



## Management's Discussion and Analysis For the Nine Month Period Ended September 30, 2022

### Basis of Presentation

Phoenix Canada Oil Company Limited (Phoenix or Company) has prepared the following Management's Discussion and Analysis (MD&A) of the financial condition and results of operations of the Company. This MD&A constitutes management's review of the factors that affected the Company's unaudited interim condensed consolidated financial and operating performance for the nine month period ended September 30, 2022. The MD&A was prepared as of November 26, 2022 and was approved by the Board of Directors on November 26, 2022.

This MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements for the nine month period ended September 30, 2022 and the audited consolidated financial statements for the year ended December 31, 2021, including the notes thereto.

Unless otherwise stated, all amounts presented or discussed herein are denominated in Canadian dollars.

Copies of all relevant financial documents and interim Company filings to date may also be referenced on the regulatory filing website -- [www.SEDAR.com](http://www.SEDAR.com).

### The Company

The Management of the Company, which has remained unchanged since the most recent fiscal year end, is as follows:

Charlotte Moore Hepburn <sup>(3)</sup> MD., FRCPC., FAAP	Director, Chair, and CEO
Michael Detlefsen <sup>(1, 2*, 3, 4)</sup>	Director
Greg Nuttall <sup>(1, 2, 3*, 4)</sup>	Director
Charles Burns <sup>(1*, 2, 3, 4)</sup>	Director
W. Alex Mills <sup>(4)</sup>	Director
Michael D. Kindy, CPA, CA	CFO

<sup>(1)</sup> Denotes a member of the Audit Committee

<sup>(2)</sup> Denotes a member of the Governance and Compensation Committee

<sup>(3)</sup> Denotes a member of the Business Development Committee

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

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

### Corporate performance

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

On May 27, 2022, Phoenix announced that it had entered into a non-binding letter of Intent (the "LOI") with ZYUS Life Sciences Inc. (the "ZYUS"), a private Canadian life sciences company. The LOI outlines the general terms and conditions of a proposed business combination by way of plan of arrangement (the "Arrangement"), which would result in ZYUS becoming a wholly-owned subsidiary of Phoenix and constitute a reverse takeover of Phoenix by ZYUS as defined in the policies of the TSX Venture Exchange.

The LOI included a commitment by Phoenix, subject to regulatory approvals, whereby Phoenix would acquire 17 units of ZYUS with each unit consisting of one secured promissory note in the principal amount of C\$100,000 (the "Promissory Notes") and 40,000 common share purchase warrants (the "Warrants"). Accordingly, on July 7, 2022, Phoenix paid C\$1.7M to ZYUS in exchange for Promissory Notes aggregating C\$1.7M and 680,000 Warrants.

The Promissory Notes earn interest, payable quarterly, at a rate of 12% per annum and will mature January 7, 2025. They are subject to mandatory conversion requirements whereby the Promissory Notes plus accrued and unpaid interest (the "Principal and Interest") will be converted into common shares of ZYUS on certain triggering events, which include, but are limited to, closing of the Arrangement. Immediately prior to the completion of the Arrangement, and as a condition thereof, the Principal and Interest will be automatically converted into common shares of ZYUS at a price equal to 85% of the deemed price of ZYUS common shares in the Arrangement. If the Arrangement is terminated Phoenix will be entitled to demand immediate repayment of its Principal and Interest. The Warrants, subject to certain acceleration events, entitle Phoenix, to acquire one common share of ZYUS at a price of C\$2.50 per common share at any time until January 7, 2025. The exercise of these warrants may be subject to regulatory approvals.

On November 15, 2022 Phoenix and ZYUS entered into a Definitive Agreement (the "Agreement"), as contemplated in the LOI. The Agreement outlines the detailed terms and conditions for the proposed transaction, which is expected to close no later than March 31, 2023. Completion of the proposed transaction remains subject to customary terms and conditions as set forth in the Agreement including court, shareholder and Exchange approvals; the completion of the Concurrent Financing; and other conditions typical for similar transactions. Although both Phoenix and ZYUS are committed to satisfying all terms and conditions, there is no assurance that this transaction will be completed, or completed within the timeframe or under the terms and conditions as currently specified.

Canadian market conditions continued to be volatile during the most recent fiscal quarter. The value of the Company's investment portfolio declined approximately \$97,000 during the quarter, contributing to a net decline of \$216,445 for the first nine months of the year. The Company has neither purchased or sold any short-term investments during the first nine months of 2022. However, the Company did acquire the aforementioned Promissory Notes during the most recent fiscal quarter and the interest earned thereon helped to further enhance periodic investment income. It has been noted in recent periods that the interest and dividend income derived from investments has been increasing and that trend certainly continued. Investment income for the quarter amounted to \$99,380 and raised income earned during the first nine months to \$172,240. In comparison, the figures reported at September 30, 2021 were \$26,215 and \$71,650. The Company maintains an optimistic outlook with respect to investment income but there is no assurance that investment income earned in the current period is indicative of income to be earned in future periods.



## Corporate performance - continued

The emergence and continued presence of COVID-19 has impacted the way that business is conducted as well as the risks and uncertainties that businesses face. Phoenix continues to seek enhanced shareholder value through the management of its resources and by proceeding with the proposed business combination with ZYUS if, and only if, all negotiated terms and conditions can be appropriately satisfied.

## Selected financial data

The Company continues to maintain a strong cash and liquidity position, to derive income from short-term investments, and to hold investments with opportunities 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:		
	2021	2020	2019
Oil and gas revenues	-	247	402
Net income (loss) from operations	(228,476)	(204,792)	(397,182)
Per share - basic	(0.05)	(0.04)	(0.08)
Net income (loss) for the year	350,555	(728,481)	274,311
Per share - basic	0.07	(0.14)	0.05
Total assets	8,636,348	8,508,251	9,217,754
Total liabilities	96,233	318,691	299,713

	For the fiscal quarters ended:			
	Sep. 30 2022	June 30 2022	Mar. 31 2022	Dec. 31 2021
Oil and gas revenues	-	-	-	-
Net (loss) income from operations	(130,851)	(92,106)	(83,012)	(86,409)
Per share - basic	(0.03)	(0.02)	(0.02)	(0.02)
Net (loss) income for the period	(130,541)	(325,992)	104,360	26,995
Per share - basic	(0.03)	(0.06)	0.02	0.01
Total assets	8,308,592	8,450,605	8,739,448	8,636,348
Total liabilities (all current)	118,650	132,123	94,973	96,233

	For the fiscal quarters ended:			
	Sep. 30 2021	June 30 2021	Mar. 31 2021	Dec. 31 2020
Oil and gas revenues	-	-	-	-
Net (loss) income from operations	(51,010)	(46,901)	(44,156)	(49,245)
Per share - basic	(0.01)	(0.01)	(0.01)	(0.01)
Net (loss) income for the period	(25,515)	116,649	232,426	103,660
Per share - basic	(0.01)	0.02	0.05	0.02
Total assets	8,652,477	8,663,472	8,534,605	8,508,251
Total liabilities (all current)	139,357	124,837	112,619	318,691

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



## Significant Accounting Estimates and Judgements

The preparation of unaudited condensed interim consolidated financial 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 unaudited condensed interim consolidated financial statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the unaudited condensed interim consolidated financial statements and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and also in future periods when the revision affects both current and future periods.

Significant estimates and judgments include, but are not limited to, the 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

	Nine months ended Sept. 30		Three months ended Sept. 30	
	2022	2021	2022	2021
Oil and gas expenditures (recovered)	\$ (815)	\$ 1,321	\$ -	\$ 1,157

The Company's sole remaining oil and gas holding consist of nominal interests in a gas processing facility which has been partially decommissioned. The Company is not the operator of this asset and is reliant upon the operator to complete their responsibilities in an efficient and effective manor, including the reporting of current and possible future asset retirement obligations in a timely and accurate manner. Provision has been made for all known and estimable costs.

The Company recognizes an asset retirement obligation (ARO) for its proportionate share of asset retirement costs whenever they are reasonably estimable. Estimates are reviewed and amended, if appropriate, at the end of 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 are as follows:

	Nine months ended Sept. 30		Three months ended Sept. 30	
	2022	2021	2022	2021
ARO, beginning of period	\$ 20,211	\$ 1,823	\$ 3,291	\$ 1,917
Additional provisions during period	-	1,141	-	1,047
Payments made during period	(16,120)	-	-	-
ARO, end of period	\$ 3,291	\$ 2,964	\$ 3,291	\$ 2,964

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

During the nine month period, the Company disposed of interests in a mature gas field which had ceased operation and was in the process of being abandoned and/or reclaimed. The sale terms included sale proceeds of \$1 and the pre-payment of \$12,000 in estimated future abandonment and reclamation costs in exchange for indemnification with respect to any and all potential past, present or future remediation costs.



## Results of operations - continued

Administrative expenses incurred were as follows:

	Nine months ended Sept. 30		Three months ended Sept. 30	
	2022	2021	2022	2021
Management and corporate services	\$ 190,370	\$ 87,000	\$ 67,538	\$ 29,500
Professional fees	90,760	28,950	53,362	11,225
Shareholder services	13,466	16,529	4,512	5,780
Insurance	6,827	5,588	2,326	1,959
Office and general	2,798	2,663	551	1,389
Travel	2,562	-	2,562	-
Total administrative expenses	<u>\$ 306,783</u>	<u>\$ 140,730</u>	<u>\$ 130,851</u>	<u>\$ 49,853</u>

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. The Company's CEO and CFO have primary responsibility for managing the Company's capital as well as investigating and negotiating with potential strategic partners.

Professional fees include charges from third parties engaged to assist with due diligence, legal fees and fees charged and expected to be charged by the Company's auditors. Auditor fees were comparable between the periods presented. Due diligence processes increased in 2022, leading to incremental legal fees as well as the retention of a third party advisor. There were no third parties retained during the 2021 periods.

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 for incremental charges related to the annual general meeting held May 3, 2021.

Insurance coverages remained consistent, but were subject to premium increases consistent with the changes in market rates.

Office and general expenses are of low significance and are well within management's expectations.

Travel costs are entirely the result of having visited the corporate head office of ZYUS, which is located in Saskatoon, Saskatchewan.

## Liquidity

The Company continues to have a strong liquidity position as it held cash in the amount of \$4,422,336 at September 30, 2022 (Dec. 31, 2021 - \$6,295,456) that was available to settle current liabilities in the amount of \$118,650 (Dec. 31, 2021 - \$96,233).

The Company's primary source of cash is its short-term investment in marketable securities. Cash is derived through dividends, interest, and sale proceeds whenever disposal of marketable securities may be considered prudent. In the first nine months of 2022 the Company realized investment income of \$172,240 (Sept. 2021 - \$71,650) and \$Nil (Sept. 2021 - \$393,142) in sale proceeds.



## Liquidity - continued

No new short-term investments (Sept. 2021 - \$972,588) were acquired during the first nine months of 2022 however the Company did acquire \$1,700,000 in promissory notes from ZYUS during the period.

## Capital resources and off-balance sheet arrangements

The Company has no long-term obligations. Furthermore, the Company has made no commitments for capital expenditures, leases, or contractual commitments in relation to its operations. The Company is well positioned to fund its operations for the foreseeable future.

The Company has not completed any financing transactions however, subsequent to September 30, 2022, the Company received proceeds of \$437,080 upon the exercise of 312,200 stock options by Directors and Officers of the Company.

## Transactions with related parties

The Company has incurred the following transactions with related parties:

	Nine months ended Sept. 30		Three months ended Sept. 30	
	2022	2021	2022	2021
Services rendered by the CEO	\$ 81,670	\$ 37,500	\$ 24,038	\$ 12,500
Services rendered by the CFO	100,000	45,000	40,000	15,000
Directors' fees	8,700	4,500	4,500	2,000
	<u>\$ 190,370</u>	<u>\$ 87,000</u>	<u>\$ 68,538</u>	<u>\$ 29,500</u>
Share based payments	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

At September 30, 2022, \$61,202 (December 31, 2021 - \$46,540) 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. In November 2022, 312,200 of these stock options were exercised.



## Convertible instruments and other securities

<u>Common shares</u>	<u>Quantity</u>	<u>Amount</u>
Common shares at September 30, 2022, December 31, 2021 and September 30, 2021	5,029,194	\$ 4,662,742
Options exercised	312,200	586,743
Common shares cancelled	(27,291)	-
Common shares as at the date of this document	<u>5,314,103</u>	<u>\$ 5,249,485</u>

In addition to the common shares issued and outstanding the Company has issued stock options as incentives to various parties. The following list itemizes the common shares that have been reserved to satisfy the exercise of these stock options along with the expiry date associated therewith.

<u>Reserved common shares</u>	<u>Expiry</u>	<u>Quantity</u>
Stock options exercisable at \$1.40 per share	Dec. 30, 2022	345,000
Stock options exercised after September 30, 2022	Dec. 30, 2022	(312,200)
Common shares reserved as at the date of this document	Dec. 30, 2022	<u>32,800</u>

<u>Fully diluted common shares</u>	
Common shares issued at September 30, 2022	5,029,194
Common shares reserved at September 30, 2022	<u>345,000</u>
Fully diluted common shares at September 30, 2022	5,374,194
Common shares issued after September 30, 2022	312,200
Common shares cancelled after September 30, 2022	(27,291)
Reduction in common shares reserved after September 30, 2022	<u>(312,200)</u>
Fully diluted common shares as at the date of this document	<u>5,346,903</u>

Subsequent to September 30, 2022, Directors and Officers of the Company exercised 312,200 stock options. These stock options had an exercise price of \$1.40 and resulted in the Company receiving cash proceeds of \$437,080. The amount added to share capital included these cash proceeds plus the value of the stock options as determined using the Black-Scholes valuation model at the time of issuance, which had been carried in contributed surplus.

On March 8, 1960 the Company underwent a reorganization transaction which included a name change from Snow Lake Mines Limited to Phoenix Canada Oil Company Limited. As an element of that transaction, shareholders were required to surrender their shares of Snow Lake Mines Limited and, only upon doing so, they would receive, on a 15:1 basis, new common shares of Phoenix Canada Oil Company Limited. In current times it is typical for common shares to be reserved pending the surrender of predecessor shares however it was discovered that in 1960 the Company issued the common shares and held them in escrow and that 27,291 common shares remained in escrow, still awaiting the surrender of shares of Snow Lake Mines Limited. Our investigation of this matter was concluded after September 30, 2022 when it was concluded that all reasonable time constraints and/or requirements related to such an escrow had lapsed and that it was appropriate to cancel these common shares remaining in escrow. Based on the nature of the transaction that gave rise to the issuance of these common shares, no adjustment to share capital is deemed appropriate to reflect this cancellation.



## 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 and promissory notes receivable. Cash is on deposit with a major commercial bank which is a high credit quality financial institution as determined by rating agencies. Management actively monitors its promissory notes receivable, including the underlying security. It has been determined that no allowance is required as all amounts outstanding are considered collectible.

### *Market Risk*

The significant market risks to which the Company is exposed are interest rate risk, and price risk. These market risks may, individually or collectively, be exacerbated by the impact of COVID-19. 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.

### *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 \$208,000 in net income.

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

## Regulatory, Environmental and Other Risk Factors

The Company is not engaged in any foreign operations, any field exploration and development operations, or any other operations which may make it subject to international health and safety matters, or to geopolitical risks. The Company holds minority interest investments in several mature gas fields in Western Canada, each of which is operated by companies that Phoenix considers to be professional, competent, and to have sufficient incentive to comply with all applicable regulatory and environmental regulations.

## 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.*



## **Forward-Looking Statements - continued**

*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.*