



Condensed Consolidated Interim Financial Statements

September 30, 2017

(Expressed in Canadian dollars - unaudited)

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

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 unaudited interim consolidated 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 standards established by the Chartered Professional Accountants of Canada for a review of interim financial statements by the entity's auditor.

OYSTER OIL AND GAS LTD.

Condensed Consolidated Interim Statements of Financial Position
(Expressed in Canadian dollars - unaudited)

	September 30, 2017	December 31, 2016
Assets		
Current assets:		
Cash and cash equivalents	\$ 428,057	\$ 7,460
Receivables (note 4)	13,185	8,208
Prepaid expenses	8,739	-
	449,981	15,668
Non-current assets:		
Restricted cash (Note 5)	125,480	134,270
Equipment, net	10,540	5,847
Exploration and evaluation – oil and gas (note 5)	11,160,887	10,357,352
	11,296,907	10,497,469
Total assets	\$ 11,746,888	\$ 10,513,137
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 259,230	\$ 823,955
Loan payable (note 7)	-	201,405
Promissory notes (notes 8 and 11)	-	170,000
Convertible debentures (note 9)	1,087,649	-
	1,346,879	1,195,360
Shareholders' equity:		
Share capital (note 10)	27,177,517	25,340,151
Stock option reserve (note 10)	5,355,238	5,216,299
Debt discount reserve	176,796	-
Deficit	(22,309,542)	(21,238,673)
	10,400,009	9,317,777
Total liabilities and shareholders' equity	\$ 11,746,888	\$ 10,513,137

Commitment (note 5)

Approved on behalf of the Board:

"Michael Wood"

"Bruce McNaught"

See accompanying notes to the condensed consolidated interim financial statements

OYSTER OIL AND GAS LTD.

Condensed Consolidated Interim Statements of Comprehensive Loss
(Expressed in Canadian dollars - unaudited)

	Three months ended Sept. 30, 2017	Three months ended Sept. 30, 2016	Nine months ended Sept. 30, 2017	Nine months ended Sept. 30, 2016
Operating Expenses:				
Corporate office (note 11)	\$ 268,691	\$ 66,525	\$ 517,938	\$ 229,272
General and administrative (note 11)	102,385	20,523	229,145	75,633
Marketing	75,295	-	75,295	-
Corporate advisory fees	113,000	-	192,730	-
Property investigation costs (note 11)	1,225	154	2,051	9,324
Stock based compensation (notes 9 and 10)	100,798	-	139,586	262,900
Amortization	86	85	258	255
	<u>(661,480)</u>	<u>(87,287)</u>	<u>(1,157,003)</u>	<u>(577,384)</u>
Other Items:				
Other income	-	-	-	2,303
Write-off of accounts payable	9,896	-	9,896	-
Write-back on deposit (note 6)	-	-	100,000	-
Gain (loss) on foreign exchange	(24,311)	(1,409)	(24,015)	1,231
Interest income	253	257	253	292
	<u>(14,162)</u>	<u>(1,152)</u>	<u>86,134</u>	<u>3,826</u>
Net and comprehensive loss	\$ (675,642)	\$ (88,439)	\$ (1,070,869)	\$ (573,558)
Loss per share – basic and diluted	\$ (0.02)	\$ (0.00)	\$ (0.03)	\$ (0.02)
Weighted average number of shares outstanding – basic and diluted	43,528,724	37,659,032	41,670,115	37,659,032

See accompanying notes to the condensed consolidated interim financial statements

OYSTER OIL AND GAS LTD.

Condensed Consolidated Interim Statement of Changes in Shareholders' Equity
(Expressed in Canadian dollars - unaudited)

	Share capital		Stock option reserve	Subscriptions Received	Deficit	Total
	Number of shares	Amount				
Balance at December 31, 2015	37,659,032	\$ 25,340,151	\$ 4,953,399	\$ -	\$ (20,566,399)	\$ 9,727,151
Stock based compensation	-	-	262,900	-	-	262,900
Comprehensive loss:						
Net loss	-	-	-	-	(573,558)	(573,558)
Balance at September 30, 2016	37,659,032	\$ 25,340,151	\$ 5,216,299	\$ -	\$ (21,139,957)	\$ 9,416,493
Balance at December 31, 2016	37,659,032	\$ 25,340,151	\$ 5,216,299	\$ -	\$ (21,238,673)	\$ 9,317,777
Shares issued for cash, net share issue cost	4,425,000	1,351,571	2,598	-	-	1,354,169
Shares issued on exercise of warrants	1,000,000	270,000	-	-	-	270,000
Shares issued in exchange for debt	512,627	205,050	-	-	-	205,050
Shares issued on exercise of options	50,000	13,261	(5,761)	-	-	7,500
Debt discount reserve	-	-	-	176,796	-	176,796
Finder warrants on convertible debentures	-	(2,516)	2,516	-	-	-
Stock based compensation	-	-	139,586	-	-	139,586
Comprehensive loss:						
Net loss	-	-	-	-	(1,070,869)	(1,070,869)
Balance at September 30, 2017	43,646,659	\$ 27,177,517	\$ 5,355,238	\$ 176,796	\$ (22,309,542)	\$10,400,009

See accompanying notes to the condensed consolidated interim financial statements

OYSTER OIL AND GAS LTD.

Condensed Consolidated Interim Statements of Cash Flows
(Expressed in Canadian dollars - unaudited)

	Nine months ended Sept. 30, 2017	Nine months ended Sept. 30, 2016
Operating activities		
Net loss	\$ (1,070,869)	\$ (573,558)
Items not involving cash		
Amortization	258	514
Stock based compensation	139,586	262,900
Write-back of non-refundable option deposit Oyster BVI	(100,000)	-
Write-off of accounts payable	(9,896)	-
Accretion expense	32,230	-
Foreign exchange	8,790	7,230
Changes in non-cash working capital		
Receivables	(4,977)	5,190
Prepaid expenses	(8,739)	1,307
Accounts payable and accrued liabilities	(451,184)	289,620
Decrease in cash from operations	(1,464,801)	(6,797)
Investing activities		
Expenditures on exploration and evaluation asset – oil and gas	(803,535)	(458,064)
Acquisition of equipment	(4,951)	-
Decrease in cash from investing	(808,486)	(458,064)
Financing activity		
Shares issued for cash, net share issue cost	1,354,169	-
Convertible debentures proceeds	1,232,215	-
Promissory notes proceeds (repayment)	(170,000)	160,000
Loan proceeds	-	196,755
Shares issued for cash – exercise of warrants	270,000	-
Shares issued for cash – exercise of options	7,500	-
Increase in cash from financing	2,693,884	356,755
Increase (decrease) in cash and cash equivalents	420,597	(108,106)
Cash and cash equivalents, beginning	7,460	115,553)
Cash and cash equivalents, ending	\$ 428,057	\$ 7,447

See accompanying notes to the condensed consolidated interim financial statements

OYSTER OIL AND GAS LTD.

Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian - unaudited)
For the nine months ended September 30, 2017 and 2016

1. Nature of Operations

Oyster Oil and Gas Ltd. (the "Company") is an exploration company engaged in the acquisition, exploration and development of oil and gas interests in Africa. The Company's shares are traded on the TSX Venture Exchange (the "Exchange") under the symbol "OY" and on the Frankfurt Stock Exchange under the trading symbol "13L."

The head office and the registered and records office of the Company are located at Suite 918 – 1030 West Georgia Street, Vancouver, BC, V6E 2Y3.

These condensed consolidated interim financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at September 30, 2017 the Company had not advanced its properties to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with loans from directors and companies controlled by directors and or private placement of common shares. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its consolidated statement of financial position.

2. Basis of Preparation

The consolidated financial statements were authorized for issue on November 28, 2017 by the directors of the Company.

(a) *Statement of Compliance with International Financial Reporting Standards*

The condensed consolidated interim financial statements of the Company comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

(b) *Basis of Measurement*

The condensed consolidated interim financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The condensed consolidated interim financial statements are presented in Canadian dollars, unless otherwise noted.

(c) *Significant estimates and assumptions*

The preparation of condensed consolidated interim financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the useful lives of equipment, the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

OYSTER OIL AND GAS LTD.

Notes to the Condensed Consolidated Interim Financial Statements
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2. Basis of Preparation (continued)

(d) Significant judgments

The preparation of consolidated financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's consolidated financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the classification / allocation of expenditures as exploration and evaluation expenditures or operating expenses; and
- the determination of the functional currency of the parent company and its subsidiaries.

3. Significant Accounting Policies

(a) Basis of Consolidation

The condensed consolidated interim financial statements of the Company consolidate the accounts of the Company and its subsidiaries. All intercompany transactions, balances and unrealized gains and losses from intercompany transactions are eliminated on consolidation. Subsidiaries are those entities that the Company controls by having the power to govern the financial and operating policies. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is obtained by the Company.

The wholly owned subsidiaries of the Company which are included in these condensed consolidated interim financial statements as at September 30, 2017 are Oyster Oil & Gas Limited (a British Virgin Islands corporation) ("Oyster BVI"), Oyster Oil and Gas Djibouti SARL (a Djibouti registered branch) and Oyster Madagascar Limited (a British Virgin Islands corporation).

(l) Accounting standards issued but not yet effective

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The proposed effective date of IFRS 9 is for annual periods beginning on or after January 1, 2018.

The Company has not early adopted this revised standard and is currently assessing the impact that this standard will have on its condensed consolidated interim financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

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4. Receivables

	September 30, 2017	December 31, 2016
GST receivable	\$ 10,573	\$ 7,040
Other	2,612	1,168
	\$ 13,185	\$ 8,208

5. Exploration and Evaluation Asset – Oil and Gas

The Company's oil and gas exploration and evaluation assets are comprised of two properties in east Africa with carrying values as at September 30, 2017 and December 31, 2016 as follows:

	September 30, 2017	December 31, 2016
Republic of Djibouti	\$ 7,179,768	\$ 7,034,672
Republic of Madagascar	3,981,119	3,322,680
	\$ 11,160,887	\$ 10,357,352

In addition to the carrying value of Madagascar noted in the table above; the Company has acquired the rights to the cost recovery pool for Block 1101, following the completion of the assignment of interest by the Government. The total cost pool for Block 1101 is approximately US\$23 million.

Republic of Djibouti

Oyster BVI, which was acquired by the Company during the year ended December 31, 2013, had signed a production sharing contract in September 2011 with the Republic of Djibouti awarding four exploration blocks to the Company. The decree was granted on February 1, 2012, the effective date of the production sharing contract is March 1, 2012.

On March 1, 2014, the Company entered into Phase II of the production sharing contract. On March 1, 2017, the Company entered into Phase III of the production sharing contract.

Exploration and evaluation expenditures incurred and capitalized on this property for the year ended December 31, 2016 and nine months ended September 30, 2017 is as follows:

Balance, December 31, 2015	\$ 6,616,860
Field and technical work	259,651
Field office, management and administration	158,161
Balance, December 31, 2016	7,034,672
Field and technical work	97,633
Field office, management and administration	47,463
Balance, September 30, 2017	\$ 7,179,768

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5. Exploration and Evaluation Asset – Oil and Gas (continued)

Republic of Madagascar

On October 24, 2013, the Company closed an agreement to acquire a 10% working interest in certain exploration and evaluation stage oil and gas assets located onshore in the northwestern part of the Republic of Madagascar. On June 2, 2016 the remaining 90% working interest in the assets and operatorship was transferred to the Company. The Company has been granted an extension to the current exploration period to July 2019. In accordance with the agreement, the Company has paid various defined exploration license fees of US\$320,000. Furthermore, the Company will keep the existing US\$100,000 bank guarantee in place and has issued a parent company guarantee for US\$1,900,000 until December 31 2017. On or before December 31, 2017, the Company will increase the bank guarantee by US\$400,000 to a total of US\$500,000 and reduce the parent company guarantee to US\$1,500,000. These guarantees will remain in place until the end of the current exploration phase.

Exploration and evaluation expenditures incurred and capitalized on this property for the year ended December 31, 2016 and nine months ended September 30, 2017 is as follows:

Balance, December 31, 2015	\$	3,180,116
Field and technical work		11,098
Field office, management and administration		131,466
Balance, December 31, 2016		3,322,680
Field and technical work		106,663
Field office, management and administration		551,776
Balance, September 30, 2017	\$	3,981,119

6. Accounts Payable and Accrued Liabilities

	September 30, 2017	December 31, 2016
Trade payables (note 10)	\$ 223,436	\$ 680,576
Accrued liabilities	13,331	35,553
Interest payable	22,463	7,826
Deposit assumed on acquisition of Oyster BVI	-	100,000
	\$ 259,230	\$ 823,955

The Company has written-back \$100,000 liability during a 2017 period relating to an option deposit receipt which occurred prior to the acquisition of Oyster Oil & Gas Limited by the Company.

7. Loan Payable

On August 10, 2016, the Company entered into a loan agreement to borrow an amount of US\$150,000 from an arm's-length party. The loan bore interest at 2% per annum and. The loan was settled on June 19, 2017 by issuing 512,627 units at a deemed price of \$0.40 per settlement unit (Note 9).

8. Promissory Notes

On February 3, 2016, the Company entered into an agreement for a promissory note in the amount of \$100,000 of which \$50,000 was received on February 3, 2016 and \$50,000 was received on May 13, 2016. The promissory note was unsecured and bore interest at 5% per annum on the outstanding principal balance. In May 2016, an amendment to the promissory note was signed to extend the maturity date from July 31, 2016 to September 30, 2016. The principal amount of the promissory note and the accrued interest for total of \$103,808 was repaid during the period ended September 30, 2017.

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8. Promissory Notes (continued)

On May 13, 2016, the Company entered into an agreement for three promissory notes in the amount of \$60,000 from related parties. The promissory notes were unsecured, bore interest at 5% per annum on the outstanding principal balances and matured on September 30, 2016. The principal amount of the promissory notes and accrued interest for total of \$61,907 were repaid during the period ended September 30, 2017.

On October 21, 2016, the Company entered into an agreement for a promissory note in the amount of \$10,000. The amount was unsecured, bore interest at 12% per annum and was payable on demand. The principal amount of the promissory note and the accrued interest for total of \$10,233 was repaid during the period ended September 30, 2017.

9. Convertible Debentures

On July 25, 2017, the Company closed a first tranche of a non-brokered private placement of convertible debentures of the Company for gross proceeds of \$1,150,915. The convertible debentures are to mature the sooner of within five days of admission to AIM or one year from the date of issue and will bear interest at the rate of 10% per annum. The Company also issued to the lenders 575,458 detachable share purchase warrants for every \$2 of the principal of the convertible debenture. Each share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.55 for a period of one year. A stock based compensation of \$58,094 was recognized, with the fair value determined using Black-Scholes pricing model with the following assumptions: Risk free interest of 1.17%; Expected life of 1 year; Expected volatility of 90% and dividend yield of Nil. The lenders may, at any time, convert all or portion of the principal into common shares of the Company at a value lesser of \$0.50 per common share or a 20% discount to the AIM listing offering price. For each principal debenture amount of \$2, the Company will also issue one share purchase warrant. Each warrant is exercisable into one common share of the Company until the expiration of the debenture.

On August 1, 2017, the Company closed a second tranche of a non-brokered private placement of convertible debentures of the Company for gross proceeds of \$81,300. The convertible debentures are to mature the sooner of within five days of admission to AIM or one year from the date of issue and will bear interest at the rate of 10% per annum. The Company also issued to the lenders 40,650 detachable share purchase warrants for every \$2 of the principal of the convertible debenture. Each share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.55 for a period of one year. A stock based compensation of \$6,416 was recognized, with the fair value determined using Black-Scholes pricing model with the following assumptions: Risk free interest of 1.19%; Expected life of 1 year; Expected volatility of 92% and dividend yield of Nil. The lenders may, at any time, convert all or portion of the principal into common shares of the Company at a value lesser of \$0.50 per common share or a 20% discount to the AIM listing offering price. For each principal debenture amount of \$2, the Company will also issue one share purchase warrant. Each warrant is exercisable into one common share of the Company until the expiration of the debenture.

The Company recognized \$4,081 as finder fee and issued 14,839 finder warrants in connection with both tranches of the non-brokered private placement of convertible debentures. Each finder warrant entitles the holder to acquire one common share at an exercise price of \$0.55 for a period of two years from the date of the date of the issuance. A share issue cost of \$2,516 was recognized, with the fair value determined using Black-Scholes pricing model with the following assumptions: Risk free interest of 1.32%; Expected life of 2 years; Expected volatility of 95% and dividend yield of nil.

OYSTER OIL AND GAS LTD.

Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian - unaudited)
For the nine months ended September 30, 2017 and 2016

10. Share Capital

(a) Authorized

Unlimited class A common shares, without par value.

(b) Issued

At September 30, 2017, there were 43,646,659 common shares issued and fully paid common shares outstanding (December 31, 2016 – 37,659,032).

The Company issued 5,987,627 common shares during the period ended September 30, 2017 as follows:

- i. On January 24, 2017, the Company closed a non-brokered private placement for gross proceeds of \$400,000 upon issuance of 2,000,000 units at \$0.20 per unit. Each unit was comprised of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.27 for a period of one year. The Company paid \$12,000 as finder fee and on July 25, 2017 issued 4,000 finder warrants in connection with this transaction. Each finder warrant entitles the holder to acquire one common share at an exercise price of \$0.20 for a period of two years from the date of the private placement. A share issue cost of \$983 was recognized, with the fair value determined using Black-Scholes pricing model with the following assumptions: Risk free interest of 1.25%; Expected life of 1.5 years; Expected volatility of 88% and dividend yield of Nil.
- ii. Issuance of 1,000,000 common shares as a result of the exercise of warrants exercisable at \$0.27 per share for total proceeds of \$270,000.
- iii. On May 10, 2017, the Company closed a non-brokered private placement for gross proceeds of \$850,000 upon issuance of 2,125,000 units at \$0.40 per unit. Each unit comprised of one common share and one half common share purchase warrant. Each share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.45 for a period of one year. The Company paid \$25,500 as finder fee and on July 25, 2017 recognized additional \$4,250 as finder fee and issued 8,500 finder warrants in connection with this transaction. Each finder warrant entitles the holder to acquire one common share at an exercise price of \$0.40 for a period of two years from the date of the private placement. A share issue cost of \$1,615 was recognized, with the fair value determined using Black-Scholes pricing model with the following assumptions: Risk free interest of 1.29%; Expected life of 1.8 years; Expected volatility of 93% and dividend yield of Nil.
- iv. On June 19, 2017, the Company settled an aggregate loan of \$205,051 owed to an arms' length creditor by issuing 512,627 units at a deemed price of \$0.40 (Note 7). Each settlement unit is comprised of one common share of the Company and one purchase warrant. Each share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.55 for a period of two years.
- v. On July 25, 2017, the Company closed a non-brokered private placement for gross proceeds of \$150,000 upon issuance of 300,000 units at \$0.50 per unit. Each unit was comprised of one common share and one common share purchase warrant. Each share purchase warrant entitles the holder to acquire one common share at an exercise price of \$0.55 for a period of two years.
- vi. Issuance of 50,000 common shares as a result of exercise of options exercisable at \$0.15 per share for total proceeds of \$7,500.

OYSTER OIL AND GAS LTD.

Notes to the Condensed Consolidated Interim Financial Statements
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10. Share Capital (continued)

(c) Options

A summary of the status of the Company's stock options outstanding as at September 30, 2017 and December 31, 2016 and changes during the periods is presented below:

	Number of Options	Weighted average exercise price
Balance, December 31, 2015	2,025,000	\$ 0.37
Granted	1,800,000	0.14
Cancelled	(750,000)	(0.26)
Balance, December 31, 2016	3,075,000	0.29
Granted	200,000	0.45
Exercised	(50,000)	0.15
Balance, September 30, 2017	3,225,000	\$ 0.30
Weighted average remaining contractual life		2.58 Years

As at September 30, 2017, the following options were outstanding:

Expiry date	Options outstanding and exercisable	
	Exercise price	Options
January 8, 2018	\$ 0.17	125,000
April 20, 2018	\$ 0.55	800,000
April 20, 2018	\$ 0.68	100,000
March 4, 2019	\$ 0.45	150,000
July 21, 2019	\$ 0.50	50,000
May 20, 2021	\$ 0.14	1,800,000
March 2, 2022	\$ 0.40	100,000
August 14, 2022	\$ 0.49	100,000
		3,225,000

On May 20, 2016, the Company granted 1,800,000 stock options to directors, officers and consultants of the Company at an exercise price of \$0.14 per common share for a period of five years ending May 20, 2021. The stock based compensation expense of \$262,900 was recognized, being the fair value determined using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate of 0.91%; Expected life of 5 years; Expected volatility of 110% and dividend yield of Nil. The options vested immediately.

On March 2, 2017, the Company granted 100,000 stock options to a consultant of the Company at an exercise price of \$0.40 per common share for a period of five years ending March 2, 2022. The stock based compensation expense of \$38,788 was recognized, being the fair value determined using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate of 1.20%; Expected life of 5 years; Expected volatility of 110% and dividend yield of Nil. The options vested immediately.

On August 14, 2017, the Company granted 100,000 stock options to a director of the Company at an exercise price of \$0.49 per common share for a period of five years ending August 14, 2022. The stock based compensation expense of \$38,788 was recognized, being the fair value determined using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate of 1.68%; Expected life of 5 years; Expected volatility of 98% and dividend yield of Nil. The options vested immediately.

OYSTER OIL AND GAS LTD.

Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian - unaudited)
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10. Share Capital (continued)

(d) Warrants

The following table summarizes the continuity of the Company's warrants and broker warrants:

	Number of warrants	Weighted average exercise price
Balance, December 31, 2015	1,166,945	\$ 0.63
Expired	(1,166,945)	(0.63)
Balance, December 31, 2016	-	\$ -
Issued	4,518,574	(0.40)
Exercised	(1,000,000)	(0.27)
Balance, September 30, 2017	3,518,574	\$ 0.44
Weighted average remaining contractual life		0.99

(e) Reserves

The stock-option reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital.

11. Related Party Transactions

(a) Key management compensation

Compensation of key management for the periods ended September 30, 2017 and 2016 are as follows:

	2017	2016
Short-term employee benefits – management fees:		
Included in property investigation, corporate office and general and administrative expense	\$ 161,646	\$ 170,150
Included in exploration and evaluation assets – Oil and Gas	146,422	121,909
	308,068	292,059
Stock-based compensation		
Included in stock-based compensation expense	35,288	109,541
	\$ 343,356	\$ 401,600

(b) Related party balances

Included in trade payables is \$59,041 (December 31, 2016 - \$450,747) owing to members of the Company's key management (note 6) as at September 30, 2017. These amounts are unsecured, non-interest bearing and has no fixed terms of repayment.

The balance outstanding for the promissory notes with directors (Note 8) as at September 30, 2017 is \$Nil (December 31, 2016 - \$60,000).

OYSTER OIL AND GAS LTD.

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(Expressed in Canadian - unaudited)
For the nine months ended September 30, 2017 and 2016

12. Financial Risk and Capital Management

(a) *Financial risks*

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and cash equivalents. Substantially all of the Company's cash and cash equivalents are deposited in bank accounts held with major banks in Canada and the United Kingdom. As the majority of the Company's cash and cash equivalents is held by the same bank there is a concentration of credit risk. This risk is managed by using major Canadian and British banks that are high credit quality financial institutions as determined by rating agencies. The Company assessed credit risk as low.

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 has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents. The Company assesses liquidity risk as high.

Foreign Exchange Risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. At September 30, 2017, the net carrying value of financial instruments denominated in United States dollars is \$109,937. Fluctuations in the United States dollar relative to the Canadian dollar will impact the Company's net loss. The Company does not hedge its exposure to fluctuations in foreign exchange rates. The Company assesses foreign exchange risk to be low.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to interest rate risk on its cash equivalents as these instruments pay interest at variable rates and are therefore exposed to interest rate fluctuations on renewal. A 1% change in market interest rates would have an impact on the Company's net income by approximately \$75. The Company assesses interest rate risk as low.

(b) *Management of capital*

The Company's objectives when managing capital are:

- i. to ensure that the Company will continue as a going concern so that it can continue to provide services to its customers and offer a return on investment to its shareholders; and
- ii. to maintain a capital structure which optimizes the cost of capital while providing flexibility and diversity of funding sources and timing of debt maturities along with adequate anticipated liquidity for future growth.

OYSTER OIL AND GAS LTD.

Notes to the Condensed Consolidated Interim Financial Statements
(Expressed in Canadian - unaudited)
For the nine months ended September 30, 2017 and 2016

12. Financial Risk and Capital Management (continued)

(b) *Management of capital (continued)*

The Company defines capital that it manages as the aggregate of its cash and cash equivalents and share capital.

The Company manages its capital structure and makes adjustments to it in light of economic conditions. The Company, upon approval from its Board of Directors, will make changes to its capital structure as deemed appropriate under the specific circumstances. The Company's investment policy is to invest only in investment grade, highly liquid money market and fixed income securities with less than one year maturity.

At September 30, 2017, the Company is not subject to any externally imposed capital requirements. The Company's overall strategy with respect to management of capital remains unchanged from the prior year.

13. Segmented Information

Operating segments

The Company operates in a single reportable operating segment – the acquisition, exploration and development of resource properties.

Geographic segments

The location of the Company's exploration and evaluation assets are disclosed in note 5.