BAYSHORE PETROLEUM CORP.

MANAGEMENT'S DISCUSSION AND ANALYSIS
FORM 51-102F1

September 30, 2016

Management's Discussion and Analysis

This management's discussion and analysis ("MD&A") of financial results and related data should be read with the financial statements and notes for the period ended September 30, 2016, and December 31, 2015, of Bayshore Petroleum Corp. ("Bayshore" or the "Company"). The financial statements are reported in Canadian dollars and have been prepared in accordance with International Financial Reporting Standards ("IFRS").

This commentary is as of November 29, 2016. Bayshore's Board of Directors and its Audit Committee have reviewed and approved this MD&A and the accompanying financial statements.

The reader should be aware that historical results are not necessarily indicative of future performance.

In conformity with Canadian Securities Administrator's National Instrument ("NI") NI 51-101 "Standards of Disclosure for Oil and Gas Activities", natural gas volumes have been converted to equivalent barrels of oil ("boe") using a conversion ratio of six thousand cubic feet ("mcf") of natural gas to one boe. This ratio is based on an energy equivalency conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead. Readers are cautioned that boe may be misleading, particularly if used in isolation.

Forward Looking Statements

Certain of the statements set forth under "Management's Discussion and Analysis" including statements which may contain words such as "could", "expect", "believe", "will" and similar expressions and statements relating to matters that are not historical facts, are forward-looking and are based upon the Company's current belief as to the outcome and timing of such future events. There are numerous risks and uncertainties, certain of which are beyond Bayshore's control, including: the impact of general economic conditions in Canada and the United States, industry conditions, changes in laws and regulations including the adoption of new environmental laws and regulations and changes in how they are interpreted and enforced, increased competition, the lack of availability of qualified personnel or management, fluctuations in foreign exchange or interest rates, stock market volatility and market valuations of companies with respect to announced transactions and the final valuations thereof, and obtaining required approvals of regulatory authorities. Bayshore's actual results, performance or achievement could differ materially from those expressed in, or implied by, these forward looking statements and, accordingly, no assurances can be given that any of the events anticipated by the forward looking statements will transpire or occur.

In addition, Bayshore is an energy company that holds technology option rights or has access to technology rights. Bayshore is engaged in exploiting these technology development opportunities, and as such certain of the statements set forth under "Management's Discussion and Analysis" including statements that pertain directly to technology, may contain words such as "could", "expect", "believe", "will", and similar expressions and statements relating to matters that are not facts, but are subjective or a matter of management's opinion. It is therefore true that such statements could ultimately be materially different than outcomes or performance, and no assurances can be given that any of the opinions, forecasts, or events anticipated by the forward looking statements will transpire or occur.

Going Concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will realize the carrying value of its assets and satisfy its obligations as they become due in the normal course of operations.

While the Company continues to focus on its business plan it has incurred a significant loss for the quarter ended September 30, 2016 of $744,748 (2015 - $321,074). At September 30, 2016, the Company has a significant working capital deficit of $1,965,623 (2015 - $1,658,742), and negative cash flows from operations for the quarter ended September 30, 2016, of $200,574 (2015 - $199,605). The ability of the Company to continue as a going concern will depend on raising additional capital and achieving profitable operations sufficient to meet all obligations, the outcome of which is uncertain.

These uncertainties may cast significant doubt on the Company's ability to continue as a going concern. Although, in the opinion of management, the use of the going concern assumption is appropriate, there can be no assurance that any steps management is taking will be successful. These financial statements do not reflect adjustments in the carrying values of the assets and liabilities, expenses and the balance sheet classifications that would be used if the going concern assumption were not appropriate. Such adjustments could be material.

Nature of Business

Bayshore is a Canadian oil and gas technology company listed on the TSX Venture Exchange under the symbol "BSH". The Company is an early stage energy company exploiting innovative bitumen and heavy oil upgrading technologies and minor oil and gas assets in central Alberta.

Bayshore has previously licensed or has access to two major technologies, which it has been developing and promoting for commercial development for the past five years. The first is a catalytic (chemistry) based upgrading technology. This technology, when used in a simple pyrolysis vessel, can upgrade bitumen, heavy oil, and other substances into distillate diesel fuel (and byproducts methane and petroleum coke). The catalyst is used alone and does not require hydrogen, pressure, high heat, water, or any other substance. The catalyst does not contain difficult to attain materials. When used without pyrolysis, it can partially upgrade bitumen etc. The second is a de-sulphuring technology that uses oxidation and ultrasonic technology to de-sulphur fluids, like diesel fuel. When used together these technologies can economically produce ultra-low sulphur ("ULS") diesel fuel, commonly used globally as a fuel in transportation, power generation, and many other industries. In spite of recent licensing challenges, the Company is or expects to be engaged in transactions that will utilize these technologies.

Bayshore's two minor E&P properties are as follows: the Bigstone property is located in Township 61, Range 22 W5M in central Alberta. Bayshore has a 12% working interest in one well at 14-24-61-22W5 and a 1.5% Gross Overriding Royalty on a second and third gas well on the lease at 6-19-61-21W5 and 3-25-61-22W5. The net production to the Company from this property is nil during the three months ending September 30, 2016 (<1 boe per day in Q3 2015).

The Kaybob property is located in Township 59, Range 18 W5M in central Alberta. Bayshore has a 21% working interest in two wells, which did not provide any net production during the three months ending September 30, 2016 (1 boe per day during Q3 2015).

The Bigstone and Kaybob assets will be divested over the coming year and their net asset values are currently $nil.

Current Significant Events and Transactions

Bayshore was incorporated under the Business Corporations Act (Alberta) on October 22, 2003. The Company successfully completed its initial public offering on February 25, 2005 and obtained listing approval for its common shares on the TSX Venture Exchange on March 8, 2005 as a Capital Pool Company. In accordance with the TSX-V Policy 2.4, the Company completed its Qualifying Transaction June 2007.

On February 19, 2015, Bayshore created a new insider shareholder when it settled two outstanding debts, paying three million common shares at a price of $0.11 to settle outstanding debt totaling $320,000. The new insider was the Company's de-sulphurization partner, Canadian private company International Ultrasonic Technologies Inc. ("IUT"), which acquired 12% of the issued and outstanding shares of the Company.

On June 30, 2015 the Company closed a private placement financing consisting of 2,160,000 units ("Units") for gross proceeds of $259,200. Each Unit consisted of one common share in the capital of Bayshore and one-half of one common share purchase warrant. Each whole warrant entitled the holder to acquire an additional common share of the Company at an exercise price of $0.30 per share for a term of 18 months from closing.

On September 10, 2015, Bayshore announced an MOU with E-T Energy Ltd ("ET") to jointly develop ET's Poplar Creek (Fort McMurray) Athabasca oilsands property and produce ULS diesel on it using each party's technologies. On November 26, 2015, the Company announced a non-brokered Private Placement of securities consisting of 5 million common shares at $0.30 per share for net proceeds of $1.5 million. Use of proceeds included the continued pursuit of collaboration with ET, and thus on December 8, 2015, Bayshore and ET announced the replacement of the MOU with a binding Letter of Intent containing the following objectives:

- Raise $1.5 million initially as announced on November 26, 2015, for the purpose of closing a reverse takeover/merger between the two companies.
- Acquire all of the shares of ET in a share exchange deal. Bayshore would pay 2.42 Bayshore shares for each ET share acquired, at a deemed price of $0.20/share, resulting in a potential total acquisition price of $35 million plus debt. This would result in the classification of the transaction as a reverse takeover, as the majority of shares post-transaction would be controlled by ET shareholders.

- In support of the transaction ET shareholders holding in excess of 50% of the ET shares tendered their position to the transaction, the debt holder agreed as required, and all other securities holders agreed to waive, cancel, or surrender rights and securities as required.
- At the closing of the transaction, raise up to $150 million of further capital to drill wells and build plant facilities, fund working capital to initial bitumen production of up to the approved 1,000 barrels/day, and restructure the balance sheet of the new company.
- On May 16, 2016, ET advised it would focus on its internal structure in light of minority shareholder concerns before pursuing any transaction and the parties terminated the BLOI. ET completed the internal review and determined it could not execute a corporate transaction. The parties have been discussing alternatives since that time.

A non-brokered private placement financing was closed on April 26, 2016, in the amount of approximately $270,000. It was a unit offering, consisting of 2,400,000 units priced at $0.1125 per unit, each unit consisting of one common share in the capital of Bayshore and one-half of one common share purchase warrant. Each whole warrant entitled the holder to acquire an additional common share of the Company at an exercise price of $0.20 per share for a term of 24 months from closing.

On June 9, 2016, a director of the Company, Raymound Go, resigned in all capacities from Bayshore for personal reasons and as a result Peter Ho, current CEO, assumed the resigned role of Chairman of the Board, and further relinquished the Presidency to the CFO. The composition of the board of directors will be further considered after the conclusion of anticipated financings and/or a shareholder meeting. Bayshore continues to aggressively pursue major sources of financing and on September 26, 2016, Bayshore closed a private placement financing consisting of 2,666,667 shares at $0.1125 per share. Gross proceeds totaled approximately $300,000, and finders fees of $30,000 were paid to an arms-length party.

The Company is making progress in its discussions and hopes to announce a financing and disclose further progress in the near future.

Property/Asset Summaries

Bayshore has been working for several years with its technology partner, the Chemical Foreign Economic Cooperation Centre (“CFECC”). In January 2014 a 50 barrel/day (“b/d”) batch pilot plant (“CCC1”) was built at the CFECC lab (in the main floor of their commercial office building) in Beijing to test the viability of bitumen/heavy oil conversion on a commercial scale. Bayshore has shipped Canadian heavy oil/bitumen to the plant for testing, and the results of the testing indicate commercial production is viable.

On July 28, 2014, the Company entered into a Master License Agreement (“License Agreement”) with IUT to acquire an exclusive Master license in Canada to de-sulphurize liquid hydrocarbons using an ultrasonic oxidation process. The process, which involves a total of 8 licenses and is owned by IUT, has been patented and commercially tested. Bayshore is currently in default of the payment terms required to pay for the technology license. It is not known when a further agreement can be struck to acquire the licence.

In August 2014 Bayshore engaged a scoping study and preliminary engineering, in order to advance the construction of a CCC plant. Bayshore had been investigating several potential sites in Saskatchewan and Alberta. Early in 2015 Bayshore started a development program with partners that combined research and a commercial application to partially upgrade bitumen at surface. Testing indicated that partially upgraded bitumen met pipeline specifications without the need for diluents usually required for transportation and sale of bitumen. The work was conducted by Company technical experts receiving financial assistance from National Research Council of Canada. Unfortunately the development program did not proceed because, as a result of decreasing commodity pricing, the producing partner shut in all of its production prior to the start of partial upgrading.

On November 26, 2015, ET and Bayshore announced the successful conclusion of technology due diligence by each party and the intent to enter a merger agreement. However, during the first quarter 2016 Bayshore and ET were not able to close on the intended joint financings, and ET further advised of an internal restructure before being able to pursue the announced transaction with Bayshore. As a result, the parties terminated the BLOI.

Bayshore has sought new financing sources. The Company continues to examine a potential transaction with ET (albeit not a merger), and with other parties who have seen their bitumen/heavy oil assets decrease in value with the substantial decreases in Canadian bitumen and heavy oil pricing in world markets. These assets will not attract further new capital without the deployment of new technologies, such as CCC. The Company is making progress on its partial and full upgrading technologies and hopes to disclose further news in the near future.

Overall Performance

The Company recognized a loss of $744,748 for the quarter ended September 30, 2016 compared to a loss of $321,074 for the quarter ended September 30, 2015.

The company did not, again, receive any production revenues from its two non-operated properties in the Bigstone and Kaybob areas in Central Alberta because production has been shut-in by the operator. Production previously consisted of Natural Gas and Liquids. Sales volumes for the three month period ending September 30, 2016, totaled nil boe (2015 – 65 boe) or nil boe per day (2015 – 1 boe per day). With no operating revenue, the cash required for daily operations has come from equity private placement financings.

At September 30, 2016, the Company had $162,107 in current assets (December 31, 2015 - $15,936), including $162,107 in cash (December 31, 2015 - $nil). Current liabilities totalled $2,127,730 (December 31, 2015 - $1,821,469), resulting in a working capital deficit of $1,965,623 (December 31, 2015 – $1,805,533). Current liabilities were primarily due to trade account payables resulting from a 2012 drilling program, accrual of operating expenses, and the convertible debt that was issued to management and directors.

The Company's Financial Strategy

While the Company continues to focus on its business plan it has incurred a significant loss for the quarter ended September 30, 2016 of $744,748 (2015 - $321,074). At September 30, 2016, the Company has a significant working capital deficit of $1,965,623 (2015 - $1,658,742), and negative cash flows from operations for the quarter ended September 30, 2016, of $200,574 (2015 - $199,605). The ability of the Company to continue as a going concern will depend on raising additional capital and achieving profitable operations sufficient to meet all obligations, the outcome of which is uncertain.

During the third quarter of 2016 and subsequently, management and board members continued to seek major financing sources to sustain and expand operations. It was successful in financing $300,000 in the third quarter. In order to preserve cash and maintain the Company's operations, Bayshore has continued its efforts to reduce or accrue administrative expenses. The securing of funding and capital continues to be the top priority for Bayshore. Exploiting the commercial ability of the CCC technology remains the greatest opportunity for the Company, and thus financing the first commercial application is key to rapid growth and the financial success.

Selected Annual Information

The data in the following table has been derived from the Company's financial statements for the three most recently completed fiscal years. The data has been prepared in accordance with IFRS, applicable to a going concern in Canadian dollars.

	2015	2014	2013
Revenue, net of royalties ($)	**13,241**	90,511	83,348
Net and comprehensive loss ($)	**1,041,454**	1,070,623	537,164
Basic and diluted loss per share ($)	**0.041**	0.060	0.033
Total assets ($)	**509,774**	284,261	151,550
Total long-term liabilities ($)	**46,972**	46,345	20,291

An impairment of $20,000 was recorded during the fourth quarter of 2013 due to lease expiries. Further impairments in 2014 and 2015 reduced oil and gas assets to $nil. During 2014 Bayshore completed a financing of $666,715, increasing assets. It commenced the acquisition of an intangible asset in the form of a master license to de-sulphuring technology, but it also experienced higher G&A, resulting in a doubling of the net loss. Bayshore's 2014 reserve report did not support the asset value recorded in the balance sheet, and so there was an impairment of the assets in the amount of $79,989. In late 2014 the major collapse in oil prices followed a general collapse in most commodities globally. This dramatically reduced revenues in 2015, to the point where the operator of Bayshore's producing assets was forced to shut in the production. In 2015 the Company further wrote down the formerly producing assets to nil, as a result of negative cash flow, immaterial production, and an inability to generate any positive bid in attempting to divest the properties.

Results of Operations

Sales volumes, gas and liquids revenues, royalties, operating expenses, general and administrative expenses, depletion, depreciation and accretion expenses, net loss and cash flows from operating activities information are summarized as follows:

Sales Volume	**Nine Months ended September 30, 2016**	Nine Months Ended September 30, 2015
Natural gas (mcf/d)	**Nil**	4.9
NGL (bbls/d)	**Nil**	1.2
Total (boe/d)	**Nil**	2
Percentage natural gas (%)	**NA**	80
Sales – total boe's	**Nil**	276
Depletion per boe *($)*	**NA**	41

Financial Highlights	**Nine Months ended September 30, 2016**	Nine Months Ended September 30, 2015
Natural gas and liquids revenue *($)*	**Nil**	32,606
Royalties expense *($)*	**203**	19,339
Operating expenses *($)*	**4,336**	30,353
General and administrative expenses *($)*	**540,445**	686,923
Depletion expense *($)*	**Nil**	11,322
Net income (loss) *($)*	**(1,182,815)**	(987,796)
Cash flow from (used in) operating activities *($)*	**(380,917)**	(283,661)

Revenues – Revenue was $nil, net of royalty expense, for the quarter ending September 30, 2016, as compared to $3,668 during the same quarter of 2015. Revenue accounted for $4,401, net of royalty expense, for the nine month period ended September 30, 2016, as compared to $13,247, net of royalty expense, for the nine month period ended September 30, 2015. Revenues for the third quarter 2016 decreased to nil from the third quarter of 2015. Production was completely shut-in and therefore production revenues dropped to nil. Revenue recorded for the nine month period ended September 30, 2016, is not production revenue, but revenue generated by services related to processing crude oil materials in the lab and pilot plant. The Company did not hedge any of its production in any of the periods.

Royalties – Royalty expense was $nil for the quarter ending September 30, 2016 as compared to $3,105 during the same quarter of 2015. Royalty expense was $203 for the nine month period ending September 30, 2016, as compared to $19,339 for the nine month period ended September 30, 2015. Decreasing royalties were a direct reflection of commodity pricing and declining production to nil.

Operating Expenses – Operating expense was $nil for the quarter ending September 30, 2016, as compared to $6,685 during the same quarter of 2015. Production is shut-in and therefore per boe measurement is meaningless. Operating expense was $4,336 for the nine month period ended September 30, 2016, as compared to $30,353 for the nine month period ended September 30, 2015. The gross decreases reflect declines and shut-in production.

General and Administrative Expenses – General and administrative expense ("G&A"), together with consulting fees, professional fees, rent, and travel (or "calculated total G&A") was $268,126 for the quarter ending September 30, 2016, as compared to $349,140 during the quarter ended September 30, 2015. This calculated total G&A was

$677,452 for the nine month period ended September 30, 2016, as compared to $868,934 during the nine month period ended September 30, 2015.

Calculated total G&A decreased for the third quarter of 2016 relative to the same period of 2015 primarily because the G&A line item decreased 35%, due to cost controls implemented by the Company. Salary was the largest component at approximately 90% of G&A. Approximately 75% of the salary expense is accrued as payable. Professional fees increased $30,872 in the quarter from 2015 because legal expenses were paid in the third quarter of 2016 related to potential corporate/asset transactions. Travel decreased 16% in the third quarter 2016 relative to 2015 because of corporate cost controls.

Calculated total G&A decreased 22% for the nine months ending September 30, 2016 relative to the same period of 2015. For the nine months ending September 30, 2016, G&A decreased 21% as the Company focused on cost reduction. In addition, certain costs such as engineering, meetings, filings, and computer expenses were not repeated in the nine month period ending September 30, 2016, relative to the same period of 2015. Professional fees increased almost 50% as legal costs were paid in the third quarter 2016. Rent decreased 9% in the nine months ended September 30, 2016, compared to the nine months ended September 30, 2015, as the Company moved to lower cost office space. Travel decreased 30% in the nine months ended September 30, 2016, versus the same period in 2015, due to corporate cost controls.

Depletion Amortization Accretion – Depletion Amortization Accretion was $2,350 for the quarter ending September 30, 2016, as compared to $6,128 during the same quarter of 2015. Depletion Amortization Accretion was $7,050 for the nine month period ended September 30, 2016, as compared to $18,384 during the nine month period ended September 30, 2015. Depletion decreased to $nil after December 31, 2015, because the oil and gas assets were impaired to $nil at year-end 2015, directly causing the decreases from the three and nine month periods ending September 30, 2015, to 2016. Accretion and Amortization have changed little from the prior period because non-oil and gas assets have not changed.

Impairment of Licence Acquisition Agreement – In the third quarter of 2016 Bayshore recognized that this previously valued intangible asset of $465,000 had become impaired, because the agreement that conveyed a technology licence to the Company was in default, and the transferor noted it was in default. The original agreement was therefore void. As a result the Company has decided to impair the full value of the agreement to $nil.

Net loss and comprehensive loss – The Company recognized a loss of $744,748 for the quarter ended September 30, 2016, as compared to $321,074 during the same quarter of 2015. There was a loss of $1,182,815 during the nine month period ended September 30, 2016, as compared to $987,796 for the nine month period ended September 30, 2015. The increase in net loss for the quarter is due to impairment of the licence acquisition agreement. Otherwise, the net loss actually decreases for the third quarter 2016, relative to the same quarter 2015. In addition, in the third quarter of 2015 an income item, a derecognized liability, decreased the loss suffered in the third quarter of 2015 and increased the difference between the loss suffered in the third quarter of

2016 versus 2015. If these two items are deleted, then the loss in the third quarter of 2016 is 25% less than the loss in the third quarter of 2015. As there is no revenue, the reasons for the loss difference are enumerated above in the discussion of G&A. In the nine month period ended September 30, 2016, deleting the two items results in a decrease in the loss of 31% relative to the nine month period ended September 30, 2015. Again, the reasons for this decrease are primarily corporate cost control and elimination of one-time expense items.

Summary of Quarterly Results

The following table summarizes key financial and operating information prepared in accordance with IFRS, as applicable to a going concern in Canadian dollars for the three months ended:

	Revenue (Net) $	**Net Earnings (Loss) $**	**Basic & Fully Diluted $/Share**	**Total Assets $**
2016 – Q3	**nil**	**(744,748)**	**(0.024)**	**183,895**
2016 – Q2	nil	(237,990)	(0.008)	589,641
2016 – Q1	4,401	(200,077)	(0.007)	493,724
2015 – Q4	nil	(54,613)	(0.001)	451,204
2015 – Q3	3,668	(321,074)	(0.012)	556,421
2015 – Q2	13,538	(300,672)	(0.012)	723,429
2015 – Q1	6,996	(365,095)	(0.016)	593,862
2014 – Q4	34,080	(531,854)	(0.030)	284,261
2014 – Q3	9,465	(332,091)	(0.021)	432,636

The quarters during 2013 and 2014 reflected lower G&A due to cost reductions, and fluctuating net revenue from fluctuating energy prices. Net revenue was also affected by periodic reductions in volumes from asset maintenance/workovers. Bayshore completed a larger financing during the third quarter of 2014 which raised the assets and tended to also increase G&A spending in the fourth quarter of 2014, as it increased its activity with more available resources. The fourth quarter of 2015 shows a dramatic decrease in net revenue and net loss as the Company forcefully controlled costs in the face of decreased current assets. During the first quarter 2016 the Company completed a small private placement and continued operations at a reduced tempo. During the third quarter 2016 Bayshore completed a similar private placement as in the first quarter 2016, and impaired the full value of a $465,000 intangible asset. With the change in the proposed merger with ET, Bayshore is pursuing additional financing sources and resources to build a CCC plant and acquire productive assets.

Liquidity and Capital Resources

At September 30, 2016 the Company had $162,107 in current assets (December 31, 2015 – $15,936), including $162,107 in cash (December 31, 2015 – $nil). Current liabilities totalled $2,127,730 (December 31, 2015 - $1,821,469), resulting in a working capital deficit of $1,965,623 (December 31, 2015 – $1,805,533).

Funding for the Company's expenditures during the quarter ended September 30, 2016, was provided by changes in working capital, increases in accounts payable, and a private placement equity financing that closed on September 26, 2016. The Company has no off-balance sheet financing arrangements.

Related Party Transactions

During the quarter ended September 30, 2016, the Company incurred a total of $nil (2015 – $nil) for consulting services payable to a private corporation controlled by an officer and director of the Company. Such costs are recorded to general and administrative expenses. Included in payables is accrued salaries, payable to employees and officers, of $635,730.

Key management compensation

Total quarterly compensation for key management, including officers and directors:

	Sept 30, 2016	June 30, 2016
Salaries	**$ 157,500**	$ 143,000
Consulting fees	-	
Stock-based compensation	-	
	$ 157,500	$ 143,000

Share Capital

The following common shares were issued and outstanding, and the following stock options, warrants, and convertible debentures were issued as of November 29, 2016, the date of this commentary, September 30, 2016 and December 31, 2015:

	Nov 29, 2016	**Sept 30, 2016**	**Dec 31, 2015**
Common shares	32,360,815	32,360,815	27,037,861
Issuable under Stock options	2,917,143	2,917,143	3,267,143
Issuable under Warrants	4,683,316	4,683,316	9,726,129
Issuable under Convertible Debentures	1,239,503	1,239,503	1,239,503
Fully Diluted Position	41,200,777	41,200,777	41,270,636

Accounting Policies

Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Upon initial recognition, all financial instruments, including all derivatives, are recognized on the balance sheet at their fair value. Subsequent measurement is then based on the financial instruments being classified into one of five categories: financial assets and liabilities at fair value through profit and loss, held to maturity investments, loans and receivables, available for sale investments and other financial liabilities. The financial assets and liabilities are classified as follows:

Cash and cash equivalents are classified at fair value through profit and loss. Gains and losses related to periodic revaluation are recorded in net income.

Accounts receivable are classified as loans and receivables and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method less a provision for impairment.

Accounts payable and accrued liabilities, short-term loan payable and convertible debt are classified as other financial liabilities and are initially measured at fair value and subsequently at amortized cost using the effective interest rate method.

The Company did not recognize any items of other comprehensive income or accumulated other comprehensive income for the quarter ended September 30, 2016 and 2015.

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset. An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. Significant financial assets are tested for impairment on an individual basis. All impairment losses are recognized in the statement of operations. An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognized. For financial assets measured at amortized cost the reversal is recognized in the statement of operations.

Recent accounting pronouncements and adoptions

The following new pronouncements have been issued but are not effective and may have an impact on the Company.

i) IFRS 9 Financial instruments

IFRS 9, Financial Instruments replaces IAS 39 Financial Instruments: Recognition and Measurement and uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial liabilities designated at fair value through profit or loss, an entity can recognize the portion of the change in fair value related to the change in the entity's own credit risk through other comprehensive income rather than profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39, and incorporates new hedge accounting requirements. The new standard is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. The Corporation is currently evaluating the impact of adopting this standard on its financial statements.

ii) IFRS 11 Joint Arrangements:

IFRS 11 Joint arrangements has been amended to require that the relevant principles from IFRS 3 Business combinations be applied when an organization acquires an initial or additional interest in a joint operation and the activities of the joint operation constitute a business as defined in IFRS 3. IFRS 11 is effective for annual periods beginning on or after January 1, 2016.

Financial Instruments and Risk Management

The Company is exposed to a number of different financial risks arising from normal course business exposures, as well as the Company's use of financial instruments. These risk factors include market risks relating to credit risk, liquidity risk and market risk.

Fair value

The significance of inputs used in making fair value measurements are examined and classified according to a fair value hierarchy.

- Level 1 fair values are determined by reference to observable inputs such as quoted prices (unadjusted) in active markets for identical assets and liabilities.
- Level 2 fair values are determined using inputs other than quoted prices for which all significant outputs are observable, either directly or indirectly.
- Level 3 fair values are determined using inputs that are unobservable market data.

The carrying values of accounts receivable and accounts payable and accrued liabilities approximate their fair values at September 30, 2016 and 2015 due to their relatively short periods to maturity. Cash is a Level 1 fair value measurement. Convertible debenture liabilities are Level 3 fair value measurement.

Credit risk

A substantial portion of the Company’s account receivable are with joint venture participants in the oil and natural gas industry and are subject to normal industry credit risks. Substantially all joint venture receivables were received subsequent to year end. Collection can be dependent upon industry factors such as commodity prices, risk of unsuccessful drilling and partner disputes. If difficulties in collection arise, the Company relies upon industry standard legal remedies for collection.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company’s current liabilities, accounts payable and accrued liabilities mature within three months.

The following is a maturity analysis of the Company's financial obligations:

	Less than three months	Three months to one year	Beyond one year	Total
Accounts Payable	$ 1,871,032	$ -	$ -	$ 1,871,032
Short-term loan payable	31,228	-	-	31,228
Convertible debentures	-	225,470	-	225,470
	$ 1,902,260	$ 225,470	$ -	$ 2,127,730

The Company had current assets in the amount of $162,107 available to fund its financial obligations. More than 50% of the accounts payable represent accrued salaries, and materially the remainder represent current payables relating to a previous drilling program, and that are aged in excess of three years.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, commodity prices, and interest rates will affect the Company's net earnings or the value of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company may utilize financial contracts to manage market risks. All such transactions are conducted in accordance with the risk management policy that has been approved by the Board of Directors.

Foreign currency exchange rate risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although substantially all of the Company's petroleum and natural gas sales are denominated in Canadian dollars, the underlying market prices in Canada for petroleum and natural gas are impacted by the changes in the exchange rate between the Canadian and United States dollar. The Company had no forward exchange rate contracts in place as at or during the period ended September 30, 2016 or at December 31, 2015.

Commodity price risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are impacted not only by the relationship between the Canadian and United States dollar, as outlined above, but also by world economic events that dictate the levels of supply and demand. The Company had no hedging contracts in place as at or during the period ended September 30, 2016 or at December 31, 2015.

Interest rate risk

The Company's exposure to interest rate risk is minimal as the Company's short-term loan payable is carried at a fixed interest rate, and the Company does not have interest bearing investments generating significant interest revenue.

Commitments

The Company leases office space which require future annual payments (including occupancy costs) of:

2016	21,814
2017	27,700
	$ 49,514

Capital Management

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

		September 30, 2016		Dec 31, 2015
Current assets	**$**	**162,107**	$	15,936
Current liabilities		**(2,127,730)**		(1,821,469)
Working capital	**$**	**(1,965,623)**	$	(1,805,533)

The objectives of the Company are to maintain sufficient capital to conduct operations while searching for new opportunities for growth. If required 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 capital spending. Management reviews its capital management approach on an ongoing basis. There were no material changes to this approach during the quarter ended September 30, 2016. There are no externally imposed capital requirements.

Risks and Uncertainties

The petroleum and natural gas industry is subject to numerous risks and uncertainties that can affect the Company's ability to grow and generate cash flows from operations. These risks and uncertainties include, but are not limited to, the following:

- Fluctuations in interest rates, commodity prices and foreign currency exchange rates;
- Capital markets risk and the ability to finance future growth;
- Government and regulatory risk in respect of changes to royalty and income tax regimes;

- Economic risk in respect of finding and producing reserves at a reasonable cost, and marketing those reserves;
- Operational risk in respect of availability and cost of drilling and related equipment;
- Technical risk in respect of the Company's technologies being operational and commercial;
- Seasonal risk in respect of the ability to enter leases and drill wells due to weather conditions; and
- Environmental risk in respect of the ability to remediate sites and remedy spills, releases or emissions of various substances that may be produced in association with the Company's petroleum and natural gas operations.

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

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

Additional Information

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