

Financial Statements of

BAYSHORE PETROLEUM CORP.

Year ended December 31, 2016



Independent Auditors' Report

To: The Shareholders of **Bayshore Petroleum Corp.**

We have audited the accompanying financial statements of Bayshore Petroleum Corp., which comprise the statements of financial position as at December 31, 2016 and 2015 and the statements of net and comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Bayshore Petroleum Corp. as at December 31, 2016 and 2015, and its financial performance and cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 2 to the financial statements which indicates that at December 31, 2016 the Company had incurred a loss of \$200,346, a working capital deficit of \$849,541 and negative cash flows from operations of \$495,656. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Kenway Mack Slusarchuk Stewart LLP

Chartered Professional Accountants,
Chartered Accountants

April 30, 2017
Calgary, Alberta

BAYSHORE PETROLEUM CORP.
Statements of Net and Comprehensive Loss
For the years ended December 31,

	2016	2015
	<u>\$</u>	<u>\$</u>
REVENUE		
Oil and natural gas revenue, net of royalties	4,466	13,241
EXPENSES		
General and administrative (Note 16)	711,953	705,896
Loss on default of license agreement (Note 8)	465,000	-
Rent	82,760	79,329
Professional fees	75,305	28,124
Accretion on convertible debentures	29,813	34,655
Travel	22,970	16,527
Amortization	9,416	24,512
Interest	8,607	12,065
Consulting fees	8,260	39,702
Operating	3,749	32,848
Accretion on decommissioning obligations	627	627
Stock-based compensation (Note 11(a))	-	118,690
Impairment (Note 5)	-	35,904
Derecognized liabilities (Note 14)	(1,114,206)	(74,184)
	<u>304,254</u>	<u>1,054,695</u>
LOSS FROM OPERATIONS	(299,788)	(1,041,454)
OTHER INCOME		
Gain on renegotiation of convertible debentures (Note 7)	99,442	-
	<u>99,442</u>	<u>-</u>
NET LOSS AND COMPREHENSIVE LOSS	<u>(200,346)</u>	<u>(1,041,454)</u>
LOSS PER SHARE (Note 12)		
Basic and Diluted	<u>(0.007)</u>	<u>(0.041)</u>

The accompanying notes are an integral part of these financial statements.

BAYSHORE PETROLEUM CORP.**Statements of Changes in Equity****For the years ended December 31,**

	2016		2015	
	Number	\$	Number	\$
SHARE CAPITAL				
Balance, beginning of year	27,037,861	4,281,243	21,644,528	3,676,779
Issued for cash pursuant to private placements (Note 10)	5,322,954	608,443	2,373,333	291,200
Issued in settlement of accounts payable	-	-	90,910	10,000
Issued in respect to IUT payable (Note 8)	-	-	2,909,090	320,000
Share issue costs	-	(57,014)	-	(20,936)
Exercise of stock options	-	-	20,000	4,200
Balance, end of year	<u>32,360,815</u>	<u>4,832,672</u>	<u>27,037,861</u>	<u>4,281,243</u>
EQUITY COMPONENT OF CONVERTIBLE DEBENTURES				
Balance, beginning of year	-	75,523	-	75,523
Additions	-	-	-	-
Balance, end of year	<u>-</u>	<u>75,523</u>	<u>-</u>	<u>75,523</u>
WARRANTS				
Balance, beginning of year	9,726,129	214,285	8,571,429	214,285
Issued pursuant to private placement	1,200,000	-	1,080,000	-
Issued as finders fees pursuant to private placement	-	-	74,700	-
Expired	(7,397,513)	(156,070)	-	-
Balance, end of year	<u>3,528,616</u>	<u>58,215</u>	<u>9,726,129</u>	<u>214,285</u>
CONTRIBUTED SURPLUS				
Balance, beginning of year	-	665,962	-	549,072
Stock-based compensation	-	-	-	118,690
Exercise of stock options	-	-	-	(1,800)
Expired warrants	-	156,070	-	-
Balance, end of year	<u>-</u>	<u>822,032</u>	<u>-</u>	<u>665,962</u>
DEFICIT				
Balance, beginning of year	-	(6,595,680)	-	(5,554,226)
Net loss and comprehensive loss	-	(200,346)	-	(1,041,454)
Balance, end of year	<u>-</u>	<u>(6,796,026)</u>	<u>-</u>	<u>(6,595,680)</u>

BAYSHORE PETROLEUM CORP.
Statements of Cash Flows
For the years ended December 31,

	2016	2015
	\$	\$
CASH FLOW RELATED TO THE FOLLOWING ACTIVITIES:		
OPERATING		
Net loss	(200,346)	(1,041,454)
Adjustment for:		
Stock-based compensation	-	118,690
Impairment	-	35,904
Amortization	9,416	24,512
Accretion on decommissioning liabilities	627	627
Accretion on convertible debt	29,813	34,655
Derecognized liabilities	(1,114,206)	(74,184)
Gain on renegotiation of convertible debentures	(99,442)	-
Loss on default of license agreement	465,000	-
Changes in non-cash working capital		
Accounts receivable	2,428	32,169
Prepaid expenses and deposits	13,508	24,167
Accounts payable and accrued liabilities	397,546	585,893
	<u>(495,656)</u>	<u>(259,021)</u>
INVESTING		
Expenditures on intangible assets	-	(65,000)
	<u>-</u>	<u>(65,000)</u>
FINANCING		
Proceeds from issuance of common share units	608,443	291,200
Share issue costs	(57,014)	(20,936)
Proceeds from exercise of stock options	-	2,400
Proceeds from short-term loan payable	-	8,000
Repayments of short-term loan payable	(8,000)	-
	<u>543,429</u>	<u>280,664</u>
INCREASE (DECREASE) IN CASH	47,773	(43,357)
CASH, BEGINNING OF YEAR	<u>(622)</u>	<u>42,735</u>
CASH, END OF YEAR	<u>47,151</u>	<u>(622)</u>

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

1. NATURE OF BUSINESS

Bayshore Petroleum Corp., (the “Company”) is incorporated in Alberta, Canada under the Business Corporations Act and its common shares are traded on the TSX Venture Exchange under the symbol “BSH”. The address of the Company’s corporate and registered office is 14-3515 27 Street N.E., Calgary, Alberta Canada T1Y5E4.

The Company’s operations include the exploration and development of its petroleum and natural gas properties as well as development of related energy technology applications, particularly bitumen and heavy oil upgrading to light oil.

2. GOING CONCERN

These financial statements 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 has a working capital deficit of \$849,541 (2015 - \$1,805,533), 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.

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.

3. BASIS OF PRESENTATION

Statement of compliance

These financial statements present the Company’s financial results of operations and financial position in accordance with International Financial Reporting Standards (“IFRS”) in effect as of April 30, 2017, the date that the financial statements were approved and authorized for issuance by the Board of Directors.

Basis of measurement

These financial statements have been prepared on a historical cost basis, which is generally based on the fair value of consideration given at the time of exchange.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

Functional and presentation currency

These financial statements have been presented in Canadian dollars, which is the Company's functional currency.

Use of estimates and judgments

The preparation of financial statements in conformity with IFRS requires management to make estimates, judgments and assumptions regarding the application of accounting policies that affect the reported amounts of assets, liabilities and equity at the reporting date of the financial statements and the amounts of revenue and expenses during the reporting period.

Estimates and their underlying assumptions are reviewed on an ongoing basis and revisions to these estimates are made in the year in which the estimates are revised and any future years that are impacted.

The following are the financial statement items which are most impacted by estimation uncertainty and critical judgments in applying the accounting policies:

The amounts recorded for depletion and impairment of property and equipment are based on estimates of reserves, future production rates, future petroleum and natural gas prices, future costs and other relevant assumptions.

Property and equipment and intangible assets are subject to judgments relating to indicators of impairment.

The value of decommissioning provisions depends on estimates of future restoration and reclamation expenditures and the timing of those expenditures.

The fair value of share based payments is based on estimates using the Black-Scholes option pricing model.

The calculation of deferred income taxes requires judgment in applying tax laws and regulations, estimating the timing of temporary difference reversals, and estimating the realization of future tax assets.

4. SIGNIFICANT 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.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

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.

Cash and cash equivalents

Cash and cash equivalents consist of amounts on deposit with banks, term deposits and other similar short-term highly liquid investments with maturities of 90 days or less at the date of issue. Bank overdrafts that are repayable on demand and form an integral part of the Company's cash management are included as a component of cash and cash equivalents.

Joint controlled operations and assets

Certain activities of the Company are conducted jointly with others where the participants have a direct ownership interest in, and jointly control, the related assets. Accordingly, the accounts of the Company reflect only its working interest share of revenues, expenses and capital expenditures related to these jointly controlled assets.

Property and equipment

The Company's property and equipment ("P&E") consist of petroleum and natural gas properties and equipment.

P&E are measured at cost less accumulated depletion and accumulated impairment losses. The cost comprises its purchase price and all costs directly attributable to bringing the asset into operation, transfers from exploration and evaluation assets, the initial estimate of its decommissioning obligations and borrowing costs for qualifying assets.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

Depletion and production costs accumulated within major areas are depleted using the unit-of-production method based on estimated proved plus probable reserves before royalties, as determined by independent petroleum reservoir engineers. The depletion base includes capitalized costs plus future costs to be incurred in developing proved plus probable reserves. For impairment purposes, the Company determined that it only had one cash generating unit (“CGU”) based on the fact that its producing properties were all in the same region of Alberta.

Exploration and evaluation assets

Pre-licence expenditures incurred before the Company has obtained legal rights to explore an area are expensed.

Exploration and evaluation costs include the costs of acquiring licences, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights and technical studies. Exploration and evaluation costs are capitalized as exploration and evaluation assets when the technical feasibility and commercial viability of extracting oil and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated. Exploration and evaluation assets, net of any impairment loss, are transferred to property and equipment when proved and/or probable reserves are determined to exist.

License acquisition agreement

Payments made in accordance with licence agreement are treated as deposits until the final payment is made and the acquisition has been completed. If the acquisition is not completed, the deposit is expensed.

Once all terms of the licence agreement have been met, the licences are treated as an intangible asset and are recorded at cost less accumulated amortization and accumulated impairment losses. Amortization is provided for on a straight line basis over the term of the related agreement or the estimated useful life asset, whichever is lower.

Impairment

The carrying amount of the Company’s property and equipment, intangible assets and exploration and evaluation assets tested for impairment at each reporting period when indicators of impairment exist such as events and circumstances that indicate the carrying value may not be fully recoverable. The impairment is calculated as the excess of the carrying amount over the recoverable amount. The recoverable amount is the greater of value in use and fair value less costs to sell. The fair value is calculated by estimating the discounted pre-tax net cash flows based on a forecasted commodity prices and future costs. Impairments are reversed when there is significant evidence that the impairment event and circumstances have been reversed.

Compound financial instruments

The liability component of a compound financial instrument is recognized initially at the fair value of a similar liability that does not have an equity conversion option. The equity component is recognized as the difference between the fair value of the compound financial instrument as a whole and the fair value of the liability component. Any directly attributable

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

transaction costs are allocated to the liability and equity components in proportion to their initial carrying amounts.

Subsequent to initial recognition, the liability component of a compound financial instrument is measured at amortized cost using the effective interest method. The equity component of a compound financial instrument is not re-measured subsequent to initial recognition.

Interest, losses and gains relating to the financial liability are recognized in profit or loss.

Share based payments

The Company follows the fair value method for recognition of all stock-based compensation arrangements. Under this method, stock-based compensation for options granted to employees, and others providing similar services, is based on the estimated fair value at the time of the grant. For stock options, the fair value is estimated using the Black-Scholes option-pricing model. Compensation costs are recognized over the vesting period of the stock options.

Decommissioning obligations

The fair value of the liability for the Company's decommissioning obligations is recorded in the period it is incurred with a corresponding increase in the carrying value of P&E or exploration and evaluation assets. Fair value is estimated using the present value of the estimated future cash outflows to reclaim and abandon wells and facilities, using the Company's risk-free interest rate. The liability is subsequently adjusted for accretion due to the passage of time and changes in the estimated future cash flows.

Revenue recognition

Revenues from the sale of crude oil, natural gas and refined petroleum products are recorded when the significant risks and rewards of ownership have passed to the buyer. This is usually when legal title passes to the external party which is generally at the time the product enters the truck or pipeline.

Royalty income is recognized as it accrues in accordance with the terms of the overriding royalty agreements.

Income taxes

Current tax is the expected tax payable on the taxable income for the period using substantively enacted tax rates at the reporting date and any tax assessments related to prior years.

Deferred tax assets and liabilities are determined based on the temporary differences between the carrying amount and income tax bases of assets and liabilities, and are measured using substantively enacted tax rates and laws that will be in effect when the differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the period in which the change is substantively enacted. To the extent that the Company does not consider it to be probable that a deferred tax asset will be recovered, it will not recognize a deferred tax asset.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

Earnings per share

Per share information is calculated using the weighted average number of common shares outstanding during the fiscal year. The treasury stock method of calculating diluted per share amounts is used, whereby any proceeds from the exercise of dilutive stock options or other dilutive instruments are assumed to be used to purchase common shares of the Company at the average market price during the year.

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.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

5. PROPERTY AND EQUIPMENT

	Petroleum and natural gas interests	Corporate and other	Total
Cost			
Balance at December 31, 2016, 2015 and 2014	\$ 1,675,323	\$ 46,441	\$ 1,721,764
Accumulated depletion, amortization and impairments			
Balance at December 31, 2014	1,624,323	8,187	1,632,510
Depletion and amortization	15,096	9,416	24,512
Impairment	35,904	-	35,904
Balance at December 31, 2015	\$ 1,675,323	\$ 17,603	\$ 1,692,926
Depletion and amortization	-	9,416	9,416
Balance at December 31, 2016	\$ 1,675,323	\$ 27,019	\$ 1,702,342
Net book value			
At December 31, 2015	\$ -	\$ 28,838	\$ 28,838
At December 31, 2016	\$ -	\$ 19,422	\$ 19,422

For the year ended December 31, 2016 there were no impairment reversal indicators for the Company's oil and gas assets.

Due to continued low gas prices the Company performed an impairment test review at December 31, 2015. Included in expenses for the year ended December 31, 2015 is an impairment of \$35,904. For the impairment test, the Company estimated the recoverable amount of its petroleum and natural gas interests based on fair value less costs to sell.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

6. SHORT-TERM LOANS PAYABLE

	<u>2016</u>	<u>2015</u>
Short-term loans payable, beginning of year	\$ 38,000	\$ 30,000
Advances	-	8,000
Repayments	(8,000)	-
Short-term loans payable, end of year	<u>\$ 30,000</u>	<u>\$ 38,000</u>

During the year, \$8,000 was repaid (2015 - \$8,000 advanced) to the Company from a related party. The short-term loans are payable on demand and bear an interest rate of 5% per annum.

7. CONVERTIBLE DEBT

On November 10, 2014, the Company issued convertible debentures in the amount of \$229,308 to directors in settlement of short-term loans and accrued interest of \$97,632. The debentures have a term of two years and bear an interest rate of 5% per annum. The convertible debentures are compound financial instruments containing a liability component and an equity component.

The fair value of the liability component at the time of issue of \$153,785 was calculated as the discounted cash flows for the convertible debenture assuming a 25% interest rate which was based on the estimated market interest rate for a convertible debenture without a conversion feature. The fair value of the equity component (conversion feature) of \$75,523 was determined at the time of issue as the difference between the fair value of the compound convertible debenture and the fair value of the liability component. During 2016, the debentures were renegotiated and extended with the same terms until September 15, 2019. The extension was treated as an extinguishment and resulted in a gain on renegotiation of \$99,442.

	<u>2016</u>	<u>2015</u>
Convertible debentures, beginning of year	\$ 199,495	\$ 164,840
Accretion on convertible debentures	29,813	34,655
Adjustment on renegotiation	(99,442)	-
Convertible debentures, end of year	<u>\$ 129,866</u>	<u>\$ 199,495</u>

8. LICENSE ACQUISITION AGREEMENT

On July 28, 2014, the Company entered into an exclusive license agreement with International Ultrasonic Technologies Ltd. ("IUT") to acquire a licence for its intellectual property relating to desulphurization technology for a term of 20 years. The total purchase price of \$800,000 was to be paid in accordance with the following payment terms.

- \$35,000 upon execution of the license agreement
- \$45,000 by August 31, 2014
- \$320,000 on or before November 15, 2014 and;
- \$400,000 on or before March 1, 2015.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

The Company made the first two payments totaling \$80,000 in 2014 and issued 2,909,090 common shares in settlement of the third payment on February 2, 2015. On July 9, 2015, the master license agreement was amended to address the payment of the remaining balance of \$400,000. The payment terms according to the amended master license agreement have the following payment terms.

- \$65,000 upon execution of the license agreement
- \$200,000 on or before October 1, 2015 and;
- \$135,000 on or before December 1, 2015.

During the year, the licensor terminated the agreement as the Company failed to comply with the payment terms of the amended agreement dated July 5, 2015. The Company expensed the accumulated payments of \$465,000.

9. DECOMMISSIONING OBLIGATIONS

At December 31, 2016, the estimated total undiscounted amount adjusted for inflation required to settle the decommissioning obligations was \$81,294 (2015 – \$81,294). These obligations will be settled based on the useful lives of the underlying assets. This amount has been discounted using a risk free interest rate of 1.46% (2015 – 1.46%) and an inflation rate of 1.50% (2015 -1.30%) at all reporting dates. Expected year of retirement is 2020.

The total future decommissioning obligations were estimated based on the Company’s net ownership interest in all wells and facilities, the estimated costs to abandon and reclaim the wells and facilities and the estimated timing of the costs to be incurred in future years.

Changes to the decommissioning obligations were as follows:

	2016	2015
Decommissioning obligations	\$ 76,972	\$ 76,345
Accretion for the year	627	627
Less: current portion	(30,000)	(30,000)
Decommissioning obligations, end of year	\$ 47,599	\$ 46,972

A provision for the decommissioning obligation with respect to an exploration and evaluation well of \$30,000 (2015 - \$30,000), has been included in accounts payable and accrued liabilities.

10. SHARE CAPITAL

The Company’s authorized share capital consists of an unlimited number of common voting shares. A continuity of issued and outstanding share capital is included as part of the statement of changes in equity.

On March 2, 2016 the Company issued 256,287 common shares at a price of \$0.15 per common share pursuant to a private placement for cash proceeds of \$38,443.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

On April 26, 2016, the Company closed a private placement and issued 2,400,000 units at a price of \$0.1125 per unit for proceeds of \$270,000. Each unit consists of one common share of the Company and one-half of a share purchase warrant. Each warrant is exercisable at a price of \$0.20 per whole warrant for up to 24 months from the date of closing. In relation to the private placement, the Company paid finders fees of \$27,016.

On September 26, 2016 the Company issued 2,666,667 common shares at a price of \$0.1125 per common share pursuant to a private placement for cash proceeds of \$300,000. In relation to the private placement, the Company paid finders fees of \$29,998.

On February 9, 2015, the Company issued 90,910 common shares in settlement of \$10,000 of the Company's outstanding payables along with the 2,909,090 common shares issued in settlement of the \$320,000 payment relating to the acquisition of the IUT license.

On June 30, 2015, the Company closed a private placement and issued 2,160,000 units at a price of \$0.12 per unit for proceeds of \$259,200. Each unit consists of one common share of the Company and one-half of a share purchase warrant. Each warrant is exercisable at a price of \$0.30 per whole warrant for up to 18 months from the date of closing. In relation to the private placement, the Company paid finders fees of \$20,936 and issued 74,700 brokers warrants. The broker's warrants have the same terms as subscriber warrants, and has hold period of 4 months.

On December 4, 2015 the Company issued 20,000 common shares pursuant to the exercising of 20,000 employee stock options for cash proceeds of \$2,400.

On December 15, 2015 the Company issued 213,333 common shares at a price of \$0.15 per common share pursuant to a private placement for cash proceeds of \$32,000.

11. SHARE BASED PAYMENTS

(a) Stock Options

The Company has granted options for the purchase of common shares to its directors and officers. The Company's stock option plan is a "fixed" plan. Under the fixed plan, the maximum number of shares reserved for issuance under and subject to the plan is 4,019,326, being 20% of the issued and outstanding common shares of the Company on September 24th, 2014.

No more than 5% of the issued shares of the Company may be granted to any one optionee, and no more than 2% of the issued shares of the Company may be granted to any one consultant or person engaged in investor relations activities in any 12 month period. The options are non-transferable and non-assignable and may be granted for a term not exceeding five years. The exercise price of the options may not be less than the greater of \$0.10 and the market price, subject to all applicable regulatory requirements at the time of issuance.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

The following table details the stock option transactions during the year:

	Number of stock options	Weighted average exercise price
Balance, December 31, 2014	2,072,143	\$ 0.21
Granted	1,300,000	0.12
Exercised	(20,000)	0.12
Cancelled	(85,000)	0.12
Balance, December 31, 2015	3,267,143	\$0.18
Cancelled	(350,000)	0.16
Balance, December 31, 2016	2,917,143	\$0.18
Exercisable, December 31, 2016	2,917,143	\$0.18

On February 12, 2015, the Company granted 1,300,000 stock options to officers, directors, employees and consultants. Each option has an exercise price of \$0.12 per common share with an expiry date five years from the date of grant. The options vested immediately. The stock-based compensation expense of \$118,690 was calculated based on the fair value of the stock options on the date of grant using the Black-Scholes option pricing model. The assumptions applied by the Company in this calculation for the fair value of the options at the date of grant were: a) dividend yield 0%, b) volatility 156%, c) risk-free rate 0.7%, d) forfeiture rate of 0%, e) expected life of 5 years

Stock options outstanding:

Number of stock options vested and outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
857,143	\$0.21	0.11
115,000	0.21	0.95
320,000	0.27	1.36
580,000	0.185	2.73
70,000	0.11	2.83
975,000	0.12	3.12
2,917,143	\$0.18	1.87

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

(b) Warrants:

The following table summarizes information about the Company's common share purchase warrants:

	Number of warrants	Weighted average exercise price
Balance, issued and exercisable, December 31, 2014	8,571,429	\$ 0.20
Issued pursuant to private placement, June 30, 2015	1,080,000	0.30
Issued to broker pursuant to private placement, June 30, 2015	74,700	0.30
Balance, issued and exercisable, December 31, 2015	9,726,129	\$ 0.21
Issued pursuant to private placement, April 26, 2016	1,200,000	0.20
Warrants expired during the year	(7,397,513)	0.22
Balance, issued and exercisable, December 31, 2016	3,528,616	\$ 0.20

During 2015, the Company extended the expiry date of 6,242,813 outstanding common share purchase warrants additional 2 years to expire on September 6, 2016. The exercise price was not changed. These warrants expired in the current year.

During 2015, the Company extended the expiry date of the 2,328,616 outstanding common share purchase warrants additional 2 years. These warrant expired unexercised subsequent to year end.

Warrants outstanding:

Number of warrants outstanding	Weighted average exercise price	Weighted average remaining contractual life (years)
2,328,616	0.20	0.08
1,200,000	0.20	1.32
3,528,616	\$0.20	0.50

12. PER SHARE AMOUNTS

Stock options granted and warrants issued are potentially dilutive but had no impact on the calculation of diluted earnings per share for the years ended December 31, 2016 or December 31, 2015 because their effect on the calculation is anti-dilutive.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

The following table summarizes the weighted average number of common shares used in calculating net earnings per share:

	2016	2015
Basic	29,582,975	25,381,461
Diluted	29,582,975	25,381,461

13. 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.

14. DERECOGNIZED LIABILITIES

During the year, the Company derecognized \$1,114,206 (2015 - \$74,184) from accounts payable and accrued liabilities. The derecognized are comprised of \$202,698 (2015 - \$74,184) in trade accounts payable relating to obligations from transactions that occurred more than four years ago and \$911,508 (2015 - \$nil) in compensation accruals which have been foregone. After a detailed review, Management has concluded that these obligations have been extinguished due to the time period elapsed in the case of trade accounts payable and by way of agreement for the compensation accrual.

15. 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.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

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	-	-	229,308	229,308
	\$896,692	\$ -	\$ 229,308	\$ 1,126,000

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.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 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.

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.

16. 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.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

Key management compensation

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

On January 1, 2015, the Company entered into an agreement with the CEO which provided management services to the Company. Under this agreement, the Company agreed to pay an annual fee for services of \$300,000 and in the event of a change in control of the Company, where a third party acquires more than 90% of the common shares of the Company, the CEO will be paid a bonus equal to 1% of the value of the company's common share equity, to a minimum of 36 months equivalent salary to be based on the CEO's salary at the time of the transaction, to be no less than \$600,000. At December 31, 2016, \$503,044 (2015 - \$270,244) was included in accounts payable and accrued liabilities. During the year, this agreement was terminated and all outstanding compensation payable amounts to the CEO were forgiven.

On January 1, 2015, the Company entered into an agreement with the CFO which provided management services to the Company. Under this agreement, the Company agreed to pay an annual fee for services of \$270,000 and in the event of a change in control of the Company, where a third party acquires more than 90% of the common shares of the Company, the CFO will be paid a bonus equal to 1% of the value of the company's common share equity, to a minimum of 36 months equivalent salary to be based on the CFO's salary at the time of the transaction, to be no less than \$540,000. At December 31, 2016, \$408,464 (2015 - \$208,164) was included in accounts payable and accrued liabilities. During the year, this agreement was terminated and all outstanding compensation payable amounts to the CFO were forgiven.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

17. INCOME TAXES

The provision for income taxes recorded in the financial statements differs from the amount which would be obtained by applying the statutory income tax rate 27% (2015 – 26%), as follows:

December 31,	2016	2015
Loss for the year before income tax	\$ (200,346)	\$ (1,041,454)
Anticipated income tax recovery	(29,408)	(270,778)
Effect of change in rates	(2,967)	(100,348)
Stock-based compensation	-	30,859
Other	(48,025)	3,567
Deferred tax asset not recognized	80,400	336,700
Net deferred income tax liability	\$ -	\$ -

Deferred tax assets have not been recognized in respect of the following items:

December 31,	2016	2015
Deductible temporary differences	\$1,752,567	\$1,757,380
Share issuance costs	58,572	19,988
Non-capital loss carry-forwards	3,880,591	3,690,672

The deductible temporary differences and share issuance costs do not expire under current tax legislation. The benefit of these items has not been recognized in the financial statements.

The Company's non-capital losses of \$3,880,591 for income tax purposes expire as follows:

Year of origin	Non-capital loss	Year of expiry
2006	\$ 33,736	2026
2007	33,038	2027
2008	66,537	2028
2009	45,395	2029
2010	190,827	2030
2011	246,146	2031
2012	879,799	2032
2013	383,328	2033
2015	929,925	2034
2016	868,760	2035
2017	203,100	2036
	\$ 3,880,591	

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
For the years ended December 31, 2016 and 2015

18. COMMITMENTS

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

19. COMPARATIVE AMOUNTS

The financial statements have been reclassified, where applicable, to conform to the presentation used in the current year. The changes do not affect prior year earnings.