



## Management's Discussion and Analysis For the Year Ended December 31, 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 consolidated financial and operating performance for the year ended December 31, 2017. The MD&A was prepared as of April 26, 2018 and was approved by the Board of Directors on April 26, 2018.

This MD&A should be read in conjunction with our audited consolidated financial statements as at, and for the year ending, December 31, 2017, 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 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                      |

<sup>(1)</sup> Denotes a member of the Audit Committee

<sup>(2)</sup> Denotes a member of the Governance and Compensation Committee

<sup>(3)</sup> Denotes a member of the Science and Business Development Committee

<sup>(4)</sup> Denotes an independent director

<sup>(\*)</sup> Denotes the Chair of the noted Committee.

### Corporate performance

In the 2017 fiscal the Company continued down the path established in the preceding fiscal year. The Company continued to manage its portfolio of investments and to investigate potential investment targets, with a focus on due diligence. During the year, the Company retained the services of Origin Merchant Partners ("Origin"). Origin is experienced, highly capable, and very well respected in the M&A field. Since being retained they have managed a process to find potential investment candidates for the Company, including screening potential opportunities through an established selection process, liaising with interested parties, guiding and participating in preliminary investigations, contributing to more comprehensive due diligence efforts, and providing feedback and advice to the Company's Board of Directors, through the Science and Business Development Committee. These services are continuing with no assurance that they will result in the culmination of a transaction.



## Corporate performance - continued

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 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 2017, the Company realized investment income of \$218,092 and generated almost \$1,300,000 in sale proceeds, net of reinvestment. Unrealized gains of approximately \$350,000 have also accrued during the 2017 fiscal year. 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 \$119,510 was recorded in the 2017 fiscal year, which is modestly higher than the 2016 total of \$93,673. 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 scientific investments and its historic oil and gas interests. The movement of the intellectual property 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, deriving income from short-term investments, and to hold investments with 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: |           |           |
|---------------------------------------|-----------------------------------------|-----------|-----------|
|                                       | 2017                                    | 2016      | 2015      |
| Oil and gas revenues                  | 1,610                                   | 7,433     | 6,016     |
| Net loss from operations              | (458,700)                               | (353,039) | (377,547) |
| Per share - basic                     | (0.09)                                  | (0.07)    | (0.08)    |
| Net income (loss) for the year        | 379,625                                 | 429,738   | (986,288) |
| Per share - basic                     | 0.08                                    | 0.09      | (0.21)    |
| Total assets                          | 9,398,405                               | 9,207,409 | 8,811,505 |
| Total long-term financial liabilities | -                                       | -         | -         |
| Total liabilities                     | 199,452                                 | 136,621   | 175,243   |



## Selected financial data - continued

|                                       | For the three month periods ended: |                 |                 |                 |
|---------------------------------------|------------------------------------|-----------------|-----------------|-----------------|
|                                       | Dec. 31<br>2017                    | Sep. 30<br>2017 | June 30<br>2017 | Mar. 31<br>2017 |
| Oil and gas revenues                  | 438                                | 281             | 352             | 539             |
| Net (loss) from operations            | (151,095)                          | (160,522)       | (80,516)        | (66,567)        |
| Per share - basic                     | (0.03)                             | (0.03)          | (0.02)          | (0.01)          |
| Net income (loss) for the period      | 120,725                            | 85,346          | 128,610         | 44,944          |
| Per share - basic                     | 0.02                               | 0.02            | 0.03            | 0.01            |
| Total assets                          | 9,398,405                          | 9,615,829       | 9,553,009       | 9,361,555       |
| Total long-term financial liabilities | -                                  | -               | -               | -               |
| Total liabilities                     | 199,452                            | 196,534         | 123,121         | 139,913         |

|                                       | For the three month periods ended: |                 |                 |                 |
|---------------------------------------|------------------------------------|-----------------|-----------------|-----------------|
|                                       | Dec. 31<br>2016                    | Sep. 30<br>2016 | June 30<br>2016 | Mar. 31<br>2016 |
| Oil and gas revenues                  | 884                                | 318             | 6,095           | 136             |
| Net (loss) from operations            | (101,969)                          | (72,619)        | (112,955)       | (65,496)        |
| Per share - basic                     | (0.02)                             | (0.01)          | (0.02)          | (0.01)          |
| Net income (loss) for the period      | 72,928                             | 179,411         | 71,037          | 106,362         |
| Per share - basic                     | 0.02                               | 0.04            | 0.01            | 0.02            |
| Total assets                          | 9,207,409                          | 9,409,825       | 9,108,034       | 8,711,678       |
| Total long-term financial liabilities | -                                  | -               | -               | -               |
| Total liabilities                     | 136,621                            | 263,610         | 179,621         | 175,943         |

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

## Results of operations

|                                     | Years ended Dec. 31 |            | Three months ended Dec. 31 |            |
|-------------------------------------|---------------------|------------|----------------------------|------------|
|                                     | 2017                | 2016       | 2017                       | 2016       |
| Oil and gas revenues                | \$ 1,610            | \$ 7,433   | \$ 438                     | \$ 884     |
| Oil and gas recovery (expenditures) | 407                 | (8,445)    | (722)                      | (6,820)    |
| Gross profit (loss)                 | \$ 2,017            | \$ (1,012) | \$ (284)                   | \$ (5,936) |

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:

|                                       | Years ended Dec. 31 |                   | Three months ended Dec. 31 |                  |
|---------------------------------------|---------------------|-------------------|----------------------------|------------------|
|                                       | 2017                | 2016              | 2017                       | 2016             |
| Administrative expenses               | \$ 425,776          | \$ 267,416        | \$ 143,790                 | \$ 120,659       |
| Foreign exchange loss (gain)          | 3,066               | (769)             | (577)                      | (925)            |
| Project development costs (recovered) | 1,572               | (47,679)          | -                          | (47,679)         |
| Scientific analysis                   | -                   | 59,545            | -                          | 5,588            |
| Share based payments                  | 30,303              | 73,514            | 7,598                      | 18,390           |
| <b>Total expenses</b>                 | <b>\$ 460,717</b>   | <b>\$ 352,027</b> | <b>\$ 150,811</b>          | <b>\$ 96,903</b> |

Administrative expenses incurred were as follows:

|                                      | Years ended Dec. 31 |                   | Three months ended Dec. 31 |                   |
|--------------------------------------|---------------------|-------------------|----------------------------|-------------------|
|                                      | 2017                | 2016              | 2017                       | 2016              |
| Management and corporate services    | \$ 163,830          | \$ 121,196        | \$ 37,800                  | \$ 43,688         |
| Shareholder services                 | 17,990              | 36,521            | 1,566                      | 17,260            |
| Professional fees                    | 219,797             | 91,709            | 101,099                    | 55,827            |
| Insurance                            | 6,048               | 6,696             | 1,512                      | 1,512             |
| Office and general                   | 6,466               | 6,679             | 694                        | 2,032             |
| Travel                               | 11,645              | 4,615             | 1,119                      | 340               |
| <b>Total administrative expenses</b> | <b>\$ 425,776</b>   | <b>\$ 267,416</b> | <b>\$ 143,790</b>          | <b>\$ 120,659</b> |

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 Company's existing intellectual property, and efforts to explore potential commercial applications.

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 on each of December 2016 and December 2017, and the final 25% will vest on 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 and evaluation of potential investment targets.



## **Results of operations - continued**

Shareholder services encompasses all regulatory costs and costs 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, the April 2016 private placement that was completed to better align the interests of the Board with those of the broader shareholder base, and the annual general meeting held December 2016. No similar costs have been incurred in 2017, noting that the annual general meeting was deferred until February 2018.

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 2017 as an aspect of the Company's investigation of its oil and gas interests. Legal fees include costs related to corporate governance, as a result of disputes with vendors, as well as fees associated with the due diligence process. Governance costs have remained consistent while fees related to disputes and due diligence have risen and comprise the majority of the 2017 costs. Fees charged by the Company's auditors remained comparable year over year even though 2017 includes incremental income tax advisory services in relation to a strategic investment the Company had been considering.

In 2017, members of the Company's management travelled to perform preliminary due diligence on potential strategic investment targets. Travel costs were lower in 2016 even though the vast majority again related to management's investigation of potential investment targets.

## **Liquidity**

The Company continues to have a strong liquidity position as it holds cash in the amount of \$3,845,094 (2016 – \$2,685,813) that is available to settle current liabilities in the amount of \$199,452 (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 2017 the Company realized \$1,322,484 (2016 - \$1,088,538) in liquidation proceeds, which resulted in recognition of a gain in the amount of \$781,792 (2016 - \$664,546). New short-term investments of \$46,500 (2016 - \$895,510) 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 Dec. 31 |                   | Three months ended Dec. 31 |                  |
|--------------------------------------|---------------------|-------------------|----------------------------|------------------|
|                                      | 2017                | 2016              | 2017                       | 2016             |
| Services rendered by the Interim CEO | \$ 98,875           | \$ 72,196         | \$ 11,300                  | \$ 20,634        |
| Services rendered by the CFO         | 47,000              | 40,000            | 12,000                     | 9,500            |
| Directors' fees                      | 17,955              | 9,000             | 14,500                     | 9,000            |
| Total cash-based expenses            | <u>\$ 163,830</u>   | <u>\$ 121,196</u> | <u>\$ 37,800</u>           | <u>\$ 39,134</u> |
| Share based payments                 | <u>\$ 30,303</u>    | <u>\$ 73,514</u>  | <u>\$ 7,598</u>            | <u>\$ 18,509</u> |

As at December 31, 2017, \$141,479 (2016 - \$90,638) was payable to the related parties noted above and is included in accounts payable and accrued liabilities. 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. 75% of these options have vested and the remaining 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 had an exercise price of \$1.50 and could be exercised up to April 26, 2018. Coincident with the date of this document 142,500 warrants were exercised and 57,500 warrants expired.

## 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



## Financial instruments - continued

*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, the amount of the loss is removed from accumulated other comprehensive income and recognized in net income.

*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, IFRS 9 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. The Company has completed its assessment and there will be no material impact on the consolidated financial statements when this standard is adopted in the Company's consolidated financial statements for the year beginning January 1, 2018.

## Convertible instruments and other securities

|                                                          | Quantity         | Amount              |
|----------------------------------------------------------|------------------|---------------------|
| 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 December 31, 2017 | 4,886,694        | 4,423,202           |
| Warrants exercised after December 31, 2017               | 142,500          | 239,539             |
| Common shares as at the date of this document            | <u>5,029,194</u> | <u>\$ 4,662,741</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.



## Convertible instruments and other securities - continued

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 at December 31, 2016 and December 31, 2017 | 595,000         |
| Warrants, exercised after December 31, 2017                       | (142,500)       |
| Warrants, expired after December 31, 2017                         | <u>(57,500)</u> |
| Common shares reserved as at the date of this document            | <u>395,000</u>  |

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

|                                                          | <u>Quantity</u>  |
|----------------------------------------------------------|------------------|
| Common shares at December 31, 2017                       | 4,886,694        |
| Common shares reserved at December 31, 2017              | <u>595,000</u>   |
| Fully diluted position as at December 31, 2017           | 5,481,694        |
| Change in common shares issued after December 31, 2017   | 142,500          |
| Change in common shares reserved after December 31, 2017 | <u>(200,000)</u> |
| Fully diluted position as at the date of this document   | <u>5,424,194</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 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 \$550,000 in other comprehensive income.

A 10% increase or decrease in the Canadian dollar relative to the US dollar could result in an increase or decrease of approximately \$9,350 in other comprehensive income and an increase or decrease of approximately \$3,750 in net income.



## **Financial Risk Factors - continued**

### *Sensitivity to Market Risk - continued*

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.*