BAYSHORE PETROLEUM CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FORM 51-102F1

DECEMBER 31, 2016

Management's Discussion and Analysis

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 year ended December 31, 2016, and December 31, 2015, 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 April 30, 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 year ended December 31, 2016, 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 year ended December 31, 2016 of $200,346 (2015 - $1,041,454). At December 31, 2016, the Company had a significant working capital deficit of $849,541 (2015 - $1,805,533) and negative cash flows from operations of $495,656 (2015 - $259,021). 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 at this time.

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 at this moment, 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 or has access to two major technologies, which it has been developing and promoting for commercial development for the past several years. The first 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 distillate such as diesel fuel (and byproducts hydrocarbon gas and coke). The catalyst is used alone and does not require hydrogen, pressure, high heat, water, or any other substance. The catalyst does not contain difficult to attain materials. When used without pyrolysis and some modification to the catalyst, it can partially upgrade bitumen and heavy oil efficiently. The second is a de-sulphuring technology that uses oxidation and ultrasonic technology to de-sulphur petroleum fluids, like diesel, kerosene fuel. When used together these technologies can economically produce 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.

On September 10, 2015, Bayshore announced an MOU with E-T Energy Ltd ("ET") to jointly develop ET's Poplar Creek (Fort McMurray) Athabasca oilsands property and produce ULS diesel on it using each party's technologies. On December 9, 2015, Bayshore and ET announced the replacement of the MOU with Binding Letter of Intent ("BLOI") containing the announcement of financing intentions, a share exchange plan for ET shares, and actual ET shares tendered to the deal.

Bayshore shares were halted from trading pending the completion of all required items to the satisfaction of the TSX Venture Exchange and the Company's regulators. On December 31, 2015, Bayshore closed tranche one of the announced private placement for proceeds of $32,000 at a re-priced share issue price of $0.15. 213,333 common shares were issued as a result. Tranche two was closed on March 2, 2016, and the originally announced $1.5 million financing was reduced and closed along with it. Ultimately 256,287 common shares were issued for proceeds of $38,443, at a price of $0.15, and ET shareholders did not support the announced financing as expected. As a result, the Company changed the strategy for marketing the financing, and obtained new sources.

As a result of this, a new non-brokered private placement financing was closed on April 26, 2016, in the amount of approximately $270,000, less finders fees of approximately $27,000 to an arms-length party. It was a unit offering, consisting of 2,400,000 units priced at $0.1125 per unit, each unit consisting of one common share in the capital of Bayshore and one-half of one common share purchase warrant. Each whole warrant entitled the holder to acquire an additional common share of the Company at an exercise price of $0.20 per share for a term of 24 months from closing. A further non-brokered private placement was closed on September 26, 2017, in the amount of $300,000. 2.67 million common shares were issued at a price of $0.1125 per share, less finder's fees of

$30,000 to an arms-length party. These financings were expected as preludes to a much larger financing.

On May 16, 2016, Bayshore advised that ET shareholders did not support the financings and the BLOI announced on December 8, 2015, and that ET was restructuring to accommodate a better transaction structure, so that approval might be obtained. As a result, Bayshore acknowledged the termination of the BLOI. Because Bayshore and ET actually envisioned an improvement of the deal and continued discussions, its regulators suggested the Company's shares remain halted from trading. Bayshore had located several financing sources who indicated support for the new potential structure. Unfortunately and ultimately, both ET and the new anticipated financing sources were not able to execute on the envisioned transaction, and on December 12, 2016, Bayshore announced the completion and termination of all financing processes and discussions regarding an ET transaction.

With the termination of a year-long effort to finance and deploy the CCC technology through the ET transaction, Bayshore has shifted its strategy. Given the ongoing difficult economic and financing environment in the energy industry in Alberta, the Company is pursuing a smaller approach requiring far less capital. 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. It is estimated a $10 Million dollar capital injection into the venture will kick start the Partial Upgrading business in Canada.

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 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, as of December 31, 2015, been 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 immaterial production on negative cash flow.

Oil and Gas Technology Development

The Company's principal has been working for many years with the inventor of an upgrading technology, Cold Catalytic Cracking ("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 ("CCC1") 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 various assistance from National Research Council of Canada. This work has 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 dramatically at different temperature levels and does not dropout solids or produces other undesirable materials 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.

On July 28, 2014, the Company entered into a Master License Agreement ("License Agreement") with IUT, to acquire an exclusive Master license in Canada to de-sulphurize hydrocarbons using an ultrasonic oxidation process. The process, which involves a total of 8 licenses and is owned by IUT, has been patented and commercially tested. The patents previous owner, SulphCo Inc., a defunct public company, did successfully field-test the de-sulphurization process before ceasing operations. SulphCo built a plant to test the technology in a large refinery in US, and validated the technology back in 2012. The testing regimen included a continuous flow test at more than 3,000 bpd for a long period. The SulphCo plant decreased product fuel sulphur contents to ULS standards consistently.

Unfortunately, Bayshore fell into default of the payment terms set to pay for the exclusive master technology license. As a result, Bayshore retains no rights or intellectual property connected to IUT. However, IUT is a major shareholder by virtue of its common share ownership of Bayshore, and the technology is a natural partner of the CCC technology.

Overall Performance

The Company recognized a loss of $200,346 for the twelve months ended December 31, 2016 compared to a loss of $1,041,454 for the twelve months ended December 31, 2015. The two non-operated properties in the Bigstone and Kaybob areas in Central Alberta produced immaterial revenue during the year ending December 31, 2016. Net sales volume for the three month period ending December 31, 2016, and 2015 was approximately nil boe per day.

At December 31, 2016, the Company had $47,151 in current assets (December 31, 2015 - $15,936), including $47,151 in cash (December 31, 2015 - $nil). Current liabilities totalled $896,692 (December 31, 2015 - $1,821,469), resulting in a working capital deficit of $849,541 (December 31, 2015 – $1,805,533). Current liabilities were primarily due to account payables resulting from a 2012 drilling program and the accrual

of historical operating expenses, and convertible debt that was issued to management and directors.

The Company's Financial Strategy

While the Company continues to focus on its business plan it has incurred a significant loss for the year ended December 31, 2016, of $200,346 (2015 - $1,041,454). At December 31, 2016, the Company had a significant working capital deficit of $849,541 (2015 - $1,805,533), and negative cash flows from operations of $495,656 (2015 - $259,021). 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 2016, 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.

	2016	2015	2014
Revenue, net of royalties ($)	**4,466**	13,241	90,511
Net and comprehensive loss ($)	**200,346**	1,041,454	1,070,623
Basic and diluted loss per share ($)	**0.007**	0.041	0.060
Total assets ($)	**66,573**	509,774	284,261
Total long-term liabilities ($)	**177,465**	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 de-sulphuring 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 increased long-term liabilities, while decreasing current liabilities.

Results of Operations

Sales volumes, 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:

Sales Volume	**Year ended December 31, 2016**	Year Ended December 31, 2015
Natural gas (mcf/d)	**-**	4
NGL (bbls/d)	**-**	1
Total (boe/d)	**-**	1
Percentage natural gas (%)	**-**	-
Sales – total boe's	**-**	287
Depletion per boe *($)*	**NA**	14,500

Financial Highlights	**Year ended December 31, 2016**	Year Ended December 31, 2015
Natural gas and liquids revenue *($)*	**Nil**	33,102
Royalties expense *($)*	**323**	19,861
Operating expenses *($)*	**3,749**	32,848
General and administrative expenses *($)*	**711,953**	705,896
Depletion Amortization expense *($)*	**9,416**	24,512
Impairment *($)*	**Nil**	35,904
Net income (loss) *($)*	**(299,788)**	(1,041,454)
Cash flow from (used in) operating activities *($)*	**(495,656)**	(259,021)

Revenues – Revenue was $4,466, net of royalty expense, for the twelve months ending December 31, 2016 as compared to $13,241 during the twelve months of 2015. Revenue was $65, net of royalty expense, for the quarter ending December 31, 2016, as compared to $nil during the same quarter of 2015. Revenue in the current year consisted mainly of revenue generated by services related to processing crude oil materials in the lab and pilot plant, and recoveries related to road use payments at Kaybob and Bigstone. The Company does not and has not hedged any of its production.

Royalties – Royalty expense was $323 for the twelve months ending December 31, 2016, as compared to $19,649 during twelve months of 2015. Royalty expense was $125 for the quarter ending December 31, 2016 as compared to $523 during the same quarter of 2015. Fluctuating royalties were a result of prior period adjustments by the operator. Royalty percentages calculated as production drops are not useful for comparison purposes.

Operating Expenses – Operating expense was $3,749 for the twelve months ending December 31, 2016 as compared to $32,848 during the twelve months of 2015. Operating expense was ($587) for the quarter ending December 31, 2016, as compared to $2,860 during the same quarter of 2015. Operating costs in the fourth quarter of

2016 realized a positive adjustment as the operator collected JV fees. The dramatic decrease in operating expense from the twelve months ended December 31, 2015 to December 31, 2016 is due to dramatic reductions in volumes as a result of poor production performance and ultimately the shutting-in of uneconomic wells.

General and Administrative Expenses – General and Administrative expense ("G&A") is as follows:

December 31, *($)*	2016	2015	Difference
G&A	64,097	74,929	(10,832)
Salaries/Wages	647,856	630,967	16,889
Consulting	8,260	39,702	(31,442)
Professional Fees	75,305	28,124	47,181
Rent	82,760	79,329	3,431
Travel	22,970	16,527	6,443
Total	$901,248	$869,578	$31,670

The expense accounts above totaled $901,248 for the twelve months ending December 31, 2016, as compared to $869,578 during the twelve months of 2015, a 4% increase. G&A for the 4th quarter ended December 31, 2016, was $171,508, compared to $153,462 for the quarter ended December 31, 2015. Although yearly salaries, professional fees, rent, and travel were higher in 2016 than 2015, office G&A and consulting were lower. G&A costs were contained by management effectively over the year ended December 31, 2016, decreasing 14% from 2015. Consulting decreased dramatically as the Company did not require certain engineering and administration consultants. Professional fees increased as a result of paying legal and other fees in connection with the anticipated ET transaction. Management travelled more in 2016 to its technology partner and to the offices of potential finance partners, and as a result it increased 39%.

As at December 31, 2016, the CFO and CEO decided to cancel the executive compensation agreements with Bayshore. These agreements were put in place in preparation for a potential major transaction in 2015 that did not transpire. In addition, the CEO and CFO agreed to cancel all existing salary payables created as a result of these contracts, and this reduced payables from the prior year periods substantially. Although salaries for the CEO and CFO during the year ended December 31, 2016, were $570,000 by contract, in fact the actual salary paid to the CEO and CFO totaled approximately $140,000 during the year.

Depletion and Amortization Expense and Impairment – Amortization expense was $9,416 for the twelve months ending December 31, 2016, as compared to $24,512 during the twelve months of 2015. Amortization expense was $2,366 for the quarter ending December 31, 2016, as compared to $5,500 during the same quarter of 2015. Depletion expense has decreased to nil with the full impairment of the producing asset. An impairment write-down was recorded as a result of management's evaluation of the fair value of its oil and gas properties, which were no longer producing at all by December 31, 2015. The assets were also producing negative cash flow, and attempts

to divest the assets produced negative value bids, meaning that the bidder required Bayshore to pay the acquirer to take the assets.

Net loss and comprehensive loss – The Company recognized a loss of $200,346 for the twelve months ended December 31, 2016, as compared to $1,041,454 during the twelve months of 2015. Bayshore generated income of $982,469 for the quarter ended December 31, 2016, as compared to a loss of $54,613 during the same quarter of 2015. The decrease in net loss during the quarter ended December 31, 2016, was mainly caused by a large derecognized liability, caused in large part because the CEO and CFO of the Company have authorized that salary payables accrued to them to be terminated. This amounted to $911,508 of total salary payables. For the same reason the yearly loss for the year ended December 31, 2016, is 81% less than for the year of 2015. In addition, there is a large loss on default of the IUT license agreement of $465,000, which occurred because Bayshore was not able to provide payments to IUT for a desulphuring technology license.

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:

	Revenue (Net) $	**Net Earnings (Loss) $**	**Basic & Fully Diluted $/Share**	**Total Assets $**
2016 – Q4	**65**	**982,469**	**0.031**	**66,573**
2016 – Q3	nil	(744,748)	(0.024)	183,895
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
2015 – Q2	13,538	(300,672)	(0.012)	723,429
2015 – Q1	6,996	(365,095)	(0.016)	593,862
2014 – Q4	34,080	(531,854)	(0.030)	284,261

The quarters during 2013 and 2014 reflected lower G&A due to cost reductions, and fluctuating net revenue from fluctuating energy prices. Net revenue was also affected by periodic reductions in volumes from asset maintenance/workovers. Bayshore completed a larger financing during the third quarter of 2014 which raised the assets and tended to also increase G&A spending in the fourth quarter of 2014, as it increased its activity with more available resources. The fourth quarter of 2015 shows a dramatic decrease in net revenue and 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 the Company cancelled compensation agreements with the CEO and CFO and Bayshore derecognized the salaries payable associated with them. With the change in

the proposed merger with ET, Bayshore is pursuing a different strategy to exploit the CCC technology.

Liquidity and Capital Resources

At December 31, 2016 the Company had $47,151 in current assets (December 31, 2015 – $15,936), including $47,151 in cash (December 31, 2015 – $nil). Current liabilities totalled $896,692 (December 31, 2015 – $1,821,469), resulting in a working capital deficit of $849,541 (December 31, 2015 – $1,805,533). Current liabilities include accounts payable resulting from capital expenditures relating to previous E&P programs and the convertible debenture.

Funding for the Company's expenditures during the quarter ending December 31, 2016 was provided primarily by non-brokered private placement equity financings. The Company has no off-balance sheet financing arrangements.

Related Party Transactions

As at December 31, 2016, $90,400 (2015 - $90,400) was payable to a private corporation controlled by an officer and director of the Company.

As at December 31, 2016, $32,750 (2015 - $32,750) was payable to a private corporation controlled by a director of the Company.

Key management compensation

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

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

December 31,	**2016**	2015
Salaries and benefits	$ 570,000	$ 570,000
Salaries forgiven	(430,800)	-
Stock-based compensation	-	83,578
	$ 139,200	$ 653,578

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. Total salary actually paid in 2016 was approximately $140,000.

Share Capital

The following common shares were issued and outstanding, and the following stock options, warrants, and convertible debentures were issued as of April 30, 2016, the date of this commentary, December 31, 2016 and December 31, 2015:

	April 30, 2017	**Dec 31, 2016**	**Dec 31, 2015**
Common shares	32,360,815	32,360,815	27,037,861
Issuable under Stock options	1,980,000	2,917,143	3,267,143
Issuable under Warrants	1,200,000	3,528,616	9,726,129
Issuable under Convertible Debentures	1,239,503	1,239,503	1,239,503
Fully Diluted Position	36,780,318	40,046,077	41,270,636

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 years ended December 31, 2016 and 2015.

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 and accrued liabilities and short-term loans payable approximate their fair values at December 31, 2016 and 2015 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 and accrued liabilities	$ 866,692	$ -	$ -	$ 866,692
Short-term loan payable	30,000	-	-	30,000
Convertible debentures		-	129,866	129,866
	$ 896,692	$ -	$ 129,866	$ 1,026,558

The Company has cash in the amount of $47,151 available to fund its financial obligations.

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 years ended December 31, 2016 and December 31, 2015.

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 years ended December 31, 2016 and 2015.

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 leases office space which requires future annual payments (excluding occupancy costs) of $27,700 in 2017.

Capital Management

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

	2016	2015
Current assets	$ 47,151	$ 15,936
Current liabilities	(896,692)	(1,821,469)
Working capital	$ (849,541)	$ (1,805,533)

The objectives of the Company are to maintain sufficient capital to conduct operations while searching for new opportunities for growth. 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 spending. Management reviews its capital management approach on an ongoing basis. There

were no material changes to this approach during the year ended December 31, 2016. 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.

While many of these risks are beyond the Company's control and it is impossible to ensure that the Company's exploration initiatives will result in commercial operations, Bayshore strives to minimize the aforementioned risks by:

- Employing management and technical staff and consultants with extensive industry and/or area experience;
- Maintaining an appropriate working capital position to cover the Company's capital and overhead costs;
- Maintaining a low cost structure and a tight cost control system; and
- Maintaining insurance in accordance with industry standards to address the risk of liability for pollution, personal injury, property damage, blow-outs and other hazards.

Additional Information

Additional information about Bayshore Petroleum Corp., filed with the Canadian Securities Commissions and the TSX Venture Exchange is available online at www.sedar.com.