

Unaudited Condensed Interim Financial Statements of

BAYSHORE PETROLEUM CORP.

For the three and nine months ended September 30, 2019

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.**Statements of Financial Position**

Canadian Dollars unless otherwise stated

	As at September 30, 2019	As at December 31, 2018
ASSETS		
Current assets		
Cash	316,413	820,705
Prepays, deposits and advances	35,823	-
GST receivable	9,506	11,577
	<u>361,742</u>	<u>832,282</u>
Non-current assets		
Property, plant and equipment	5 1,978	5,422
Right of use asset	6 122,578	-
	<u>486,298</u>	<u>837,704</u>
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities	13 72,885	373,163
Current portion of lease obligation liability	7 47,004	-
Related party loans	8 650,000	-
Short-term loan	9 -	10,400
Interest payable	107,918	21,925
	<u>877,807</u>	<u>405,488</u>
Lease obligation liability	7 74,593	-
Related party loans	8 450,000	650,000
Convertible debt	10 202,895	187,151
Interest payable	64,986	82,280
Decommissioning obligations	11 187,541	50,130
	<u>1,857,822</u>	<u>1,375,049</u>
SHAREHOLDERS' EQUITY		
Share capital	5,507,672	5,507,672
Equity component of convertible debt	75,523	75,523
Contributed surplus	980,820	880,247
Accumulated deficit	(7,935,539)	(7,000,787)
	<u>(1,371,524)</u>	<u>(537,345)</u>
	<u>486,298</u>	<u>837,704</u>
Going concern	2	
Related parties	14	
Commitments	15	

APPROVED ON BEHALF OF THE BOARD:

"Peter Ho" Director"Chan Po Kwong" Director

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

BAYSHORE PETROLEUM CORP.
Statements of Net Loss and Comprehensive Loss
Canadian Dollars unless otherwise stated

	Note	Three months ended September 30		Nine months ended September 30	
		2019	2018	2019	2018
REVENUE					
Technical testing services		-	-	-	947
		-	-	-	947
EXPENSES					
Contractors, consultants and staff		132,600	174,879	459,308	212,166
Share based compensation	12	-	-	100,573	-
Professional, legal and advisory		28,674	38,826	33,977	50,661
Office and administration		24,412	38,937	72,224	79,055
Travel and accommodations		8,972	251	13,625	4,540
Oil and gas operating expenses		625	(3,351)	(4,335)	13,893
Depreciation of property, plant and equipment		132	9,200	124,113	9,200
Depreciation of right of use asset		11,491	-	21,068	-
Accretion of decommissioning obligations	11	733	1,065	1,021	1,065
Derecognized liabilities	13	-	(617,820)	-	(617,820)
(Loss) income from operations		(207,639)	358,013	(821,574)	248,187
Finance costs					
Accretion of convertible debt	10	(5,306)	(26,000)	(15,744)	(26,000)
Lease finance expense	7	(3,697)	-	(6,710)	-
Interest expense		(36,588)	(22,299)	(90,724)	(22,299)
(Loss) income before income tax		(253,230)	309,714	(934,752)	199,888
Income tax		-	-	-	-
Net (loss) income and comprehensive (loss) income		(253,230)	309,714	(934,752)	199,888
(Loss) income per ordinary share					
Basic and diluted (per share)		-	0.01	(0.01)	0.01

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

BAYSHORE PETROLEUM CORP.**Statements of Changes in Equity**

Canadian Dollars unless otherwise stated

	Note	Number of shares	Share capital	Equity component of convertible debt	Warrants	Contributed Surplus	Deficit	Total equity
			\$	\$	\$	\$	\$	\$
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		-	-	-	-	-	199,888	199,888
Subscription receipts		-	750,000	-	-	-	-	750,000
Expiry of warrants		-	-	-	(11,645)	11,645	-	-
Balance at September 30, 2018		32,360,815	5,582,672	75,523	-	880,247	(6,718,490)	(180,048)
Balance at December 31, 2018		82,360,815	5,507,672	75,523	-	880,247	(7,000,787)	(537,345)
Net loss and comprehensive loss		-	-	-	-	-	(934,752)	(934,752)
Share based compensation	12	-	-	-	-	100,573	-	100,573
Balance at September 30, 2019		82,360,815	5,507,672	75,523	-	980,820	(7,935,539)	(1,371,524)

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

BAYSHORE PETROLEUM CORP.

Statements of Cash Flows

Canadian Dollars unless otherwise stated

	Note	Three months ended September 30		Nine months ended September 30	
		2019	2018	2019	2018
Operating activities					
Net (loss) income for the period		(253,230)	309,714	(934,752)	199,888
Adjustments for:					
Depreciation of property, plant and equipment		132	9,200	124,113	9,200
Depreciation of right of use asset		11,491	-	21,068	-
Share based compensation		-	-	100,573	-
Accretion of decommissioning obligation		733	1,065	1,021	1,065
Accretion of convertible debt		5,306	26,000	15,744	26,000
Derecognition of liabilities	13	-	(617,820)	-	(617,820)
Changes in non-cash working capital:					
Prepays, deposits and advances		(6,479)	-	(20,101)	-
GST receivable		459	(2,462)	2,070	(4,454)
Accounts payable and accrued liabilities		1,172	(19,685)	(225,277)	(802)
Net cash utilized in operating activities		(240,416)	(293,988)	(915,541)	(386,923)
Investing activities					
Purchase of property and equipment		-	(2,636)	-	(2,636)
Net cash utilized in investing activities		-	(2,636)	-	(2,636)
Financing activities					
Increase in related party loans	8	450,000	212,402	450,000	267,384
Decrease in short term loans		-	-	(10,400)	(5,000)
Subscription receipts		-	250,000	-	250,000
Interest paid		(20,870)	(4,384)	(22,025)	(4,384)
Decrease of lease obligation liability		(11,990)	-	(22,050)	-
Changes in non-cash working capital:					
Interest payable		36,589	-	90,724	-
Accounts payable and accrued liabilities		-	40,214	(75,000)	40,214
Net cash generated from financing activities		453,729	498,232	411,249	548,214
Net change in cash		213,313	201,608	(504,292)	158,655
Cash and cash equivalents, beginning of the period		103,100	8,889	820,705	51,842
Cash and cash equivalents, end of the period		316,413	210,497	316,413	210,497

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

BAYSHORE PETROLEUM CORP.

Notes to the Unaudited Condensed Interim Financial Statements

Canadian Dollars unless otherwise indicated

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”. The address of the Company’s corporate and registered office is Suite 340, 600 Crowfoot Crescent NW, Calgary, Alberta, T3G 0B4 and the operational address is Bay 127, 5655 – 10 Street NE, Calgary, Alberta, T2E 8W7. The Company is an early stage oil and gas company with a plan to advance, though collaboration with industry partners, an innovative bitumen and heavy oil upgrading project (“Pilot 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.

The Company currently does not generate enough revenue to cover ongoing operating and administrative costs and relies on related party loans and the issuance of share capital to fund ongoing operations. During the third quarter of 2019, cash used in operations was \$240,366 and the Company had an accumulated deficit of \$7,935,539 at September 30, 2019. The Company reported a third quarter loss of \$253,230. At September 30, 2019, the Company had negative working capital of \$516,065 and a cash balance of \$316,413.

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. The Company is in ongoing discussions with the controlling shareholder of Bayshore on ensuring the Company’s maintains sufficient working capital to advance the Pilot Project initiative. During the third quarter of 2019, the controlling shareholder provided the Company with a \$450,000 unsecured loan to fund operations and working capital.

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 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 unless otherwise indicated

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 annual audited financial statements as at and for the year ended December 31, 2018. These unaudited condensed interim financial statements have been prepared following the same accounting policies as the annual audited financial statements for the year ended December 31, 2018 and should be read in conjunction with those annual audited financial statements and the notes thereto. These unaudited condensed interim financial statements were approved by the Board of Directors on November 15, 2019 and have not been reviewed by the Company's auditors. The disclosures provided below are incremental to those included in the 2018 annual audited 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.

Measurement uncertainty and use of estimates and judgments

In applying the Company's accounting policies, the preparation of financial statements requires management to make estimates, judgments and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual amounts may differ materially from these estimates due to changes in general economic conditions, changes in laws and regulations, changes in future operating plans and the inherent imprecision associated with estimates. Significant estimates and judgments used in the preparation of these interim financial statements include:

- The fair value of the related party loans and convertible debt.
- 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.
- The calculation of decommissioning liabilities and accretion expense is based on management's estimates future inflation rates, current risk-free rates, future abandonment and reclamation expenditures and the anticipated timing of those expenditures.

BAYSHORE PETROLEUM CORP.

Notes to the Unaudited Condensed Interim Financial Statements

Canadian Dollars unless otherwise indicated

4. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the significant accounting policies as disclosed in the Company's audited annual consolidated financial statements for the year ended December 31, 2018 have been applied consistently in the preparation of these unaudited condensed consolidated interim financial statements.

Adoption of New Accounting Policies

IFRS 16 – Leases

In January 2016, the IASB issued IFRS 16, Leases ("IFRS 16"), replacing IAS 17, Leases and related interpretations. The standard introduces a single lessee accounting model and requires a lessee to recognize assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. A lessee is required to recognize a right of use asset ("RUA") representing its right to use the underlying asset and a lease liability representing its obligation to make lease payments. Lessors continue to classify leases as finance and operating leases. Other areas of the lease accounting model have been impacted, including the definition of a lease. Transitional provisions have been provided. IFRS 16 became effective for annual periods beginning on or after January 1, 2019.

The Company adopted the standard for the annual period beginning January 1, 2019. The Company did not have any leases that were greater than 12 months in duration at the time of adopting the standard.

As a result of the adoption of IFRS 16, the Company updated its accounting policy for leases as follows:

The Company recognizes a RUA and a lease liability based on the present value of future lease payments when the leased asset is available for use by the Company. The lease payments include fixed payments. The lease payments are discounted using the interest rate implicit in the lease or the lessee's incremental borrowing rate. Generally, the Company's uses the lessee's incremental borrowing rate for its present value calculations. Lease payments are discounted over the lease term, which includes the fixed term and renewal options that the Company is reasonably certain to exercise. Lease payments are allocated between the lease liability and a finance cost, which is recognized in finance costs over the lease term in the statement of earnings.

RUA are measured at cost, less any accumulated depreciation and accumulated impairment losses, and adjusted for any re-measurement of lease liabilities. Cost is calculated as the initial measurement of the lease liability plus any initial direct costs and any lease payments made at or before the commencement date. RUA's are depreciated on a straight-line basis over the shorter of the lease term or the useful life.

On adoption of IFRS 16, the Company utilized the practical expedient to exclude initial direct costs from the measurement of the RUA at the date of initial application. Bayshore's corporate office lease agreement, which was entered into during the second quarter of 2019, qualifies for recognition under IFRS 16. Based on current estimates and assumptions, at the time of entering into the lease during the second quarter of 2019 the Company recorded a RUA and offsetting lease obligation liability of \$143,647, with no impact on retained earnings. The Company had not previously recognized any RUA or lease obligation liabilities.

Under the principles of the new standard these leases have been measured at the present value of the remaining lease payments, discounted using the Company's incremental borrowing rates at the time of entering into the lease which was estimated to be 10%.

BAYSHORE PETROLEUM CORP.

Notes to the Unaudited Condensed Interim Financial Statements

Canadian Dollars unless otherwise indicated

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

Future accounting pronouncements

On June 7, 2018, the International Accounting Standard Board issued IFRIC Interpretation 23 “*Uncertainty over Income Tax Treatments*”. The interpretation clarifies the accounting for income tax treatments (current and deferred tax) that have yet to be accepted by tax authorities. The interpretation is applicable for annual periods beginning on or after January 1, 2019. Early Option is permitted. The Company plans to review the Interpretation during the fourth quarter of 2019 and determine the impact, if any, on the unaudited interim condensed financial statements of the adopting the Interpretation.

5. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas assets	Corporate and other assets	Total
Cost			
Balance, December 31, 2018	1,675,323	49,077	1,724,400
Additions ⁽¹⁾	120,669	-	120,669
Balance, September 30, 2019	1,795,992	49,077	1,845,069

	Petroleum and natural gas assets	Corporate and other assets	Total
Accumulated depletion, amortization and impairments			
Balance, December 31, 2018	1,675,323	43,655	1,718,978
Additions ⁽¹⁾	120,669	3,444	124,113
Balance, September 30, 2019	1,795,922	47,099	1,843,092

	Petroleum and natural gas assets	Corporate and other assets	Total
Net book value			
Balance, December 31, 2018	-	5,422	5,422
Balance, September 30, 2019	-	1,978	1,978

For the period ended September 30, 2019, there were no impairment reversal indicators for the Company’s petroleum and natural gas assets.

(1) During the second quarter of 2019, the Company revised its estimate of decommissioning obligations on its non-producing non-operated petroleum and natural gas assets and the estimate of the remaining decommissioning obligation associated with the reclamation of an exploration well drilled during 2014. As a result, the Company recorded an additional asset of \$120,669, the entire amount of which was depreciated during the second quarter of 2019.

BAYSHORE PETROLEUM CORP.**Notes to the Unaudited Condensed Interim Financial Statements**

Canadian Dollars unless otherwise indicated

6. RIGHT OF USE ASSET

Right of use asset consists of the following:

	<u>Office lease</u>
Cost	
Balance, beginning of year	-
Additions during the period	<u>143,647</u>
Balance, September 30, 2019	<u>143,647</u>
Accumulated depreciation	
Balance, beginning of year	-
Depreciation during the period	<u>21,069</u>
Balance, September 30, 2019	<u>21,069</u>
Net book value	
Balance, beginning of year	-
Balance, September 30, 2019	<u>122,578</u>

7. LEASE OBLIGATION LIABILITY

Balance, beginning of year	-
Recognition during the period	<u>143,647</u>
Repayments in the period	<u>22,050</u>
Balance, September 30, 2019	<u>121,597</u>
Current portion	47,004
Non-current portion	<u>74,593</u>

The Company has lease liabilities for a contract related to an office lease. The Company has variable lease payments related to operating costs and property taxes for office contracts which are recorded as general and administrative expenses.

8. RELATED PARTY LOANS

Balance, beginning of year ⁽¹⁾	650,000
Loan advances ⁽²⁾	<u>450,000</u>
Loan repayments	-
Balance, September 30, 2019	<u>1,100,000</u>

(1) Interest accrues on these loans at a rate of 15% per annum, compounded annually. The loans mature on January 5, 2020 at which time all outstanding principal and accrued interest is due.

(2) On July 18, 2019, the Company secured an unsecured loan from the controlling shareholder of Bayshore in the amount of \$450,000, bearing interest at a rate of 10% per annum, compounded annually with no principal or interest payments due prior to maturity. The loan matures on December 31, 2021 at which time all outstanding principal and accrued interest is due.

BAYSHORE PETROLEUM CORP.

Notes to the Unaudited Condensed Interim Financial Statements

Canadian Dollars unless otherwise indicated

8. RELATED PARTY LOANS (Continued)

Accrued interest on the loans during the third quarter and nine months of 2019 were \$33,699 (2018 – \$12,728) and \$82,048 (2018 – \$12,728), respectively. Accrued interest accumulated to date is \$117,042 which is included in interest payable at September 30, 2019.

9. SHORT-TERM LOAN

Short-term loan is a loan from a related party and is unsecured and payable on demand.

Balance, beginning of year	10,400
Loan repayments during the period	<u>(10,400)</u>
Balance, September 30, 2019	<u>-</u>

Interest is accrued at a rate of 5% per annum, compounded annually. Interest expense of \$100 was incurred during 2019 (three and nine months ended September 30, 2018 – \$1,027). The full amount of the principal and accrued interest of \$1,155 was repaid during the first quarter of 2019.

Accrued, unpaid interest total \$20,870 on short-term loans where the principal was repaid in 2018. The accrued interest amount has been paid during the third quarter of 2019.

10. 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 December 31, 2020, 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.

Balance, beginning of year	187,151
Accretion during the period	<u>15,744</u>
Balance, September 30, 2019	<u>202,895</u>

Accrued interest on the loans during the third quarter and nine months of 2019 were \$2,890 (2018 – \$8,544) and \$8,757 (2018 – \$8,544), respectively. Accrued interest accumulated to date is \$55,862 which is included in interest payable at September 30, 2019. At maturity of the convertible debt, all outstanding principal and accrued interest is due.

11. 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 September 30, 2019, the estimated total undiscounted amount adjusted for inflation required to settle the decommissioning obligations was \$211,602 (December 31, 2018 – \$51,294).

BAYSHORE PETROLEUM CORP.**Notes to the Unaudited Condensed Interim Financial Statements**

Canadian Dollars unless otherwise indicated

11. DECOMMISSIONING OBLIGATIONS (Continued)

Balance, beginning of year	50,130
Accretion during the period	1,021
Settlement of liability	(6,479)
Change in estimate – operated exploration well	(42,200)
Change in estimate – non-operated properties	185,069
Balance, September 30, 2019	187,541

12. SHARE CAPITAL**Share Based payments**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 8,236,082, being 10% of the issued and outstanding common shares of the Company at September 30, 2019.

On January 10, 2019, the Company issued 6,600,000 stock options to directors, management and staff. The option exercise price is \$0.05 and the options expire on December 31, 2023. The options vest at the time of issuance. An amount of \$100,573 was recorded as share based compensation at the option grant date.

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

	Number of Stock Options	Weighted average exercise price (\$)
Balance December 31, 2018	730,000	0.15
Issued during the period	6,600,000	0.05
Cancelled during the period	(250,000)	0.05
Expired during the period	(380,000)	0.19
Balance, September 30, 2019	6,700,000	0.05

Stock options outstanding at September 30, 2019:

Number of stock options vested and outstanding	Weighted average exercise price (\$)	Weighted average remaining contractual life (years)
350,000	0.12	0.37
6,350,000	0.05	4.25
6,700,000	0.05	4.05

BAYSHORE PETROLEUM CORP.

Notes to the Unaudited Condensed Interim Financial Statements

Canadian Dollars unless otherwise indicated

13. 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.

14. RELATED PARTIES

As September 30, 2019, the following balances were payable to an officer and director of the Company.

	September 30, 2019	December 31, 2018
Accounts payable and accrued liabilities	32,551	90,400
Short-term loan (note 9)	-	10,400
Interest payable	13,358	12,362
Convertible debenture, face value (note 10)	54,833	54,833
	100,742	167,995

As at September 30, 2019, the following balances were payable to the chairman of the board of the Company.

	September 30, 2019	December 31, 2018
Related party loans (note 8)	1,100,000	650,000
Interest payable	117,041	55,863
	1,217,041	705,863

Key management compensation

Key management includes the Company's chief executive officer, chief financial officer and directors. Amounts expensed for consulting services for key management during the three and nine months ended September 30, 2019 were \$79,560 (2018 – \$7,000) and \$271,660 (2018 - \$17,000), respectively.

Amounts expensed for share based compensation for key management during the three and nine months ended September 30, 2019 were nil (2018 – nil) and \$63,115 (2018 - nil), respectively.

15. COMMITMENTS

The Company executed a long-term lease agreement in April 2019 for combined office and warehouse premises. The future base lease rental payments as at September 30, 2019 are as follows:

2019	15,563
2020	64,066
2021	67,178
2022	28,531
	175,338