



Management's Discussion and Analysis For the Year Ended December 31, 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 consolidated financial and operating performance for the year ended December 31, 2019. The MD&A was prepared as of April 24, 2020 and was approved by the Board of Directors on April 24, 2020.

This MD&A should be read in conjunction with our audited consolidated financial statements as at, and for the year ending, December 31, 2019, 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.

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 ⁽³⁾ MD., FRCPC., FAAP	Director, Chair, and CEO
Michael Detlefsen ^(1, 2*, 3, 4)	Director
Greg Nuttall ^(1, 2, 3*, 4)	Director
Charles Burns ^(1*, 2, 3, 4)	Director
W. Alex Mills ⁽⁴⁾	Director
Michael D. Kindy, CPA, CA	CFO

⁽¹⁾ Denotes a member of the Audit Committee

⁽²⁾ Denotes a member of the Governance and Compensation Committee

⁽³⁾ Denotes a member of the Business Development Committee

⁽⁴⁾ Denotes an independent Director

^(*) 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 year, the Company continued to manage its investments with the objective to enhance liquidity while maximizing resulting returns. The termination of the proposed transaction in June 2019 altered the Company's investment horizon and, with markets generally trending higher, this resulted in no sale of investments during the final half of the 2019 fiscal year. During the first two fiscal quarters the Company sold investments valued at \$1,101,306. No new investments were acquired in 2019.

The onset of the COVID-19 pandemic during the first quarter of 2020 caused significant volatility and a decline in the Canadian markets. The short-term investments that the Company holds were not excluded from this decline. There is no assurance that the Canadian market, or the Company's short-term investments, will recover their previous values nor, if they do, what period of time will have elapsed.

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:		
	2019	2018	2017
Oil and gas revenues	402	1,151	1,610
Net loss from operations	(397,182)	(662,592)	(458,700)
Per share - basic	(0.08)	(0.13)	(0.09)
Net income (loss) for the year	274,311	(664,396)	379,625
Per share - basic	0.05	(0.13)	0.08
Total assets	9,217,754	8,948,656	9,398,405
Total long-term financial liabilities	-	-	-
Total liabilities	299,713	304,926	199,452

	For the three month periods ended:			
	Dec. 31 2019	Sep. 30 2019	June 30 2019	Mar. 31 2019
Oil and gas revenues	266	-	78	58
Net loss from operations	(64,560)	(50,843)	(153,013)	(128,766)
Per share - basic	(0.01)	(0.04)	(0.04)	(0.03)
Net income (loss) for the period	6,663	41,873	(69,132)	294,907
Per share - basic	0.00	0.01	(0.01)	0.06
Total assets	9,217,754	9,159,749	9,099,118	9,121,049
Total long-term financial liabilities	-	-	-	-
Total liabilities	299,713	248,372	229,613	182,412



Selected financial data - continued

	For the three month periods ended:			
	Dec. 31 2018	Sep. 30 2018	June 30 2018	Mar. 31 2018
Oil and gas revenues	216	220	289	426
Net (loss) from operations	(133,179)	(208,790)	(191,316)	(129,307)
Per share - basic	(0.03)	(0.04)	(0.04)	(0.03)
Net (loss) income for the period	(313,135)	(138,665)	(102,293)	(110,303)
Per share - basic	(0.06)	(0.03)	(0.02)	(0.02)
Total assets	8,948,656	9,303,561	9,395,160	9,110,214
Total long-term financial liabilities	-	-	-	-
Total liabilities	304,926	211,729	211,752	239,238

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

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 revenues and expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The 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 current and future periods.

Significant estimates and judgments include, but are not limited to, the assessment as to whether provisions for asset retirement obligations are to be recorded or adjusted and the recognition and valuation of deferred tax amounts.

Results of operations

	Years ended Dec. 31		Three months ended Dec. 31	
	2019	2018	2019	2018
Oil and gas revenues	\$ 402	\$ 1,151	\$ 266	\$ 216
Oil and gas expenditures	17,180	1,666	17,050	91
Gross (loss) profit	\$ (16,778)	\$ (515)	\$ (16,784)	\$ 125

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 and to provide information with respect to possible asset retirement obligations. During the fourth quarter of 2019 the oil and gas expenditures included a provision for estimated asset retirement obligations in the amount of \$23,523 in relation to the planned retirement of two wells in which the Company has interests. The retirement work is expected to be completed in 2020 and the Company's share of amounts incurred relative to this work, net of any recoveries, may differ from these estimates.



Results of operations - continued

Due to the age and inconsistency of these assets, the revenues and gross (loss) profit derived in one period should not be construed as being predictive of future periods.

Expenses incurred were as follows:

	Years ended Dec. 31		Three months ended Dec. 31	
	2019	2018	2019	2018
Administrative expenses	\$ 362,418	\$ 660,958	\$ 39,843	\$ 147,213
Foreign exchange loss (gain)	17,986	(17,992)	7,933	(15,736)
Project development costs (recovered)	-	8,225	-	(1,068)
Share based payments	-	10,886	-	2,721
Total expenses	\$ 380,404	\$ 662,077	\$ 47,776	\$ 133,130

Administrative expenses incurred were as follows:

	Years ended Dec. 31		Three months ended Dec. 31	
	2019	2018	2019	2018
Management and corporate services	\$ 201,324	\$ 217,025	\$ 33,567	\$ 56,250
Shareholder services	28,414	24,294	(2,873)	116
Professional fees	123,118	409,727	7,169	91,367
Insurance	6,048	6,048	1,512	1,512
Office and general (recovered)	3,443	6	439	(3,182)
Travel	71	3,858	29	1,150
Total administrative expenses	\$ 362,418	\$ 660,958	\$ 39,843	\$ 147,213

The foreign exchange loss (gain) 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.

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.

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 year expense includes charges related to the proposed acquisition that was terminated during the year. The final quarter of 2019 includes the reduction of amounts previously estimated in relation to that same transaction.



Results of operations - continued

Professional fees include legal fees, fees charged and expected to be charged by the Company's auditors, and fees charged by the parties that were retained to assist in the due diligence process. The majority of the due diligence fees arose during the final three fiscal quarters of 2018 and the first half of the 2019 fiscal year. Fees charged, and expected to be charged, by the Company's auditors in relation to the annual audits remained comparable for the periods presented.

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 \$6,556,497 (2018 ó \$5,438,325) that is available to settle current liabilities in the amount of \$299,713 (2018 - \$304,926).

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 2019 the Company realized investment income of \$255,271 (2018 - \$249,595), \$1,573 (2018 - \$17,012) in return of capital, and \$1,101,306 (2018 - \$2,022,615) in sale proceeds. No new investments (2018 - \$274,660) 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	
	2019	2018	2019	2018
Services rendered by the Interim CEO	\$ 85,625	\$ 55,000	\$ 12,067	\$ 21,100
Services rendered by the CFO	100,000	114,525	20,000	20,645
Directors' fees	15,699	47,500	1,500	14,505
Total cash-based expenses	<u>\$ 201,324</u>	<u>\$ 217,025</u>	<u>\$ 33,567</u>	<u>\$ 56,250</u>
Share based payments	<u>\$ -</u>	<u>\$ 10,886</u>	<u>\$ -</u>	<u>\$ 2,721</u>

As at December 31, 2019, \$248,873 (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.



Transactions with related parties - continued

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

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

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 December 31, 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.

Subsequent to December 31, 2019, the world has been impacted by the novel Coronavirus or COVID-19, which was declared a pandemic by the World Health Organization on March 12, 2020. The Company's primary exposure to the effects of this pandemic is through its short-term investments in Canadian public companies. As a result of the pandemic there has been significant economic uncertainty and high market volatility that may affect the carrying value of, or the income being realized from, these investments.



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 stock markets. The Company's exposure to currency risk relates to US cash held 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 \$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.