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Fundamental Research Corp.
Investment Analysis for Intelligent Investors

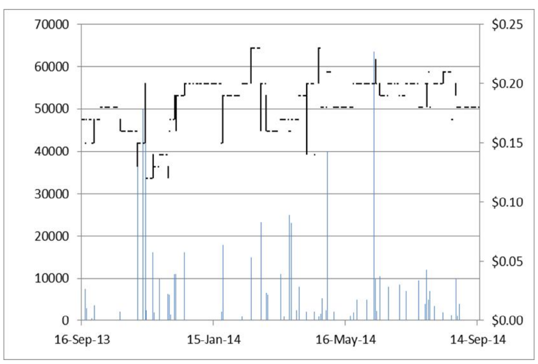
Bayshore Petroleum Corp. (TSXV: BSH) - Enters into multiple agreements

Sector/Industry: Oil and Gas / Technology **www. bayshorepetroleum.com**

Market Data (as of September 16, 2014)

Current Price	**C$0.18**
Fair Value	**N/A**
Rating*	**N/A**
Risk*	**5 (Highly Spec)**
52 Week Range	C$0.12 - C$0.23
Shares O/S	16.48 mm
Market Cap	C$2.97 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	N/A
YoY Return	5.9%
YoY TSXV	3.8%

*see back of report for rating and risk definitions



Investment Highlights

- In May 2014, Bayshore's potential partner, and owner of the Cold Catalytic Cracking technology ("CCC") technology, CFECC, conducted a 72 hour pilot test at their facility in Beijing. The results of the pilot test were consistent with previous lab tests, and demonstrated the scalability of the technology.
- The tests showed that a barrel of heavy crude oil can yield approximately 0.83 barrels of diesel like light oil. Based on this recovery rate, management estimates the CCC process can generate a gross profit of $19 per bbl by converting heavy oil to light oil.
- Bayshore has entered into an agreement with a private Canadian company to acquire an exclusive license to a desulphurization technology. The technology is expected to complement CCC, and further upgrade the end-product of the CCC process.
- In May 2014, Bayshore announced it signed a Letter of Intent ("LOI") with a company in Dubai to build a 1,000 bpd facility in Iraq to process the country's heavy residuum oil. The agreement is for a 50:50 partnership. The CAPEX budget for the facility is estimated at $10-$12 million. On September 8, 2014, the company announced the appointment of an oil and gas professional in the Middle East.
- The company is currently pursuing a non brokered private placement of up to $0.74 million by issuing up to 4 million shares at $0.185 per share.

Key Financial Data (FYE - Dec 31st) (C$)	2013	2014 (6M)
Cash and Cash Equiv.	6,120	1,242
Working Capital	(1,257,263)	(1,437,881)
Total Assets	151,550	141,938
Revenues	91,864	46,966
Net Income	(537,164)	(206,678)
EPS	(0.03)	(0.01)

Bayshore Petroleum Corp. is a Calgary, Alberta based oil and gas / technology company. The company has access to a catalytic upgrading technology, developed and owned by a Chinese state-owned firm. The company also has conventional natural gas plays in Alberta and Saskatchewan.

CFECC Licensing Agreement

In our initiating report in March 2013, we discussed Bayshore's licensing agreement with Chinese state-owned firm Chemical Foreign Economic Corporation Centre ("CFECC") in detail. Based on the agreement between the two entities, CFECC would grant BSH a 30 year license to use CFECC's proprietary Cold Catalytic Cracking technology ("CCC") in Canada. The technology has the potential to upgrade oil sands (bitumen), and heavy oil (less than 20° API gravity), directly into diesel quality light oil and dry synthetic gas, with a petroleum coke by-product.

In return, Bayshore was required to pay an undisclosed upfront fee. **As Bayshore was unable to raise the funds to make this payment, the agreement between the two parties expired in May 2013.** However, management believes that due to the strong relationship between them and CFECC, BSH can receive a non-exclusive license any time BSH is successful in raising sufficient funds to meet the upfront payment.

Bayshore's management continues to work closely with CCC's inventor (who is also employed by CFECC) to evaluate the viability of the technology in other areas, such as bitumen, oil sands and other hydrocarbon bearing materials.

Lab tests conducted by CFECC in the past demonstrated that the technology can convert 10° API heavy oil from the Meota, Saskatchewan area, to diesel like oil of 29° API. The tests were conducted at atmospheric pressure, at a temperature not higher than 450° C, and did not use hydrogen in the process. **As the energy requirements for CCC are much lower than conventional methods used to process heavy oil/bitumen, management believes the costs of CCC are much lower.**

In May 2014, CFECC conducted a continuous 72 hour pilot test at their facility in Beijing (see image below).

Source: Company

BSH shipped Saskatchewan heavy oil over to the pilot site (which has a capacity of 2,000+ tons per annum) for testing. Management indicated that the results of the pilot test were consistent with the lab tests. The results also demonstrated the scalability of the technology. Encouraged by the positive results, BSH is now approaching Canadian companies and research organizations to setup a similar pilot plant in Canada.

Based on the above tests, management believes they now have a better understanding of the economics of the technology. According to them, the capital cost to construct a processing facility is approximately $10,000 per daily flowing barrel. This implies that a 1,000 bpd facility will cost approximately $10 million. **They believe a barrel of heavy crude oil can yield approximately 0.83 barrels of diesel.** The following table shows management's estimate of gross profit per barrel processed.

Revenues (0.83 bbl of diesel @ $110/bbl)	$91.30
Costs	
Catalyst (0.02 bbl of catalyst @ $200/bbl)	$4.00
Heavy Oil (1 bbl @ price of $60/bbl)	$60.00
Plant Operating Costs	$8.00
Total Costs	$72.00
Gross Profit	$19.30

Source: Management

As shown in the above table, a 0.83 bbl recovery will translate into a gross profit of $19 per bbl.

TianAn Canada

In September 2013, BSH entered into a management contract with TianAn (Canada) Energy Technology Investment Co. Ltd (a BC based private company), to construct and build a 350 bpd pilot heavy oil upgrader in the Meota area, using CCC technology. According to the agreement, TianAn was supposed to provide the funding to construct the plant in return for an undisclosed equity in the facility. **However, this contract expired as TianAn did not follow through with their funding commitment.**

Licenses Technology for Desulphurization

In July 2014, BSH entered into an agreement with a private Canadian company, International Ultrasonics Technologies Ltd. ("IUT"), to acquire an exclusive Canadian license (for 20 years) to desulphurize hydrocarbon using Ultrasonic Oxidation process. The process utilizes high power ultrasound (high energy, high frequency sound waves) in a low-temperature and pressure environment, to reduce sulphur content in crude oil, while simultaneously improving the overall quality of the crude. The technology, which was previously owned by a public company, Sulphco, has been field tested in the past. Sulphco filed for bankruptcy in 2011.

IUT acquired the technology from Sulphco for an undisclosed amount in 2013. **BSH believes that IUT's technology will be a good complement to CCC, as it further upgrades the end-product of the CCC process.**

The agreement also grants BSH a 2-year option to acquire exclusive rights to this technology in other countries. BSH is required to pay $0.80 million in stages, from July 28, 2014 to March 1, 2015. The company has already paid the first two installments totaling $80,000.

Iraq Heavy Oil Upgrader Project

In May 2014, Bayshore announced it signed a Letter of Intent ("LOI") with International Enhanced Petroleum Services ("EPC") of Dubai, to build a 1,000 bpd facility in Iraq to process the country's heavy residuum oil.

The agreement is for a 50:50 partnership. The CAPEX budget for the facility is estimated at $10-$12 million. Bayshore will be responsible to fund 50% of the investment, and to secure the equipment and technology.

Samples of Iraq's residumn oil are currently being tested by CFECC at their Beijing facilities. Results are expected by mid September.

As per the LOI signed in May, the companies were supposed to enter into a definitive agreement by June 30, 2014. The deadline has been extended to the end of September. Management attributed the delay to the recent increase in political uncertainties in Iraq.

Management Additions / Changes

In April 2014, the company's CFO, Anna Lentz, resigned from her position. CEO, Peter Ho, is currently the interim CFO. Since our initial report, the following individuals were added to the team.

Ibrahim Attereh - Vice President, Middle East Region
With over than 20 years of experience in Oil & Gas industry with major E&P and international oilfield service companies across Middle East, North Africa, and South East Asia, Mr. Ibrahim Attereh is an experienced executive E&P manager. Mr. Attereh has a strong understanding of management & leadership focusing on project management, economics & planning, supply chain & contracts management, and Line-Management responsibilities including HSE, quality, resources management, people management and financial objectives. During his career he managed to deploy and successfully start up major drilling and production project across the Middle East region.

James Matthew Duford - Technical Advisor
Mr. JM Duford has a MSc of Geology from the University of Calgary and a Bachelors Degree from Williams in Massachusetts. The 38 years of experience, includes senior management positions in privately and publicly owned start up Oil and Gas companies, some of which he was a founder. He has had an excellent career in the management of Petroleum Exploration and Development where he has had the opportunity to work in all phases of Petroleum upstream operation and managed large capital budgets significantly increasing value for the companies. Mr. Duford's success includes attracting large funds to the start up companies, guiding the companies various property acquisitions, and the implementation of new technologies in the oil and gas business.. He has also been in charge of personnel training and other administrative work. Bayshore is looking forward to working closely with Mr. JM Duford and seeking his valuable advice.

Financials

The company also holds working interests in two natural gas producing areas in central Alberta: Bigstone and Kaybob. **Net production to the company from these properties was 5 boepd in the three months ended June 30, 2014, compared to 7 boepd in the comparable period in the previous year.** According to a recent NI 51-101 reserve report, as of December 31, 2013, these properties are estimated to have a before-tax Net Present Value (at a 10% discount rate) of $135,000.

In the first six months of 2014 (period ended June 30, 2014), the company reported $47k in revenue versus $31k in the same period last year. The average production in the first six months of 2014 was 7 boepd (71% gas) versus 7 boepd (86% gas) in the comparable period in the previous year. Operating expenses were $23 / boe versus $17 / boe. The company reported a net loss of $0.21 million (EPS: -$0.01) in the first six months of 2014, versus $0.32 million (EPS: -$0.02) in the comparable period in the previous year.

At the end of Q2-2014 (June 30, 2014), the company had **cash and working capital of $1.2k and negative $01.44 million**, respectively. BSH had approximately $1 million in accounts payable, and $0.46 million in loans payable. The loans payable include: $0.26 million @ 15% p.a. from a director, $137k @ 5.25% from a director, and $65k from an arms-length individual. The following table summarizes the company's liquidity position at the end of Q2-2014. .

	2013	2014 (6M)
Cash and Cash Equiv.	6,120	1,242
Working Capital	(1,257,263)	(1,437,881)
Current Ratio	0.01	0.01
LT Debt	-	-
Cash From Operating Activities	(186,047)	(100,050)
Cash From Investing Activities	(135,141)	22,395
Cash From Financing Activities	254,299	72,777

On August 25, 2014, the company announced that it intends to complete a non brokered private placement of up to $0.74 million by issuing up to 4 million shares at $0.185 per share.

Stock Options and Warrants

We estimate the company currently has 1.50 million options outstanding (weighted average exercise price of $0.23) and 8.57 million warrants outstanding (weighted average exercise price of $0.20). **All the options and warrants, we estimate, are currently out of the money**

Conclusion / Rating

The company has made progress since our initiating report with regard to marketing the technology to various potential partners, and entering into contracts that may turn out to be successful. We are not in a position to assign a valuation/rating on the company's upside potential as details regarding BSH's share of profits from using the technology are yet to be disclosed.

Management's ability to raise capital, and market and commercialize the technology will decide the company's future. If the company is unable to raise capital, and/or restructure its loans, it is at risk of facing financial difficulty.

Risks

The company's primary risks, we believe, are the following:

- Volatility of Commodity Prices – Revenue and profitability of the company depend heavily on future oil and natural gas prices.
- Much of the company's business plan is centered on an experimental technology; commercial scale success and returns are not proven.
- The details of the licensing agreement, including the licensing fee and net profit interest to BSH have not been disclosed; thus, we cannot comment on the attractiveness of the agreement at this time.
- The technology has not undergone a peer-reviewed publication and scrutiny process that is typical of new scientific discoveries.
- We have been unable to verify the laboratory data provided by BSH management.
- The catalyst has yet to be commercialized despite being initially developed 9 years ago.
- Exploration, Development and Production Risk –The ability to grow depends heavily on the ability to acquire and develop suitable producing properties.
- Access to capital and share dilution.

We rate the company's shares a RISK of 5 (Highly Speculative).

Fundamental Research Corp. Equity Rating Scale:
Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk
Hold – Annual expected rate of return is between 5% and 12%
Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk
Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:
1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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