



## Management's Discussion and Analysis For the Year Ended December 31, 2020

### 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, 2020. The MD&A was prepared as of March 18, 2021 and was approved by the Board of Directors on March 18, 2021.

This MD&A should be read in conjunction with our audited consolidated financial statements as at, and for the year ending, December 31, 2020, 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 has not changed since the preceding fiscal year end, 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 Science and Business Development Committee

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

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

### Corporate performance

On January 30, 2020 the World Health Organization (WHO) declared COVID-19 a global health emergency and on March 11, 2020 they declared it a pandemic. These WHO declarations were soon followed by announcements of numerous restrictions by domestic and international governments affecting the way people could interact and how business was conducted. The Company embraced these announcements and required all personnel to work from home. The pandemic persists and we continue to be unable to measure the depth and breadth of its impact. The Company's primary exposure to the effects of this pandemic is through its impact on investment income and the value of its short-term investments in Canadian public companies.



## Corporate performance - continued

The Company's operational focus has been, and continues to be, on identifying and investigating potential strategic partners. Throughout the year, and subsequent thereto, management has continued discussions with, and investigation into, possible suitors. The emergence of COVID-19 has slowed this process but it has not caused it to stop. At this time, it remains uncertain when current due diligence processes may be completed, or whether they may result in the completion of a transaction.

Canadian market conditions changed dramatically and unexpectedly with the onset of COVID-19, resulting in a significant first quarter decline in the carrying value of the Company's investments. Although market conditions generally improved throughout the remainder of the year, many market segments remain highly volatile with values still trailing what they had been prior to the onset of the pandemic. The Company's investment values improved over the final nine months of 2020 but not enough to offset the first quarter decline and the Company has reported a net loss on investments for the year of \$678,299.

In addition to market values declining, the pandemic also caused a reduction in interest rates and instigated reductions in, or even elimination of, dividend payments by many companies. The effect of this is seen through a reduction of almost 40% in investment income in comparison to 2019 levels.

Management continues to manage the Company's investments and to seek opportunities to enhance shareholder wealth through prudent market transactions. With market improvements, the Company is cautiously optimistic with respect to the ability of certain market segments to generate additional investment income. During the fourth quarter the Company sold investments valued at \$115,402 and acquired new highly liquid, dividend paying investments, valued at \$120,518. This represents the first new investments the Company has acquired since the 2nd quarter of 2018. While there is no certainty, it is management's expectation that the value associated with the Company's current investment portfolio, and the income being realized from it, will both continue to improve.

The emergence and continued presence of COVID-19 has impacted many facets of life including the way that business is conducted and the risks that businesses face. Phoenix continues to adapt with the changing business and market environment and to seek enhanced shareholder value through the management of its short-term investments and by proceeding with a strategic transaction if, and only if, appropriate terms can be negotiated.

## Selected financial data

The Company continues to be in a strong cash and liquidity position and to derive income from short-term investments. 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:		
	2020	2019	2018
Oil and gas revenues	247	402	1,151
Net loss from operations	(204,792)	(397,182)	(662,592)
Per share - basic	(0.04)	(0.08)	(0.13)
Net (loss) income for the year	(728,481)	274,311	(664,396)
Per share - basic	(0.14)	0.05	(0.13)
Total assets	8,508,251	9,217,754	8,948,656
Total long-term financial liabilities	-	-	-
Total liabilities	318,691	299,713	304,926



## Selected financial data - continued

	For the three month periods ended:			
	Dec. 31 2020	Sep. 30 2020	June 30 2020	Mar. 31 2020
Oil and gas revenues	-	-	88	159
Net loss from operations	(49,245)	(55,485)	(75,351)	(24,711)
Per share - basic	(0.01)	(0.01)	(0.01)	(0.00)
Net income (loss) for the period	103,660	(16,843)	85,966	(901,624)
Per share - basic	0.02	(0.00)	0.02	(0.18)
Total assets	8,508,251	8,368,795	8,404,821	8,278,133
Total long-term financial liabilities	-	-	-	-
Total liabilities	318,691	283,225	302,408	270,716

	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

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	
	2020	2019	2020	2019
Oil and gas revenues	\$ 247	\$ 402	\$ -	\$ 266
Oil and gas expenditures (recovered)	(388)	17,180	(460)	17,050
Gross (loss) profit	<u>\$ 635</u>	<u>\$ (16,778)</u>	<u>\$ 460</u>	<u>\$ (16,784)</u>

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 current and possible future asset retirement obligations.

During the period the Company disposed of interests in certain oil and gas properties. These were properties which had been producing negative cash flows for a number of periods and this was expected to continue. The disposal of these properties, for nominal proceeds of \$433, not only stops future negative cash flows from operations but also alleviates the Company of responsibility for any potential past or future remediation costs.

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.

As at December 31, 2020, each of the properties in which the Company holds minority interests have entered into or proceeded through the asset retirement phase. The Company recognizes an asset retirement obligation (ARO) for its proportionate share of asset retirement costs whenever they are reasonably estimable and amends those estimates, if appropriate, each financial reporting period. In some instances, certain retirement costs may become recoverable through government programs however such recoveries, if any, are not recognized until they are reasonably certain. The changes in ARO estimates made during the periods are as follows:

	Years ended Dec. 31		Three months ended Dec. 31	
	2020	2019	2020	2019
ARO, beginning of period	\$ 23,523	\$ -	\$ 8,016	\$ -
Additional provisions during period	8,321	23,523	6,226	23,523
Net payments made during period	(11,760)	-	(8,053)	-
Reduction of previous provisions	(18,261)	-	(4,366)	-
ARO, end of period	<u>\$ 1,823</u>	<u>\$ 23,523</u>	<u>\$ 1,823</u>	<u>\$ 23,523</u>

The Company's share of actual asset retirement costs, net of any recoveries, may differ from these estimates.

Expenses incurred were as follows:

	Years ended Dec. 31		Three months ended Dec. 31	
	2020	2019	2020	2019
Administrative expenses	\$ 252,108	\$ 362,418	\$ 49,705	\$ 39,843
Foreign exchange (gain) loss	(46,681)	17,986	-	7,933
Total expenses	<u>\$ 205,427</u>	<u>\$ 380,404</u>	<u>\$ 49,705</u>	<u>\$ 47,776</u>



## Results of operations - continued

Administrative expenses incurred were as follows:

	Years ended Dec. 31		Three months ended Dec. 31	
	2020	2019	2020	2019
Management and corporate services	\$ 135,514	\$ 201,324	\$ 28,000	\$ 33,567
Professional fees	89,498	123,118	15,118	7,169
Shareholder services	16,536	28,414	3,947	(2,873)
Insurance	6,451	6,048	1,814	1,512
Office and general	4,109	3,514	826	468
Total administrative expenses	<u>\$ 252,108</u>	<u>\$ 362,418</u>	<u>\$ 49,705</u>	<u>\$ 39,843</u>

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 incurs nominal expenses, in US dollars. During the first quarter of 2020 the Company capitalized on higher than typical exchange rates and converted virtually all of its US cash into Canadian currency to realize a foreign exchange gain of \$46,681. Future foreign exchange gains or losses are expected to be negligible.

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.

Professional fees include legal fees, fees charged and expected to be charged by the Company's auditors, and fees charged by parties retained to assist with due diligence. Due diligence was conducted in each of the periods presented, however activities in the most recent period were generally more early-stage, contributing to higher consulting fees but lower legal costs. Audit related fees were higher in the 2019 fiscal year due to previously unanticipated costs attributable to the audit of the 2018 financial statements.

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 Company received comparable services in each of the periods presented except that the 2019 expenses include costs related to the annual general meeting held August 2019 as well as regulatory fees related to a proposed transaction, which was later terminated.

The remaining administrative expenses are of relatively low significance and are well within management's expectations.

## Liquidity

The Company continues to enhance its strong liquidity position. As at December 31, 2020 it held cash in the amount of \$7,208,252 (2019 ó \$6,556,497) available to settle current liabilities in the amount of \$318,691 (2019 - \$299,713).



## 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, and sale proceeds whenever disposal may be considered prudent. In 2020 the Company realized investment income of \$154,177 (2019 - \$255,271) and \$793,525 (2019 - \$1,101,306) in sale proceeds. In 2019, the Company also received \$1,573 in return of capital. During the final quarter of 2020 the Company acquired new investments of \$120,518 after having acquired no new investments during the first nine months of the year or during the year ended December 31, 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:

	Years ended Dec. 31		Three months ended Dec. 31	
	2020	2019	2020	2019
Services rendered by the CEO	\$ 50,961	\$ 85,625	\$ 12,500	\$ 12,067
Services rendered by the CFO	74,500	100,000	15,000	20,000
Directors' fees	10,053	15,699	500	1,500
Total cash-based expenses	<u>\$ 135,514</u>	<u>\$ 201,324</u>	<u>\$ 28,000</u>	<u>\$ 33,567</u>
Share based payments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

As at December 31, 2020, \$255,884 (2019 - \$248,873) 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

There have been no transactions affecting the Company's issued or reserved securities since April 2018.

	<u>Quantity</u>	<u>Amount</u>
Common shares as at the date of this document	5,029,194	\$ 4,662,742



## 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 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 \$110,000 in net income.

The Company divested itself of its US cash holdings during the reporting period, eliminating its present currency risk.

Based upon observations of recent market trends management believes that this outcome is possible.



## **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 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.*