



Consolidated Financial Statements

December 31, 2018

(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.,

### Opinion

We have audited the consolidated financial statements of Oyster Oil and Gas Ltd. (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive loss, changes in shareholders' equity (deficiency) and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies (collectively referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Material Uncertainty Related to Going Concern

We draw attention to Note 1 to the financial statements, which indicates that the Company incurred a comprehensive loss of \$10,435,322 during the year ended December 31, 2018 and, as of that date, the Company had a working capital deficiency of \$2,434,840. As stated in Note 1, these events or conditions, along with other matters as set forth in Note 1, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

### Other Information

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### Responsibilities of Management and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Cherry Ho.

DMCL

### **DALE MATHESON CARR-HILTON LABONTE LLP CHARTERED PROFESSIONAL ACCOUNTANTS**

Vancouver, BC

April 29, 2019

# OYSTER OIL AND GAS LTD.

Consolidated Statements of Financial Position  
(Expressed in Canadian dollars)

|  | December 31,<br>2018 | December 31,<br>2017 |
|--|----------------------|----------------------|
| <b>Assets</b>  |                      |                      |
| Current assets:  |                      |                      |
| Cash   | \$ 24,667            | \$ 128,911           |
| Receivables (note 4)   | 6,779                | 14,453               |
| Prepaid expenses   | 5,787                | 9,376                |
|  | 37,233               | 152,740              |
| Non-current assets:  |                      |                      |
| Restricted cash (note 5)                                       | 136,440              | 128,880              |
| Equipment, net   | 10,196               | 10,540               |
| Exploration and evaluation – oil and gas (note 5)              | 1,904,033            | 11,409,438           |
|  | 2,050,669            | 11,548,858           |
| <b>Total assets</b>  | <b>\$ 2,087,902</b>  | <b>\$ 11,701,598</b> |
| <b>Liabilities and Shareholders' Equity (Deficiency)</b>       |                      |                      |
| Current liabilities:   |                      |                      |
| Accounts payable and accrued liabilities (notes 6 and 8)       | \$ 1,168,460         | \$ 422,845           |
| Notes Payable (notes 7 and 10)                                 | 71,398               | -                    |
| Convertible debentures (note 8)                                | 1,232,215            | 1,062,905            |
| Derivative liability (note 8)                                  | -                    | 185,947              |
|  | 2,472,073            | 1,671,697            |
| Shareholders' equity (deficiency)                              |                      |                      |
| Share capital (note 9)   | 27,246,926           | 27,211,302           |
| Share-based payment reserve (note 9)                           | 5,394,772            | 5,409,146            |
| Deficit  | (33,025,869)         | (22,590,547)         |
|  | (384,171)            | 10,029,901           |
| <b>Total liabilities and shareholders' equity (deficiency)</b> | <b>\$ 2,087,902</b>  | <b>\$ 11,701,598</b> |

Nature of operations and going concern (note 1)  
Subsequent events (note 14)

Approved on behalf of the Board:

"Gavin Cooper"

"Martin Bajic"

*See accompanying notes to the consolidated financial statements*

# OYSTER OIL AND GAS LTD.

Consolidated Statements of Comprehensive Loss  
(Expressed in Canadian dollars)

|   | Year Ended<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 |
|---|------------------------------------|------------------------------------|
| Operating Expenses:   |                                    |                                    |
| Corporate office (note 10)  | \$ 484,940                         | \$ 596,154                         |
| General and administrative (notes 10)                             | 102,587                            | 225,343                            |
| Marketing   | -                                  | 75,295                             |
| Corporate advisory fees   | -                                  | 217,556                            |
| Property investigation costs (note 10)                            | -                                  | 2,993                              |
| Stock based compensation (notes 9 and 10)                         | -                                  | 74,076                             |
| Amortization  | 344                                | 258                                |
|   | (587,871)                          | (1,191,675)                        |
| Other Items:  |                                    |                                    |
| Write-off of accounts payable                                     | -                                  | 9,896                              |
| Write-off of deposit  | -                                  | 100,000                            |
| Write-off of accounts receivable (note 4)                         | (1,168)                            | -                                  |
| Impairment of exploration and evaluation asset (note 5)           | (9,709,817)                        | -                                  |
| Interest and accretion expense (notes 7 and 8)                    | (291,791)                          | (177,520)                          |
| Loss on foreign exchange  | (30,883)                           | (24,264)                           |
| Loss on debt settlement (note 9)                                  | -                                  | (165,554)                          |
| Interest income   | 261                                | 253                                |
| Change in derivative liability (note 8)                           | 185,947                            | 96,990                             |
|   | (9,847,451)                        | (160,199)                          |
| Net and comprehensive loss  | \$ (10,435,322)                    | \$ (1,351,874)                     |
| Loss per share – basic and diluted                                | \$ (0.24)                          | \$ (0.03)                          |
| Weighted average number of shares outstanding – basic and diluted | 43,769,947                         | 42,126,620                         |

See accompanying notes to the consolidated financial statements

## OYSTER OIL AND GAS LTD.

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

|   | Share capital     |                      | Share-based<br>payment reserve | Deficit                | Total               |
|---|-------------------|----------------------|--------------------------------|------------------------|---------------------|
|   | Number of shares  | Amount               |                                |                        |                     |
| <b>Balance at December 31, 2016</b>                             | <b>37,659,032</b> | <b>\$ 25,340,151</b> | <b>\$ 5,216,299</b>            | <b>\$ (21,238,673)</b> | <b>\$ 9,317,777</b> |
| Shares issued for cash, net of share issue costs (note 9)       | 4,125,000         | 1,276,703            | 5,114                          | -                      | 1,281,817           |
| Shares issued in private placement to settle liability (note 9) | 300,000           | 60,000               | -                              | -                      | 60,000              |
| Shares issued on exercise of warrants (note 9)                  | 1,000,000         | 270,000              | -                              | -                      | 270,000             |
| Shares issued in exchange for debt (note 9)                     | 512,627           | 251,187              | 119,418                        | -                      | 370,605             |
| Shares issued on exercise of options (note 9)                   | 50,000            | 13,261               | (5,761)                        | -                      | 7,500               |
| Stock based compensation (note 9)                               | -                 | -                    | 74,076                         | -                      | 74,076              |
| Comprehensive loss:   |                   |                      |                                |                        |                     |
| Net loss  | -                 | -                    | -                              | (1,351,874)            | (1,351,874)         |
| <b>Balance at December 31, 2017</b>                             | <b>43,646,659</b> | <b>27,211,302</b>    | <b>5,409,146</b>               | <b>(22,590,547)</b>    | <b>10,029,901</b>   |
| Shares issued on exercise of options (note 9)                   | 125,000           | 35,624               | (14,374)                       | -                      | 21,250              |
| Comprehensive loss:   |                   |                      |                                |                        |                     |
| Net loss  | -                 | -                    | -                              | (10,435,322)           | (10,435,322)        |
| <b>Balance at December 31, 2018</b>                             | <b>43,771,659</b> | <b>\$ 27,246,926</b> | <b>\$ 5,394,772</b>            | <b>\$ (33,025,869)</b> | <b>\$ (384,171)</b> |

See accompanying notes to the consolidated financial statements

# OYSTER OIL AND GAS LTD.

Consolidated Statements of Cash Flows  
(Expressed in Canadian dollars)

|  | Year Ended<br>December 31,<br>2018 | Year Ended<br>December 31,<br>2017 |
|--|------------------------------------|------------------------------------|
| Operating activities   |                                    |                                    |
| Net loss   | \$ (10,435,322)                    | \$ (1,351,874)                     |
| Items not involving cash                                       |                                    |                                    |
| Amortization   | 344                                | 258                                |
| Stock based compensation                                       | -                                  | 74,076                             |
| Write-off of deposit assumed                                   | -                                  | (100,000)                          |
| Write-off of accounts payable                                  | -                                  | (9,896)                            |
| Interest and Accretion expense of convertible debt             | 291,791                            | 173,698                            |
| Foreign exchange   | (7,560)                            | 9,036                              |
| Loss on debt settlement  | -                                  | 165,554                            |
| Gain on change in derivative liability                         | (185,947)                          | (96,990)                           |
| Loss on write-off of accounts receivable                       | 1,168                              | -                                  |
| Impairment of exploration and evaluation asset                 | 9,709,817                          | -                                  |
| Changes in non-cash working capital                            |                                    |                                    |
| Receivables  | 6,506                              | (6,245)                            |
| Prepaid expenses   | 3,589                              | (9,376)                            |
| Accounts payable and accrued liabilities                       | 525,122                            | (204,459)                          |
| <b>Net cash used in operating activities</b>                   | <b>(90,492)</b>                    | <b>(1,356,218)</b>                 |
| Investing activities   |                                    |                                    |
| Expenditures on exploration and evaluation asset – oil and gas | (106,400)                          | (1,192,385)                        |
| Acquisition of equipment                                       | -                                  | (4,951)                            |
| <b>Net cash used in investing activities</b>                   | <b>(106,400)</b>                   | <b>(1,197,336)</b>                 |
| 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)                          | 71,398                             | (110,000)                          |
| Shares issued for cash – exercise of warrants                  | -                                  | 270,000                            |
| Shares issued for cash – exercise of options                   | 21,250                             | 7,500                              |
| <b>Net cash provided by financing activities</b>               | <b>92,648</b>                      | <b>2,675,005</b>                   |
| Increase (decrease) in cash                                    | (104,244)                          | 121,451                            |
| Cash, beginning of year  | 128,911                            | 7,460                              |
| <b>Cash, ending of year</b>                                    | <b>\$ 24,667</b>                   | <b>\$ 128,911</b>                  |
| <b>Interest Paid</b>   | <b>\$ -</b>                        | <b>\$ 3,822</b>                    |

During the years ended December 31, 2018 and 2017, the Company incurred the following non-cash transactions that are not reflected in the statements of cash flows:

|   | December 31,<br>2018 | December 31,<br>2017 |
|---|----------------------|----------------------|
| Expenditures on exploration and evaluation asset – oil and gas included in accounts payable and accrued liabilities | \$ 98,012            | \$ 63,326            |
| Shares issued to settle loan payable  | \$ -                 | \$ 251,187           |
| Warrants issued to settle loan payable  | \$ -                 | \$ 119,418           |
| Promissory notes repaid with common shares  | \$ -                 | \$ 60,000            |

# OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian)  
For the Years Ended December 31, 2018 and 2017

## 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, 2018 the Company had not advanced its properties to commercial production and is not able to finance day to day activities through operations. During the year ended December 31, 2018, the Company incurred a comprehensive loss of \$10,435,322 and, as of that date, the Company had a working capital deficiency of \$2,434,840. 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 29, 2019 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 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, share-based payments, 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, 2018 and 2017

## 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, 2018 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

#### *IFRS 9 Financial Instruments*

The Company adopted all of the requirements of IFRS 9 Financial Instruments ("IFRS 9") as of January 1, 2018. IFRS 9 replaces IAS 39 Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 utilizes a revised model for recognition and measurement of financial instruments and a single, forward-looking "expected loss" impairment model.

The change did not impact the carrying value of any financial assets or financial liabilities on the transition date.

The following is the Company's new accounting policy for financial instruments under IFRS 9:

#### (i) Classification

The Company classifies its financial instruments in the following categories: at fair value through profit and loss ("FVTPL"), at fair value through other comprehensive income (loss) ("FVTOCI") or at amortized cost.

# OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian)  
For the Years Ended December 31, 2018 and 2017

## 3. Significant Accounting Policies (continued)

### (b) Financial Instruments (continued)

#### (i) Classification (continued)

The Company determines the classification of financial assets at initial recognition. The classification of debt instruments is driven by the Company's business model for managing the financial assets and their contractual cash flow characteristics. Equity instruments that are held for trading are classified as FVTPL. For other equity instruments, on the day of acquisition the Company can make an irrevocable election (on an instrument-by-instrument basis) to designate them as at FVTOCI. Financial liabilities are measured at amortized cost, unless they are required to be measured at FVTPL (such as instruments held for trading or derivatives) or the Company has opted to measure them at FVTPL. The Company completed a detailed assessment of its financial assets and liabilities as at January 1, 2018.

The following table shows the original classification under IAS 39 and the new classification under IFRS 9:

| <b>Financial assets/liabilities</b> | <b>Original classification IAS 39</b> | <b>New classification IFRS 9</b> |
|-------------------------------------|---------------------------------------|----------------------------------|
| Cash and restricted cash            | FVTPL                                 | FVTPL                            |
| Receivables                         | Amortized cost                        | Amortized cost                   |
| Accounts payable                    | Amortized cost                        | Amortized cost                   |
| Convertible debenture               | Amortized cost                        | Amortized cost                   |
| Derivative liabilities              | FVTPL                                 | FVTPL                            |
| Note payable                        | N/A in prior year                     | Amortized cost                   |

#### (ii) Measurement

##### *Debt investments at FVTOCI*

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income ("OCI"). On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

##### *Equity investments at FVTOCI*

These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognised in OCI and are never reclassified to profit or loss.

##### *Financial assets and liabilities at amortized cost*

Financial assets and liabilities at amortized cost are initially recognized at fair value plus or minus transaction costs, respectively, and subsequently carried at amortized cost less any impairment.

##### *Financial assets and liabilities at FVTPL*

Financial assets and liabilities carried at FVTPL are initially recorded at fair value and transaction costs are expensed in the statements of comprehensive loss. Realized and unrealized gains and losses arising from changes in the fair value of the financial assets and liabilities held at FVTPL are included in the statements of comprehensive loss in the period in which they arise. Where management has opted to recognize a financial liability at FVTPL, any changes associated with the Company's own credit risk will be recognized in other comprehensive income (loss).

# OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian)  
For the Years Ended December 31, 2018 and 2017

## 3. Significant Accounting Policies (continued)

### (b) Financial Instruments (continued)

#### (iii) Impairment of financial assets at amortized cost

The Company recognizes a loss allowance for expected credit losses on financial assets that are measured at amortized cost. At each reporting date, the Company measures the loss allowance for the financial asset at an amount equal to the lifetime expected credit losses if the credit risk on the financial asset has increased significantly since initial recognition. If at the reporting date, the financial asset has not increased significantly since initial recognition, the Company measures the loss allowance for the financial asset at an amount equal to the twelve month expected credit losses. The Company shall recognize in the statements of comprehensive loss, as an impairment gain or loss, the amount of expected credit losses (or reversal) that is required to adjust the loss allowance at the reporting date to the amount that is required to be recognized.

#### (iv) Derecognition

##### Financial assets

The Company derecognizes financial assets only when the contractual rights to cash flows from the financial assets expire, or when it transfers the financial assets and substantially all of the associated risks and rewards of ownership to another entity.

##### Financial liabilities

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled, or expire. The Company also derecognizes a financial liability when the terms of the liability are modified such that the terms and / or cash flows of the modified instrument are substantially different, in which case a new financial liability based on the modified terms is recognized at fair value. Gain and losses on derecognition are general recognized in profit or loss.

### (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 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 |

# OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian)  
For the Years Ended December 31, 2018 and 2017

## 3. Significant Accounting Policies (continued)

### (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.

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.

# OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements  
(Expressed in Canadian)  
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## 3. Significant Accounting Policies (continued)

### (f) Restoration and environmental obligations (continued)

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.

### (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.

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## 3. Significant Accounting Policies (continued)

### (i) Foreign currency translation (continued)

#### Transactions and balances

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. 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.

### (j) New accounting standards issued but not yet effective

The following new standard has been issued but not yet applied:

#### *IFRS 16 – Leases. IFRS 16 Leases will replace IAS 17 Leases*

This standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than twelve months. A lessee is required to recognize a right-of-use asset representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. The standard will be effective for annual periods beginning on or after January 1, 2019. This standard will affect the way in which the Company accounts for its operating leases and will increase the related disclosures. The adoption of this standard does not have material impact on the Company's consolidated financial statements.

Other new accounting standards and 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

|                | December 31,<br>2018 | December 31,<br>2017 |
|----------------|----------------------|----------------------|
| GST receivable | \$ 5,334             | \$ 13,008            |
| Other          | 1,445                | 1,445                |
|                | <b>\$ 6,779</b>      | <b>\$ 14,453</b>     |

During the year ended December 31, 2018, the Company wrote-off \$1,168 of GST receivables.

## 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, 2018 and 2017 as follows:

|                        | December 31,<br>2018 | December 31,<br>2017 |
|------------------------|----------------------|----------------------|
| Republic of Djibouti   | \$ 1,203,595         | \$ 7,263,895         |
| Republic of Madagascar | 700,438              | 4,145,543            |
|                        | <b>\$ 1,904,033</b>  | <b>\$ 11,409,438</b> |

### 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, 2018 and 2017 is as follows:

|   |                     |
|---|---------------------|
| Balance, December 31, 2016                  | \$ 7,034,672        |
| Field and technical work                    | 147,986             |
| Field office, management and administration | 81,237              |
| Balance, December 31, 2017                  | 7,263,895           |
| Field and technical work                    | 2,719               |
| Field office, management and administration | 74,838              |
| Impairment                                  | (6,137,857)         |
| Balance, December 31, 2018                  | <b>\$ 1,203,595</b> |

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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 paid various defined exploration license fees of US\$320,000. Furthermore, the Company agreed to keep the existing US\$100,000 (CAD\$136,440) 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, 2018, 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, 2018 and 2017 is as follows:

|   |    |             |
|---|----|-------------|
| 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   |
| Field office, management and administration |    | 126,855     |
| Impairment                                  |    | (3,571,960) |
| <hr/>                                       |    |             |
| Balance, December 31, 2018                  | \$ | 700,438     |

Subsequent to the year ending December 31, 2018, the Company entered into a settlement agreement with the convertible debenture holders to settle the outstanding convertible debentures (note 8) and accrued interest with 100% of the issued and outstanding common shares of Oyster BVI. Based on the settlement agreement, the fair value of the properties in Djibouti and Madagascar as at December 31, 2018 were assessed to be \$1,904,033, resulting in an impairment of \$9,709,817 during the year ended December 31, 2018 (note 14)

## 6. Accounts Payable and Accrued Liabilities

|                           | December 31,<br>2018 | December 31,<br>2017 |
|---------------------------|----------------------|----------------------|
| Trade payables (note 10)  | \$ 892,564           | \$ 320,993           |
| Accrued liabilities       | 99,871               | 48,308               |
| Interest payable (note 8) | 176,025              | 53,544               |
| <hr/>                     |                      |                      |
|                           | \$ 1,168,460         | \$ 422,845           |

# OYSTER OIL AND GAS LTD.

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## 7 Notes payable

During the year ended December 31 2018, the Company issued notes payable to an arm's length party in the amount of \$57,797 (US\$42,500). The balance was unsecured, bearing 7% interest rate per annum and due on demand. During the year ended December 31, 2018, the Company accrued interest of \$702 (2017: \$nil).

During the year ended December 31 2018, the Company issued notes payable to a director of the Company in the amount of \$13,419. The balance was unsecured, bearing 7% interest rate per annum and due on demand. During the year ended December 31, 2018, the Company accrued interest of \$94 (2017: \$nil).

## 8. 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, 2018, contractual interest expense of \$114,421 (2017: \$50,136) was accrued and included in interest and accretion expense. The convertible debentures matured on July 25, 2018 and was in default. Subsequent to December 31, 2018, the Company entered into a settlement agreement with the debenture holders to settle the outstanding principals and accrued interest (note 14).

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, 2018, contractual interest expense of \$8,060 (2017: \$3,408) was accrued and included in interest and accretion expense. The convertible debentures matured on August 1, 2018 and was in default. Subsequent to December 31, 2018, the Company entered into a settlement agreement with the debenture holders to settle the outstanding principals and accrued interest (note 14).

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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## 8. Convertible Debentures (continued)

As at December 31, 2018, the Company's convertible debentures are as follows:

|  | Convertible<br>Debentures | Derivative<br>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                 |
| Accretion expense                            | 169,310                   | -                       |
| Change in fair value of derivative liability | -                         | (185,947)               |
| Balance, December 31, 2018                   | \$ 1,232,215              | \$ -                    |

As at December 31, 2017, the Company determined the fair value of the derivative liability to be \$185,947 using the Black-Sholes 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.

As at December 31, 2018, the fair value of the derivative liability was reduced to \$nil due to the expiration of share purchase warrants issued.

During the year ended December 31, 2018, the Company accrued total interest payable of \$176,025 (2017: \$53,544) which was recorded in account payables (note 6).

## 9. Share Capital

### (a) Authorized

Unlimited class A common shares, without par value.

### (b) Issued

At December 31, 2018, there were 43,771,659 common shares issued and fully paid common shares outstanding (December 31, 2017 – 43,646,659).

The Company issued 125,000 common shares as a result of the exercise of options exercisable at \$0.15 per share for total proceeds of \$21,250 during the year ended December 31, 2018.

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. 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.

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## 9. Share Capital (continued)

### (b) Issued (continued)

- 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.
- 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, 2018 and December 31, 2017 and changes during the periods is presented below:

|   | Number<br>of Options | Weighted<br>average<br>exercise price |
|---|----------------------|---------------------------------------|
| 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                                  |
| Exercised                                   | (125,000)            | 0.17                                  |
| Expired                                     | (900,000)            | 0.56                                  |
| Balance, December 31, 2018                  | 2,200,000            | \$ 0.20                               |
| Weighted average remaining contractual life |                      | 2.29 Years                            |

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## 9. 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   |
| 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   |
|                 |                                     | 2,200,000 |

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, 2016                  | -                  | \$ -                            |
| Issued                                      | 4,518,419          | (0.40)                          |
| Exercised                                   | (1,000,000)        | (0.27)                          |
| Balance, December 31, 2017                  | 3,518,419          | \$ 0.44                         |
| Expired                                     | (2,678,608)        | (0.41)                          |
| Balance, December 31, 2018                  | 839,811            | \$ 0.55                         |
| Weighted average remaining contractual life |                    | 0.50                            |

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## 9. Share Capital (continued)

### (d) Warrants (continued)

As at December 31, 2018, the following warrants were outstanding:

| Expiry date      | Exercise price | Warrants |
|------------------|----------------|----------|
| 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  |
|                  |                | 839,811  |

### (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.

## 10. Related Party Transactions

### (a) Key management compensation

Compensation of key management for the periods ended December 31, 2018 and 2017 are as follows:

|   | 2018       | 2017       |
|---|------------|------------|
| Management fees:  |            |            |
| Included in property investigation, corporate office and general and administrative expense | \$ 233,852 | \$ 228,707 |
| Included in exploration and evaluation assets – Oil and Gas                                 | 88,398     | 213,553    |
|   | 322,250    | 442,260    |
| Director fees   | 38,989     |            |
| Administration fees   | 10,064     |            |
| Stock based compensation  | -          | 35,288     |
|   | \$ 371,303 | \$ 477,548 |

### (b) Related party balances

Included in accounts payables is \$526,935 (2017 - \$155,788) owing to members of the Company's key management (note 6). 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 December 31, 2018 is \$13,419 (December 31, 2017 - \$nil) (note 7). The balance is unsecured, bearing 7% rate per annum and due on demand.

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## 11. Income Taxes

A reconciliation of the expected income tax recovery to the actual income tax recovery for the years ended December 31, 2018 and 2017 is as follows:

|   | 2018            | 2017           |
|---|-----------------|----------------|
| Net loss  | \$ (10,435,322) | \$ (1,351,874) |
| Statutory income tax rate                                 | 27.0%           | 26.0%          |
| Expected income tax recovery                              | (2,817,537)     | (351,487)      |
| Non-deductible items and other                            | 87,812          | 59,132         |
| Stock based compensation                                  | -               | 19,260         |
| Impairment  | 2,621,651       | (26,000)       |
| Loss on debt settlement                                   | -               | 43,044         |
| Gain on change of fair-value of derivative liability      | (50,206)        | (25,217)       |
| Accretion expenses of convertible debentures              | 45,714          | 31,240         |
| True-up of prior year losses                              | 57,357          | (728)          |
| Effect of change in tax rate                              | (38,163)        | -              |
| Change in deductible temporary differences not recognized | 93,372          | 250,756        |
| Income tax recovery                                       | \$ -            | \$ -           |

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

|                                  | December 31,<br>2018 | December 31,<br>2017 |
|----------------------------------|----------------------|----------------------|
| Non-capital losses – Canada      | \$ 3,831,494         | \$ 3,615,380         |
| Resource expenditure tax pools   | 153,143              | 153,143              |
| Share issuance costs             | 34,910               | 46,546               |
| Equipment tax pools              | 1,278                | 1,278                |
| Unrecognized deferred tax assets | \$ 4,020,825         | \$ 3,816,347         |

The non-capital losses expire in the years 2024 – 2038. Other temporary differences may be carried forward indefinitely.

## 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. 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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## 12. 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, 2018, the net carrying value of financial instruments denominated in United States dollars is \$113,784. 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 notes payable and convertible debentures bear fix interest rate. 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, 2018, the Company was 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.

# OYSTER OIL AND GAS LTD.

Notes to the Consolidated Financial Statements  
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For the Years Ended December 31, 2018 and 2017

## 14. Subsequent Events

- (a) Subsequent to the year ending December 31, 2018, the Company entered into a Debt Settlement Agreement (the "Agreement") with the convertible debenture holders to settle the outstanding convertible debentures (note 8) and accrued interest with 100% of the issued and outstanding common shares of Oyster BVI. Oyster BVI has the 100% working interest of exploration and evaluation stage oil and gas assets in both Djibouti and Madagascar (combined as the "Exploration and Evaluation Assets") (note 5). Pursuant to the Agreement, ownership of the Exploration and Evaluation Assets will be transferred to the convertible debenture holders along with the common shares of Oyster BVI. The convertible debenture holders would also assume the accrued liabilities at Oyster BVI not to exceed \$500,000 as part of the Agreement.
- (b) The agreement is subject to the approval of shareholders and the TSX Exchange. The agreement will expire on June 30, 2019 if no such approval was received and the agreements were not fully executed.
- (c) Subsequent to the year ended December 31, 2018, 150,000 share purchase options with an exercise price of \$0.45 expired.
- (d) Subsequent to the year ended December 31, 2018, 4,000 share purchase warrants with an exercise price of \$0.20 expired.
- (e) Subsequent to the year ended December 31, 2018, the Company issued a promissory note to borrow an amount of \$50,000 from an arm's-length party. The loan bears interest at 10% per annum and is repayable on or before February 28, 2020.