



Consolidated Financial Statements

December 31, 2017

(Expressed in Canadian dollars)



DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Oyster Oil and Gas Ltd.:

We have audited the accompanying consolidated financial statements of Oyster Oil and Gas Ltd., which comprise the consolidated statements of financial position as at December 31, 2017 and 2016, and the consolidated statements of comprehensive loss, changes in shareholders' equity and cash flows for the years then ended, and 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, 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.

Auditor's 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 the auditor's 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, the auditor considers 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 Oyster Oil and Gas Ltd. as at December 31, 2017 and 2016, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about Oyster Oil and Gas Ltd.'s ability to continue as a going concern.

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED PROFESSIONAL ACCOUNTANTS

Vancouver, Canada
April 30, 2018

An independent firm associated with
Moore Stephens International Limited

MOORE STEPHENS

OYSTER OIL AND GAS LTD.Consolidated Statements of Financial Position
(Expressed in Canadian dollars)

	December 31, 2017	December 31, 2016
Assets		
Current assets:		
Cash	\$ 128,911	\$ 7,460
Receivables (note 4)	14,453	8,208
Prepaid expenses	9,376	-
	152,740	15,668
Non-current assets:		
Restricted cash (note 5)	128,880	134,270
Equipment, net	10,540	5,847
Exploration and evaluation – oil and gas (note 5)	11,409,438	10,357,352
	11,548,858	10,497,469
Total assets	\$ 11,701,598	\$ 10,513,137
Liabilities and Shareholders' Equity		
Current liabilities:		
Accounts payable and accrued liabilities (note 6)	\$ 422,845	\$ 823,955
Loan payable (note 7)	-	201,405
Promissory notes (notes 8 and 11)	-	170,000
Convertible debentures (note 9)	1,062,905	-
Derivative liability (note 9)	185,947	-
	1,671,697	1,195,360
Shareholders' equity:		
Share capital (note 10)	27,211,302	25,340,151
Share-based payment reserve (note 10)	5,409,146	5,216,299
Deficit	(22,590,547)	(21,238,673)
	10,029,901	9,317,777
Total liabilities and shareholders' equity	\$ 11,701,598	\$ 10,513,137

Going concern (note 1)
Commitment (note 5)
Subsequent events (note 15)

Approved on behalf of the Board:

"Michael Wood""Bruce McNaught"

See accompanying notes to the consolidated financial statements

OYSTER OIL AND GAS LTD.

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian dollars)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Operating Expenses:		
Corporate office (note 11)	\$ 596,154	\$ 269,313
General and administrative (notes 11)	225,343	133,892
Marketing	75,295	-
Corporate advisory fees	217,556	-
Property investigation costs (note 11)	2,993	10,098
Stock based compensation (notes 10 and 11)	74,076	262,900
Amortization	258	344
	<u>(1,191,675)</u>	<u>(676,547)</u>
Other Items:		
Write-off of accounts payable	9,896	7,302
Write-off of deposit	100,000	-
Interest and accretion expense (note 9)	(177,520)	-
Loss on foreign exchange	(24,264)	(3,321)
Loss on debt settlement (note 10)	(165,554)	-
Interest income	253	292
Change in derivative liability (note 9)	96,990	-
	<u>(160,199)</u>	<u>4,273</u>
Net and comprehensive loss	\$ (1,351,874)	\$ (672,274)
Loss per share – basic and diluted	\$ (0.03)	\$ (0.02)
Weighted average number of shares outstanding – basic and diluted	42,126,620	37,659,032

See accompanying notes to the consolidated financial statements

OYSTER OIL AND GAS LTD.

Consolidated Statement of Changes in Shareholders' Equity
(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve	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 (note 10)	-	-	262,900	-	262,900
Comprehensive loss:					
Net loss	-	-	-	(672,274)	(672,274)
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 of share issue costs (note 10)	4,125,000	1,276,703	5,114	-	1,281,817
Shares issued in private placement to settle liability (note 10)	300,000	60,000	-	-	60,000
Shares issued on exercise of warrants (note 10)	1,000,000	270,000	-	-	270,000
Shares issued in exchange for debt (note 10)	512,627	251,187	119,418	-	370,605
Shares issued on exercise of options (note 10)	50,000	13,261	(5,761)	-	7,500
Stock based compensation (note 10)	-	-	74,076	-	74,076
Comprehensive loss:					
Net loss	-	-	-	(1,351,874)	(1,351,874)
Balance at December 31, 2017	43,646,659	\$ 27,211,302	\$ 5,409,146	\$ (22,590,547)	\$ 10,029,901

See accompanying notes to the consolidated financial statements

OYSTER OIL AND GAS LTD.

Consolidated Statements of Cash Flows
(Expressed in Canadian dollars)

	Year Ended December 31, 2017	Year Ended December 31, 2016
Operating activities		
Net loss	\$ (1,351,874)	\$ (672,274)
Items not involving cash		
Amortization	258	344
Stock based compensation	74,076	262,900
Write-off of deposit	(100,000)	-
Write-off of accounts payable	(9,896)	-
Interest and Accretion expense of convertible debt	173,698	-
Foreign exchange	9,036	4,130
Loss on debt settlement	165,554	-
Gain on change in derivative liability	(96,990)	-
Changes in non-cash working capital		
Receivables	(6,245)	3,096
Prepaid expenses	(9,376)	6,432
Accounts payable and accrued liabilities	(204,459)	272,625
Decrease in cash from operations	(1,356,218)	(122,747)
Investing activities		
Expenditures on exploration and evaluation asset – oil and gas	(1,192,385)	(356,751)
Acquisition of equipment	(4,951)	-
Decrease in cash from investing	(1,197,336)	(356,751)
Financing activity		
Shares issued for cash, net share issue cost	1,281,817	-
Convertible debentures proceeds, net of issuance costs	1,225,688	-
Promissory notes proceeds (repayment)	(110,000)	170,000
Shares issued for cash – exercise of warrants	270,000	-
Shares issued for cash – exercise of options	7,500	-
Loan proceeds	-	201,405
Increase in cash from financing	2,675,005	371,405
Increase (decrease) in cash	121,451	(108,093)
Cash, beginning	7,460	115,553
Cash, ending	\$ 128,911	\$ 7,460
Interest Paid	\$ 3,822	\$ -

During the years ended December 31, 2017 and 2016, the Company incurred the following non-cash transactions that are not reflected in the statements of cash flows:

	December 31, 2017	December 31, 2016
Expenditures on exploration and evaluation asset – oil and gas included in accounts payable and accrued liabilities	\$ 63,326	\$ 203,625
Shares issued to settle loan payable	\$ 251,187	\$ -
Warrants issued to settle loan payable	\$ 119,418	\$ -
Promissory notes repaid with common shares	\$ 60,000	\$ -

See accompanying notes to the consolidated financial statements

OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements
(Expressed in Canadian)
For the Years Ended December 31, 2017 and 2016

1. Nature of Operations and Going Concern

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".

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 consolidated 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 December 31, 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 April 30, 2018 by the directors of the Company.

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

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

(c) *Significant estimates and assumptions*

The preparation of consolidated 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 Consolidated Financial Statements
(Expressed in Canadian)
For the Years Ended December 31, 2017 and 2016

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 consolidated 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 consolidated financial statements as at December 31, 2017 are Oyster Oil & Gas Limited (a British Virgin Islands corporation) ("Oyster BVI"), Oyster Oil and Gas Djibouti SARL (a Djibouti company) and Oyster Madagascar Limited (a British Virgin Islands corporation).

(b) Financial Instruments

The Company initially measures financial instruments at fair value. Subsequent measurement and treatment of any gain or loss is recorded as follows:

Financial assets at fair value through profit or loss ("FVTPL") are measured at fair value at the balance sheet date with any gain or loss recognized in the statement of comprehensive loss. Interest and dividends earned from these assets are also included in the statement of comprehensive loss. The Company has no financial assets classified as FVTPL.

Loans and receivables are measured at amortized cost using the effective interest method. Any gains or losses are recognized in the statement of comprehensive loss. The Company classifies cash and receivables as loans and receivables.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period. The Company has no financial assets classified as held-to-maturity investments.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets. The Company has no financial assets classified as available-for-sale financial assets.

OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements
(Expressed in Canadian)
For the Years Ended December 31, 2017 and 2016

3. Significant Accounting Policies (*continued*)

(b) *Financial Instruments (continued)*

Non-derivative financial liabilities are measured at amortized cost using the effective interest method. Non-derivate financial liabilities consist of trade payables.

Transactions costs that are directly attributable to the issuance of financial assets or liabilities are accounted for as part of the carrying value at inception (except for transaction costs related to financial instruments related to FVTPL financial assets which are expensed as incurred), and are recognized over the term of the assets or liabilities using the effective interest method. Any gains or losses are recognized in the statement of comprehensive loss.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

The Company does not have any derivative financial assets and liabilities.

(c) *Farm Outs*

The Company does not record any expenditure made by the farmee on its account. It also does not recognize any gain or loss on its exploration and evaluation farm out arrangements but reallocates any costs previously capitalized in relation to the whole interest as relating to the partial interest retained and any consideration received directly from the farmee is credited against costs previously capitalized.

(d) *Equipment*

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statement of comprehensive income (loss) during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Amortization is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The amortization rates applicable to each category of equipment are as follows:

Asset	Rate
Computer equipment	2-4 years
Office furniture and equipment	2-5 years

(e) *Exploration and evaluation assets*

Costs incurred before the Company has obtained the legal rights to explore an area are expensed as incurred.

Exploration and evaluation expenditures include the costs of acquiring licenses and costs associated with exploration and evaluation activity. Option payments are considered acquisition costs provided that the Company has the intention of exercising the underlying option.

Property option agreements are exercisable entirely at the option of the option holder. Therefore, option payments (or recoveries) are recorded when payment is made (or received) and are not accrued.

Exploration and evaluation expenditures are capitalized. The Company capitalizes costs to specific blocks of claims or areas of geological interest. Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements
(Expressed in Canadian)
For the Years Ended December 31, 2017 and 2016

3. Significant Accounting Policies (continued)

(e) *Exploration and evaluation assets (continued)*

Exploration and evaluation assets are tested for impairment if facts or circumstances indicate that impairment exists. Examples of such facts and circumstances are as follows:

- the period for which the Company has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area; and
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

After technical feasibility and commercial viability of extracting a mineral resource are demonstrable, the Company stops capitalizing expenditures for the applicable block of claims or geological area of interest and tests the asset for impairment. The capitalized balance, net of any impairment recognized, is then reclassified to either tangible or intangible mine development assets according to the nature of the asset.

(f) *Restoration and environmental obligations*

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related asset along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. These changes are recorded directly to the related asset with a corresponding entry to the provision.

The increase in the restoration provision due to the passage of time is recognized as interest expense.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to the statement of comprehensive loss in the period incurred.

The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

(g) *Income and loss per share*

Basic income (loss) per share is calculated by dividing the income (loss) attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the income (loss) attributable to common shareholders equals the reported income (loss) attributable to owners of the Company. Diluted income (loss) per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted income (loss) per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements
(Expressed in Canadian)
For the Years Ended December 31, 2017 and 2016

3. Significant Accounting Policies (*continued*)

(h) *Income taxes*

Current income tax

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax

Deferred income tax is provided using the asset and liability sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

(i) *Foreign currency translation*

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the functional currency of the parent company and its subsidiaries.

Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in the statement of comprehensive income to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive loss. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements
(Expressed in Canadian)
For the Years Ended December 31, 2017 and 2016

3. Significant Accounting Policies (*continued*)

(i) Foreign currency translation (*continued*)

Foreign operations

The financial results and position of foreign operations whose functional currency is the same as the parent Company's presentation currency are translated as follows:

- monetary assets and liabilities are translated at period-end exchange rates prevailing at that reporting date;
- non-monetary items measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of such foreign operations are recognized in profit or loss.

(j) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

(k) Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the share-based payment reserve. The fair value of options is determined using a Black-Scholes pricing model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

(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 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 determined it does not have a material impact on the Company's future results of consolidated operations and financial position.

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 material impact on the Company's consolidated financial statements. These include, but are not limited to, IFRS 15 Revenue from Contracts with Customers and IFRS 16 Leases. IFRS 15 has an effective date for annual reporting periods beginning on or after January 1, 2018 and IFRS 16 has an effective date for years beginning on or after January 1, 2019.

OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements
(Expressed in Canadian)
For the Years Ended December 31, 2017 and 2016

4. Receivables

	December 31, 2017	December 31, 2016
GST receivable	\$ 13,008	\$ 7,040
Other	1,445	1,168
	<u>\$ 14,453</u>	<u>\$ 8,208</u>

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 December 31, 2017 and 2016 as follows:

	December 31, 2017	December 31, 2016
Republic of Djibouti	\$ 7,263,895	\$ 7,034,672
Republic of Madagascar	4,145,543	3,322,680
	<u>\$ 11,409,438</u>	<u>\$ 10,357,352</u>

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.

Effective March 1, 2017, the Company entered into Phase III of the production sharing contract, which is for a duration of three years.

Exploration and evaluation expenditures incurred and capitalized on this property for the years ended December 31, 2017 and 2016 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	147,986
Field office, management and administration	81,237
Balance, December 31, 2017	<u>\$ 7,263,895</u>

OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements
(Expressed in Canadian)
For the Years Ended December 31, 2017 and 2016

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 paid various defined exploration license fees of US\$320,000. Furthermore, the Company agreed to keep the existing US\$100,000 (CAD\$128,880) bank guarantee in place and issue a parent company guarantee of US\$1,900,000 until December 31, 2017. On or before December 31, 2017, the Company was to 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. The bank guarantee is restricted cash on deposit with a bank and the parent company guarantee is to be a written guarantee by the parent Oyster Oil and Gas Ltd. These guarantees are to remain in place until the end of the current exploration phase.

During the year ended December 31, 2017, the Company had planned to complete an airborne survey over certain sections of the Madagascar Property. However, due to some inter-governmental department coordination issues arising in late 2017 that affected the planned operations work has been temporarily suspended. A special committee has been set up by the Government to resolve these issues and in the meantime pending this resolution the Government has confirmed that Oyster interests are held "in good standing". The Company is coordinating closely with the Government and both parties are working in good faith to enable the Company to complete exploration program on the property.

Exploration and evaluation expenditures incurred and capitalized on this property for the years ended December 31, 2017 and 2016 is as follows:

Balance, December 31, 2015	\$	3,180,116
Field and technical work		11,098
Field office, management and administration		131,466
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Balance, December 31, 2016		3,322,680
Field and technical work		203,995
Field office, management and administration		618,868
<hr/>		
Balance, December 31, 2017	\$	4,145,543

6. Accounts Payable and Accrued Liabilities

	December 31, 2017	December 31, 2016
Trade payables (note 11)	\$ 320,993	\$ 680,576
Accrued liabilities	48,308	35,553
Interest payable	53,544	7,826
Deposit assumed on acquisition of Oyster BVI	-	100,000
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	\$ 422,845	\$ 823,955

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 bears interest at 2% per annum and is repayable on or before December 31, 2017. The loan was settled on June 19, 2017 by issuing 512,627 units. Each unit consisted of one common share and one common share purchase warrant with an exercise price of \$0.55 and a two year term (Note 10).

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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 year ended December 31, 2017.

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 with shares (note 10) during the year ended December 31, 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 year ended December 31, 2017.

9. Convertible Debentures

On July 25, 2017, the Company closed a first tranche of a non-brokered private placement of convertible debentures for gross proceeds of \$1,150,915. The convertible debentures are to mature at the sooner of within five days of the Company's shares listing on the Alternative Investment Market ("AIM"), a sub-market of the London Stock Exchange, 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 a total of 575,458 detachable share purchase warrants being a warrant for every \$2 of principal. 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. The lenders may, at any time, convert all or portion of the principal into common shares of the Company at a value being the lesser of \$0.50 per common share or a 20% discount to the AIM opening listing offering price. As the conversion price is variable, the Company recognized a derivative liability of \$255,679 on inception of the convertible debentures 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 89% and dividend yield of nil. The remaining portion net of issuance costs of \$889,139 was allocated to the debt component. No residual value was allocated to the warrants. During the year ended December 31, 2017, contractual interest payable of \$50,136 was accrued and included in interest and accretion expense.

On August 1, 2017, the Company closed a second tranche of the non-brokered private placement of convertible debentures for gross proceeds of \$81,300. The convertible debentures have the same terms and conditions as the first tranche issued on July 25, 2017. The Company also issued to the lenders a total of 40,650 detachable share purchase warrants. 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. As the conversion price is variable, the Company recognized a derivative liability of \$27,258 on inception of the convertible debentures 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 89% and dividend yield of nil. The remaining portion net of issuance costs of \$53,612 was allocated to the debt component. No residual value was allocated to the warrants. During the year ended December 31, 2017, contractual interest payable of \$3,408 was accrued and included in interest and accretion expense.

The Company incurred \$4,038 of cash issuance costs and issued 14,684 finder's 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 first tranche issuance. An issue cost of \$2,490 was recognized related to the finder's warrants, 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.

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9. Convertible Debentures (continued)

As at December 31, 2017, the Company's convertible debentures are as follows:

	Convertible Debentures	Derivative Liability
At inception	\$ 942,751	\$ 282,937
Accretion expense	120,154	-
Change in fair value of derivative liability	-	(96,990)
Balance, December 31, 2017	\$ 1,062,905	\$ 185,947

As at December 31, 2017, the Company determined the fair value of the derivative liability to be \$185,947 using the Black-Scholes Option Pricing Model with the following assumptions: Expected dividend yield – 0%; Volatility – 89%; Risk-free interest rate – 1.24%; Expected life: 0.56 - 0.58 years.

10. Share Capital

(a) Authorized

Unlimited class A common shares, without par value.

(b) Issued

At December 31, 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 year ended December 31, 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. No cash was received for \$60,000 of gross proceeds as the shares were issued to settle a promissory note of \$60,000 (note 8). 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. No value was allocated to the attached warrants. The Company paid \$15,234 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 18 months. 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 18 months. No value was allocated to the attached warrants. The Company paid \$32,373 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 21.5 months. A share issue cost of \$4,131 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.

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10. Share Capital (continued)

(b) Issued (continued)

- 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 (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. The fair value of the shares issued was \$251,187 and the fair value of the warrants was \$119,418 resulting in a loss on settlement of \$165,554. The fair value of the warrants was determined using the Black-Scholes option pricing model with the following assumptions: Risk free interest rate of 0.94%; Expected life of 2 years; Expected volatility of 95% and dividend yield of Nil.
- 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. No value was allocated to the attached warrants. The Company paid \$10,576 as finder fee.
- 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. A previously expensed amount of \$5,761 related to these options was adjusted from the share-based payment reserve to share capital.

(c) Options

A summary of the status of the Company's stock options outstanding as at December 31, 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, December 31, 2017	3,225,000	\$ 0.30
Weighted average remaining contractual life		2.33 Years

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10. Share Capital (continued)

(c) Options (continued)

As at December 31, 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. 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. Stock based compensation expense of \$35,288 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.

(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	4,518,419	(0.40)
Exercised	(1,000,000)	(0.27)
Balance, December 31, 2017	3,518,419	\$ 0.44
Weighted average remaining contractual life		0.74

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10. Share Capital (continued)

(d) Warrants (continued)

As at December 31, 2017, the following warrants were outstanding:

Expiry date	Exercise price	Warrants
January 25, 2018	\$ 0.27	1,000,000
July 25, 2018	\$ 0.55	575,458
August 1, 2018	\$ 0.55	40,650
November 10, 2018	\$ 0.45	1,062,500
January 25, 2019	\$ 0.20	4,000
May 10, 2019	\$ 0.40	8,500
June 19, 2019	\$ 0.55	512,627
July 25, 2019	\$ 0.55	314,684
		3,518,419

(e) Reserves

The share-based payment 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. The share-based payment reserve also records items recognized as share-based expense for warrants that were issued for a service. The Company uses the residual method of valuing attachable warrants issued as a part of units in conjunction with private placements of common shares. Any value related to these type of warrants would be recorded to a warrant reserve.

11. Related Party Transactions

(a) Key management compensation

Compensation of key management for the periods ended December 31, 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	\$ 228,707	\$ 175,896
Included in exploration and evaluation assets – Oil and Gas	213,553	153,460
	442,260	329,356
Stock based compensation	35,288	109,541
	\$ 477,548	\$ 438,897

(b) Related party balances

Included in trade payables is \$155,788 (2016 - \$450,747) owing to members of the Company's key management (note 6). These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

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

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12. Income Taxes

A reconciliation of the expected income tax recovery to the actual income tax recovery for the years ended December 31, 2017 and 2016 is as follows:

	2017	2016
Net loss	\$ (1,351,874)	\$ (672,274)
Statutory income tax rate	26.0%	26.0%
Expected income tax recovery	(351,487)	(174,791)
Non-deductible items and other	59,132	62,619
Stock based compensation	19,260	68,354
Impairment	(26,000)	-
Loss on debt settlement	43,044	-
Gain on change of fair-value of derivative liability	(25,217)	-
Accretion expenses of convertible debentures	31,240	-
True-up of prior year losses	(728)	-
Decrease in deductible temporary differences not recognized	250,756	43,818
Income tax recovery	\$ -	\$ -

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

	December 31, 2017	December 31, 2016
Non-capital losses – Canada	\$ 3,615,380	\$ 2,697,478
Resource expenditure tax pools	153,143	153,143
Share issuance costs	46,546	-
Equipment tax pools	1,278	1,278
Unrecognized deferred tax assets	\$3,816,347	\$ 2,851,899

The non-capital losses expire in the years 2024 – 2037. Other temporary differences may be carried forward indefinitely.

13. 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. Substantially all of the Company's cash is deposited in bank accounts held with major banks in Canada. As the majority of the Company's cash is held by the same bank there is a concentration of credit risk. This risk is managed by using major Canadian banks that are high credit quality financial institutions as determined by rating agencies. The Company assessed credit risk as low.

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13. Financial Risk and Capital Management *(continued)*

(a) Financial risks (continued)

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. 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 December 31, 2017, the net carrying value of financial instruments denominated in United States dollars is \$105,467. 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 periodically exposed to interest rate risk on its cash equivalents as these instruments are exposed to interest rate fluctuations on renewal. 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.

The Company defines capital that it manages as the aggregate of its cash 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 December 31, 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.

14. 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.

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15. Subsequent Events

Subsequent to the year ended December 31, 2017, 900,000 stock options with exercise prices ranging from \$0.55 - \$0.68 expired.

Subsequent to the year ended December 31, 2017, 1,000,000 warrants with an exercise price of \$0.27 expired.

Subsequent to the year ended December 31, 2017, 125,000 stock options with an exercise price of \$0.17 were exercised into common shares for proceeds of \$21,250.