



## Management's Discussion and Analysis For The Year Ended December 31, 2016

### 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 consolidated financial and operating performance for the year ended December 31, 2016. The MD&A was prepared as of April 25, 2017 and was approved by the Board of Directors on April 25, 2017.

This MD&A should be read in conjunction with our audited consolidated financial statements as at, and for the year ending, 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)</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 2016 fiscal year was an introspective year for Phoenix. The Company's Interim Chief Executive Officer (CEO) took office in August 2015 and immediately intensified her evaluation of the Company's recent, and not so recent, past. This process allowed the Interim CEO to formulate and refine her vision for the Company's future. In December 2015, the Company augmented and streamlined its managerial expertise by expanding its Board to five members and creating additional sub-committees of the Board. The enhanced human resources enabled the 2016 evaluation of each of the Company's other resources, as necessary to facilitate acting upon the vision of respecting, and capitalizing on, the Company's significant history to achieve future success.



## Corporate performance - continued

The Company's assets consisted of short-term and long-term investments in publicly traded companies, investments in two scientific projects, and minority interests in mature oil and gas properties in Western Canada. The assessment and evaluation of each of these assets was conducted during the 2016 fiscal year.

The Company retained the services of two leading, highly-qualified science and technology firms to conduct independent comprehensive evaluations of the Company's science projects. The final reports from these firms were received by the Science Committee, which completed its analysis, and made its recommendation to the Board. The Board determined that the Synfuel project provided adequate prospects for patent application, within a reasonable period of time, subject to making small incremental investments. Patent applications have been initiated and the work required to complete these applications is ongoing as of the date of this document. The Board also determined that the risks associated with continuing its early stage Hydrogen Production System were both extensive and exceeded the potential benefits, if any, which could arise in the future. When a dispute arose with the research university, over a previously completed contract related to the Hydrogen project, it was settled and the Hydrogen project was discontinued. The settlement of that dispute resulted in the recovery of \$50,625, which is included in net income for the year.

The Company maintains non-operated, minority (averaging less than 10%) working and royalty interests in mature Western Canada gas production properties, all of which are generally nearing the end of their expected economic life. Management enlisted the services of external experts to assist in the evaluation of its oil and gas properties. This evaluation remains in process, and will likely take some time to complete given the age and size of the holdings and the prevailing economic climate for assets of this nature.

The Company holds cash, numerous short-term investments and two long-term investments which are continuously administered as an aspect of managing the Company's capital and liquidity. At the start of the 2016 fiscal year the Company held cash and short-term investments with an aggregate market value of \$7,327,696. As at December 31, 2016 this market value had risen to \$8,436,533, including modest growth of \$27,150 in the final quarter. These short-term investments serve as the Company's primary source of cash. During 2016 they provided income of \$255,281 and the aggregate of disposal proceeds and return of capital exceeded the amounts reinvested by \$188,687.

The Company's cash position was further enhanced during 2016 through the completion of a private placement financing in April. This offering was made exclusively to directors of the Company with the intent of aligning the interests of the Company's directors with the interests of its shareholders. The Company issued 200,000 working capital units for gross proceeds of \$280,000 and net proceeds, after costs, of \$274,225. The units were comprised of one common share and one share purchase warrant. Each warrant entitles the holder to acquire one additional common share at a price of \$1.50 until April 2018.



## Corporate performance - continued

The Company's long-term investments are in emerging companies which are not yet income producing. Theralase Technologies Inc. is a leading biotech company, with a focus on cancer treatments, and it recently commenced clinical human trials of its proprietary treatment for bladder cancer. Starrex International Ltd. is an emerging financial services company with a focus on mortgage services in the United States. Management remains confident in the long-term prospects of these two investments but, like most emerging companies, their share prices remain quite volatile. This volatility was generally negative throughout 2016 as aggregate market values declined in the year from \$1,447,194 to \$741,599. The Company was able to capitalize during favourable times to sell approximately \$40,000 worth of stock for gains of \$36,974. Since December 31, 2016, market sentiment towards these investments has been more favourable and the market values of both investments have increased.

The evaluation and management of resources conducted by Management throughout 2016 was undertaken not only to safeguard and maximize the value of those resources but also to formulate a game plan for the future utilization of those resources. The short-term market-based investments were not intended to be the Company's primary growth vehicle but to be a means to at least maintain the Company's cash resources until it was prudent for them to be redeployed into another growth vehicle. In the last quarter of 2016, Management initiated a process for seeking out and evaluating new business opportunities that could serve as potential new growth vehicles for Phoenix. This quest continues as of the date of this document, just as Management continues to manage and safeguard the resources it has.

## Selected financial data

The Company continues to be in a strong cash and liquidity position, 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:		
	Dec. 16	Dec. 15	Dec. 14
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

	For the three month periods ended:			
	Dec. 16	Sep. 16	June 16	Mar. 16
Oil and gas revenues	884	318	6,095	136
Net (loss) from operations	(101,969)	(72,619)	(112,955)	(65,496)
Per share	(0.02)	(0.01)	(0.02)	(0.01)
Net income (loss) for the period	72,928	179,411	71,037	106,362
Per share	0.02	0.04	0.01	0.02



## Selected financial data - continued

	For the three month periods ended:			
	Dec. 15	Sep. 15	June 15	Mar. 15
Oil and gas revenues	796	543	2,798	1,879
Net (loss) from operations	(172,018)	(54,094)	(103,723)	(47,712)
Per share	(0.04)	(0.01)	(0.02)	(0.01)
Net income (loss) for the period	(1,114,483)	31,145	57,202	39,848
Per share	(0.24)	0.01	(0.01)	0.01

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

## Results of operations

	Years ended		Three months ended	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec 31, 2015
Oil and gas revenues	\$ 7,433	\$ 6,016	\$ 884	\$ 796
Oil and gas expenditures	(8,445)	(15,329)	(6,820)	(509)
Gross profit (loss)	\$ (1,012)	\$ (9,313)	\$ (5,936)	\$ 287

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.

Expenses incurred were as follows:

	Years ended		Three months ended	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec 31, 2015
Administrative expenses	\$ 267,416	\$ 236,016	\$ 120,659	\$ 60,165
Foreign exchange gain	(769)	(27,511)	(925)	(215)
Project development costs	(47,679)	94,959	(47,679)	57,152
Scientific analysis	59,545	7,435	5,588	4,520
Share based payments	73,514	54,663	18,390	50,684
Depreciation	-	2,672	-	-
Total expenses	\$ 352,027	\$ 368,234	\$ 96,903	\$ 172,306

Administrative expenses incurred were as follows:

	Years ended		Three months ended	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec 31, 2015
Management and corporate services	\$ 121,196	\$ 128,286	\$ 43,688	\$ 42,367
Shareholder relations	36,521	25,547	17,260	5,256
Professional fees	91,709	41,898	55,827	7,989
Insurance	6,696	2,340	1,512	1,755
Occupancy costs	-	21,243	-	-
Office and general	6,679	15,068	2,032	2,752
Travel	4,615	1,634	340	46
Total administrative expenses	\$ 267,416	\$ 236,016	\$ 120,659	\$ 60,165



## Results of operations - continued

The foreign exchange gain realized during each period represents the increase in the Canadian dollar value of US cash that the Company held. The Company receives incidental investment income and incurs only nominal expenses in US dollars. The Company held more significant balances in US cash during the first half of the 2015 fiscal year than it has since that time.

Project development costs in 2016 include the recovery of \$50,625 resulting from the settlement reached with the university that had conducted research until May 2014 relative to the Company's Hydrogen project. The remaining costs in 2016 relate to the patenting process for the Synfuel technology. In 2015 the Company incurred the costs relative to additional research that was commissioned in support of the Synfuel technology.

Scientific analysis is a new cost caption that replaced Research and development. In 2016 there were about \$4,500 in costs that would have appeared under the old caption, just as the 2015 costs would, but the majority of the costs were fees charged by the consulting firms that were retained to conduct the comprehensive review of the Company's two science projects.

Share based payments represent the costs attributed to stock options granted that had not vested at the beginning of the financial reporting periods. The Company granted 345,000 options to directors and officers of the Company in December 2015 of which 25% vested immediately and 25% vest on each of the next 3 anniversaries of the grant date. The Company also granted 50,000 stock options to one of the Company's directors in May 2013 which vested as to 50% on each of the next two anniversaries of the grant. To date 222,500 stock options have vested and the remaining 172,500 options are expected to vest.

Management and corporate services is comprised of fees charged by the Company's interim CEO, its CFO and director's fees. The interim CEO was appointed in August 2015 and the CFO was appointed in April 2015 as a result the 2015 fees are for less than a full fiscal year. The Company also recorded director's fees in the amount of \$9,000 in the final quarter of 2016. Independent directors are entitled to a fee of \$500 for each meeting of the Board, or sub-committee of the Board, that they attend. The fees relating to meetings that arose prior to the final three months of 2016 had not been previously recorded.

Shareholder relations services encompasses any and all costs associated with dealings with regulators or in relation to the Company's shareholders and securities, including fees charged by the Company's transfer agent and by the investor relations firm that was engaged by the Company in 2016. The nature and magnitude of the various components of this expense category were quite comparable form year to year with the exception of the fees charged by that newly retained firm.

Professional fees include legal fees and due diligence fees along with fees charged by the Company's auditors in relation to the annual financial statement audit and tax compliance services. Audit fees have remained comparable but legal fees have increased significantly and due diligence fees were incurred for the first time in the final quarter of 2016. Legal fees rose as a consequence of retaining new counsel. A securities lawyer was retained in the final quarter of 2015 to assist with all matters related to the Company's securities, governance, and general corporate matters. The Company also retained the services of a litigation lawyer in 2016 to address matters like the Hydrogen project dispute. Due diligence fees were incurred when the Company retained legal and scientific investigation firms to conduct an examination into a business that the Company had considered acquiring.



## Results of operations - continued

Occupancy costs ceased when the Company vacated its former administrative offices at the end of May 2015. This also contributed to the decline in office and general expenses.

Travel costs rose in the final quarter due to management having travelled to meet with representatives of the potential business acquisition and to inspect their operations.

The remaining administrative expenses are of relatively low significance and are well within management's expectations.

## Liquidity

The Company continues to have a strong liquidity position as it holds cash in the amount of \$2,685,813 (Dec. 2015 - \$2,238,466) that is available to settle current liabilities in the amount of \$136,621 (Dec. 2015 - \$175,243).

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 2016 the Company realized \$1,088,538 (Dec. 2015 - \$1,870,221) in liquidation proceeds, which resulted in recognition of a gain in the amount of \$664,546 (Dec. 2015 - \$546,645). New short-term investments of \$895,510 (Dec. 2015 - \$205,000) were acquired during the year.

## 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:

	Years ended		Three months ended	
	Dec. 31, 2016	Dec. 31, 2015	Dec. 31, 2016	Dec. 31, 2015
Services rendered by the CEO	\$ -	\$ 30,000	\$ -	\$ -
Services rendered by the Interim CEO	72,196	21,447	20,634	14,371
Services rendered by the CFO	40,000	38,496	9,500	27,996
Directors' fees	9,000	-	9,000	-
	<u>\$ 121,196</u>	<u>\$ 89,943</u>	<u>\$ 39,134</u>	<u>\$ 42,367</u>
Share based payments	\$ 73,514	\$ 54,663	\$ 18,509	\$ 50,684
Gain on sale of equipment	\$ -	\$ 3,291	\$ -	\$ -

As at December 31, 2016, \$90,638 was payable to the related parties noted above and is included in accounts payable and accrued liabilities (December 31, 2015 - \$33,987). The amount due is unsecured, non-interest bearing, and is due on demand.



## Transactions with related parties - continued

During the 2015 fiscal year the Company repaid a loan payable to a related party and sold its vehicle to a shareholder that holds and/or controls in excess of 10% of the outstanding shares of the Company. The sale price for the vehicle was established based on the published market value for similar assets and resulted in a gain on sale of \$3,291.

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. Under the terms of the Plan, options totaling up to 10% of the common shares outstanding from time to time are issuable. The vesting period and expiration period are fixed at the time of grant at the discretion of the Board of Directors. The value attributed to these options, using the Black Scholes valuation model, is accreted to income over the vesting period for the options and is recognized as share based payment expense. 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 a 2 year expected life.

## Financial instruments

The Company's financial instruments consist of the following:

### Financial Assets

Cash  
Short-term investments  
Other receivables  
Long-term investments

### Classification

Loans and receivables  
Available-for-sale  
Loans and receivables  
Available-for-sale

### 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 not yet considered the potential impact of its adoption.

## Convertible instruments and other securities

	<u>Quantity</u>	<u>Amount</u>
Common shares at December 31, 2014	4,746,294	\$ 4,238,395
Shares repurchased under normal issuer bid	(59,600)	(53,222)
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 December 31, 2016 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 December 31, 2016, 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 December 31, 2016	4,886,694
Common shares reserved at December 31, 2016	<u>595,000</u>
Fully diluted position as at December 31, 2016, 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 which is a high credit quality financial institution as determined by 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 and long-term investments could result in an increase or decrease of approximately \$650,000 in other 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 \$14,000 in other comprehensive (loss) income and an increase or decrease of approximately \$3,500 in net income (loss).

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 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. These consolidated financial statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the 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.*