



## Management's Discussion and Analysis For the Nine Month Period Ended September 30, 2017

### Basis of Presentation

Phoenix Canada Oil Company Limited (Phoenix or Company) has prepared the following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations of the Company. This MD&A constitutes management's review of the factors that affected the Company's unaudited interim condensed consolidated financial and operating performance for the nine month period ended September 30, 2017. The MD&A was prepared as of November 29, 2017 and was approved by the Board of Directors on November 29, 2017.

This MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements for the nine month period ended September 30, 2017 and the audited consolidated financial statements for the year ended December 31, 2016 including the notes thereto.

Unless otherwise stated, all amounts presented or discussed herein are denominated in Canadian dollars.

Copies of all relevant financial documents and interim Company filings to date may also be referenced on the regulatory filings website -- [www.SEDAR.com](http://www.SEDAR.com).

### The Company

The management of the Company, which is unchanged since the end of the last fiscal year, is comprised of the following individuals:

Charlotte Moore Hepburn <sup>(3)</sup>	MD., FRCPC., FAAP	Director, Chair, and Interim CEO
Michael Detlefsen <sup>(1, 2*, 3, 4)</sup>		Director
Greg Nuttall <sup>(1, 2, 3*, 4)</sup>		Director
Charles Burns <sup>(1*, 2, 4)</sup>		Director
W. Alex Mills <sup>(4)</sup>		Director
Michael D. Kindy, CPA, CA		CFO

(1) Denotes a member of the Audit Committee

(2) Denotes a member of the Governance and Compensation Committee

(3) Denotes a member of the Science and Business Development Committee

(4) Denotes an independent director

(\*) Denotes the Chair of the noted Committee.

### Corporate performance

The third quarter of 2017 was similar to past periods, as the Company continued to manage its portfolio of investments and to investigate potential investment targets, but with greater focus on due diligence. At the start of the third fiscal quarter, the Company retained the services of Origin Merchant Partners (Origin). Origin is experienced, highly capable, and very well respected in the M&A field. Throughout the quarter they have managed a process to find potential investment candidates for Phoenix, including running opportunities through an initial screening process, liaising with interested parties, guiding and participating in investigations, and providing feedback and advice. These services are expected to continue, at least through the remainder of this fiscal year, with no assurance that they will result in the culmination of a transaction.



## Corporate performance - continued

Concurrent with the identification and evaluation of a potential strategic investment, the Company continues to actively manage, and enhance the liquidity of, its investment portfolio. Following a reclassification completed during the second fiscal quarter, 100% of the Company's investment portfolio is now classified as short-term and available for sale. All investments are continuously administered as an element of managing the Company's capital, and its liquidity, while recognizing that investments continue to serve as the Company's primary source of cash.

The Company seeks return from its investment portfolio in the form of recurring income, and through timely liquidation. During the first nine months of 2017, the Company realized investment income of \$164,000 and generated over \$875,000 in sale proceeds, net of reinvestment. Unrealized gains of approximately \$440,000 have also accrued during this same time period. The Company will continue to manage its portfolio of investments and to seek to generate favourable returns.

Although the portfolio has generally performed well in 2017, some individual investments did not. In the event the market value of an investment has declined significantly, or for a prolonged period of time, an impairment provision is recorded. An impairment charge of \$20,459 was recorded in the most recent quarter thereby raising the total provisions to \$119,102 on a year-to-date basis. Similar results were also seen in 2016 as provisions of \$93,673 were recognized over first nine month period, although none of those arose in the third quarter. Impairment provisions do not mean that future increases in value will not happen, only that the unrealized loss to date warrants the recording of a provision.

While the Company is actively engaged in the evaluation of potential investment candidates and managing its investment portfolio, it is also more passively monitoring its patent application and its oil and gas interests. The movement of the patent application process remains beyond the influence, or control, of the Company and there are extremely limited opportunities to transact anything with the oil and gas interests. Each of these will be monitored, and opportunities evaluated, in the event they arise.

## Selected financial data

The Company continues to be in a strong cash and liquidity position, and to derive income from short-term investments, and to hold long-term investments with significant opportunity for growth. The following selected financial information may provide additional insights relative to the Company's operating performance and financial position:

	For the fiscal years ended December 31:		
	2016	2015	2014
Oil and gas revenues	7,433	6,016	38,972
Net (loss) from operations	(353,039)	(377,547)	(356,243)
Per share	(0.07)	(0.08)	(0.07)
Net income (loss) for the year	429,738	(986,288)	47,106
Per share	0.09	(0.21)	0.01
Total assets	9,207,409	8,811,505	9,688,099
Total long-term financial liabilities	-	-	-
Total liabilities	136,621	175,243	443,765



## Selected financial data - continued

	For the three month periods ended:			
	Sep. 30 2017	June 30 2017	Mar. 31 2017	Dec. 31 2016
Oil and gas revenues	281	352	539	884
Net loss from operations	(160,522)	(80,516)	(66,567)	(101,969)
Per share - basic	(0.03)	(0.02)	(0.01)	(0.02)
Net income (loss) for the period	85,346	128,610	44,944	72,928
Per share - basic	0.02	0.03	0.01	0.02
Total assets	9,615,829	9,553,009	9,361,555	9,207,409
Total long-term financial liabilities	-	-	-	-
Total liabilities	196,534	123,121	139,913	136,621

	For the three month periods ended:			
	Sep. 30 2016	June 30 2016	Mar. 31 2016	Dec. 31 2015
Oil and gas revenues	318	6,095	136	796
Net (loss) from operations	(72,619)	(112,955)	(65,496)	(172,018)
Per share	(0.01)	(0.02)	(0.01)	(0.04)
Net income (loss) for the period	179,411	71,037	106,362	(1,114,483)
Per share	0.04	0.01	0.02	(0.24)
Total assets	9,409,825	9,108,034	8,711,678	8,811,505
Total long-term financial liabilities	-	-	-	-
Total liabilities	263,610	179,621	175,943	175,243

The Company did not declare, or pay, any cash dividends during any of the periods noted above.

## Results of operations

	Nine months ended Sept. 30		Three months ended Sept. 30	
	2017	2016	2017	2016
Oil and gas revenues	\$ 1,172	\$ 6,549	\$ 281	\$ 318
Operating (recovered) expenses	(1,129)	1,625	561	560
Gross profit (loss)	\$ 2,301	\$ 4,924	\$ (280)	\$ (242)

The oil and gas interests consist primarily of mature wells with limited production. The Company is not the operator of any of the wells in which it holds interests and is reliant upon the operators to report revenues and expenses in a timely and accurate manner. Due to the age and inconsistency of these assets, the revenues and gross profit (loss) derived in one period should not be construed as being predictive of future periods.



## Results of operations - continued

Expenses incurred were as follows:

	Nine months ended Sept. 30		Three months ended Sept. 30	
	2017	2016	2017	2016
Administrative expenses	\$ 281,986	\$ 146,755	\$ 150,768	\$ 54,572
Foreign exchange	3,643	156	1,906	(704)
Project development costs	1,572	-	-	-
Scientific analysis	-	53,959	-	-
Share based payments	22,705	55,124	7,568	18,509
Total expenses	<u>\$ 309,906</u>	<u>\$ 255,994</u>	<u>\$ 160,242</u>	<u>\$ 72,337</u>

Administrative expenses incurred were as follows:

	Nine months ended Sept. 30		Three months ended Sept. 30	
	2017	2016	2017	2016
Management and corporate services	\$ 126,030	\$ 77,508	\$ 59,200	\$ 30,134
Shareholder services	16,424	19,261	2,313	2,536
Professional fees	118,698	35,882	84,228	14,376
Insurance	4,536	4,646	1,512	1,674
Office and general	5,772	4,274	2,443	1,584
Travel	10,526	5,184	1,072	4,268
Total administrative expenses	<u>\$ 281,986</u>	<u>\$ 146,755</u>	<u>\$ 150,768</u>	<u>\$ 54,572</u>

The foreign exchange expense incurred during each period represents the decline in the Canadian dollar value of US cash that the Company held. The Company receives incidental investment income, and incurs nominal expenses, in US dollars.

Project development costs represent expenses incurred in relation to the patenting process for the Synfuel technology, which remains in process.

Scientific analysis represents the fees charged by the independent consultants that were retained to complete a critical and comprehensive review of the Company's scientific projects. That review was completed prior to the commencement of the 2017 fiscal year.

Share based payments represent the costs attributed to stock options granted in prior periods, which had not vested at the beginning of the current financial reporting period. The value attributed to the stock options at the time of grant is accreted to income over their vesting period. The periodic expense declines as the number of unvested options declines. The Company granted 345,000 options to directors and officers of the Company in December 2015 of which 25% vested immediately, 25% vested December 2016 and 25% will vest on each of December 30, 2017 and December 30, 2018.

Management and corporate services is comprised of fees charged by the Company's Interim CEO and its CFO as well as Directors' fees paid to independent Directors. The higher costs in the current year are reflective of the increase in the Company's level of activity and the corresponding services provided by management including the investigation of potential investment targets.



## Results of operations - continued

Shareholder services encompasses any and all costs associated with interactions with regulators, or in relation to the Company's shareholders and securities, including fees charged by the Company's transfer agent. In 2016, incremental fees arose due to the December 2015 appointment of new directors, stock options that were granted, and a private placement that was completed to better align the interests of the Board with those of the broader shareholder base. No similar costs have been incurred in 2017.

Professional fees include land consulting fees, legal fees, fees charged by the Company's auditors, and fees charged by the merchant banking firm retained to assist in the due diligence process. Land consulting was conducted in the second fiscal quarter of 2017 and relates to the Company's investigation of its oil and gas interests. Legal fees include costs related to corporate governance, costs incurred as a result of disputes with vendors, and fees related to the due diligence process. Governance costs have remained consistent while fees related to disputes and due diligence have both risen and comprise the majority of the costs incurred in 2017. Fees charged by the Company's auditors have remained comparable in value although 2017 includes additional income tax advisory services in relation to a strategic investment the Company had been considering.

Travel costs were virtually non-existent in 2016 while in 2017 members of the Company's management have travelled to perform preliminary due diligence on potential strategic investment targets.

## Liquidity

The Company continues to have a strong liquidity position as it holds cash in the amount of \$3,524,640 (Dec. 2016 ó \$2,685,813) that is available to settle current liabilities in the amount of \$196,534 (Dec. 2016 - \$136,621).

The Company's primary source of cash is its short-term investment in marketable securities. Cash is derived through periodic receipt of dividends, interest, and return of capital along with liquidation proceeds whenever liquidation is considered prudent. In the first nine months of 2017 the Company realized \$925,678 (Sept. 2016 - \$842,804) in liquidation proceeds, which resulted in recognition of gains in the amount of \$511,499 (Sept. 2016 - \$598,931). New short-term investments of \$46,500 (Sept. 2016 - \$784,592) were acquired during the period.

## Capital resources and off-balance sheet arrangements

The Company has no long-term obligations as at the date of this document. Furthermore, the Company has made no commitments for capital expenditures, leases, or contractual commitments in relation to its operations. The Company believes it is well positioned to fund its operations for the foreseeable future.

## Transactions with related parties

The Company has incurred the following transactions with related parties:

	Nine months ended Sept. 30		Three months ended Sept. 30	
	2017	2016	2017	2016
Services rendered by the Interim CEO	\$ 87,575	\$ 51,008	\$ 45,200	\$ 20,634
Services rendered by the CFO	35,000	26,500	12,000	9,500
Directors' fees	3,455	-	2,000	-
	<u>\$ 126,030</u>	<u>\$ 77,508</u>	<u>\$ 59,200</u>	<u>\$ 30,134</u>



## Transactions with related parties - continued

Share based payments	\$ 22,705	\$ 55,124	\$ 7,568	\$ 18,509
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At September 30, 2017, \$115,693 was payable to the related parties noted above and is included in accounts payable and accrued liabilities (December 31, 2016 - \$90,638). The amount due is unsecured, non-interest bearing, and is due on demand.

The Company has a Stock Option Plan (the "Plan") that enables its directors, officers, employees, consultants and advisors to acquire common shares of the Company. Options are granted at the discretion of the Board of Directors. Under the terms of the Plan, options totaling up to 10% of the common shares outstanding from time to time are issuable. The vesting and expiration periods are fixed at the time of grant at the discretion of the Board of Directors. The fair values of stock options granted are determined using the Black Scholes valuation model and are accreted to income, as share-based payment expense, over the vesting period for the options. The Company has granted the following options to related parties:

In December 2015, the Company granted 345,000 stock options to its directors and a senior officer. These options have an exercise price of \$1.40, and may be exercised up to December 30, 2022. 50% of these options have vested, 25% will vest on December 30, 2017 and 25% will vest on December 30, 2018. The Company currently anticipates that all options will vest.

In May 2013, the Company granted 50,000 stock options to one of its directors. These options have vested, have an exercise price of \$2.00, and may be exercised up to May 21, 2018.

In connection with the private placement completed April 29, 2016, there were 200,000 share purchase warrants issued to directors of the Company. These warrants have an exercise price of \$1.50 and may be exercised up to April 26, 2018. The value attributed to these warrants was determined using the Black Scholes valuation model, a dividend yield of \$Nil, a risk-free interest rate of 0.67%, the expected stock volatility of 35.95%, and an expected life of 2 years.

## Financial instruments

The Company's financial instruments consist of the following:

### Financial Assets

Cash  
Short-term investments  
Other receivables

### Classification

Loans and receivables  
Available-for-sale  
Loans and receivables

### Financial Liabilities

Accounts payable and accrued liabilities

### Classification

Other financial liabilities

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Available-for-sale* - Non-derivative financial assets not included in the above category are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of an impairment that is other than temporary, the amount of the loss is removed from accumulated other comprehensive income and recognized in net income or loss.



## Financial instruments - continued

*Other financial liabilities* - These instruments are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

*The effective interest method* - The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability to the net carrying amount on initial recognition.

## Changes in accounting policy

The Company's accounting policies will typically change only when there is a change in IFRS. There were no changes in IFRS during the current fiscal year that were required to be adopted by the Company. The following change in IFRS has been approved and will take effect in future periods:

### IFRS 9 - Financial Instruments

Effective for annual periods beginning on or after January 1, 2018, with early adoption permitted, establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of the financial statements for their assessment of the amounts, timing and uncertainty of future cash flows. Management anticipates that this standard will be adopted in the Company's financial statements for the year beginning January 1, 2018 and has begun the process of determining the potential impact of its adoption.

## Convertible instruments and other securities

	<u>Quantity</u>	<u>Amount</u>
Common shares at December 31, 2015	4,686,694	\$ 4,185,173
Shares issued under private placement <sup>(1)</sup>	200,000	238,029
Common shares at September 30, 2016, December 31, 2016, September 30, 2017, and as at the date of this document	<u>4,886,694</u>	<u>\$ 4,423,202</u>

<sup>(1)</sup> Comprised of gross proceeds of \$280,000 less direct costs of \$5,775 and \$36,196 allocated to warrants issued under this placement.

In addition to the shares already issued the Company has the following securities reserved for potential future issuance:

	<u>Quantity</u>
Warrants, exercisable at \$1.50 until April 26, 2018	200,000
Stock options, exercisable at \$2.00 until May 21, 2018	50,000
Stock options, exercisable at \$1.40 until December 30, 2022	<u>345,000</u>
Common shares reserved as at September 30, 2016, December 31, 2016, September 30, 2017, and as at the date of this document	<u>595,000</u>



## Convertible instruments and other securities - continued

The Company's fully diluted share position is as follows:

	<u>Quantity</u>
Common shares at September 30, 2017	4,886,694
Common shares reserved at September 30, 2017	<u>595,000</u>
Fully diluted position as at September 30, 2017, and as at the date of this document	<u>5,481,694</u>

## Financial Risk Factors

The Company is exposed in varying degrees to a variety of financial instrument related risks:

### *Credit Risk*

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash. This risk is managed through the use of a major commercial bank that is a high credit quality financial institution as determined by qualified rating agencies.

### *Market Risk*

The significant market risks to which the Company is exposed are interest rate risk, price risk, and currency risk. The Company's exposure to interest rate risk relates to its ability to earn interest income on cash balances at variable rates. The fair value of the Company's cash is relatively unaffected by changes in short-term interest rates. The Company's exposure to price risk relates to its ability to convert its short-term and long-term investments as the Company trades investments within Canadian and US stock markets. The Company's exposure to currency risk relates to US cash held and a short-term investment that is denominated in US dollars and the potential impact because of changes in foreign exchange rates.

### *Sensitivity to Market Risk*

A 10% increase or decrease in the fair values of the Company's short-term investments could result in an increase or decrease of approximately \$600,000 in comprehensive income (loss).

A 10% increase or decrease in the Canadian dollar relative to the US dollar could result in an increase or decrease of approximately \$8,650 in other comprehensive income (loss) and an increase or decrease of approximately \$3,750 in net income.

Based upon observations of recent market trends management believes that each of these outcomes is reasonably possible within one year.

## Regulatory, Environmental and Other Risk Factors

The Company is currently not directly engaged in foreign operations, or field exploration and development operations, which may make it subject to various laws and regulations, including, without limitation, to health and safety matters, or to political risks which are outside the Company's control. The Company holds minority, natural gas production or other equity interests that are operated by the management and senior employees of other companies who the Company considers to be professional, competent and with business incentives to fully comply with all relevant regulatory and environmental regulations.



## **Significant Accounting Estimates and Judgements**

The preparation of unaudited condensed interim consolidated financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the financial reporting date and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The unaudited condensed interim consolidated financial statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the unaudited condensed interim consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and also in future periods when the revision affects both the current and future periods.

Significant estimates and judgments include, but are not limited to the assessment as to whether investments may be impaired and the recognition and valuation of deferred tax amounts.

## **Forward-Looking Statements**

*Certain statements contained or incorporated in this MD&A which deal with the Company's financial condition and operating results, including information analyses and projections as to certain ongoing and future corporate developments which are currently in the research and development stage, and projections on the operating financial performance of the Company, constitute forward-looking statements. Such forward-looking statements, made with special reference to the Company's ongoing hydrogen gas generation project and on merger and acquisition negotiations, involve known and unknown risks and uncertainties that could cause actual events and results to differ materially from those estimated or anticipated and which may have been implied or expressed in such forward-looking statements. No conclusions as to the successful outcome of the ongoing and planned business and research and development projects in which the Company is involved are intended nor implied nor can they be foreseen or predicted prior to definitive corporate announcements as to their successful outcome, or otherwise.*

*Furthermore, the forward-looking statements contained in this MD&A are made as of the date hereof. The Company does not undertake any obligation to update publicly, or to revise any of the said forward-looking statements, whether as a result of new information, future events, or otherwise. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement.*