



## Management's Discussion and Analysis For the Nine Month Period Ended September 30, 2019

### Basis of Presentation

Phoenix Canada Oil Company Limited (Phoenix or Company) has prepared the following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations of the Company. This MD&A constitutes management's review of the factors that affected the Company's unaudited interim condensed consolidated financial and operating performance for the nine month period ended September 30, 2019. The MD&A was prepared as of November 29, 2019 and was approved by the Board of Directors on November 29, 2019.

This MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements for the nine month period ended September 30, 2019 and the audited consolidated financial statements for the year ended December 31, 2018, 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 filing website -- [www.SEDAR.com](http://www.SEDAR.com).

### The Company

The Company held its annual general meeting on August 28, 2019 at which time each of the incumbent Directors was re-elected. At the meeting of the Board of Directors that immediately followed the shareholder meeting, each of the Company's Officers was reappointed and the sub-committees of the Board were reformed with the same members. The management of the Company 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, 3, 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 Business Development Committee

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

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

### Corporate performance

The Company's primary focus has been, and remains, on identifying and investigating potential strategic partners. On June 3, 2019 the Company announced the termination of a non-binding letter of intent (LOI) after determining that proceeding with this transaction was not in the best interest of the Company's shareholders. Following the termination, the Company had the trading halt on its shares lifted, and held its annual general meeting, while becoming reacquainted with the investment opportunities that may be available to it.



## Corporate performance - continued

Throughout the period, the Company continued to manage its investments with the objective to enhance liquidity while maximizing resulting returns. The Company continues to seek to sell investments at opportune times however the termination of the proposed transaction altered the Company's investment horizon. During the first nine months of 2019 the Company sold investments valued at \$1,101,305, none in the most recent quarter, and acquired no new investments. As at September 30, 2019 the Company held investments valued at \$2,585,646.

## Selected financial data

The Company continues to maintain strong cash and liquidity positions, to derive income from short term investments, and to hold investments with opportunities for growth. The following selected financial data may provide additional insights relative to the Company's operating performance and financial position:

	For the fiscal years ended December 31:		
	2018	2017	2016
Oil and gas revenues	1,151	1,610	7,433
Net loss from operations	(662,592)	(458,700)	(353,039)
Per share - basic	(0.13)	(0.09)	(0.07)
Net income (loss) for the year	(664,396)	379,625	429,738
Per share - basic	(0.13)	0.08	0.09
Total assets	8,948,656	9,398,405	9,207,409
Total liabilities (all current)	304,926	199,452	136,621

  

	For the fiscal quarters ended:			
	Sep. 30	June 30	Mar. 31	Dec. 31
	2019	2019	2019	2018
Oil and gas revenues	-	78	58	216
Net loss from operations	(50,843)	(153,013)	(128,766)	(133,179)
Per share - basic	(0.01)	(0.03)	(0.03)	(0.03)
Net income (loss) for the period	41,873	(69,132)	294,907	(313,135)
Per share - basic	0.01	(0.01)	0.06	(0.06)
Total assets	9,159,749	9,099,118	9,121,049	8,948,656
Total liabilities (all current)	248,372	229,613	182,412	304,926

  

	For the fiscal quarters ended:			
	Sep. 30	June 30	Mar. 31	Dec. 31
	2018	2018	2018	2017
Oil and gas revenues	220	289	426	438
Net loss from operations	(208,790)	(191,316)	(129,307)	(151,095)
Per share - basic	(0.04)	(0.04)	(0.03)	(0.03)
Net income (loss) for the period	(138,665)	(102,293)	(110,303)	120,725
Per share - basic	(0.03)	(0.02)	(0.02)	0.02
Total assets	9,303,561	9,395,160	9,110,214	9,398,405
Total liabilities (all current)	211,729	211,752	239,238	199,452

The Company did not report any long-term financial liabilities, nor did it declare, or pay, any cash dividends during any of the periods noted above.



## Significant Accounting Estimates and Judgements

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

Significant estimates and judgments include, but are not limited to, the recognition and valuation of deferred tax amounts.

## Results of operations

	Nine months ended Sept. 30		Three months ended Sept. 30	
	2019	2018	2019	2018
Oil and gas revenues	\$ 136	\$ 935	\$ -	\$ 220
Operating (recovered) expenses	130	1,575	51	683
Gross profit (loss)	\$ 6	\$ (640)	\$ (51)	\$ (463)

The oil and gas interests consist 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:

	Nine months ended Sept. 30		Three months ended Sept. 30	
	2019	2018	2019	2018
Administrative expenses	\$ 322,575	\$ 513,745	\$ 55,740	\$ 191,859
Foreign exchange (gain)	10,053	(2,256)	(4,948)	4,423
Project development costs	-	9,293	-	9,293
Share based payments	-	8,165	-	2,752
Total expenses	\$ 332,628	\$ 528,947	\$ 50,792	\$ 208,327

Administrative expenses incurred were as follows:

	Nine months ended Sept. 30		Three months ended Sept. 30	
	2019	2018	2019	2018
Management and corporate services	\$ 167,757	\$ 160,775	\$ 27,500	\$ 59,795
Shareholder services	31,287	24,178	17,167	2,621
Professional fees	115,949	318,360	8,217	124,487
Insurance	4,536	4,536	1,512	1,512
Office and general	3,004	3,188	1,311	816
Travel	42	2,708	33	2,628
Total administrative expenses	\$ 322,575	\$ 513,745	\$ 55,740	\$ 191,859



## Results of operations - continued

Share based payments represent the costs attributed to stock options granted in prior periods, which had not vested at the beginning of a financial reporting period. The value attributed to the stock options at the time of grant is accreted to income over their vesting period. There were no unvested stock options at December 31, 2018 and therefore there was no expense in the current periods. At December 31, 2017 there were 86,250 unvested options, being 25% of the 345,000 options granted to directors and officers of the Company in December 2015.

The foreign exchange (gain) loss realized during each period represents the change in the Canadian dollar value of US cash, as a result of fluctuations in the exchange rate, or the variance between the Canadian dollar value on the date an expense is incurred and the date that expense is paid. The Company receives incidental investment income, and incurs nominal expenses, in US dollars.

Project development costs in the comparative periods represents a settlement with patent lawyers for work completed in earlier periods.

Management and corporate services is comprised of fees charged by the Company's CEO and CFO as well as fees payable to independent Directors for their attendance at meetings of the Board or its sub-committees. The fees will fluctuate from period to period, dependent upon the extent of services provided.

Shareholder services encompasses all regulatory costs and costs incurred in relation to the Company's shareholders and securities, including fees charged by the Company's transfer agent. The current period expense includes costs related to the annual general meeting held August 2019 and regulatory fees relative to the terminated transaction. The 2018 expense includes costs incurred as a consequence of the annual general meeting held February 2018.

Professional fees include legal fees, fees charged and expected to be charged by the Company's auditors, and fees charged by the parties retained to assist in the due diligence process. Legal fees for each of the periods presented related primarily to the due diligence process which were greater in 2019, with the majority arising in the first six months of the year. Fees charged, and expected to be charged, by the Company's auditors remained comparable for the periods presented. Fees related to the due diligence process were significantly higher in the comparative periods as it was much earlier in the diligence process.

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 \$6,513,795 (Dec. 2018 ó \$5,438,325) that is available to settle current liabilities in the amount of \$248,372 (Dec. 2018 - \$304,926).



## Liquidity - continued

The Company's primary source of cash is its short-term investment in marketable securities. Cash is derived through periodic receipt of dividends, interest, return of capital, and sale proceeds whenever disposal may be considered prudent. In the first nine months of 2019 the Company realized investment income of \$190,881 (Sept. 2018 - \$174,805), \$1,573 (Sept. 2018 - \$18,568) in return of capital, and \$1,101,305 (Sept. 2018 - \$1,250,798) in sale proceeds. No new investments (Sept. 2018 - \$323,892) were acquired during the nine months ended September 30, 2019.

## Capital resources and off-balance sheet arrangements

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

## Transactions with related parties

The Company has incurred the following transactions with related parties:

	Nine months ended Sept. 30		Three months ended Sept. 30	
	2019	2018	2019	2018
Services rendered by the CEO	\$ 73,558	\$ 33,900	\$ 12,500	\$ 11,300
Services rendered by the CFO	80,000	93,880	15,000	40,000
Directors' fees	14,199	32,995	-	8,495
	<u>\$ 167,757</u>	<u>\$ 160,775</u>	<u>\$ 27,500</u>	<u>\$ 59,795</u>
Share based payments	\$ -	\$ 8,165	\$ -	\$ 2,752

At September 30, 2019, \$219,511 (Dec. 2018 - \$169,500) 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 period and expiration period are fixed at the time of grant at the discretion of the Board of Directors. The fair value of stock options is determined using the Black-Scholes model and is accreted to contributed surplus, and to income as share-based payment expense, over the vesting period for the options.

In December 2015, the Company granted 345,000 stock options to its directors and a senior officer. These options, which are fully vested, have an exercise price of \$1.40 and may be exercised up to December 30, 2022.

## Convertible instruments and other securities

	Quantity	Amount
Common shares at December 31, 2017	4,886,694	4,423,202
Warrants exercised during the period	142,500	239,540
Common shares as at September 30, 2018, December 31, 2018, September 30, 2019, and as at the date of this document	<u>5,029,194</u>	<u>\$ 4,662,742</u>



## Convertible instruments and other securities - continued

In addition to the shares already issued the Company has 345,000 common shares reserved for potential future issuance should stock options, exercisable at \$1.40 until December 30, 2022, be exercised.

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

	<u>Quantity</u>
Common shares issued	5,029,194
Common shares reserved	<u>345,000</u>
Fully diluted share position as at as at September 30, 2019, and as at the date of this document	<u>5,374,194</u>

## 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.

## Financial Risk Factors

The Company is exposed in varying degrees to the following 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 the potential impact due to 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 \$260,000 in net income.

A 10% increase or decrease in the Canadian dollar relative to the US dollar could result in an increase or decrease of approximately \$33,000 in net income.

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



## **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.*