

**Phoenix Canada Oil Company Limited**

**Consolidated Financial Statements**

**December 31, 2018 and 2017**

# Independent Auditor's Report

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To the Shareholders of Phoenix Canada Oil Company Limited:

## Opinion

We have audited the consolidated financial statements of Phoenix Canada Oil Company Limited and its subsidiary (the "Company"), which comprise the consolidated statements of financial position as at December 31, 2018 and December 31, 2017, and the consolidated statements of comprehensive (loss) income, changes in equity and cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2018 and December 31, 2017, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards.

## Basis for Opinion

We conducted our audits in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audits of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audits of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the 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.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audits and significant audit findings, including any significant deficiencies in internal control that we identify during our audits.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

The engagement partner on the audit resulting in this independent auditor's report is Sandra Alison Solecki.

*MNP LLP*

Mississauga, Ontario

April 30, 2019

Chartered Professional Accountants

Licensed Public Accountants

**MNP**

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# Phoenix Canada Oil Company Limited

## Consolidated Statements of Financial Position

As at December 31, 2018 and 2017

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	2018	2017
<b>Assets</b>		
<b>Current assets</b>		
Cash	\$ 5,438,325	\$ 3,845,094
Short-term investments	3,279,135	5,527,198
Other receivables (note 13)	231,195	26,112
	<b>8,948,655</b>	9,398,404
Interest in oil and gas properties (note 5)	1	1
	<b>\$ 8,948,656</b>	\$ 9,398,405
<b>Liabilities</b>		
<b>Current liabilities</b>		
Accounts payable and accrued liabilities (note 6)	\$ 304,926	\$ 199,452
<b>Equity</b>		
Share capital (note 7)	4,662,742	4,423,202
Warrants (note 7)	-	36,196
Contributed surplus (note 8)	453,189	431,897
Accumulated other comprehensive income	-	1,955,028
Retained earnings	3,527,799	2,352,630
	<b>8,643,730</b>	9,198,953
	<b>\$ 8,948,656</b>	\$ 9,398,405

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, 2018 and 2017

	Share Capital			Contributed	Accumulated	Retained	Total
	Number of	Paid up	Warrants	Surplus	Other	Earnings	
	Shares	Amount			Comprehensive		
					Income		
<b>Balance, December 31, 2016</b>	<b>4,886,694</b>	<b>\$ 4,423,202</b>	<b>\$ 36,196</b>	<b>\$ 401,594</b>	<b>\$ 2,236,791</b>	<b>\$ 1,973,005</b>	<b>\$ 9,070,788</b>
Share based payments	-	-	-	30,303	-	-	30,303
Other comprehensive loss for the year	-	-	-	-	(281,763)	-	(281,763)
Net income for the year	-	-	-	-	-	379,625	379,625
<b>Balance, December 31, 2017</b>	<b>4,886,694</b>	<b>4,423,202</b>	<b>36,196</b>	<b>431,897</b>	<b>1,955,028</b>	<b>2,352,630</b>	<b>9,198,953</b>
Reclassification upon adoption of IFRS 9 (note 3)	-	-	-	-	(1,051,725)	1,051,725	-
Share based payments	-	-	-	10,886	-	-	10,886
Exercise of warrants	142,500	239,540	(25,790)	-	-	-	213,750
Expiry of warrants	-	-	(10,406)	10,406	-	-	-
Reclassify realized gains to retained earnings	-	-	-	-	(214,998)	214,998	-
Other comprehensive loss for the year	-	-	-	-	(115,463)	-	(115,463)
Reclassify accumulated other comprehensive income to retained earnings	-	-	-	-	(572,842)	572,842	-
Net loss for the year	-	-	-	-	-	(664,396)	(664,396)
<b>Balance, December 31, 2018</b>	<b>5,029,194</b>	<b>\$ 4,662,742</b>	<b>\$ -</b>	<b>\$ 453,189</b>	<b>\$ -</b>	<b>\$ 3,527,799</b>	<b>\$ 8,643,730</b>

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

**Phoenix Canada Oil Company Limited**  
**Consolidated Statements of Comprehensive (Loss) Income**  
*for the years ended December 31, 2018 and 2017*

	2018	2017
<b>Revenue</b>		
Oil and gas income	\$ 1,151	\$ 1,610
<b>Direct Costs</b>		
Operating expenses (recovered)	1,666	(407)
<b>Gross (loss) income</b>	<b>(515)</b>	2,017
<b>Expenses</b>		
Administrative (notes 6 and 9)	660,958	425,776
Foreign exchange (gain) loss	(17,992)	3,066
Project development costs	8,225	1,572
Share based payments (notes 6 and 8)	10,886	30,303
	<b>662,077</b>	460,717
<b>Loss before investment income, HST recovery, sale of investments, and impairment</b>	<b>(662,592)</b>	(458,700)
Investment income	249,595	218,092
HST recovery (note 13)	116,234	-
(Loss) gain on short-term investments	(350,394)	781,792
Impairment of short-term investments	-	(119,510)
<b>(Loss) income before provision for income taxes</b>	<b>(647,157)</b>	421,674
Provision for income taxes – deferred (note 10)	(17,239)	(42,049)
<b>Net (loss) income for the year</b>	<b>\$ (664,396)</b>	\$ 379,625
<b>(Loss) earnings per common share</b>		
Basic	\$ (0.13)	\$ 0.08
Fully diluted	\$ (0.13)	\$ 0.08
<b>Weighted average number of shares</b>		
Basic	4,984,297	4,886,694
Fully diluted	4,984,297	4,886,694
<b>Comprehensive (loss) income</b>		
<b>To not be subsequently reclassified to net (loss) income:</b>		
Loss on short-term investments	\$ (132,702)	\$ -
Deferred taxes	17,239	-
<b>To be subsequently reclassified to net (loss) income:</b>		
Unrealized gain on short-term investments	-	235,626
Unrealized gain on long-term investments	-	115,463
Reclassification of gains included in net income for the year	-	(674,901)
Deferred taxes	-	42,049
Other comprehensive loss for the year	(115,463)	(281,763)
Net (loss) income for the year	<b>(664,396)</b>	379,625
<b>Net comprehensive (loss) income for the year</b>	<b>\$ (779,859)</b>	\$ 97,862

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

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## Phoenix Canada Oil Company Limited

### Consolidated Statements of Cash Flows

for the years ended December 31, 2018 and 2017

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	2018	2017
<b>Cash flow used in operating activities</b>		
Net (loss) income for the year	\$ (664,396)	\$ 379,625
Items not affecting cash:		
Share based payments	10,886	30,303
Gain on sale of investments	350,394	(781,792)
Impairment of short-term investments	-	119,510
Deferred tax provision	17,239	42,049
	(285,877)	(210,305)
Other sources (uses) of cash from operations:		
Other receivables	(205,083)	3,164
Accounts payable and accrued liabilities	105,474	62,831
	(385,486)	(144,310)
<b>Cash flow from investing activities</b>		
Purchase of investments	(274,660)	(46,500)
Return of capital on investments	17,012	27,607
Proceeds from disposal of investments	2,022,615	1,322,484
	1,764,967	1,303,591
<b>Cash flow from financing activities</b>		
Proceeds from share issuance, net	213,750	-
<b>Increase in cash</b>	<b>1,593,231</b>	<b>1,159,281</b>
<b>Cash, beginning of year</b>	<b>3,845,094</b>	<b>2,685,813</b>
<b>Cash, end of year</b>	<b>\$ 5,438,325</b>	<b>\$ 3,845,094</b>

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

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# Phoenix Canada Oil Company Limited

## Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

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### 1. Business of the Company

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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. It also holds minority interest investments in several mature gas fields in Western Canada, the carrying value of which is \$1. The Company is evaluating acquisition targets that would generate additional shareholder value through the purchase of operating assets and during the year the Company announced the signing of a non-binding Letter of Intent with VMedia Inc.

These consolidated financial statements were approved by the Board of Directors on April 30, 2019.

### 2. Basis of Presentation and Statement of Compliance

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#### *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 revenues and 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 recognition and valuation of deferred tax amounts.

#### *Functional Currency*

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

### 3. Change in accounting policy

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The Company's accounting policies will typically change only when there is a change in IFRS.

Effective January 1, 2018 the Company has adopted IFRS 9 which uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing multiple rules in IAS 39. The approach in IFRS 9 is generally based on how an entity manages its financial assets in the context of its business model and the contractual cash flow characteristics of the financial assets.

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# Phoenix Canada Oil Company Limited

## Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

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### 3. Change in accounting policy - continued

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Investments in equity instruments are required to be measured at fair value through profit or loss. However, there is an irrevocable option to present fair value changes for each equity instrument in other comprehensive income or loss. The Company determined this optional presentation, wherever applicable, to be most consistent with how it managed these financial assets at the time IFRS 9 was initially adopted. The Company also has short-term investments, described as puttable instruments, which have been classified as fair value through profit or loss on the basis that they do not meet the definition as equity instruments under IFRS 9. The Company has also elected to reclassify realized gains or losses on equity investments from accumulated other comprehensive income to retained earnings.

Subsequent to the January 1, 2018 adoption of IFRS 9, the Company substantially changed the way it manages its investment in equity investments. Under this new management concept, it is no longer appropriate under IFRS 9 to have fair value changes presented in other comprehensive income or loss. With an effective date of October 1, 2018, the Company effected the change whereby fair value changes are presented through profit or loss.

Impairment of financial assets are determined using a single impairment model that requires entities to recognize expected credit losses without requiring a triggering event to occur. The new impairment model applies to financial assets measured at amortized cost or fair value through other comprehensive income, except for equity instruments. IFRS 9 largely retains the existing requirements under IAS 39 for the classification and measurement of financial liabilities.

This standard has been applied retrospectively using the available transitional provisions that allow an entity not to restate comparative period information. The Company has recognized the effects of applying this standard as an adjustment to opening retained earnings as at January 1, 2018.

The Company has applied the irrevocable option for each equity investment resulting in measurement of gains and losses in other comprehensive income or loss. Upon the adoption of IFRS 9, the Company recorded the reclassification of impairment charges on equity instruments, previously recognized through profit or loss, and unrealized gains and losses on puttable instruments, previously recognized through other comprehensive (loss) income. This is effected through a reallocation as at January 1, 2018, through the consolidated statement of equity, from accumulated other comprehensive income to retained earnings.

We have assessed the classification and measurement of our financial instruments under IFRS 9, with reference to the former classification under IAS39, as follows:

<b>Financial Assets</b>	<b>IFRS 9</b>	<b>IAS 39</b>
Cash	Amortized cost	Loans and receivables
Short-term investments (equity instruments) <sup>(1)</sup>	Fair value through other comprehensive income	Available for sale
Short-term investments (puttable instruments)	Fair value through profit or loss	Available for sale
Other receivables	Amortized cost	Loans and receivables
<b>Financial Liabilities</b>		
Accounts payable and accrued liabilities	Amortized cost	Other financial liabilities

<sup>(1)</sup> As at October 1, 2018, the Company effected the change whereby fair value changes are presented through profit or loss.

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# Phoenix Canada Oil Company Limited

## Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

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### 3. Change in accounting policy

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*Initial recognition* – A financial asset or financial liability is initially recorded at its fair value, which is typically the transaction price, plus or minus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. In the event that fair value is determined to be different from the transaction price, and that fair value is evidenced by a quoted price in an active market for an identical asset or liability or is based on a valuation technique that uses only data from observable markets, then the difference between fair value and transaction price is recognized as a gain or loss at the time of initial recognition.

*Fair value through other comprehensive income* – Changes in fair value after initial recognition, whether realized or not, are recognized through other comprehensive income. Income arising in the form of interest, dividends, or similar, is recognized through profit and loss when the right to receive payment is established, the economic benefits will flow to the Company, and the amount can be measured reliably.

*Fair value through profit or loss* – Financial assets classified as FVTPL are measured at fair value with changes in fair value recognized in net profit or loss.

*Amortized cost* – The amount at which a financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any expected credit losses.

*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.

*Financial Instruments Recorded at Fair Value* - Financial instruments recorded at fair value on the statements 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 unadjusted quoted prices 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); and
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).

As at December 31, 2018 and 2017, all short-term investments are valued using level 1 quoted market prices.

### 4. Significant Accounting Policies

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#### *Revenue Recognition*

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.

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# Phoenix Canada Oil Company Limited

## Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

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### 4. Significant Accounting Policies - continued

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#### *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 net income.

#### *Stock-based Compensation*

The Company has in effect a stock option plan ("the Plan") which is described in note 8. 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, plus any contributed surplus associated with the options, is credited 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 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:

- The initial recognition of goodwill;
- The initial recognition of assets or liabilities that do not affect either accounting or taxable income;
- Differences relating to investments in subsidiary to the extent that they will probably not reverse in the foreseeable future.

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.

#### *(Loss) earnings per Share*

Basic (loss) earnings per share is calculated using the weighted-average number of common shares outstanding during the period. Fully diluted (loss) earnings 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. Options, warrants, and equivalents are excluded from fully diluted earnings per share when their effect would have been anti-dilutive.

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# Phoenix Canada Oil Company Limited

## Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

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### 5. Interest in Oil and Gas Properties

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	2018	2017
Oil and gas leases and/or permits	\$ 1	\$ 1

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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.

### 6. Related Party Transactions

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During the year, the Company had the following transactions with officers and directors of the Company and private companies controlled by officers and directors of the Company. Each of these amounts is included in administrative expenses (*note 9*):

- \$55,000 (2017 - \$98,875) for services rendered by its Chief Executive Officer.
- \$114,525 (2017 - \$47,000) for services rendered by its Chief Financial Officer.
- \$47,500 (2017 - \$17,955) for Directors' fees.

The Company incurred share-based payments of \$10,886 (2017 - \$30,303) relative to stock options granted to Directors and Officers during prior periods which had not vested prior to the current financial reporting period. All options have vested as at December 31, 2018.

As at December 31, 2018, \$169,500 (2017 - \$141,479) 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.

### 7. Share Capital

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#### *Authorized*

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

#### *Activity*

During the year, the Company issued 142,500 common shares, for gross proceeds of \$213,750, upon the exercise of 142,500 warrants.

#### *Warrants*

	Number of warrants	Amount
Balance December 31, 2017 and 2016	200,000	\$ 36,196
Warrants exercised <sup>(1)</sup>	(142,500)	(25,790)
Warrants expired <sup>(1)</sup>	(57,500)	(10,406)
Balance December 31, 2018	-	\$ -

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<sup>(1)</sup> Directors and/or Officers of the Company held these warrants.

There were no warrants issued during the years ended December 31, 2018 or December 31, 2017.

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# Phoenix Canada Oil Company Limited

## Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

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### 8. Contributed Surplus

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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:

	<b>2018</b>	2017
Balance, beginning of year	\$ 431,897	\$ 401,594
Compensation expense related to stock options	<b>10,886</b>	30,303
Warrants expired during the year	<b>10,406</b>	-
Balance, end of year	\$ <b>453,189</b>	\$ 431,897

#### *Details of options outstanding:*

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Dec. 30, 2015	345,000 <sup>(1)</sup>	345,000	\$ 1.40	Dec. 30, 2022

<sup>(1)</sup> Directors and officers of the Company hold these options.

No stock options were granted or exercised during the years presented.

### 9. Administrative Expenses

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	<b>2018</b>	2017
Insurance	\$ 6,048	\$ 6,048
Management and corporate services ( <i>note 6</i> )	<b>217,025</b>	163,830
Office and general	<b>6</b>	6,466
Professional fees	<b>409,727</b>	219,797
Shareholder services	<b>24,294</b>	17,990
Travel	<b>3,858</b>	11,645
	\$ <b>660,958</b>	\$ 425,776

# Phoenix Canada Oil Company Limited

## Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

### 10. Income Taxes

#### *Income tax recovery*

The reconciliation of the combined federal and provincial statutory income tax rate of 26% (2017 – 26%) to the effective tax rates for the years ended December 31 is as follows:

	2018	2017
(Loss) income before provision for income taxes	\$ (647,157)	\$ 421,674
Expected income tax (recovery) provision	\$ (168,260)	\$ 109,635
Adjustments resulting from:		
Non-deductible expenses	2,830	8,239
Non-taxable investment income	(1,850)	(179,480)
Tax rate changes and other adjustments	(12,000)	97,970
Change in tax benefits	196,519	(2,060)
Provision for income taxes - deferred	\$ 17,239	\$ 42,049

#### *Deferred tax liability*

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

	2018	2017
Deferred tax assets:		
Non-capital losses carried forward	\$ -	\$ 177,650
Deferred tax liabilities:		
Unrealized gains on short-term investments	-	(177,650)
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.

	2018	2017
Balance, beginning of year	\$ -	\$ -
Recognized in profit and loss	(17,239)	(42,049)
Recognized in other comprehensive (loss) income	17,239	42,049
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:

	2018	2017
Non-capital losses carried forward	\$ 1,454,470	\$ 1,333,080
Interest in oil and gas properties	341,910	341,910
Short term investments	493,590	-
Equipment and other	40,930	36,420

The non-capital losses carried forward will expire, if not utilized, between 2030 and 2038. 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.

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# Phoenix Canada Oil Company Limited

## Notes to the Consolidated Financial Statements

December 31, 2018 and 2017

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### 11. Capital Disclosures

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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 financial reporting period.

### 12. Financial Risk Factors

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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 \$325,000 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 \$40,000 in net income.

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

### 13. Events after the Reporting Period

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Subsequent to December 31, 2018 the Company received confirmation from Canada Revenue Agency (CRA) that it was accepting the Company's application for the recovery of Harmonized Sales Taxes (HST) for the period January 1, 2014 to December 31, 2017. Due to a previous finding of CRA, all HST arising during this period had been recorded as an element of the expenses to which they pertained. The Company has recorded an HST recovery of \$116,234 on account of HST amounts arising between January 1, 2014 and December 31, 2017, and has provided for the recovery of \$78,767 in HST arising during the 2018 fiscal year. These amounts were included in other accounts receivable at December 31, 2018 and were received from CRA in the subsequent period.