

***BAYSHORE PETROLEUM CORP.***

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
FORM 51-102F1**

**September 30, 2017**

## **Management's Discussion and Analysis**

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This management's discussion and analysis ("MD&A") of financial results and related data should be read with the financial statements and notes for the three and nine months ended September 30, 2017, and the year ended December 31, 2016, of Bayshore Petroleum Corp. ("Bayshore" or the "Company"). The financial statements are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This commentary is as of November 29, 2017. Bayshore's Board of Directors and its Audit Committee have reviewed and approved this MD&A and the accompanying financial statements.

The reader should be aware that historical results are not necessarily indicative of future performance.

In conformity with Canadian Securities Administrator's National Instrument ("NI") NI 51-101 "Standards of Disclosure for Oil and Gas Activities", natural gas volumes have been converted to equivalent barrels of oil ("boe") using a conversion ratio of six thousand cubic feet ("mcf") of natural gas to one boe. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that boe may be misleading, particularly if used in isolation.

### **Forward Looking Statements**

Certain of the statements set forth under "Management's Discussion and Analysis" including statements which may contain words such as "could", "expect", "believe", "will" and similar expressions and statements relating to matters that are not historical facts, are forward-looking and are based upon the Company's current belief as to the outcome and timing of such future events. There are numerous risks and uncertainties, certain of which are beyond Bayshore's control, including: the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. Bayshore's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward looking statements will transpire or occur.

In addition, Bayshore is an energy company that has, in addition to holding oil and gas production assets, held technology option rights or has access to technology rights. Bayshore is engaged in exploiting these technology development opportunities, and as such certain of the statements set forth under "Management's Discussion and Analysis" including statements that pertain directly to technology, may contain words such as "could", "expect", "believe", "will", and similar expressions and statements relating to

matters that are not facts, but are subjective or a matter of management's opinion. It is therefore true that such statements could ultimately be materially different than outcomes or performance, and no assurances can be given that any of the opinions, forecasts, or events anticipated by the forward looking statements will transpire or occur.

### **Going Concern**

The financial statements and notes, and this MD&A, for the three and nine month period ended September 30, 2017, have been prepared on a going concern basis, which assumes that the Company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations.

While the Company continues to focus on its business plan it has incurred a loss for the quarter ended September 30, 2017, of \$14,035 (2016 – (\$744,748)). At September 30, 2017, the Company has a significant working capital deficit of \$1,065,732 (December 31, 2016 – (\$849,541)), and negative cash flows from operations for the quarter ended September 30, 2017, of \$5,381 (September 30, 2016 – (\$200,574)). In addition, the Saskatchewan Ministry of the Economy has obtained a Judgement Certificate against Bayshore in the amount of \$27,300 related to a prior abandonment liability, an amount which now exceeds the total value of the Company's assets. At the time of this report Bayshore has completed the abandonment in an orderly fashion, and therefore expects the Judgement above to be set aside in due course. In order to address these liabilities, Bayshore announced a private placement financing in the amount of \$1.5 million on September 11, 2017. This financing has been delayed with a change in directors. The ability of the Company to continue as a going concern will depend on raising additional capital and achieving profitable operations sufficient to meet all obligations, the outcome of which is uncertain.

These uncertainties may cast significant doubt on the Company's ability to continue as a going concern. Although, in the opinion of management, the use of the going concern assumption is appropriate, there can be no assurance that any steps management is taking will be successful. These financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

### **Nature of Business**

Bayshore is a Canadian oil and gas technology company listed on the TSX Venture Exchange under the symbol "BSH". The Company is an early stage energy company with access to innovative bitumen and heavy oil upgrading technologies and minor oil and gas assets in central Alberta.

Bayshore has previously licensed and has access to a disruptive technology, which it has been developing and promoting for commercial development for the past several years. This is a catalytic (chemical) based upgrading technology. This technology, when applied in a simple pyrolysis vessel, can upgrade bitumen, heavy oil, and other organic substances into fuel distillate such as diesel fuel (and byproducts hydrocarbon gas and solid petroleum coke). The catalyst is used alone and does not require hydrogen, pressure, high heat, water.

When used without pyrolysis and some modification to the catalyst, it can also partially upgrade bitumen and heavy oil efficiently. When used together with standard desulphuring technologies, the Company could economically produce low greenhouse gas emission, ultra-low sulphur (“ULS”) diesel fuel, commonly used globally as a fuel in transportation, power generation, and many other industries. The Company is and has been engaged in transactions that will utilize these technologies.

Bayshore’s two minor properties are as follows: the Bigstone property is located in Township 61, Range 22 W5M in central Alberta. Bayshore has a 12% working interest in one well at 14-24-61-22W5 and a 1.5% Gross Overriding Royalty on a second and third gas well on the lease at 6-19-61-21W5 and 3-25-61-22W5. The net production to the Company from this property is nil, caused by external events in early 2015 when it was shut-in.

The Kaybob property is located in Township 59, Range 18 W5M in central Alberta. Bayshore has a 21% working interest in two wells, which, in similar circumstance to Bigstone above, did not provide any net production to the Company. The Bigstone and Kaybob assets will be divested when appropriate.

### **Current Significant Events and Transactions**

Bayshore was incorporated under the Business Corporations Act (Alberta) on October 22, 2003. The Company successfully completed its initial public offering on February 25, 2005 and obtained listing approval for its common shares on the TSX Venture Exchange on March 8, 2005 as a Capital Pool Company. In accordance with the TSX-V Policy 2.4, the Company completed its Qualifying Transaction June 2007.

Bayshore has refocused and shifted its business strategy in the first half of 2017. Its E&P business has been inactive, and, given the ongoing difficult economic and financing environment in the energy industry in Alberta, the Company is pursuing a smaller approach to starting and financing its access to the Cold Catalytic Cracking (“CCC”) upgrading technology. Partial upgrading using the CCC liquid catalytic reactant requires far less capital to deploy, and Bayshore will emphasize this part of the business to immediately deploy the technology.

### **Property/Asset Summaries**

In May 2012, the Company licensed two wells on its Radville, Saskatchewan property. The first exploratory well, Radville 8-5-6-17W2, was completed as a cased potential oil well on June 12, 2012. However, the well did not produce economically and further work did not proceed. The well was abandoned downhole and the lease ultimately expired. Subsequently, all the leases expired. The Company’s previously producing properties, Bigstone and Kaybob, pre-date the 2012 Radville, Saskatchewan property, and no work or transactions initiated by Bayshore were proposed or initiated on these properties. Bayshore is not operator of these JV properties. Bayshore intends to dispose of these properties, but to date the operator has requested that Bayshore pay them to acquire the working interests.

The value of the formerly producing assets Bigstone and Kaybob has been, as of December 31, 2015, impaired to \$nil. Therefore, the Company has not engaged a third party

engineering firm for 2016 to evaluate Bayshore's properties, as it now reports no asset value for any PNG property, no reserves, and no production on negative cash flow.

### Oil and Gas Technology Development

The Company's CEO has been working for many years with the inventor of an upgrading technology, CCC, who is also the principal of the Chemical Foreign Economic Cooperation Centre ("CFECC") in Beijing. In January 2014 CFECC built a small scale 50 barrel/day ("b/d") batch pilot plant at the CFECC lab (in the main floor of their commercial building) in Beijing to test the viability of bitumen/heavy oil conversion to diesel on a commercial scale. Bayshore has, over the last several years, shipped Canadian heavy oil and bitumen samples to the plant for testing. The results of the testing indicated commercial production is viable. Since then Bayshore and CFECC have processed many other crudes and bitumen from around the world and there have been no failures and predictable diesel production.

Early in 2015 Bayshore and its management started a development program with partners to partially upgrade Alberta bitumen at surface. Early testing indicated that partially upgraded bitumen met pipeline specifications without the need for conventional diluents such as Gas Condensate usually required for transportation and sale of bitumen. The work was conducted by Company technical experts receiving financial assistance from National Research Council of Canada. This work progressed well, and now the CCC technology can be effectively deployed to partially upgrade bitumen and heavy oil, and excels at this purpose. It is a liquid catalyst and therefore mixes well with crude at wellhead temperatures. The catalyst improves viscosity and density dramatically at different temperature levels and does not dropout solids that would be rejected by either a pipeline or refinery. A small percentage of catalyst is required at low temperature relative to current dilution techniques using gas condensates.

Bayshore has held discussions with several private E&P and mid-stream companies operating in Alberta and Saskatchewan regarding the implementation of Cold Catalytic Cracking ("CCC") technology to partially upgrade produced medium to heavy crude oil to a lower viscosity, pipeline acceptable crude oil. On May 2, 2017, May 31, 2017, and September 11, 2017, Bayshore announced a financing of up to \$1.5 million to fund these operations and replenish working capital. This financing has been delayed with the appointment of a new outside director. The announced financing will be sufficient to initiate the CCC partial upgrading operations, and if completed the Company anticipates revenue and cash flow from this activity to start shortly after closing. The Company envisions future progress by step to include CCC catalyst manufacturing, partial upgrading used by E&P and midstream operators, and ultimately full upgrading to ultra-low sulphur diesel, in due course.

### Overall Performance

The Company recognized a loss of \$14,035 for the three months ended September 30, 2017 compared to a loss of \$744,748 for the three months ended September 30, 2016. The two non-operated properties in the Bigstone and Kaybob areas in Central Alberta produced no oil and gas revenue during the quarter ending September 30, 2017 (Q3 2016 – nil). Net sales volume for the three month period ending September 30, 2017 was nil boe per day (Q3 2016 – nil).

At September 30, 2017, the Company had \$1,921 in current assets (December 31, 2016 - \$47,151), including \$1,921 in cash (December 31, 2016 - \$47,151). Current liabilities at September 30, 2017, totalled \$1,067,653 (December 31, 2016 - \$896,692), resulting in a working capital deficit of \$1,065,732 (December 31, 2016 – \$849,541).

### **The Company's Financial Strategy**

While the Company continues to focus on its business plan it has incurred a loss for the quarter ended September 30, 2017, of \$14,035 (2016 – (\$744,748)). At September 30, 2017, the Company has a significant working capital deficit of \$1,065,732 (December 31, 2016 – (\$849,541)), and negative cash flows from operations for the quarter ended September 30, 2017, of \$5,381 (September 30, 2016 – (\$200,574)). In addition, the Saskatchewan Ministry of the Economy has obtained a Judgement Certificate against Bayshore in the amount of \$27,300 related to a prior abandonment liability, an amount which now exceeds the total value of the Company's assets. At the time of this report Bayshore has completed the abandonment in an orderly fashion, and therefore expects the Judgement above to be set aside in due course. In order to address these liabilities, Bayshore announced a private placement financing in the amount of \$1.5 million on September 11, 2017. This financing has been delayed with a change in directors. The ability of the Company to continue as a going concern will depend on raising additional capital and achieving profitable operations sufficient to meet all obligations, the outcome of which is uncertain.

During the three month period ended September 30, 2017, management and board members continued to seek major financing sources to sustain and expand operations. In order to preserve cash and maintain the Company's operations, Bayshore has continued its efforts to manage administrative expenses and reduce or accrue existing payables. The securing of funding and capital continues to be the top priority for Bayshore. Demonstrating the commercial ability of the CCC technology remains the greatest opportunity for the Company, and thus financing the first commercial application is key to rapid growth and the financial success of the Company.

### **Selected Annual Information**

The data in the following table has been derived from the Company's financial statements for the three most recently completed fiscal years. The data has been prepared in accordance with IFRS, applicable to a going concern in Canadian dollars.

	<b>2016</b>	2015	2014
Revenue, net of royalties (\$)	<b>4,466</b>	13,241	90,511
Net and comprehensive loss (\$)	<b>200,346</b>	1,041,454	1,070,623
Basic and diluted loss per share (\$)	<b>0.007</b>	0.041	0.060
Total assets (\$)	<b>66,573</b>	509,774	284,261
Total long-term liabilities (\$)	<b>177,465</b>	46,972	46,345

During 2014 Bayshore completed a financing of \$666,715, increasing assets. It commenced the acquisition of an intangible asset in the form of a master license to desulphuring technology, but it also experienced higher G&A, resulting in a doubling of the net

loss. Bayshore's 2014 reserve report did not support the asset value recorded in the balance sheet, and so there was an impairment of the assets in the amount of \$79,989. In late 2014 the major collapse in oil prices followed a general collapse in most commodities globally. This dramatically reduced revenues in 2015, to the point where the operator of Bayshore's producing assets were forced to shut in the production. In 2015 the Company further wrote down the formerly producing assets to nil, as a result of negative cash flow, immaterial production, and an inability to generate any positive bid in attempting to divest the properties. But total assets were reduced dramatically in 2016 by 87% when the IUT intangible licence deposit asset was fully impaired. The net and comprehensive loss in 2016 also decreased by 81% when the Company derecognized trade payables and salaries payable. The convertible debenture was renewed for a further year and this temporarily increased long-term liabilities. In 2017 the convertible debenture again became a current liability.

### **Results of Operations**

Sales volumes were nil during the quarter ended September 30, 2017 (nil for Q3 2016). Natural gas and liquids revenues, royalties, operating expenses, general and administrative expenses, depletion, depreciation and accretion expenses, net loss and cash flows from operating activities information are summarized as follows:

<b><i>Financial Highlights</i></b>	<b>Nine Months ended September 30, 2017</b>	Nine Months Ended September 30, 2016
Natural gas and liquids revenue (\$)	<b>Nil</b>	Nil
Other income (\$)	<b>10,650</b>	4,401
Royalties expense (\$)	<b>Nil</b>	203
Operating expenses (\$)	<b>5,441</b>	4,336
General and administrative expenses (\$)	<b>30,626</b>	540,445
Depletion Amortization expense (\$)	<b>7,084</b>	7,050
Net income (loss) (\$)	<b>(94,663)</b>	(1,182,815)
Cash flow from (used in) operating activities (\$)	<b>(51,414)</b>	(380,917)

**Revenues** – Revenue was \$nil for the quarter ending September 30, 2017, as compared to \$nil for the same period in 2016. Revenue was \$10,650 for the nine month period ended September 30, 2017, as compared with \$4,401 for the same period in 2016. These changes reflect the shift in operations from E&P to energy technology and crude oil processing, as none of this revenue is derived from E&P sales, but from fees derived from activity directly related to CCC crude oil testing and processing. The Company has not used hedges or financial derivatives in prior periods.

**Royalties** – Royalty expense was \$nil for the quarter ending September 30, 2017, as compared to \$nil for the same period in 2016. Royalty expense was \$nil for the nine month period ended September 30, 2017, as compared with \$203 for the same period in 2016. This reflects the absence of oil and gas production and revenues from same.

**Operating Expenses** – Operating expense was \$nil for the quarter ending September 30, 2017 as compared to \$nil for the same period in 2016. Operating expense was \$5,441 for the nine month period ended September 30, 2017, as compared with \$4,336 for the same period in 2016. Although oil and gas production revenues and royalties have

dropped to \$nil, the operator of the Company's oil and gas interests continues to account for other revenues and expenses such as road use fees and other adjustments.

**General and Administrative Expenses** – G&A expense was \$126 for the quarter ending September 30, 2017 as compared to \$203,154 for the same period in 2016. G&A expense was \$30,626 for the nine month period ended September 30, 2017, as compared with \$540,445 for the same period in 2016. With the delay in financing and the change in strategy in 2017, Bayshore reduced and conserved expenses. No salaries have been paid since the end of March 31, 2017. G&A expense was immaterial. Rent expense has decreased with a decrease in office space leased, and fees related to regulatory and filings have been maintained.

**Amortization Depletion Expense** – Amortization depletion expense was \$2,354 for the quarter ending September 30, 2017 as compared to \$2,350 for the same period in 2016. Amortization depletion expense was \$7,084 for the nine month period ended September 30, 2017, as compared with \$7,050 for the same period in 2016. Depletion has been reduced to nil. No change in assets from the prior period translated to no change in depletion and amortization.

**Net loss and comprehensive loss** – The Company recognized a loss of \$14,035 for the three months ended September 30, 2017, as compared to a loss of \$744,748 during the three months ended September 30, 2016. Bayshore suffered a loss of \$94,663 in the nine months ended September 30, 2017, as compared with a loss of \$1,182,815 for the same period in 2016. The majority of the decrease in loss in both periods was due to the expense reduction program pursued by the Company across all expenses, but especially salary, which was reduced to \$nil in the second quarter of 2017. Bayshore dramatically reduced expenses in the face of limited cash and revenue.

### **Summary of Quarterly Results**

The following table summarizes key financial and operating information prepared in accordance with IFRS, as applicable to a going concern in Canadian dollars for the three months ended:

	<b>Revenue (Net) \$</b>	<b>Net Earnings (Loss) \$</b>	<b>Basic &amp; Fully Diluted \$/Share</b>	<b>Total Assets \$</b>
<b>2017 – Q3</b>	<b>nil</b>	<b>(14,035)</b>	<b>(0.000)</b>	<b>14,259</b>
2017 – Q2	10,650	(20,091)	(0.001)	20,012
2017 – Q1	nil	(60,537)	(0.002)	17,777
2016 – Q4	65	982,469	0.031	66,573
2016 – Q2	nil	(237,990)	(0.008)	589,641
2016 – Q1	4,401	(200,077)	(0.007)	493,724
2015 – Q4	nil	(54,613)	(0.001)	451,204
2015 – Q3	3,668	(321,074)	(0.012)	556,421

The fourth quarter of 2015 shows a dramatic decrease in net loss as the Company forcefully controlled costs in the face of decreased current assets. During the first quarter 2016 the Company completed a small private placement and continued operations at a reduced tempo. During the third quarter 2016 Bayshore completed a similar private placement as in the first quarter 2016, and impaired the full value of a \$465,000 intangible asset. In the fourth quarter management cancelled compensation agreements with the CEO and CFO and Bayshore derecognized the salaries payable associated with them. This produced a positive 4<sup>th</sup> quarter in 2016. With the change in the proposed merger with ET, Bayshore is pursuing a different strategy to exploit the CCC technology. Liquid assets were consumed as the Company pursued new financings in the first quarter of 2017, and actual revenue for CCC testing and processing was realized in the second quarter of 2017. Bayshore reduced losses by forcefully controlling expenses.

**Liquidity and Capital Resources**

At September 30, 2017, the Company had \$1,921 in current assets (December 31, 2016 - \$47,151), including \$1,921 in cash (December 31, 2016 - \$47,151). Current liabilities at September 30, 2017, totalled \$1,067,653 (December 31, 2016 - \$896,692), resulting in a working capital deficit of \$1,065,732 (December 31, 2016 – \$849,541).

Funding for the Company’s expenditures during the quarter ending September 30, 2017 was provided primarily by cash on hand and loans from directors and officers. The Company has no off-balance sheet financing arrangements.

**Related Party Transactions**

As at September 30, 2017, \$93,650 was payable to a private corporation controlled by an officer and director of the Company.

As at September 30, 2017, \$32,750 (2016 - \$30,000) was payable to a private corporation controlled by a director of the Company.

During the period ending September 30, 2017, a director of the Company loaned \$2,000 to the Company to fund operations under an ongoing loan program.

**Key management compensation**

Total compensation for the quarter for key management, including officers and directors is detailed below:

September 30,	2017	2016
Net Salaries and benefits	\$ nil	\$ 35,000

At year end 2016 the CEO and CFO compensation agreements were terminated and the accrued salaries total payable reversed with permission from the CEO and CFO. Above totals do not include accrued amounts.

## **Share Capital**

The following common shares were issued and outstanding, and the following stock options, warrants, and convertible debentures were issued as of November 29, 2017, the date of this commentary, September 30, 2017 and December 31, 2016:

	<b>Nov 29, 2017</b>	<b>Sept 30, 2016</b>	<b>Dec 31, 2016</b>
Common shares	32,360,815	32,360,815	32,360,815
Issuable under Stock options	2,060,000	2,060,000	2,917,143
Issuable under Warrants	1,200,000	1,200,000	3,528,616
Issuable under Convertible Debentures	1,239,503	1,239,503	1,239,503
Fully Diluted Position	36,860,318	36,860,318	40,046,077

## **Accounting Policies**

### **Financial instruments**

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition, all financial instruments, including all derivatives, are recognized on the balance sheet at their fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: financial assets and liabilities at fair value through profit and loss, held to maturity investments, loans and receivables, available for sale investments and other financial liabilities. The financial assets and liabilities are classified as follows:

Cash and cash equivalents are classified at fair value through profit and loss. Gains and losses related to periodic revaluation are recorded in net income.

Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method less a provision for impairment.

Accounts payable and accrued liabilities, short-term loan payable and convertible debt are classified as other financial liabilities and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

The Company did not recognize any items of other comprehensive income or accumulated other comprehensive income for the quarter ended September 30, 2017 and 2016.

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the

original effective interest rate. Significant financial assets are tested for impairment on an individual basis. All impairment losses are recognized in the statement of operations. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of operations.

### **Recent accounting pronouncements and adoptions**

The following new pronouncements have been issued but are not effective and may have an impact on the Company:

#### **i) IFRS 9 Financial instruments**

IFRS 9, Financial Instruments replaces IAS 39, Financial Instruments Recognition and Measurement in its entirety. Under IFRS 9 all financial instruments would be classified into one of two basic categories; those measured at amortized cost or those measured at fair value. The classification of financial assets is based on both the characteristics of the instrument and the business model under which it is managed. At initial recognition, an organization may irrevocably designate a financial asset as measured at fair value through profit or loss. IFRS 9 is effective for annual periods beginning on or after January 1, 2018. The restatement of comparative period financial statements will not be required for the initial classifications and measurement requirements, but will require modified disclosures upon transition. The Company intends to adopt IFRS 9 in its financial statements for the annual period beginning January 1, 2018. The Company has not yet assessed the impact of this standard on its financial statements.

#### **ii) IFRS 15 - Revenue from Contracts with Customers**

In May 2014, the IASB published IFRS 15, "Revenue from Contracts with Customers" ("IFRS 15"), replacing IAS 11, "Construction Contracts" and IAS 18, "Revenue" and several revenue-related interpretations. IFRS 15 establishes a single revenue recognition framework that applies to contracts with customers. The standard requires an entity to recognize revenue to reflect the transfer of goods and services for the amount it expects to receive, when control is transferred to the purchaser. Disclosure requirements have also been expanded. The new standard is effective for annual periods beginning on or after January 1, 2018, with earlier adoption permitted. The standard may be applied retrospectively or using a modified retrospective approach. As the Company currently has no significant revenues, the standard is not expected to have a material impact on the financial statements.

### **Financial Instruments and Risk Management**

The Company is exposed to a number of different financial risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include market risks relating to credit risk, liquidity risk and market risk.

## Fair value

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy.

- Level 1 fair values are determined by reference to observable inputs such as quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 fair values are determined using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly.
- Level 3 fair values are determined using inputs that are unobservable market data.

The carrying values of accounts receivable, accounts payable, accrued liabilities and short-term loans payable approximate their fair values at September 30, 2017 and December 31, 2016 due to their relatively short periods to maturity. Cash is a Level 1 fair value measurement.

The liability component of convertible debt is discounted at the market rate of interest at the reporting date. The market rate is determined by reference to similar liabilities that do not have a conversion option.

## Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's current liabilities, accounts payable and accrued liabilities mature within three months.

The following is a maturity analysis of the Company's financial obligations:

	Less than three months	Three months to one year	Beyond one year	Total
Accounts Payable	\$ 879,887	\$ -	\$ -	\$ 879,887
Short-term loan payable	35,400	-	-	35,400
Convertible debentures	152,366	-	-	152,366
	\$ 1,067,653	\$ -	\$ -	\$ 1,067,653

The Company has cash in the amount of \$1,921 available to fund its financial obligations. This is insufficient to meet current obligations. Bayshore cannot meet current obligations without an increase in revenue, current assets, or additional financing. The convertible debentures became current in this report, as they are due in less than one year.

## **Market risk**

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may utilize financial contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

### ***Foreign currency exchange rate risk***

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by the changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts in place as at or during the quarters ended September 30, 2017 and the year ended December 31, 2016.

### ***Commodity price risk***

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian and United States dollar, as outlined above, but also by world economic events that dictate the levels of supply and demand. The Company had no hedging contracts in place as at or during the quarter ended September 30, 2017.

### ***Interest rate risk***

The Company's exposure to interest rate risk is minimal as the Company's short-term loans payable and convertible debt are carried at fixed interest rates, and the Company does not have interest bearing investments generating significant interest revenue.

## **Commitments**

The Company has no commitments.

## **Capital Management**

The Company considers its capital structure to include working capital and access to credit as follows.

	<b>September 30, 2017</b>	<b>Dec 31, 2016</b>
Current assets	\$ 1,921	\$ 47,151
Current liabilities	(1,067,653)	(896,692)
Working capital	<b>\$ (1,065,732)</b>	<b>\$ (849,541)</b>

The objectives of the Company are to maintain sufficient capital to conduct operations while searching for new opportunities for growth. If required in order to meet its objectives, the Company will adjust its capital structure to manage any deficiencies of working capital through the issuance of shares, obtaining debt financing and/or adjusting its capital spending. Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the quarter ended September 30, 2017. There are no externally imposed capital requirements.

### **Risks and Uncertainties**

The petroleum and natural gas industry is subject to numerous risks and uncertainties that can affect the Company's ability to grow and generate cash flows from operations. These risks and uncertainties include, but are not limited to, the following:

- Fluctuations in interest rates, commodity prices and foreign currency exchange rates;
- Capital markets risk and the ability to finance future growth especially from technology;
- Government and regulatory risk in respect of changes to royalty and income tax regimes;
- Economic risk in respect of finding and producing reserves at a reasonable cost, and marketing those reserves;
- Operational risk in respect of availability and cost of drilling and related equipment;
- Seasonal risk in respect of the ability to enter leases and drill wells due to weather conditions; and
- Environmental risk in respect of the ability to remediate sites and remedy spills, releases or emissions of various substances that may be produced in association with the Company's petroleum and natural gas operations.
- Financial and liquidity risk. While the Company continues to focus on its business plan it has incurred a loss for the quarter ended September 30, 2017, of \$14,035 (2016 – (\$744,748)). At September 30, 2017, the Company has a significant working capital deficit of \$1,065,732 (December 31, 2016 – (\$849,541)), and negative cash flows from operations for the quarter ended September 30, 2017, of \$5,381 (September 30, 2016 – (\$200,574)). In addition, the Saskatchewan Ministry of the Economy has obtained a Judgement Certificate against Bayshore in the amount of \$27,300 related to a prior abandonment liability, an amount which now exceeds the total value of the Company's assets. At the time of this report Bayshore has completed the abandonment in an orderly fashion, and therefore expects the Judgement above to be set aside in due course. In order to address these liabilities, Bayshore announced a private placement financing in the amount of \$1.5 million on September 11, 2017. This financing has been delayed with the appointment of a new director. The ability of the Company to continue as a going concern will depend on raising additional capital and achieving profitable operations sufficient to meet all obligations, the outcome of which is uncertain.

**Additional Information**

Additional information about Bayshore Petroleum Corp., filed with its Securities Regulator and the TSX Venture Exchange, is available online at [www.sedar.com](http://www.sedar.com).