

Financial Statements of

BAYSHORE PETROLEUM CORP.

For the years ended December 31, 2018 and 2017

Independent Auditors' Report

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

Opinion

We have audited the financial statements of Bayshore Petroleum Corp. (the "Company"), which comprise the statements of financial position as at December 31, 2018 and 2017 and the statements of net loss and comprehensive loss, changes in equity and cash flows for the years then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2018 and 2017, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Emphasis of Matter

We draw attention to Note 2 to the financial statements which indicates that at December 31, 2018 the Company had net loss of \$82,409, negative cash flow from operations of \$466,501 and an accumulated deficit of \$7,000,787. This condition, along with other matters as set forth in Note 2, 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.

Information Other than the Financial Statements and Auditors' Report Thereon

Management is responsible for the other information. The other information comprises the information included in Management's Discussion and Analysis.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

We obtained Management's Discussion and Analysis prior to the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in this auditors' report. We have nothing to report in this regard.

Responsibilities of Management and Those Charged With Governance 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.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Independent Auditors' Report (continued)

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this Independent Auditors' report is Roland Bishop, CPA, CA.

Kennedy Mack Shusarchuk Stewart LLP

Chartered Professional Accountants,
Chartered Accountants

April 12, 2019
Calgary, Alberta

BAYSHORE PETROLEUM CORP.**Statements of Financial Position**

Canadian Dollars unless otherwise stated

	Note	As at December 31, 2018	As at December 31, 2017
ASSETS			
Current assets			
Cash		820,705	51,842
GST receivable		11,577	-
		<u>832,282</u>	<u>51,842</u>
Property, plant and equipment, net of depreciation and amortization	5	5,422	12,338
		<u>837,704</u>	<u>64,180</u>
LIABILITIES			
Current liabilities			
Accounts payable and accrued liabilities	6	373,163	771,745
Short-term loans	7	10,400	168,016
Interest payable		21,925	35,821
		<u>405,488</u>	<u>975,582</u>
Related party loans	8	650,000	-
Convertible debt	9	187,151	169,681
Interest payable		82,280	-
Decommissioning obligations	10	50,130	48,853
		<u>1,375,049</u>	<u>1,194,116</u>
SHAREHOLDERS' EQUITY			
Share capital	11	5,507,672	4,832,672
Equity component of convertible debt		75,523	75,523
Warrants		-	11,645
Contributed surplus		880,247	868,602
Accumulated deficit		(7,000,787)	(6,918,378)
		<u>(537,345)</u>	<u>(1,129,936)</u>
		<u>837,704</u>	<u>64,180</u>
Going concern	2		
Commitments	17		

APPROVED ON BEHALF OF THE BOARD:**"Peter Ho" Director****"Chan Po Kwong" Director**

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

	Note	Year ended December 31,	
		2018	2017
REVENUE			
Technical testing services		-	10,650
		-	10,650
EXPENSES			
Contractors, consultants and staff		327,487	156
Professional, legal and advisory		67,073	17,410
Office and administration		77,344	38,642
Petroleum and natural gas, non-operating		19,651	5,441
Travel and accommodations		16,046	10,132
Depreciation and amortization	5	9,552	7,084
Accretion of decommissioning obligations	10	1,277	1,254
Derecognized liabilities	6	(526,259)	-
Income (loss) from operations		7,829	(69,469)
Finance costs			
Accretion of convertible debt	9	(34,839)	(39,815)
Gain on renegotiation of convertible debt	9	17,369	-
Interest expense		(72,768)	(13,068)
Loss before income tax		(82,409)	(122,352)
Income tax	16	-	-
Net loss and comprehensive loss		(82,409)	(122,352)
Loss per ordinary share			
Basic and diluted (per share)	12	-	-

The accompanying notes are an integral part of these 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, 2016		32,360,815	4,832,672	75,523	58,215	822,032	(6,796,026)	(1,007,584)
Net loss and comprehensive loss		-	-	-	-	-	(122,352)	(122,352)
Expiry of warrants	11	-	-	-	(46,570)	46,570	-	-
Balance at December 31, 2017		32,360,815	4,832,672	75,523	11,645	868,602	(6,918,378)	(1,129,936)
Balance at December 31, 2017		32,360,815	4,832,672	75,523	11,645	868,602	(6,918,378)	(1,129,936)
Net loss and comprehensive loss		-	-	-	-	-	(82,409)	(82,409)
Expiry of warrants	11	-	-	-	(11,645)	11,645	-	-
Issue of share capital	11	50,000,000	750,000	-	-	-	-	750,000
Share issue costs	11	-	(75,000)	-	-	-	-	(75,000)
Balance at December 31, 2018		82,360,815	5,507,672	75,523	-	880,247	(7,000,787)	(537,345)

The accompanying notes are an integral part of these financial statements

BAYSHORE PETROLEUM CORP.**Statements of Cash Flows**

Canadian Dollars unless otherwise stated

	Note	Year ended December 31,	
		2018	2017
Operating activities			
Net loss for the year		(82,409)	(122,352)
Adjustments for:			
Depreciation and amortization		9,552	7,084
Accretion of decommissioning obligation		1,277	1,254
Accretion of convertible debt		34,839	39,815
Gain on renegotiation convertible debt		(17,369)	
Interest expense		72,768	13,068
Derecognition of liabilities		(526,259)	-
Changes in non-cash working capital:			
GST receivable		(11,577)	-
Accounts payable and accrued liabilities		52,677	72,394
Net cash utilized in operating activities		(466,501)	(133,525)
Investing activities			
Purchase of property, plant and equipment	5	(2,636)	-
Net cash utilized in investing activities		(2,636)	-
Financing activities			
(Decrease)/increase in short-term loans	7	(157,616)	138,016
Increase in related party loans	8	650,000	
Issue of share capital, net of issue costs		675,000	-
Interest paid		(4,384)	-
Changes in non-cash working capital:			
Accounts payable and accrued liabilities		75,000	-
Net cash generated from financing activities		1,238,000	138,016
Net change in cash		768,863	4,691
Cash, beginning of the year		51,842	47,151
Cash, end of the year		820,705	51,842

The accompanying notes are an integral part of these financial statements

BAYSHORE PETROLEUM CORP.
Notes to the 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”. As a result of the issuance of 50,000,000 shares of the Company to Morag Investments Ltd (“Morag”) in December 2018, Morag owns greater than 50% of the share capital of the Company and is considered to be the parent company. Morag is wholly owned by the Chairman of Bayshore. The address of the Company’s corporate and registered office is Suite 340, 600 Crowfoot Crescent NW, 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 (“Pilot Project”) located in western Canada. Following a successful pilot project test, the Company will consider acquiring and operating producing heavy oil assets located in Western Canada utilizing the heavy oil upgrade process with the objective of enhancing the value of 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.

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 2018, cash flow from operations was negative \$466,501 and the Company had an accumulated deficit of \$7,000,787 at the end of 2018. The Company reported a loss of \$82,409 for the year compared to a loss of \$122,352 in 2017. At December 31, 2018, the Company had positive working capital of \$426,794 (2017 – working capital deficit of \$923,740). During the third quarter of 2018 the Company raised \$750,000 through a private placement which was approved by the Exchange on December 28, 2018.

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 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 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 12, 2019, the date that these financial statements were approved and authorized for issuance by the Board of Directors.

Functional and presentation currency

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

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
Canadian Dollars unless otherwise indicated

3. BASIS OF PRESENTATION (Continued)

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 financial statements include:

- The fair value of the related party loans and convertible debt.
- Derecognition of liabilities is based on the statute of limitations for trade payables.
- 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.

4. SIGNIFICANT ACCOUNTING POLICIES

Financial instruments

Recognition and measurement

Financial instruments are any contract that gives rise to a financial asset of one party and a financial liability or equity instrument of another party. Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument.

Financial instruments are recognized initially at fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The following table lists the Company's financial instruments and its category of method of measurement subsequent to initial recognition:

Financial instrument category and method of subsequent measurement:

Cash	Fair value
Accounts payable and accrued liabilities	Amortized cost
Interest payable	Amortized cost
Short-term loans	Amortized cost
Related party loans	Amortized cost
Convertible debt	Amortized cost

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
Canadian Dollars unless otherwise indicated

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (continued)

Impairment

Financial assets classified as subsequently measured at amortized cost or fair value through other comprehensive income reflect the Company's assessment of expected credit losses. Expected credit losses are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Company expects to receive, discounted at an approximation of the original effective interest rate. Expectations reflect historical credit losses, adjusted for forward looking factors.

The impairment methodology applied depends on whether there has been a significant increase in credit risk since initial recognition of the asset. If there has not been a significant increase in credit risk, the expected credit loss provision is based on expectations for the next twelve months. If there has been a significant increase in credit risk, the provision is based on expectations for the remaining lifetime of the asset.

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.

Cash generating units ("CGU's")

Cash generating units ("CGU's") are defined as the lowest grouping of integrated assets that generate identifiable cash inflows that are largely independent of the cash inflows of other assets or group of assets. The classification of assets into cash generating units requires significant judgment and interpretations with respect to the integration between assets, the existence of active markets, external users, shared infrastructure and the way in which management monitors the Company's operations.

Exploration & evaluation assets ("E&E")

E&E costs, including costs of licence acquisition, technical services and studies, exploratory drilling, whether successful or unsuccessful, and testing and directly attributable overhead, are capitalized as E&E assets according to the nature of the assets acquired. These costs are accumulated in cost centres by well, field or exploration area pending determination of technical feasibility and commercial viability.

E&E assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
Canadian Dollars unless otherwise indicated

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

E&E (continued)

The technical feasibility and commercial viability of extracting a resource is generally considered to be determinable when proven and/or probable reserves are determined to exist. A review of each exploration license or field is carried out, at least annually, to ascertain whether it is technically feasible and commercially viable. Upon determination of technical feasibility and commercial viability, intangible E&E assets attributable to those reserves are first tested for impairment with the unimpaired amounts reclassified from E&E assets to a separate category within tangible assets within property, plant and equipment referred to as oil and gas interests. Costs incurred prior to the legal awarding of petroleum and natural gas licences, concessions and other exploration rights are recognized in profit or loss as incurred for on a straight-line basis over the term of the related agreement or the estimated useful life of the asset, whichever is lower.

Property, plant and equipment (“PP&E”)

Petroleum and natural gas properties

Items of PP&E, which include petroleum and gas development and production assets, are measured at cost less accumulated depletion and depreciation and accumulated impairment losses. PP&E assets include costs incurred in developing commercial reserves and bringing them into production, such as drilling of development wells, tangible costs of facilities and infrastructure construction, together with the E&E expenditures incurred in finding the commercial reserves that have been reclassified from E&E assets as outlined above, the projected cost of retiring the assets and any directly attributable general and administrative expenses. Expenditures on developed oil and natural gas properties are capitalized to PP&E when it is probable that a future economic benefit will flow to the Company as a result of the expenditure and the cost can be reliably measured. The initial cost of an asset is comprised of its purchase price or construction cost, any costs directly attributable to bringing the asset into operation, the initial estimate of any decommissioning obligations associated with the asset and borrowing costs on qualifying assets. When significant parts of an asset with PP&E, including oil and gas interests, have different useful lives, they are accounted for as separate items (major components).

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs of replacing parts of PP&E are recognized as capitalized oil and gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. Subsequent changes in estimated decommissioning obligation due to changes in timing, amounts, and discount rates are included in the cost of the asset. Such capitalized oil and gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day operating of PP&E are recognized in profit or loss as incurred.

Depletion

The net carrying amount of PP&E is depleted on a field by field unit of production method by reference to the ratio of production in the year to the related proven and probable reserves. If the useful life of the asset is less than the reserve life, the asset is depreciated over its estimated useful life using the straight-line method. Future development costs are estimated taking into account the level of development required to produce the proven and probable reserves. These estimates are reviewed by third party independent reserves engineers. Changes in factors such as estimates of reserves that affect unit-of-production calculations are dealt with on a prospective basis. Capital costs for assets under construction included in development and production assets are excluded from depletion until the asset is available for use, that is, when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
Canadian Dollars unless otherwise indicated

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Petroleum and natural gas properties (continued)

Disposals

Petroleum and natural gas properties are derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss on derecognition of the asset, including farm out transactions or asset sales or asset swaps, is calculated as the difference between the proceeds on disposal, if any, and the carrying value of the asset, is recognized in profit or loss in the period of derecognition.

Office and other equipment

Office and other equipment are carried at cost less accumulated depreciation and impairment losses. Depreciation of the cost of these assets less residual value is charged to profit and loss on a straight-line basis over their estimated useful economic lives of between three and five years.

Impairment

The carrying amount of the Company's PP&E and E&E are 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 forecasted commodity prices and future costs. Impairments are reversed when there is evidence that the impairment event and circumstances have been reversed.

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 PP&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.

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 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.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
Canadian Dollars unless otherwise indicated

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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.

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.

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.

Accounting changes and future accounting pronouncements

At the date of these financial statements, the Company adopted the standards and interpretations listed below.

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.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
Canadian Dollars unless otherwise indicated

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting changes and future accounting pronouncements (continued)

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 early adopted this standard, has completed its review and has determined that it does not have any leases that fall under this standard at December 31, 2018.

5. PROPERTY, PLANT AND EQUIPMENT

	Petroleum and natural gas assets	Corporate and other assets	Total
Cost			
Balance, December 31, 2016	1,675,323	46,441	1,721,764
Additions	-	-	-
Balance, December 31, 2017	1,675,323	46,441	1,721,764
Additions	-	2,636	2,636
Balance, December 31, 2018	1,675,323	49,077	1,724,400
Accumulated depletion, amortization and impairments			
Balance, December 31, 2016	1,675,323	27,019	1,702,342
Additions	-	7,084	7,084
Balance, December 31, 2017	1,675,323	34,103	1,709,426
Additions	-	9,552	9,552
Balance, December 31, 2018	1,675,323	43,655	1,718,978
Net book value			
Balance, December 31, 2017	-	12,338	12,338
Balance, December 31, 2018	-	5,422	5,422

For the year ended December 31, 2018, there were no impairment reversal indicators for the Company’s petroleum and natural gas assets.

BAYSHORE PETROLEUM CORP.
Notes to the Financial Statements
Canadian Dollars unless otherwise indicated

6. DERECOGNIZED LIABILITIES

The Company derecognized \$526,259 (2017 – nil) from accounts payable and accrued liabilities which management considers a non-recurring one-time transaction. During 2018, 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

Short-term loans are loans from related parties, unsecured and payable on demand.

Short-term loans

	2018	2017
Balance, beginning of year	132,616	-
Loan advances	60,000	132,616
Loan repayments	(192,616)	-
Balance, end of year	-	132,616

Interest is accrued at a rate of 20% per annum, compounded annually and due when the principal balance is paid in full. Accrued interest on these loans during 2018 total \$25,255 (2017 – nil). The remaining outstanding accrued interest of \$20,870 is expected to be paid in 2019.

Short-term loan

	2018	2017
Balance, beginning of year	35,400	35,400
Loan advances	22,000	10,000
Loan repayments	(47,000)	(10,000)
Balance, end of year	10,400	35,400

Interest is accrued at a rate of 5% per annum, compounded annually commencing 2018. Accrued interest on the loan during the year total \$1,055 (2017 – nil) which is included in interest payable at December 31, 2018. The remaining balance of principal and interest was paid subsequent to year end.

8. RELATED PARTY LOAN

	2018	2017
Balance, beginning of year	-	-
Loan advances	650,000	-
Loan repayments	-	-
Balance, end of year	650,000	-

Interest is accrued at a rate of 15% per annum, compounded annually. Accrued interest on the loans during the year total \$34,933 (2017 – nil) which is included in interest payable at December 31, 2018. The loans mature on January 5, 2020 at which time all outstanding principal and accrued interest is due.

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9. 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 had a term of two years and bear an interest rate of 5% per annum and are convertible at a rate of \$0.185 per share at the option of the debt holder. 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 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 face value of the debenture and the fair value of the liability component.

On November 10, 2016, the debentures were renegotiated and extended with the same terms until September 15, 2019. The fair value of the liability component at the time of renegotiation was \$129,866 and was calculated assuming a 25% interest rate which was based on the estimated market interest rate for a debenture without a conversion feature at the time. The extension was treated as an extinguishment and resulted in a gain on renegotiation of \$99,442.

On December 31, 2018, the debentures were renegotiated and extended with the same terms until December 31, 2020. The fair value of the liability component at the time of renegotiation was \$187,151 and was calculated assuming a 15% interest rate which was based on the estimated market interest rate for a debenture without a conversion feature at the time. The extension was treated as a modification and resulted in a gain on renegotiation of \$17,369.

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	169,681	129,866
Accretion	34,839	39,815
Adjustment on renegotiation	(17,369)	-
Balance, end of year	187,151	169,681

Accrued interest on the convertible debentures during 2018 total \$11,465 (2017 – \$11,465) which is included in interest payable at December 31, 2018. The loans mature on December 31, 2020 at which time all outstanding principal and accrued interest is due.

10. 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, 2018, the estimated total undiscounted amount adjusted for inflation required to settle the decommissioning obligations was \$51,294 (2017 – \$51,294). 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% (2017 – 1.46%) and an inflation rate of 1.50% (2017 -1.50%) at all reporting dates. Expected year of retirement is 2020.

	<u>2018</u>	<u>2017</u>
Balance, beginning of year	48,853	47,599
Accretion	1,277	1,254
Balance, end of year	50,130	48,853

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11. 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 December 28, 2018, the Company closed a private placement and issued 50,000,000 common shares at a price of \$0.015 per common share for gross proceeds of \$750,000. In relation to the private placement, the Company paid a finders' fee of \$75,000.

Share Based payments and warrants

(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 8,236,082, being 10% of the issued and outstanding common shares of the Company at December 31, 2018.

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 twelve (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 shall be determined by the Board on the basis of the market price, where the market price shall mean the prior trading day closing price of the share of the Company on the Exchange. Options shall not be granted for a term exceeding ten (10) years.

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

	Number of Stock Options	Weighted average exercise price (\$)
Balance, December 31, 2016	2,917,143	0.18
Cancelled	(972,143)	0.21
Balance December 31, 2017	1,945,000	0.16
Cancelled	(1,215,000)	0.17
Balance, December 31, 2018	730,000	0.15

Stock options outstanding:

Number of stock options vested and outstanding	Weighted average exercise price (\$)	Weighted average remaining contractual life (years)
380,000	0.19	0.73
350,000	0.12	1.12
730,000	0.15	0.92

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.

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11. SHARE CAPITAL (continued)

Share Based payments and warrants (continued)

(b) Warrants

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

	Number of warrants	Weighted average exercise price (\$)
Balance, December 31, 2016	3,528,616	0.20
Expired during the year	(2,328,616)	0.20
Balance December 31, 2017	1,200,000	0.20
Cancelled	(1,200,000)	0.20
Balance, December 31, 2018	-	-

An amount of \$11,645 (2017 - \$46,570) was transferred to contributed surplus in shareholders' equity at the time of expiry of the warrants during 2018.

12. PER SHARE AMOUNTS

Basic and diluted loss per share have been calculated on the net loss divided by the weighted average number of common share outstanding for the years ended December 31, 2018 and 2017.

The weighted average number of common shares used in calculating net earnings per share is as follows:

As at December 31,	2018	2017
Basic	32,771,775	32,360,816
Effect of stock options	-	-
Diluted	32,771,775	32,360,816

For the year ended December 31, 2018, the weighted average outstanding calculation excludes 730,000 (2017 – 1,945,000) stock options and nil (2017 - 1,200,000) warrants that are antidilutive.

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13. CAPITAL MANAGEMENT

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

	2018	2017
Current assets	832,282	51,842
Current liabilities	(405,488)	(975,582)
Working capital	426,794	(923,740)

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. During 2018, the Company secured both debt and equity financing which improved the working capital position in the year. There are no externally imposed capital requirements.

14. 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 liquidity risk and interest rate risk.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities..

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	373,163	-	-	373,163
Short-term loans	-	10,400	-	10,400
Related party loans			650,000	650,000
Convertible debt			229,308	229,308
Interest payable	-	21,925	82,280	104,205
	373,163	32,325	961,588	1,367,076

The Company had cash on hand at December 31, 2018 of \$820,705 available to fund its financial obligations.

In order to meet the Company's anticipated future working capital requirements, it will be required to attract additional funds through the issuance of debt, equity or other means.

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14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

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.

Financial instrument classification and measurement

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument:

- Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.
- Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including expected interest rates, share prices, and volatility factors, which can be substantially observed or corroborated in the marketplace.
- Level 3 – Valuation in this level are those with inputs for the asset or liabilities that are not based on observable market data.

The carrying values of accounts payable and accrued liabilities and short-term loans approximate their fair values at December 31, 2018 and 2017 due to their relatively short periods to maturity. Cash is a Level 1 fair value measurement.

The interest rate on related party loans may be lower than the expected market rate, therefore the fair value may be less than the carrying value and is considered a Level 3 fair value instrument. The difference is not considered material to the financial statements.

The fair value of the convertible debentures liability was recorded based on an estimated fair value interest rate and is considered a Level 3 fair value instrument.

15. RELATED PARTIES

As at December 31, 2018, the following balances were payable to an officer and director of the Company.

	2018	2017
Accounts payable and accrued liabilities	90,400	90,400
Short-term loan (note 7)	10,400	35,400
Interest payable	12,362	8,566
Convertible debenture (note 9)	54,833	54,833
	167,995	189,199

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15. RELATED PARTIES (Continued)

As at December 31, 2018, the following balances were payable to the chairman of the board of the Company.

	<u>2018</u>	<u>2017</u>
Short-term loans (note 7)	-	132,616
Interest payable	55,863	-
Related party loans (note 8)	650,000	-
	<u>705,863</u>	<u>132,616</u>

Key management compensation

Key management includes the Company's chief executive officer, chief financial officer and directors:

	<u>2018</u>	<u>2017</u>
Salaries, benefits and consulting	55,342	9,045

16. INCOME TAX

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% (2017 – 27%), as follows:

	<u>2018</u>	<u>2017</u>
Loss for the year before income taxes	(82,409)	(122,352)
Anticipated income tax recovery	(22,250)	(33,035)
Other	5,350	19,910
Deferred tax asset not recognized	16,900	13,125
Net deferred income tax liability	<u>-</u>	<u>-</u>

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

	<u>2018</u>	<u>2017</u>
Deductible temporary differences	471,800	471,725
Share issue costs	28,300	11,500
Non-capital loss carry-forwards	1,090,900	1,090,875
	<u>1,591,000</u>	<u>1,574,100</u>

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 \$4,040,404 for income tax purposes expire between the years 2026 to 2038.

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17. COMMITMENTS

Subsequent to year end, the Company entered into a long-term lease agreement for combined office and warehouse premises. The future base lease rental payments are as follows:

2019	36,313
2020	64,066
2021	67,178
2022	28,531
	<hr/>
	196,088