Phoenix Canada Oil Company Limited

Consolidated Financial Statements

December 31, 2020 and 2019

Independent Auditor's Report

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, 2020 and December 31, 2019, and the consolidated statements of comprehensive income (loss), 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, 2020 and December 31, 2019, 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 Audit 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

Chartered Professional Accountants

March 18, 2021

Licensed Public Accountants

MNP LLP

Phoenix Canada Oil Company Limited

Consolidated Statements of Financial Position

As at December 31, 2020 and 2019

	2020	2019
Assets		
Current assets		
Cash and cash equivalents	**$ 7,208,252**	$ 6,556,497
Short-term investments	**1,241,172**	2,592,478
Other receivables	**58,826**	68,778
	8,508,250	9,217,753
Interest in oil and gas properties *(note 4)*	**1**	1
	$ 8,508,251	$ 9,217,754
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities *(notes 4, 5)*	**$ 318,691**	$ 299,713
Equity		
Share capital *(note 6)*	**4,662,742**	4,662,742
Contributed surplus (*note 7)*	**453,189**	453,189
Retained earnings	**3,073,629**	3,802,110
	8,189,560	8,918,041
	$ 8,508,251	$ 9,217,754

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, 2020 and 2019

	Share Capital				
	Number of shares	**Paid up amount**	**Contributed surplus**	**Retained earnings**	**Total**
Balance, December 31, 2018	**5,029,194**	**$ 4,662,742**	**$ 453,189**	**$ 3,527,799**	**$ 8,643,730**
Net income for the year	-	-	-	274,311	274,311
Balance, December 31, 2019	**5,029,194**	**4,662,742**	**453,189**	**3,802,110**	**8,918,041**
Net loss for the year	-	-	-	(728,481)	(728,481)
Balance, December 31, 2020	**5,029,194**	**$ 4,662,742**	**$ 453,189**	**$ 3,073,629**	**$ 8,189,560**

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

Phoenix Canada Oil Company Limited

Consolidated Statements of Comprehensive Income (Loss)

for the years ended December 31, 2020 and 2019

		2020		2019
Revenue				
Oil and gas income	**$**	**247**	$	402
Direct Costs				
(Recovery of) operating expenses *(note 4)*		**(388)**		17,180
Gross profit (loss)		**635**		(16,778)
Expenses				
Administrative *(notes 5 and 8)*		**252,108**		362,418
Foreign exchange (gain) loss		**(46,681)**		17,986
		205,427		380,404
Loss before investment income, gain on investments, and gain on oil and gas interests		**(204,792)**		(397,182)
Investment income		**154,177**		255,271
(Loss) gain on short-term investments		**(678,299)**		416,222
Gain on oil and gas interests *(note 4)*		**433**		-
(Loss) income before provision for income taxes		**(728,481)**		274,311
Provision for income taxes – deferred *(note 9)*		**-**		-
Net (loss) income and comprehensive (loss) income for the year	**$**	**(728,481)**	$	274,311
(Loss) earnings per common share				
Basic	$	**(0.14)**	$	0.05
Fully diluted	$	**(0.14)**	$	0.05
Weighted average number of shares				
Basic		**5,029,194**		5,029,194
Fully diluted		**5,029,194**		5,029,194

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

Phoenix Canada Oil Company Limited

Consolidated Statements of Cash Flows

for the years ended December 31, 2020 and 2019

	2020	2019
Cash flow used in operating activities		
Net (loss) income for the year	**$ (728,481)**	$ 274,311
Items not affecting cash:		
Loss (gain) on short-term investments	**678,299**	(416,222)
(Gain) on oil and gas interests	**(433)**	-
	(50,615)	(141,911)
Other sources (uses) of cash from operations:		
Other receivables	**9,952**	162,417
Accounts payable and accrued liabilities	**18,978**	(5,213)
	(21,685)	15,293
Cash flow from investing activities		
Purchase of short-term investments	**(120,518)**	-
Return of capital on short-term investments	**-**	1,573
Proceeds from disposal of short-term investments	**793,525**	1,101,306
Proceeds from disposal of oil and gas interests	**433**	-
	673,440	1,102,879
Cash flow from financing activities		
Proceeds from share issuance, net	**-**	-
Increase in cash and cash equivalents	**651,755**	1,118,172
Cash and cash equivalents, beginning of year	**6,556,497**	5,438,325
Cash and cash equivalents, end of year	**$ 7,208,252**	$ 6,556,497

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

1. Business of the Company

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.

These consolidated financial statements were approved by the Board of Directors on March 18, 2021.

2. Basis of Presentation and Statement of Compliance

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 assessment as to whether provisions for asset retirement obligations are to be recorded or adjusted and the recognition and valuation of deferred tax amounts.

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

3. Significant Accounting Policies

Financial Instruments
The Company’s financial instruments consist of the following:

Financial Assets	*Classification*
Cash and cash equivalents	Amortized cost
Short-term investments	Fair value through profit or loss
Other receivables	Amortized cost

Financial Liabilities	*Classification*
Accounts payable and accrued liabilities	Amortized cost

3. Significant Accounting Policies - continued

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 profit or loss
Financial assets classified as FVTPL are measured at fair value with changes in fair value recognized in net (loss) income.

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, 2020 and 2019, all short-term investments are valued using level 1 quoted market prices.

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.

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 (loss) income.

3. Significant Accounting Policies - continued

Stock-based Compensation

The Company has in effect a stock option plan ("the Plan") which is described in note 7. 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 comprises current and deferred tax and is recognized in profit or loss except to the extent it relates to items recognized directly in equity or other comprehensive income. In those instances, the income tax is also recognized directly in equity or other comprehensive income.

Current tax is the expected tax payable on taxable income for the year, using tax rates enacted at the end of the reporting period, adjusted for amendments to tax payable with regards to previous periods. Current tax assets and liabilities are only offset if a legally enforceable right exists to offset the amounts and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax is recognized in respect of all qualifying temporary differences between the carrying amounts of assets and liabilities in the financial statements and the amounts used for taxation purposes. Deferred tax is determined on a non-discounted basis using tax rates and laws enacted or substantively enacted at the end of the reporting period and are expected to apply when the deferred tax asset or liability is settled.

Deferred tax assets are recognized only to the extent that it is probable that the assets can be recovered. At the end of each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets and liabilities and when they relate to the same taxation authority.

(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 financial reporting period and the proceeds from the exercise are assumed to have been used to purchase common shares at the average market price during the financial reporting period. Options, warrants, and equivalents are excluded from fully diluted earnings per share when their effect would have been anti-dilutive.

4. Interest in Oil and Gas Properties

	2020	2019
Oil and gas leases and/or permits	**$ 1**	$ 1

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. During the year the Company disposed of interests in certain oil and gas properties for proceeds of $433, which has been recognized as a gain on disposal.

4. Interest in Oil and Gas Properties - continued

Asset retirement obligation

The Company holds minority interest investments in several mature gas fields in Western Canada, for which it is not the operator, and for which the timing and amount of the associated asset retirement obligation (ARO), if any, cannot be reliably estimated. Provision is made, and charged to operating expenses, at the earliest date that a reasonable estimate can be made. Each provision will be reviewed at the end of each financial reporting period and adjusted to reflect the current best estimate. The ARO obligation included in accounts payable and accrued liabilities was arrived at as follows:

	2020	2019
ARO, beginning of year	**$ 23,523**	$ -
Provisions made during the year	**8,321**	23,523
Payments made during the year, net of recoveries	**(11,760)**	-
Reductions of previous provisions	**(18,261)**	-
ARO, end of year	**$ 1,823**	$ 23,523

5. Related Party Transactions and Balances

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 8)*:

- $50,961 (2019 - $85,625) for services rendered by its Chief Executive Officer.
- $74,500 (2019 - $100,000) for services rendered by its Chief Financial Officer.
- $10,053 (2019 - $15,699) for Directors' fees.

The Company did not incur any share-based payments during the years ended December 31, 2020 or December 31, 2019.

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.

6. Share Capital

Authorized

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

Activity

During the years ended December 31, 2020 and 2019, there were no transactions involving the Company's common shares or dilutive factors.

7. Contributed Surplus

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:

	2020	2019
Balance, beginning and end of year	**$ 453,189**	$ 453,189

Details of options outstanding:

	Common Shares Under Option	Number of Options Vested	Exercise Price	Expiry Date
Granted Dec. 30, 2015	345,000 [1]	345,000	$ 1.40	Dec. 30, 2022

[1] Directors and officers of the Company hold these options.

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

8. Administrative Expenses

	2020	2019
Insurance	$ **6,451**	$ 6,048
Management and corporate services *(note 5)*	**135,514**	201,324
Office and general	**4,109**	3,514
Professional fees	**89,498**	123,118
Shareholder services	**16,536**	28,414
	$ 252,108	$ 362,418

9. Income Taxes

Income tax recovery

The reconciliation of the combined federal and provincial statutory income tax rate of 25% (2019 – 26%) to the effective tax rates for the years ended December 31 is as follows:

	2020	2019
(Loss) income before provision for income taxes	**$ (728,481)**	$ 274,311
Expected income tax (recovery) provision	**$ (182,120)**	$ 71,320
Adjustments resulting from:		
Non-deductible expenses	**-**	10
Non-taxable investment income	**80,690**	(95,870)
Tax rate changes and other adjustments	**(1,380)**	80,860
Change in tax benefits	**102,810**	(56,320)
Provision for income taxes	**$ -**	$ -

9. Income Taxes - continued

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:

	2020	2019
Non-capital losses carried forward	**$ 1,767,160**	$ 1,633,440
Capital losses carried forward	**817,370**	-
Interest in oil and gas properties	**341,910**	341,910
Short term investments	**-**	133,170
Equipment and other	**26,000**	40,120

The non-capital losses carried forward will expire, if not utilized, between 2030 and 2040. The capital losses and 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.

10. Capital Disclosures

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 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.

11. 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. These market risks may, individually or collectively, be exacerbated by the impact of COVID-19 *(note 12)*. 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 $125,000 in net (loss) income.

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

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

12. COVID-19

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 has required all personnel to work from home and has been able to continue operations. The Company's primary exposure to the effects of this pandemic is through its short-term investments in Canadian public companies and reduced interest income on its cash reserves. Present and future economic effects of COVID-19, including its effects on public markets, cannot be accurately determined, predicted, or estimated at this time. This includes the effects, if any, upon the business of the Company and the market risks described in note 11. High market volatility has impacted the Company's results in the current financial reporting period and may affect the carrying value of, or the income being realized from, these investments in future periods.