

*Unaudited Condensed Interim Financial Statements of*

**BAYSHORE PETROLEUM CORP.**

*For the three and nine months ended September 30, 2018 and 2017*

**Notice of No Auditor Review**

*Pursuant to National Instrument 51-102, Part 4, subsection 4.3(3)(a), the accompanying unaudited interim financial statements have been prepared by and are the responsibility of the Company's management. The Company's independent auditors have not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.*

**BAYSHORE PETROLEUM CORP.**  
**Unaudited Condensed Interim Statements of Financial Position**  
**Canadian Dollars \$**

	Note	September 30, 2018	December 31, 2017
<b>ASSETS</b>			
<b>Current assets</b>			
Cash		210,497	51,842
Restricted funds, held in trust	5	500,000	-
GST receivable		4,454	-
		<u>714,951</u>	<u>51,842</u>
<b>Non-current assets</b>			
Property and equipment, net of depreciation and amortization		5,774	12,338
		<u>5,774</u>	<u>12,338</u>
<b>Total assets</b>		<u>720,725</u>	<u>64,180</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	6	206,859	807,566
Short-term loans payable	7	430,400	168,016
Accrued interest payable		17,915	-
		<u>655,174</u>	<u>975,582</u>
<b>Non-current liabilities</b>			
Convertible debt	8	195,681	169,681
Decommissioning obligation	9	49,918	48,853
		<u>245,599</u>	<u>218,534</u>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital		5,582,672	4,832,672
Equity component of convertible debt		75,523	75,523
Warrants		-	11,645
Contributed surplus		880,247	868,602
Accumulated deficit		(6,718,490)	(6,918,378)
		<u>(180,048)</u>	<u>(1,129,936)</u>
<b>Total liabilities and shareholders' equity</b>		<u>720,725</u>	<u>64,180</u>

**APPROVED ON BEHALF OF THE BOARD:**

"Peter Ho"                      **Director**

"Chan Po Kwong"              **Director**

**BAYSHORE PETROLEUM CORP.****Unaudited Condensed Interim Statements of Net Income/(Loss) and Comprehensive Income/(Loss)****Canadian Dollars \$**

		Three months ended		Nine months ended	
		September 30		September 30	
	Note	2018	2017	2018	2017
<b>REVENUE</b>					
Oil and natural gas revenue, net of royalties		-	-	-	-
Technical testing services		-	-	947	10,650
				947	10,650
<b>EXPENSES</b>					
Contractors and consultants		174,879	-	212,166	156
Office and administration		38,937	4,013	79,055	65,393
Professional, legal and advisory		38,826	-	50,661	262
Travel and accommodations		251	-	4,540	4,007
Oil and natural gas non-operating		(3,351)	-	13,893	5,441
Depreciation and amortization		9,200	2,354	9,200	7,084
Accretion of decommissioning obligation	9	1,065	168	1,065	470
Derecognized liabilities	6	(617,820)	-	(617,820)	-
		(358,013)	6,535	(247,240)	82,813
<b>Income (Loss) from operations</b>		<b>358,013</b>	<b>(6,535)</b>	<b>248,187</b>	<b>(72,163)</b>
<b>Finance costs</b>					
Accretion of convertible debt	8	(26,000)	(7,500)	(26,000)	(22,500)
Interest expense		(22,299)	-	(22,299)	-
<b>Income (Loss) before tax</b>		<b>309,714</b>	<b>(14,035)</b>	<b>199,888</b>	<b>(94,663)</b>
<b>Tax expense</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net income (loss) and comprehensive income (loss)</b>		<b>309,714</b>	<b>(14,035)</b>	<b>199,888</b>	<b>(94,633)</b>
<b>Net income (loss) per ordinary share</b>					
Basic and diluted (\$/share)		0.01	-	0.01	-

The accompanying notes are an integral part of these unaudited condensed interim financial statements

**BAYSHORE PETROLEUM CORP.**  
**Unaudited Condensed Interim Statements of Changes in Equity**  
**Canadian Dollars \$**

	Note	Number of shares	Share capital	Equity component of convertible debt	Warrants	Contributed Surplus	Deficit	Total equity
			\$	\$	\$	\$	\$	\$
Balance at December 31, 2016		32,360,815	4,832,672	75,523	58,215	822,032	(6,796,026)	1,007,584
Net loss and comprehensive loss		-	-	-	-	-	(94,663)	(94,663)
Expiry of warrants		-	-	-	(46,570)	46,570	-	-
Balance at September 30, 2017		32,360,815	4,832,672	75,523	11,645	868,602	(6,890,689)	(1,102,247)
Balance at December 31, 2017		32,360,815	4,832,672	75,523	11,645	868,602	(6,918,378)	(1,129,936)
Net income and comprehensive income		-	-	-	-	-	<b>199,888</b>	<b>199,888</b>
Subscription receipts	5	-	<b>750,000</b>	-	-	-	-	<b>750,000</b>
Expiry of warrants		-	-	-	(11,645)	11,645	-	-
Balance at September 30, 2018		<b>32,360,815</b>	<b>5,582,672</b>	<b>75,523</b>	-	<b>880,247</b>	<b>(6,718,490)</b>	<b>(180,048)</b>

The accompanying notes are an integral part of these unaudited condensed interim financial statements

**BAYSHORE PETROLEUM CORP.**  
**Unaudited Condensed Statements of Cash Flows**  
**Canadian Dollars \$**

		<b>Three months ended</b>		<b>Nine months ended</b>	
	<b>Note</b>	<b>September 30</b>		<b>September 30</b>	
		<b>2018</b>	<b>2017</b>	<b>2018</b>	<b>2017</b>
<b>Operating activities</b>					
Net income (loss) for the period		<b>309,714</b>	(14,035)	<b>199,888</b>	(94,663)
Adjustments for:					
Depreciation and amortization		<b>9,200</b>	2,354	<b>9,200</b>	7,084
Accretion of decommissioning obligation	<b>9</b>	<b>1,065</b>	168	<b>1,065</b>	470
Accretion of convertible debt		<b>26,000</b>	7,500	<b>26,000</b>	22,500
Interest expense		<b>22,299</b>	57	<b>22,299</b>	566
Derecognition of liabilities	<b>6</b>	<b>(617,820)</b>	-	<b>(617,820)</b>	-
Changes in non-cash working capital:					
GST receivable		<b>(2,462)</b>	-	<b>(4,454)</b>	-
Accounts payable and accrued liabilities		<b>(19,685)</b>	(1,368)	<b>(802)</b>	13,195
<b>Net cash utilized in operating activities</b>		<b>(271,689)</b>	(5,324)	<b>(364,624)</b>	(50,848)
<b>Investing activities</b>					
Purchase of property and equipment		<b>(2,636)</b>	-	<b>(2,636)</b>	-
<b>Net cash utilized in investing activities</b>		<b>(2,636)</b>	-	<b>(2,636)</b>	-
<b>Financing activities</b>					
Increase in short-term loans payable		<b>212,402</b>	2,000	<b>262,384</b>	5,250
Subscription receipts	<b>5</b>	<b>250,000</b>	-	<b>250,000</b>	-
Interest paid		<b>(4,384)</b>	(57)	<b>(4,384)</b>	(566)
Changes in non-cash working capital:					
Accounts payable and accrued liabilities		<b>17,915</b>	(18)	<b>17,915</b>	934
<b>Net cash generated from financing activities</b>		<b>475,933</b>	1,925	<b>525,915</b>	5,618
Net change in cash		<b>201,608</b>	(3,399)	<b>158,655</b>	(45,230)
Cash and cash, beginning of the period		<b>8,889</b>	5,320	<b>51,842</b>	47,151
<b>Cash and cash, end of the period</b>		<b>210,497</b>	1,921	<b>210,497</b>	1,921

The accompanying notes are an integral part of these financial statements

# **BAYSHORE PETROLEUM CORP.**

## **Notes to the Unaudited Condensed Interim Financial Statements**

**Canadian Dollars \$**

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### **1. NATURE OF BUSINESS**

Bayshore Petroleum Corp., (“Bayshore” or the “Company”) is incorporated in Alberta, Canada under the Business Corporations Act. Bayshore’s common shares are listed on the TSX Venture Exchange (“Exchange”) under the symbol “BSH” but are currently suspended from trading. The address of the Company’s corporate and registered office is 340-600 Crowfoot Crescent N.W. Calgary, Alberta, T3G 0B4. The Company is an early stage oil and gas company with a plan to advance, through collaboration with industry partners, an innovative bitumen and heavy oil upgrading project located in western Canada.

### **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.

As a result of a non-recurring one-time accounting adjustment of \$617,820 for the derecognition of liabilities recorded during the third quarter the Company reported income for the quarter ended September 30, 2018 of \$309,714 and year to date income of \$199,888. The Company currently does not generate enough revenue to cover its ongoing operating and general and administrative costs. At September 30, 2018, the Company had working capital of \$59,777 (December 31, 2017 - deficit of \$923,740). Effective May 4, 2018, the Company’s shares were suspended from trading on the Exchange pending the outcome of a continued listing review by the Exchange that began during Q2 2018. The Company continues to address the issues raised by the Exchange.

The Company has addressed the current working capital deficiency by reducing ongoing operating and administrative and staffing to a minimum. In addition, in the third quarter of 2018 the Company raised \$750,000 through a private placement and is awaiting approval of the private placement from the Exchange. A total of \$500,000 of the proceeds of the financing are being held in trust with the Company’s legal counsel pending approval by the Exchange of the private placement.

The ability of the Company to continue as a going concern will depend on its ability to raise additional capital and achieve profitable operations sufficient to meet all obligations, the outcome of which is uncertain.

These uncertainties 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 was not appropriate. Such adjustments could be material.

### **3. BASIS OF PRESENTATION**

#### **Statement of compliance**

These unaudited condensed interim financial statements have been prepared by management in accordance with International Accounting Standard 34, “Interim Financial Reporting”. The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

# **BAYSHORE PETROLEUM CORP.**

## **Notes to the Unaudited Condensed Interim Financial Statements**

**Canadian Dollars \$**

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### **3. BASIS OF PRESENTATION (Continued)**

#### **Statement of compliance (continued)**

In preparing these unaudited condensed interim financial statements, the significant judgements made by management in applying the accounting policies and the key sources of estimation uncertainty were the same as those applied to the consolidated financial statements as at and for the year ended December 31, 2017. These unaudited condensed interim financial statements have been prepared following the same accounting policies as the annual audited consolidated financial statements for the year ended December 31, 2017 and should be read in conjunction with those annual audited consolidated financial statements and the notes thereto. These unaudited condensed interim financial statements were approved by the Board of Directors on November 27, 2018 and have not been reviewed by the Company's auditors. The disclosures provided below are incremental to those included in the 2017 annual consolidated financial statements.

#### **Functional and presentation currency**

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

#### **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.

#### **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:

- Property and equipment and intangible assets are subject to judgments relating to indicators of impairment.
- The value of decommissioning provisions depends on estimates of current risk-free interest rates, 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 deferred tax assets.

# **BAYSHORE PETROLEUM CORP.**

## **Notes to the Unaudited Condensed Interim Financial Statements**

**Canadian Dollars \$**

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### **4. SIGNIFICANT ACCOUNTING POLICIES**

#### **Future accounting pronouncements**

At the date of these financial statements, the standards and interpretations listed below were issued but not yet effective. The adoption of these standards may result in future changes to existing accounting policies and disclosures. The Company is currently evaluating the impact that these standards will have on results of operations and financial position.

IFRS 9 - Financial instruments was issued in July 2014 (IFRS 9) which replaces IAS 39, "Financial Instruments: Recognition and Measurement". The standard came into effect for annual periods beginning on or after January 1, 2018. For financial assets, IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, and replaces the multiple rules in IAS 39. For financial liabilities, IFRS 9 retains most of the requirements of IAS 39. In addition, IFRS 9 introduces a new expected credit loss model for calculating impairment of financial assets, replacing the incurred loss impairment model required by IAS 39. The standard also specifies standards for hedge accounting. The Company adopted IFRS 9 in its financial statements for the annual period beginning January 1, 2018 and the adoption did not have a material impact on the Company's financial statements

IFRS 15 - Revenue from Contracts with Customers was issued in May 2014 ("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. The standard may be applied retrospectively or using a modified retrospective approach. As the Company currently has no significant revenues, the adoption of this standard did not have a material impact on the financial statements.

IFRS 16 - Leases, which replaces IAS 17 Leases, was issued in January 2016 with effective date January 1, 2019. IFRS 16 requires lessees to recognize most leases on the statement of financial position. The standard provides using a single recognition and measurement model for leases with required recognition of assets and liabilities for most leases. Certain short-term leases (less than 12 months) and leases of low-value assets are exempt from the requirements and may continue to be treated as operating leases. The Company has completed its review and analysis of the lease contracts that fall into the scope of the new standard and determined that there is no impact on the accounting or reporting.

### **5. PRIVATE PLACEMENT**

On August 7, 2018, the Company completed a non-brokered private placement of 50 million common shares at \$0.015 per share for gross proceeds of \$750,000 ("Subscription Receipts"), less a finders' fee of \$13,500, to a single investor, Morag Investments Ltd. (the "Investor"), a Hong Kong based investor controlled by the Chairman and a director of the Company. The gross proceeds of \$750,000 were deposited in trust with the Company's legal counsel. The private placement was approved by shareholders at the August 7, 2018 annual general meeting. The private placement is subject to Exchange approval which is expected to be received following the reinstatement of trading of the Company's shares. The Company is engaged in ongoing discussions with Exchange to address issues raised by the Exchange in relation to ongoing continued listing requirements. It is not clear when or if these issues will be resolved. Should the Exchange not approve the private placement, the gross proceeds of \$750,000 will be repaid to the Investor and the private placement cancelled.

During August 2018, the Investor agreed to make available to the Company \$250,000 of the \$750,000 held in trust.

# BAYSHORE PETROLEUM CORP.

## Notes to the Unaudited Condensed Interim Financial Statements

Canadian Dollars \$

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### 6. DERECOGNIZED LIABILITIES

During 2018, the Company derecognized \$617,820 from accounts payable and accrued liabilities which management considers a non-recurring one-time transaction. During the year, management undertook a process whereby all accounts payable and accrued liabilities of the Company were reviewed to determine the value of the liability and whether the obligation continues to exist. Contracts, agreements and correspondence relating to recorded liabilities that were greater than three years outstanding and those which were owing to vendors which no longer exist were examined and discussions and negotiations were held with vendors where possible. Management has concluded that certain obligations have been extinguished due to the time period elapsed in the case of trade accounts payable.

### 7. SHORT-TERM LOANS PAYABLE

Short-term loans are payable on demand, are unsecured and bear an interest rate payable at the end of the loan term.

#### Director and Officer

Short-term loans payable at December 31, 2017	35,400
Advances	5,000
Repayments	<u>(10,000)</u>
<b>Short-term loans payable at September 30, 2018</b>	<b><u>30,400</u></b>

Interest is accrued at a rate of 5% per annum, compounded annually. Accrued interest on these loans during 2018 total \$1,027.

#### Director/Morag Investments

Short-term loans payable at December 31, 2017	132,616
Advances	460,000
Repayments	<u>(192,616)</u>
<b>Short-term loans payable at September 30, 2018</b>	<b><u>400,000</u></b>

Interest is accrued at a rate of between 5% and 20% per annum, compounded annually. Accrued interest on these loans during 2018 total \$12,728 of which \$4,385 was paid during 2018.

<b>Total short-term loans payable</b>	<b><u>430,400</u></b>
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# BAYSHORE PETROLEUM CORP.

## Notes to the Unaudited Condensed Interim Financial Statements

Canadian Dollars \$

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### 8. CONVERTIBLE DEBT

The Company has two convertible debentures: one with a face value of \$54,833 payable to a director and officer of the Company and one with a face value of \$174,475 payable to a non-related party. The convertible debentures mature on September 15, 2019, accrue interest at a rate of 5% repayable at the end of the term of the loan and are convertible at a rate of \$0.185 per share at the option of the debt holder.

Convertible debt at December 31, 2017	169,681
Accretion	<u>26,000</u>
<b>Convertible debt at September 30, 2018</b>	<b><u>195,681</u></b>

Accrued interest on these loans during 2018 total \$8,544.

### 9. DECOMMISSIONING OBLIGATIONS

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.

At December 31, 2017, the estimated total undiscounted amount adjusted for inflation required to settle the decommissioning obligations was \$51,294 (2016 – \$81,294). Expected year of retirement is 2020.

Decommissioning obligation at December 31, 2017	48,453
Accretion	<u>1,065</u>
<b>Decommissioning obligation at September 30, 2018</b>	<b><u>49,518</u></b>