

Phoenix Canada Oil Company Limited

Consolidated Financial Statements

December 31, 2016 and 2015

Independent Auditors' Report

To the Shareholders of Phoenix Canada Oil Company Limited:

We have audited the accompanying consolidated financial statements of Phoenix Canada Oil Company Limited, which comprise the consolidated statements of financial position as at December 31, 2016 and 2015, and the consolidated statements of comprehensive income (loss), changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Phoenix Canada Oil Company Limited as at December 31, 2016 and 2015 and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

MNP LLP

**Chartered Professional Accountants
Licensed Public Accountants**

Mississauga, Ontario
April 25, 2017

Phoenix Canada Oil Company Limited

Consolidated Statements of Financial Position

As at December 31, 2016 and 2015

	2016	2015
Assets		
Current assets		
Cash	\$ 2,685,813	\$ 2,238,466
Short-term investments (note 4)	5,750,720	5,089,230
Other receivables	29,276	36,614
	8,465,809	7,364,310
Long-term investments (note 4)	741,599	1,447,194
Interest in oil and gas properties (note 5)	1	1
	\$ 9,207,409	\$ 8,811,505
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 136,621	\$ 175,243
Equity		
Share capital (note 7)	4,423,202	4,185,173
Warrants (note 7)	36,196	-
Contributed surplus (note 8)	401,594	328,080
Accumulated other comprehensive income	2,236,791	2,579,742
Retained earnings	1,973,005	1,543,267
	9,070,788	8,636,262
	\$ 9,207,409	\$ 8,811,505

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the Board:

Signed: "Charles Burns"

Director

Signed: "Charlotte Moore Hepburn"

Director

Phoenix Canada Oil Company Limited

Consolidated Statements of Changes in Equity

for the years ended December 31, 2016 and 2015

	Share Capital			Contributed	Accumulated	Retained	Total
	Number of	Paid up	Warrants	Surplus	Comprehensive	Earnings	
	Shares	Amount			Income		
Balance, December 31, 2014	4,746,294	\$ 4,238,395	\$ -	\$ 273,417	\$ 2,164,488	\$ 2,568,034	\$ 9,244,334
Shares repurchased	(59,600)	(53,222)	-	-	-	(38,479)	(91,701)
Share based payments (note 8)	-	-	-	54,663	-	-	54,663
Other comprehensive income for the year	-	-	-	-	415,254	-	415,254
Net loss for the year	-	-	-	-	-	(986,288)	(986,288)
Balance, December 31, 2015	4,686,694	4,185,173	-	328,080	2,579,742	1,543,267	8,636,262
Private placement (note 7)	200,000	238,029	36,196	-	-	-	274,225
Share based payments (note 8)	-	-	-	73,514	-	-	73,514
Other comprehensive loss for the year	-	-	-	-	(342,951)	-	(342,951)
Net income for the year	-	-	-	-	-	429,738	429,738
Balance, December 31, 2016	4,886,694	\$ 4,423,202	\$ 36,196	\$ 401,594	\$ 2,236,791	\$ 1,973,005	\$ 9,070,788

The accompanying notes are an integral part of these consolidated financial statements.

Phoenix Canada Oil Company Limited
Consolidated Statements of Comprehensive Income (Loss)
for the years ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Revenue		
Oil and gas income	\$ 7,433	\$ 6,016
Direct Costs		
Operating expenses	8,445	15,329
Gross loss	(1,012)	(9,313)
Expenses		
Administrative (notes 6 and 9)	267,416	236,016
Foreign exchange gain	(769)	(27,511)
Project development costs (recovered) (note 10)	(47,679)	94,959
Scientific analysis	59,545	7,435
Share based payments (notes 6 and 8)	73,514	54,663
Depreciation	-	2,672
	352,027	368,234
Loss before investment income, sale of investments, sale of equipment, and impairment	(353,039)	(377,547)
Investment income	255,281	348,576
Gain on sale of investments	664,546	546,645
Gain on sale of equipment (note 6)	-	3,291
Impairment of short term investments	(93,673)	(1,585,653)
Income (loss) before provision for income taxes	473,115	(1,064,688)
(Provision for) recovery of income taxes – deferred (note 11)	(43,377)	78,400
Net income (loss) for the year	\$ 429,738	\$ (986,288)
Basic and diluted earnings (loss) per common share (note 12)	\$ 0.09	\$ (0.21)
Comprehensive income (loss)		
Items of other comprehensive (loss) income to be subsequently reclassified to net income (loss)		
Unrealized income (loss) on short-term investments	\$ 882,794	\$ (282,399)
Unrealized loss on long-term investments	(666,274)	(447,267)
Reclassification of (gains) losses included in net income for the year	(602,848)	1,223,320
Deferred taxes	43,377	(78,400)
Other comprehensive (loss) income for the year	(342,951)	415,254
Net income (loss) for the year	429,738	(986,288)
Net comprehensive income (loss) for the year	\$ 86,787	\$ (571,034)

The accompanying notes are an integral part of these consolidated financial statements.

Phoenix Canada Oil Company Limited

Consolidated Statements of Cash Flows

for the years ended December 31, 2016 and 2015

	2016	2015
Cash flow from operating activities		
Net income (loss) for the year	\$ 429,738	\$ (986,288)
Items not affecting cash		
Share based payments	73,514	54,663
Depreciation	-	2,672
Gain on sale of investments	(664,546)	(546,645)
Gain on sale of equipment	-	(3,291)
Impairment of short term investments	93,673	1,585,653
Deferred tax provision (recovery)	43,377	(78,400)
	(24,244)	28,364
Other sources (uses) of cash from operations:		
Other receivables	7,338	(6,379)
Accounts payable and accrued liabilities	(38,622)	(152,102)
GST/ HST payable	-	(24,655)
	(55,528)	(154,772)
Cash flow from investing activities		
Purchase of investments	(895,510)	(205,000)
Return of capital on investments	35,622	57,449
Proceeds from disposal of investments	1,088,538	1,870,221
Proceeds from disposal of equipment	-	6,745
	228,650	1,729,415
Cash flow from financing activities		
Repayment of loan payable to related party	-	(91,765)
Proceeds from share issuance, net	274,225	-
Repurchase of shares	-	(91,701)
	274,225	(183,466)
Increase in cash	447,347	1,391,177
Cash, beginning of year	2,238,466	847,289
Cash, end of year	\$ 2,685,813	\$ 2,238,466

The accompanying notes are an integral part of these consolidated financial statements.

Phoenix Canada Oil Company Limited

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

1. Business of the Company

Phoenix Canada Oil Company Limited ("the Company") was incorporated on November 25, 1944 pursuant to the Canada Business Corporation Act. The Company's address is 3219 Yonge Street, Box 307, Toronto, Ontario, Canada M4N 3S1. It is a Canadian company that maintains non-controlling equity investment positions in public companies, two of which are classified as long-term. It also holds minority interest investments in several mature gas fields in Western Canada, the carrying value of which is \$1. In addition, the Company holds exclusive rights to a patented, proprietary hydrogen gas generation technology, through its US subsidiary, Phoenix International Energy Inc., under a long-term technology license agreement with a major US research university. The Company has also announced that, as a result of a strategic review process, it is currently evaluating acquisition targets that would generate additional shareholder value through the purchase of operating assets.

These consolidated financial statements were approved by the Board of Directors on April 25, 2017.

2. Basis of Presentation and Statement of Compliance

Statement of Compliance

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB"), applied consistently to all periods presented.

Basis of Presentation

These consolidated financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

Significant Accounting Estimates and Judgments

The preparation of these 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.

Functional Currency

The presentation and functional currency of the Company is the Canadian dollar.

3. Significant Accounting Policies

Changes in Accounting Policies

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.

Financial Instruments

The Company's financial instruments consist of the following:

Financial Assets

Cash

Classification

Loans and receivables

Phoenix Canada Oil Company Limited

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

Short-term investments

Other receivables

Long-term investments

Available-for-sale

Loans and receivables

Available-for-sale

Phoenix Canada Oil Company Limited

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

3. Significant Accounting Policies - continued

Financial Liabilities	Classification
Accounts payable and accrued liabilities	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.

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.

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized in prior periods.

In the case of short-term and long-term investments indications of impairment would include a significant or prolonged decline in the fair value of the investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment the difference between the acquisition cost, net of any prior impairment provision, and the current fair value is removed from other comprehensive income and recognized in net income or loss. Impairment losses on equity investments are not reversed through net income or loss. Increases in fair value subsequent to impairment are recognized in other comprehensive income.

Phoenix Canada Oil Company Limited

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

3. Significant Accounting Policies - continued

Financial Instruments Recorded at Fair Value

Financial instruments recorded at fair value on the consolidated statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

As of December 31, 2016 and 2015 short-term investments and long-term investments are measured at fair value and are classified within Level 1 of the fair value hierarchy.

Revenue Recognition

Oil and gas income from oil and gas leases is recognized when the amount of revenue is measurable and collection is reasonably assured which generally coincides with the time that reporting is received from the operator of the oil and gas lease.

Foreign Exchange

As at the transaction date all asset, liability, revenue, and expense amounts denominated in foreign currencies are translated into Canadian dollars using the exchange rate in effect as at that date. At the end of each financial reporting period all monetary assets and liabilities are translated into Canadian dollars using the exchange rate in effect as at that date. The resulting foreign exchange gains and losses are included in income for the period.

Stock-based Compensation

The Company has in effect a stock option plan ("the Plan") which is described in note 11. The Plan allows Company employees, directors and officers to acquire shares of the Company for a specified option amount set on the date of grant. Stock options awarded are accounted for using the fair value-based method. Fair value is calculated using the Black-Scholes model and is recorded as stock-based compensation expense over the vesting period of the options. Consideration paid on the exercise of stock options is credited to share capital. The contributed surplus associated with the options is transferred to share capital upon exercise.

Income Taxes

Income taxes on the profit or loss for the periods presented comprises current and deferred tax.

Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, adjusted for amendments to tax payable with regards to previous periods. Deferred tax is recorded using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for:

- Goodwill not deductible for tax purposes;
- The initial recognition of assets or liabilities that do not affect either accounting or taxable income;
- Differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future.

Phoenix Canada Oil Company Limited

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

3. Significant Accounting Policies - continued

The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the financial reporting period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

Income per Share

Basic income per share is calculated using the weighted-average number of common shares outstanding during the period. Diluted income per share is computed using the treasury stock method whereby all dilutive options, warrants, and equivalents are assumed to have been exercised at the beginning of the period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the period.

Accounting Standards Effective for 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 consolidated financial statements for the year beginning January 1, 2018 and has not yet considered the potential impact of its adoption.

4. Investments

Short-term investments consist of marketable securities held in numerous publicly traded companies that are listed on stock exchanges in Canada and the United States.

Long-term investments, which represent less than 3% interests in each entity, are comprised as follows:

	<u>2016</u>	<u>2015</u>
385,729 shares (2015 - 385,729 shares) in Starrex International Ltd.	\$ 250,724	\$ 578,594
1,925,000 shares (2015 - 2,020,000 shares) in Theralase Technologies Inc.	490,875	868,600
	\$ 741,599	\$ 1,447,194

5. Interest in Oil and Gas Properties

	<u>2016</u>	<u>2015</u>
Oil and gas leases and/or permits	\$ 1	\$ 1

The Company's unamortized interest in its oil and gas properties can be realized only from future commercial production on the properties or from the proceeds of disposition thereof.

Phoenix Canada Oil Company Limited

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

6. Related Party Transactions

The Company had the following transactions with officers and directors of the Company, and private companies controlled by officers and directors of the Company:

The following amounts are included in administrative expenses (*note 9*):

The Company incurred expenses of \$Nil (2015 - \$30,000) for services rendered by its President and Chief Executive Officer.

The Company incurred expenses of \$72,196 (2015 - \$21,447) for services rendered by its Interim Chief Executive Officer.

The Company incurred expenses of \$40,000 (2015 - \$38,496) for services rendered by its Chief Financial Officer.

The Company incurred Directors' fees of \$9,000 (2015 - \$Nil).

The Company incurred share based payments of \$73,514 (2015 - \$50,684) relative to stock options granted to officers and directors during prior periods and which had not vested prior to the current financial reporting period.

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 was established based on the published market value for similar assets and resulted in a gain on sale of \$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 (2015 - \$33,987). The amount due is unsecured, non-interest bearing, and is due on demand.

7. Share Capital

Authorized

The Company is authorized to issue an unlimited number of common shares.

Activity

During the year the Company completed a private placement transaction whereby it issued 200,000 working capital units, at a price of \$1.40 per unit, for gross proceeds of \$280,000. Costs of \$5,775 were incurred in relation to this offering resulting in net proceeds of \$274,225. Each working capital unit was comprised of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of \$1.50 until April 26, 2018. This private placement was offered exclusively to directors of the Company with the intent of aligning the interests of the Company's directors with the interests of its shareholders.

During the year ended December 31, 2015 the Company repurchased 59,600 shares on the open market through a Normal Course Issuer Bid, at prices above the stated value, resulting in a decrease in retained earnings of \$38,479. There were no similar share repurchases during the year ended December 31, 2016.

Warrants

	Number of warrants	Amount
Balance, beginning of year	-	\$ -
Issued during the year	200,000	36,196
Balance, end of year	200,000	\$ 36,196

Phoenix Canada Oil Company Limited

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

7. Share Capital - continued

	Number of Warrants	Exercise Price	Expiry Date
Issued Apr 29, 2016	200,000 ⁽¹⁾	\$ 1.50	Apr. 26, 2018

⁽¹⁾ Directors and/or Officers of the Company hold these warrants.

The following weighted average assumptions were used to calculate the fair value of the warrants issued during the year:

	2016	2015
Dividend yield	Nil	None granted
Risk free interest rate (%)	0.67	None granted
Expected stock volatility (%)	35.95	None granted
Expected life (years)	2	None granted

8. Contributed Surplus

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 period and expiration period are fixed at the time of grant at the discretion of the Board of Directors. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

	2016	2015
Balance, beginning of year	\$ 328,080	\$ 273,417
Compensation expense related to stock options	73,514	54,663
Balance, end of year	\$ 401,594	\$ 328,080

Stock options

	Common Shares Under option	Number of Options Vested	Exercise Price	Expiry Date
Granted May 21, 2013	50,000 ⁽¹⁾	50,000	\$ 2.00	May 21, 2018
Granted Dec. 30, 2015	345,000 ⁽¹⁾	172,500 ⁽²⁾	\$ 1.40	Dec. 30, 2022

⁽¹⁾ Directors and officers of the Company hold these options.

⁽²⁾ 50% of these options have vested, and the remainder will vest as to 25% on each of December 30, 2017 and December 30, 2018. The Company currently anticipates that all options will vest.

The following weighted average assumptions were used to calculate the fair value of the stock options granted during the period:

	2016	2015
Dividend yield	Nil	Nil
Risk free interest rate (%)	None issued	0.62 – 1.04
Expected stock volatility (%)	None issued	35.97 – 41.57
Expected life (years)	None issued	7

Phoenix Canada Oil Company Limited

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

9. Administrative Expenses

	2016	2015
Insurance	\$ 6,696	\$ 2,340
Management and corporate services (note 8)	121,196	128,286
Occupancy costs	-	21,243
Office and general	6,679	15,068
Professional fees	91,709	41,898
Shareholder relations	36,521	25,547
Travel	4,615	1,634
	<u>\$ 267,416</u>	<u>\$ 236,016</u>

10. Project Development Costs

Synfuel Technology

Phoenix holds exclusive commercial rights to its proprietary Synfuel Technology which utilizes an innovative process using hydrogen and carbon feedstock, both commonly available from diverse sources, to produce a complete range of commercial conventional transportation and related liquid fuels. As at December 31, 2016 patent applications remain in process and the timing and outcome of the applications remain uncertain.

Hydrogen Generation Project

The contract with a Canadian university, for the development of the patented proprietary hydrogen generation technology, concluded May 2014. Certain results of this contract, and amounts purported to be due under that contract, had been in dispute and this dispute was settled during the year. Phoenix made payment of \$50,000, relinquished its rights to any intellectual property that may have arisen during the contract, and obtained and executed mutual releases, in full and final settlement of the contractual payments of \$100,625. Prior to settlement, Phoenix had determined that the potential future benefits to be derived from this project were insufficient to warrant its continuance. The elimination of the accrued obligation of \$100,625, in exchange for payment of \$50,000, resulted in a recovery of previously expended amounts of \$50,625. The recovery has been included in project development costs on the consolidated statement of comprehensive income (loss)

11. Income Taxes

Income tax recovery

The reconciliation of the combined federal and provincial statutory income tax rate of 26% (2015 – 26%) to the effective tax rates for the years ended December 31 is as follows:

	2016	2015
Income (loss) before provision for income taxes	\$ 473,115	\$ (1,064,688)
Expected income tax provision (recovery)	\$ 123,000	\$ (276,820)
Adjustments resulting from:		
Non-deductible expenses	19,300	9,110
Non-taxable investment income	(115,770)	(156,350)
Tax rate changes and other adjustments	(72,863)	211,150
Change in tax benefits not recognized	89,710	134,510
Provision for (recovery of) income taxes - deferred	<u>\$ 43,377</u>	<u>\$ (78,400)</u>

Phoenix Canada Oil Company Limited

Notes to the Consolidated Financial Statements

December 31, 2016 and 2015

11. Income Taxes - continued

Deferred tax liability

The following table summarizes the components of the deferred tax liability:

	<u>2016</u>	<u>2015</u>
Deferred tax assets:		
Non capital losses carried forward	\$ 173,950	\$ 179,330
		179,330
Deferred tax liabilities:		
Unrealized gains on available for sale financial instruments	(173,950)	(179,330)
Deferred tax liabilities - net	\$ -	\$ -

Movement in deferred tax liabilities

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ -	\$ -
Recognized in profit and loss	(43,377)	78,400
Recognized in other comprehensive income	43,377	(78,400)
Balance, end of year	\$ -	\$ -

Unrecognized deferred tax assets

Deferred income taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred income tax assets have not been recognized in respect of the following deductible temporary differences:

	<u>2016</u>	<u>2015</u>
Non-capital losses carried forward	\$ 781,510	417,600
Interest in oil and gas properties	341,910	\$ 357,240
Equipment and other	35,930	38,220

The non-capital losses carried forward will expire, if not utilized, between 2030 and 2036. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

12. Earnings per Share

Basic and diluted earnings (loss) per share have been calculated based on the weighted average number of common shares outstanding during 2016 of 4,821,667 (2015 - 4,728,364). Stock options and share purchase warrants were excluded from the calculation of the weighted average number of diluted common shares outstanding in 2016 and 2015 because their effect would have been anti-dilutive.

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Notes to the Consolidated Financial Statements

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13. Capital Disclosures

The Company's objectives, when managing capital, are to maintain its ability to continue as a going concern in order to provide return for shareholders and to ensure sufficient resources are available to meet day to day operating requirements.

The Company considers the items included in shareholders' equity as capital. The Company manages its capital structure and makes adjustments to it, in order to have funds available to support its corporate activities.

The Company is not subject to externally imposed capital requirements and there has been no change in the overall capital risk management strategy during the year.

14. 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 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 \$9,500 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.