
Investor relations		187,118	287,426
Legal fees	14	197,543	44,011
Management fees	14	171,000	120,000
Office and miscellaneous		68,081	98,865
Production costs		548,152	474,988
Rent		46,100	39,181
Share-based payments		31,515	1,192,724
Transfer agency and filing fees		42,818	86,102
Travel		59,620	64,256
		(2,965,642)	(1,996,923)
Share of income from joint ventures	10	6,788,887	-
Income (loss) before other items		4,501,956	(1,705,880)
Other items			
Impairment of petroleum properties	9	(4,141,504)	-
Interest income		10,190	13,575
		(4,131,314)	13,575
Net income (loss) before income tax		370,642	(1,692,305)
Deferred income tax expense	18	(1,470,000)	-
Net loss for the year		(1,099,358)	(1,692,305)
Other comprehensive income (loss)			
Items that may be reclassified subsequently to income or loss			
Foreign currency exchange gain (loss) on translation of foreign subsidiaries		1,498,175	(32,434)
Comprehensive income (loss) for the year		$ 398,817	$ (1,724,739)
Basic and diluted loss per common share		$ (0.02)	$ (0.05)
Weighted average number of common shares		45,671,449	35,286,812

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

Jericho Oil Corporation
Consolidated Statements of Changes in Equity
(Expressed in Canadian dollars)

	Number of Shares (Note 13)	Share Capital	Subscriptions Received	Contributed Surplus	Accumulated Other Comprehensive Income (Loss)	Deficit	Total Equity
December 31, 2013	15,225,000	$ 1,133,553	$ -	$ 258,255	$ -	$ (1,032,324)	$ 359,484
Issue of common shares for cash	30,287,402	10,778,427	-	-	-	-	10,778,427
Share issuance cost	-	(191,959)	-	-	-	-	(191,959)
Share issued under warrant exercise	3,500	875	-	-	-	-	875
Share-based payments	-	-	-	1,192,724	-	-	1,192,724
Other comprehensive loss	-	-	-	-	(32,434)	-	(32,434)
Loss for the year	-	-	-	-	-	(1,692,305)	(1,692,305)
December 31, 2014	45,515,902	$ 11,720,896	$ -	$ 1,450,979	$ (32,434)	$ (2,724,629)	$ 10,414,812
Subscriptions received	-	-	6,929,019	-	-		6,929,019
Share issued under warrant exercise	236,500	97,164	-	(38,039)	-	-	59,125
Share-based payments	-	-	-	31,515	-	-	31,515
Other comprehensive income	-	-	-	-	1,498,175	-	1,498,175
Loss for the year	-	-	-	-	-	(1,099,358)	(1,099,358)
December 31, 2015	45,752,402	$ 11,818,060	$ 6,929,019	$ 1,444,455	$ 1,465,741	$ (3,823,987)	$ 17,833,288

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

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

		Years ended December 31 2015		2014
Cash flows from (used in) operating activities				
Loss for the year	$	(1,099,358)	$	(1,692,305)
Item not affecting cash				
Deferred income tax		1,470,000		-
Accretion of decommissioning liabilities		8,985		-
Amortization		10,290		-
Depletion		357,296		136,644
Share-based payments		31,515		1,192,724
Impairment of petroleum properties		4,141,504		-
Share of income from joint ventures		(6,788,887)		-
Changes in non-cash working capital items				
(Increase)/decrease in accounts receivables		(296,584)		(70,351)
Increase in prepaid expenses and deposits		(18,452)		(42,602)
Increase/(decrease) in accounts payable and accrued liability		(190,484)		270,631
Net cash used in operating activities		(2,374,175)		(205,259)
Cash flows from (used in) investing activities				
Acquisition of petroleum properties		(168,851)		(3,026,210)
Development costs for the year		(357,962)		(3,109,946)
Acquisition of exploration and evaluation assets		(66,658)		-
Exploration costs for the year		(157,826)		-
Cost of investments in joint ventures		(7,917,052)		-
Proceeds from sale of interest in petroleum properties		-		163,632
Cash used in investing activities		(8,668,350)		(5,972,524)
Cash flows from (used in) financing activities				
Proceeds from issuance of common shares		59,125		10,779,302
Share issuance costs		-		(191,959)
Subscriptions received		6,929,019		-
Deferred share issuance costs		(30,000)		-
Net cash from financing activities		6,958,144		10,587,343
Change in cash and cash equivalents		(4,084,381)		4,409,560
Effect of exchange rate changes on cash and cash equivalents		1,020,987		(25,555)
Cash at beginning of year		4,738,525		354,520
Cash at end of year	$	1,675,131	$	4,738,525
Cash and Cash Equivalents Consist of:				
Bank and trust balances	$	1,675,131	$	3,006,525
Guaranteed investment certificates		-		1,672,000
	$	1,675,131	$	4,738,525

(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 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 Market exchange under the symbol "JROOF".

The Company's principal activity is the acquisition, exploration and development of oil and natural gas fields in the United States of America.

The head office, principal address and records office of the Company are located at Suite 1100-888 Dunsmuir Street, Vancouver, British Columbia, Canada, V6C 3K4.

2. BASIS OF PRESENTATION

Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The financial statements were approved and authorized for issue by the Board of Directors on April 29, 2016.

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.

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.

2. BASIS OF PRESENTATION (continued)

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 each 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 cumulative amount of related exchange difference is recognized in the statement of operations.

Significant Accounting Judgments and Estimates

The preparation of consolidated financial statements, in compliance with IFRS, requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 5.

Basis of Consolidation

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

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.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

The Company considers all highly liquid instruments with a maturity of three months or less at the time of issuance to be cash equivalents.

(b) Exploration and Evaluation Assets

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

(c) Petroleum Properties

Petroleum properties

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Petroleum Properties *(continued)*

Subsequent measurement

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

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

Depletion and depreciation

The net carrying value of development or production assets is depleted on a field by field basis using the unit of production method by reference to the ratio of production in the year to the related proved and probable reserves. These estimated reserves are reviewed by independent reserve engineers at least annually.

Proved and probable reserves are estimated by independent reserve engineers in accordance with Canadian Securities Regulation National Instrument 51-101 Standards of Disclosure for Oil and Gas Activities. Changes in reserve estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior year adjustments and are dealt with on a prospective basis.

Impairment

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) Petroleum properties (*continued)*

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

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

(d) Revenues

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

(e) Joint Arrangements

As at December 31, 2015, the Company has working interests in joint arrangements to conduct oil and gas development and production activities on the properties in Kansas and Oklahoma.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Joint Arrangements

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

The Company's investments in joint ventures are accounted for using the equity method. Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Company's share of net assets of the joint venture since the acquisition date less distributions received and any impairment in the fair value of investment.

The statement of comprehensive income (loss) reflects the Company's share of the results of operations of the joint venture. Any change in other comprehensive income (loss) of the associate or joint venture is presented as part of the Company's other comprehensive income (loss).

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

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

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

(f) Provisions

I. Legal Matters

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Provisions (continued)

II. Decommissioning Provisions

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

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

(g) Share-Based Payments

The Company grants options to purchase common shares to directors, officers, employees, consultants and certain service providers under its stock option plan. Share-based payments are measured at the fair value of the instruments issued and amortized over the vesting periods. The amount recognized as a share-based payment expense during a reporting period is adjusted to reflect the number of awards expected to vest. The offset to this recorded cost is to contributed surplus. The fair value of employee stock options is measured using the Black-Scholes Option Pricing Model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility adjusted for changes expected due to publicly available information), weighted average expected life of the instruments (based on historical experience and general option holder behavior), expected dividends, and the risk-free interest rate (based on short-term government bonds). A forfeiture rate is estimated on the grant date and is subsequently adjusted to reflect the actual number of options that vest.

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Earnings/Loss per Share

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

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

(i) Other comprehensive Income (Loss)

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

(j) Income Taxes

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

(k) Warrants issued in equity financing transactions

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

(l) Foreign Currency Translation

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

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

(m) Leases

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial Instruments

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

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

I. Financial Assets

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

Loans and Receivables

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

Available-For-Sale Investments

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

Financial assets at fair value through profit or loss

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

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

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(n) Financial Instruments (continued)

Impairment of Financial Assets

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

II. Financial Liabilities

Financial liabilities at fair value through profit or loss

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

Other Financial Liabilities

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

4. 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.

4. NEW ACCOUNTING STANDARDS (continued)

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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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

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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Joint Arrangements (continued)

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.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

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 3 properties in Oklahoma each form separate CGUs.

Income Taxes

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

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

Oil and Gas — Reserves

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

Petroleum Properties

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

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (continued)

Impairment Testing

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

Decommissioning Provisions

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

Share-Based Payments

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

6. MANAGEMENT OF CAPITAL

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern. The Company does not have any externally imposed capital requirements to which it is subject. As at December 31, 2015, 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, or dispose of assets to increase the amount of cash on hand.

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.

6. MANAGEMENT OF CAPITAL (continued)

The Company expects its current capital resources to be sufficient to carry its exploration and development plans and operations through the next 12 months. Cost control measures have been implemented and best efforts will be made to raise additional capital.

7. ACCOUNTS RECEIVABLE

	December 31, 2015	December 31, 2014
Trade receivables	$ 41,843	$ 89,510
Other (Note 14)	362,954	18,703
	$ 404,797	$ 108,213

8. EXPLORATION AND EVALUATION ASSETS

In March 2015, the Company acquired a 50% working interest in 1,850 acres in northeastern Oklahoma for $66,658 (US$48,163) and the assumption of the related decommissioning liability estimated to be $75,923. The following table summarizes property acquisition and exploration costs during the year ended December 31, 2015:

Acquisition costs	$ 66,658
Exploration costs	149,136
Equipment	13,654
Decommissioning costs	75,923
Sales of petroleum	(13,980)
Movement in foreign exchange rates	9,016
December 31, 2015	$ 300,407

The Company did not have any exploration and evaluation assets at December 31, 2014.

9. PETROLEUM PROPERTIES

In March 2014, the Company completed an acquisition of a 50% interest in two, shallow, low-decline oil-producing lease packages, "Ekan -1" and "Ekan -2", located in Kansas, USA (the "Kansas Properties") for approximately $2.813 million (US $2.424 million). In April 2014, the Company entered into a joint operating agreement with Kansas Resource Exploration & Development LLC ("KRED"), as an exclusive operator for the further development and production at the Kansas Properties. In June 2014, the Company acquired an additional property, "Ekan-3", located within 5 miles of its existing Kansas Properties for approximately $274,400 (US $236,540). The Company made cash payment of US $75,000 in 2014 and committed to making a cash payment of US $150,000 in 2015 (US $83,000 was paid). During the year ended December 31, 2014, the Company sold a 5% carried working interest in the Kansas properties to KRDC (parent company of KRED) for $163,632 (US$141,050).

9. PETROLEUM PROPERTIES (continued)

During the year ended December 31, 2015, the parties amended the agreement with respect to EKan-3 property. Under the amended agreement, the Company has to pay half of the amount of 300 barrels multiplied by the average monthly price per barrel received from its Kansas oil purchaser, in order to maintain its interest in the Hollinger and Loomer leases (Ekan 3). This amendment was effective March 1, 2015 to December 31, 2015. On January 1, 2016 the amendment extended the Company's commitment to December 31, 2016.

During the year ended December 31, 2015, the Company incurred $168,851 (US $122,002) in acquisition costs to acquire additional interests in the same area in Eastern Kansas.

At December 31, 2015, the Company recorded an impairment write-down of petroleum properties in the amount of $4,141,504 to write-down the property costs to the estimated recoverable amount of $2,397,088 at December 31, 2015. The impairment resulted from a material decline in market prices for crude oil and gas during the year. The recoverable amount of the CGU was determined using a value in use approach based on 2015 year-end reserves report prepared by an independent engineer and a pre-tax discount rate of 10% for proved and probable reserves.

The following is the summary of costs incurred on the Kansas properties in 2015 and 2014:

Cost	
Balance, December 31, 2014	$ 6,257,478
Acquisition costs	168,849
Development costs	319,627
Accretion of decommissioning liability	7,490
Change in estimate of decommissioning liability	(38,335)
Impairment write-down	(4,141,504)
Movement in foreign exchange rates	381,487
Balance, December 31, 2015	2,955,092
Accumulated depletion	
Balance, December 31, 2014	143,523
Depletion	357,296
Movement in foreign exchange rates	57,184
Balance, December 31, 2015	558,003
	$ 2,397,088

9. PETROLEUM PROPERTIES (continued)

Cost	
Balance, December 31, 2013	$ -
Acquisition costs	3,087,076
Development costs	3,109,946
Decommissioning costs	224,088
Proceeds from sale of property	(163,632)
Balance, December 31, 2014	6,257,478
Accumulated depletion	
Balance, December 31, 2013	-
Depletion	136,644
Movement in foreign exchange rates	6,879
Balance, December 31, 2014	143,523
	$ 6,113,955

10. INVESTMENTS IN JOINT VENTURES

During the year ended December 31, 2015, the Company entered into various joint ventures arrangements for producing oil and gas wells in Oklahoma, USA as described below.

On May 15, 2015, the Company entered into a joint venture in which it has a 50% interest in a jointly controlled entity, Eagle Road Oil, LLC ("Eagle Road"). The Company paid $992,225 ($US 812,500) for its interest. The Company later advanced an additional US$235,000 to bring the total investment to $1,449,740 ($US 1,047,500).

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 for $2,030,858 ($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.

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.

10. INVESTMENTS IN JOINT VENTURES (continued)

Carrying amounts of interest in joint ventures:

	Eagle Road	Lurgan	Buckmanville	Total
Cost	$ 992,225	2,030,858	4,518,000	7,541,083
Share of income/(loss) for the year	889,246	2,637,243	3,262,398	6,788,887
Additional advances	306,769	-	-	306,769
Movement in foreign exchange	287,383	-	-	287,383
Balance, December 31, 2015	$ 2,475,623	4,668,101	7,780,398	14,924,122

Summary of financial information of the joint ventures:

Year ended December 31, 2015	Eagle Road	Lurgan	Buckmanville
Revenue	$ 779,537	88,733	-
Depletion and depreciation	(313,424)	-	-
Interest expense	-	-	-
Gain on bargain purchase	2,272,656	5,273,038	13,264,270
Deferred income tax recovery	302,361	-	131,354
Other income (loss)	(1,262,637)	(87,286)	(346,033)
Income tax expense	-	-	-
Income/ loss for the year	$ 1,778,493	5,274,485	13,049,591

As at December 31, 2015	Eagle Road	Lurgan	Buckmanville
Assets			
Cash and cash equivalents	$ 70,022	138,324	922,488
Current assets (excluding cash)	216,887	155,790	8,687
Non-current assets	7,023,135	12,945,931	42,001,164
Total assets	7,310,044	13,240,045	42,932,339
Liabilities			
Current liabilities	291,856	59,720	300,480
Non-current liabilities	1,928,598	3,844,124	11,510,269
Total liabilities	2,220,454	3,903,844	11,810,749
Equity	5,089,590	9,336,201	31,121,590
	$ 7,310,044	13,240,045	42,932,339

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.

11. DECOMMISSIONING LIABILITIES

The following table presents the reconciliation of the opening and closing aggregate carrying amount of the decommissioning provisions associated with the exploration and evaluation assets (Note 8) and petroleum properties (Note 9):

		December 31, 2015		December 31, 2014
Balance, December 31, 2014	$	224,088	$	-
Recognition of decommissioning provision		75,923		224,088
Accretion expense		8,985		-
Change in estimate		(38,335)		-
Movement in foreign exchange rates		44,738		-
Balance, December 31, 2015	$	315,400	$	224,088

The present value of the obligation relating to the properties in Kansas (Note 9) of $228,840 (2014 - $224,088) was calculated using an average risk-free interest rate of 2.2% (2014 – 2.5%) and an inflation rate of 1.95% (2014 - 2.32%). The weighted-average life of the wells has been estimated at 10 years (2014 - 18 years). The undiscounted value of the obligation is $392,776 (2014 - $349,502).

The present value of the obligation relating to the properties in Oklahoma (Note 8) of $86,560 (2014 - $Nil) was calculated using an average risk-free interest rate of 1.9% and an inflation rate of 2.08%. The weighted-average life of the wells has been estimated at 11 years. The undiscounted value of the obligation is $104,477.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		December 31, 2015		December 31, 2014
Trade payables	$	111,620	$	323,103
Accrued liabilities		63,655		42,657
	$	175,275	$	365,760

13. SHARE CAPITAL AND EQUITY RESERVES

(a) Authorized share capital

Unlimited common shares without par value.

(b) Escrowed shares

All of the original escrowed shares of 12,210,000 had been released from escrow by December 31, 2015.

(c) Issued share capital

As at December 31, 2015, the Company received $6,925,019 in gross proceeds toward a non-brokered private placement consisting of 17,323,610 units that closed in January 2016 (Note 19). The Company also paid $30,000 in related filing and other fees recorded as deferred share issuance costs at December 31, 2015.

13. SHARE CAPITAL AND EQUITY RESERVES (continued)

(c) Issued share capital (continued)

During the year ended December 31, 2015, 236,500 share purchase warrants were exercised at $0.25 per share for total proceeds of $97,164.

On October 9, 2014, the Company closed a non-brokered private placement consisting of 8,461,036 units at $0.50 per unit for gross proceeds of $4,230,517. Each unit was comprised of one common share and one half warrant with each whole warrant being exercisable into one common share at $0.75 per share for two years from closing. Finders, filings and legal fees in the amount of $37,628 were paid in relation to the private placement.

On February 28, 2014, the Company closed a non-brokered private placement of 21,826,366 units at $0.30 per unit for gross proceeds of $6,547,910. Each unit is comprised of one common share and one half warrants with each whole warrant being exercisable into one common share of $0.50 per share for a two-year period. Finders, filings and legal fees in the amount of $154,331 were paid in relation to the private placement.

During the year ended December 31, 2014, 3,500 share purchase warrants were exercised at $0.25 per share for total proceeds of $875.

(d) Stock options

The Company has a stock options plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The options vest on a date set by the director and expire at a time set by the directors, being not more than 10 years from the date of grant, provided that any outstanding options will expire on a date to be determined by the directors following the date that the holder ceases to be a senior officer, director, employee or consultant of the Company, such period not being more than 12 months from the date of such cessation.

On October 19, 2015, the Company granted 100,000 stock options in total to an employee and an officer exercisable at $0.40 for a period of 5 years, with an associated share-based payment expense of $31,515. The fair value of the options granted was determined with the following assumptions: an annualized volatility of 100%; an expected life of 5 years; a dividend yield rate and forfeiture rate of 0%; and a risk-free interest rate of 1.23%.

On April 1, 2014, the Company granted 3,400,000 stock options to employees, officers, directors and consultants at an exercise price of $0.30 for a term of 5 years. The estimated fair value associated with the stock options grants was $1,192,724. The fair value of the options granted was determined using the Black-Scholes Option Pricing Model with the following assumptions: an annualized volatility of 111%; an expected life of 5 years; a dividend yield rate and forfeiture rate of 0%; and a risk-free interest rate of 1.73%.

13. SHARE CAPITAL AND EQUITY RESERVES (continued)

(d) Stock options (continued)

As at December 31, 2015, the following incentive stock options were outstanding and exercisable:

Expiration Date	Options Outstanding and Exercisable	Exercise price
May 31, 2017	300,000	$0.25
April 1, 2019	3,275,000	0.30
October 21, 2020	100,000	0.40
	3,675,000	$0.30

As at December 31, 2015, the weighted-average remaining contractual life of stock options outstanding was 3.14 years.

The following is a continuity of stock options outstanding as at December 31, 2015 and 2014:

	Number of options	Weighted-Average Exercise Price
Outstanding, December 31, 2013	450,000	$ 0.25
Granted	3,400,000	0.30
Forfeited	(275,000)	0.30
Outstanding, December 31, 2014	3,575,000	0.29
Granted	100,000	0.40
Outstanding, December 31, 2015	3,675,000	$ 0.30

(e) Share purchase warrants

The following is a continuity of warrants outstanding December 31, 2015 and 2014:

	Number of Warrants	Weighted-Average Exercise Price
Outstanding, December 31, 2013	240,000	$ 0.25
Granted	15,143,716	0.57
Exercised	(3,500)	0.25
Outstanding, December 31, 2014	15,380,216	0.56
Exercised	(236,500)	0.25
Outstanding, December 31, 2015	15,143,716	$ 0.57

13. SHARE CAPITAL AND EQUITY RESERVES (continued)

(e) Share purchase warrants (continued)

The following table summarizes the warrants outstanding and exercisable at December 31, 2015:

Expiration Date	Warrants Outstanding and Exercisable		Exercise Price
February 28, 2016	10,913,198	$	0.50
October 16, 2016	4,230,518		0.75
	15,143,716	$	0.57

As at December 31, 2015, the weighted-average remaining contractual life of warrants outstanding was 0.34 years.

14. RELATED PARTY TRANSACTIONS

Key management are the officers and directors of the Company. The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

		Year ended December 31, 2015		**Year ended December 31, 2014**
Management fees	$	249,000	$	177,000
Directors' fees		6,000		-
Legal fees paid or accrued to a company owned by director		33,839		87,222
	$	288,839	$	264,222

During the year ended December 31, 2015, directors and officers of the Company were granted stock options with a related share-based payment expense of $15,578 (2014 - $624,000).

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 December 31, 2015, the Company had $362,954 in advances to joint venture described in Note 10 that has been included in accounts receivable as other receivables (Note 7).

15. FINANCIAL INSTRUMENTS AND RISK

As at December 31, 2015 and 2014, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, and accounts payable.

	December 31, 2015 $	December 31, 2014 $
Financial Assets:		
Fair value through profit or loss	1,675,131	4,738,525
Loans and receivables	404,797	108,213
Financial Liabilities:		
Other financial liabilities	111,620	323,103

See Note 3(n) for classifications.

IFRS 7 *Financial Instruments – Disclosures*, establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. IFRS 7 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities. The Company considers its cash and cash equivalents to be at fair value using Level 1 inputs.

Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e. quoted prices for similar assets or liabilities).

Level 3 – Prices or valuation techniques that are not based on observable market data and require inputs that are both significant to the fair value measurement and unobservable.

Financial assets and liabilities measured at fair value on a recurring basis are presented on the Company's consolidated statement of financial position as of December 31, 2015 as follows:

	Balance at December 31, 2015 $	Quoted Prices in Active Markets for Identical Assets (Level 1) $	Significant Other Observable Inputs (Level 2) $	Significant Unobservable Inputs (Level 3) $
Financial Assets:				
Cash and cash equivalents	1,675,131	1,675,131	-	-

15. FINANCIAL INSTRUMENTS AND RISK (continued)

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 consolidated financial statements. The Company had cash and cash equivalents at December 31, 2015 in the amount of $1,675,131 (2014 - $4,738,525) in order to meet short-term business requirements. At December 31, 2015, the Company had current liabilities of $175,275 (2014 - $365,760). Accounts payable and accrued liabilities are due within the current operating period. Contractual undiscounted cash flow requirements for financial liabilities as at December 31, 2015 are as follows:

	<1 month	1-3 months	4 month - <1 year	2-4 years	Total
	$	$	$	$	$
Accounts payable and accrued liabilities	175,275	-	-	-	175,275
	175,275	-	-	-	175,275

15. FINANCIAL INSTRUMENTS AND RISK (continued)

(c) Market risk

Market risk consists of interest rate risk, foreign currency risk and price risk. These are discussed further below.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has no interest-bearing obligations at December 31, 2015. The risk that the Company will realize a loss as a result of a decline in the fair value of the cash equivalents included in cash and cash equivalents as a result of lower interest rates is insignificant.

Foreign currency risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates.

The Company is exposed to foreign currency risk to the extent that the following monetary assets and liabilities are denominated in US dollars at December 31, 2015:

Cash and cash equivalents	USD$	284,103
Receivables		30,233
Accounts payable and accrued liabilities		(62,377)
Advances to joint ventures		262,250
Net exposure	USD$	514,209
Canadian dollar equivalents	CDN$	711,665

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 $71,167.

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.

16. SEGMENTED INFORMATION, MAJOR CUSTOMERS AND ECONOMIC DEPEDENCE

At December 31, 2015 all of the Company's non-current assets (other than financial instruments) are located in Kansas and Oklahoma, USA. Geographical information relating to the Company's non-current assets (other than financial instruments) is presented in Notes 8, 9 and 10.

The Company's revenues of $678,711 (2014 - $766,031) are all attributable to Kansas where sales are recorded from shipments of crude oil concentrate and gas, produced at the Kansas properties. For revenues derived from Oklahoma projects please see Note 10. The investment income of $6,788,887 is attributed to a share of income of the Company's joint ventures in Oklahoma.

All of the Company's revenues of $678,711 (2014 - $766,031) is derived from one customer in Kansas. As at December 31, 2015, the Company does not consider itself to be economically dependent on these customers as transactions with this party can be easily replaced by transactions with other parties on similar terms and conditions.

17. 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.

18. INCOME TAXES

a) Income tax expense

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

	2015	2014
Current income tax expense	$ -	$ -
Deferred income tax expense	1,470,000	-
Total income tax expense	1,470,000	-

18. INCOME TAXES (continued)

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

		Year ended December 31, 2015		**Year ended December 31, 2014**
Net income (loss) before income taxes	$	370,643	$	(1,692,000)
Canadian statutory income tax rate		26%		26%
Expected income tax recovery at statutory rate		96,000		(440,000)
Tax effect of:				
Permanent differences and other		1,096,000		238,000
Change in unrecognized deferred income tax assets		278,000		202,000
Deferred income tax expense	$	1,470,000	$	-

b) Deferred income tax assets and liabilities

		December 31, 2015		**December 31, 2014**
Deferred income tax assets	$	1,350,000	$	-
Deferred income tax liabilities		(2,820,000)		-
	$	1,470,000	$	-

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

		December 31, 2015		**December 31, 2014**
Non-capital losses carried forward	$	820,000	$	-
Exploration and evaluation assets		409,000		-
Decommissioning provisions		121,000		-
Investments in joint ventures		(2,820,000)		-
Net deferred income tax assets (liabilities)	$	(1,470,000)	$	-

18. INCOME TAXES (continued)

Unrecognized deductible temporary differences:

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

		December 31, 2015		December 31, 2014
Non-capital losses carried forward	$	613,000	$	76,000
Share issuance costs		51,000		71,000
Cumulative eligible capital		33,000		27,000
Exploration and evaluation assets		45,000		45,000
Unrecognized deductible temporary differences	$	742,000	$	219,000

Unrecognized deductible temporary differences for the Unites States are as follows:

		December 31, 2015		December 31, 2014
Non-capital losses carried forward	$	-	$	869,000
Decommissioning provisions		-		84,000
Exploration and evaluation assets		-		(708,000)
Unrecognized deductible temporary differences	$	-	$	245,000

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

The Company has Canadian non-capital losses for income tax purposes of $2,359,000 (2014 - $293,000) which may be carried forward and offset against taxable income. The Canadian non-capital losses expire as follows:

Year		Amount
2032	$	41,000
2033	$	128,000
2034		291,000
2035		671,000
2036		1,228,000
	$	2,359,000

18. INCOME TAXES (continued)

The Company has United States net operating losses of $2,130,000 which can be applied against future operating income in the United States, which will begin to expire starting 2034.

19. SUBSEQUENT EVENTS

On January 12, 2016, the Company closed a non-brokered private placement and issued 17,323,610 units for gross proceeds of $6,925,019. Each unit comprises one common share and one half of a warrant, exercisable into one common share at $0.60 for the period of two years from closing date

On February 28, 2016, 10,913,198 warrants exercisable at $0.50 expired unexercised.

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.