Phoenix Canada Oil Company Limited

Unaudited Condensed Interim Consolidated Financial Statements

Six Months Ended June 30, 2016

(Stated in Canadian Dollars)

Notice To Reader

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the unaudited condensed interim consolidated financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on August 26, 2016. They have not been reviewed by the Companyôs auditors.

The accompanying unaudited condensed interim consolidated financial statements have been prepared by and are the responsibility of management. These condensed interim consolidated financial statements are presented on the accrual basis of accounting and accordingly, a precise determination of many assets and liabilities is dependent upon future events. Where necessary, management has made informed judgments and estimates in accounting for these assets and liabilities and for transactions which were not complete at the end of the reporting period. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these unaudited condensed interim consolidated financial statements have been fairly presented.

Phoenix Canada Oil Company Limited

Unaudited Condensed Interim Consolidated Statements of Financial Position

(Stated in Canadian Dollars)

	June 30 2016	December 31 2015
ASSETS		
Current assets		
Cash	**$ 2,238,994**	$ 2,238,466
Short-term investments	**5,744,673**	5,089,230
Other receivables	**33,229**	36,614
	8,016,896	7,364,310
Long-term investments *(note 4)*	**1,091,137**	1,447,194
Interest in oil and gas properties *(note 5)*	**1**	1
	$ 9,108,034	$ 8,811,505
EQUITY AND LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities *(notes6 and 9)*	**$ 179,621**	$ 175,243
Capital and reserves		
Share capital *(note 7)*	**4,423,202**	4,185,173
Warrants *(note 7)*	**36,196**	-
Contributed surplus *(note 8)*	**364,695**	328,080
Accumulated other comprehensive income	**2,383,654**	2,579,742
Retained earnings	**1,720,666**	1,543,267
	8,928,413	8,636,262
	$ 9,108,034	$ 8,811,505

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

Phoenix Canada Oil Company Limited

Unaudited Condensed Interim Consolidated Statement of Changes in Equity

(Stated in Canadian Dollars)

June 30, 2016

	Number of shares	Paid up amount	Warrants	Contributed surplus	Accumulated other comprehensive income	Retained earnings	Total
Balance, December 31, 2014	**4,746,294**	**$ 4,238,395**	**$ -**	**$ 273,417**	**$ 2,164,488**	**$ 2,568,034**	**$ 9,244,334**
Shares repurchased	(1,400)	(1,250)	-	-	-	(995)	(2,245)
Share based payments	-	-	-	3,979	-	-	3,979
Other comprehensive loss for the period	-	-	-	-	(272,584)	-	(272,584)
Net income for the period	-	-	-	-	-	97,050	97,050
Balance, June 30, 2015	**4,744,894**	**4,237,145**	**-**	**277,396**	**1,891,904**	**2,664,089**	**9,070,534**
Shares repurchased	(58,200)	(51,972)	-	-	-	(37,484)	(89,456)
Share based payments	-	-	-	50,684	-	-	50,684
Other comprehensive income for the period	-	-	-	-	687,838	-	687,838
Net loss for the period	-	-	-	-	-	(1,083,338)	(1,083,338)
Balance, December 31, 2015	**4,686,694**	**4,185,173**	**-**	**328,080**	**2,579,742**	**1,543,267**	**8,636,262**
Private placement	200,000	238,029	36,196	-	-	-	274,225
Share based payments	-	-	-	36,615	-	-	36,615
Other comprehensive loss for the period	-	-	-	-	(196,088)	-	(196,088)
Net income for the period	-	-	-	-	-	177,399	177,399
Balance, June 30, 2016	**4,886,694**	**$ 4,423,202**	**$ 36,196**	**$ 364,695**	**$ 2,383,654**	**$ 1,720,666**	**$ 8,928,413**

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

Phoenix Canada Oil Company Limited

Unaudited Condensed Interim Consolidated Statements of Comprehensive Income (Loss)
(Stated in Canadian Dollars)
For the periods ended June 30

	Three Months Ended 2016	Three Months Ended 2015	Six Months Ended 2016	Six Months Ended 2015
Revenue				
Oil and gas income	$ 6,095	$ 2,798	$ 6,231	$ 4,677
Direct Costs				
Operating, depletion and depreciation expenses	841	4,150	1,065	4,391
Gross profit (loss)	5,254	(1,352)	5,166	336
Expenses				
Administrative *(notes 6 and 10)*	45,447	64,784	92,183	137,653
Research and development	53,959	2,260	53,959	2,915
Project development costs	-	31,807	-	31,807
Share based payments *(note 8)*	18,307	1,426	36,615	3,979
Foreign exchange loss (gain)	496	(55)	860	(27,125)
Depreciation	-	2,148	-	2,541
	118,209	102,370	183,617	151,770
Loss before investment income, sale of investments and impairment	(112,955)	(103,722)	(178,451)	(151,435)
Investment income	65,660	78,678	129,617	166,238
Gain on sale of securities	128,996	82,246	349,206	82,246
Impairment of short-term investments	(15,014)	-	(93,673)	-
Income before provision for income taxes	66,687	57,202	206,699	97,050
Provision for income taxes ï deferred *(note 11)*	4,350	-	(29,300)	-
Net income for the period	$ 71,037	$ 57,202	$ 177,399	$ 97,050
Basic and diluted earnings per share *(note 12)*	$ 0.01	$ 0.01	$ 0.04	$ 0.02
Comprehensive income (loss)				
Items that may be reclassified to net income:				
Unrealized income on short-term investments	$ 20,238	$ 79,592	$ 346,914	$ 406,257
Unrealized income (loss) on long-term investments	121,331	10,839	(348,866)	(607,264)
Reclassification of income on investments included in net income (loss) for the period	(108,110)	(71,577)	(223,436)	(71,577)
Deferred income taxes	(4,350)	-	29,300	-
Other comprehensive income (loss) for the period	29,109	18,854	(196,088)	(272,584)
Net income for the period	71,037	57,202	177,399	97,050
Net comprehensive income (loss) for the period	$ 100,146	$ 76,056	$ (18,689)	$ (175,534)

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

Phoenix Canada Oil Company Limited
Unaudited Condensed Interim Consolidated Statements of Cash Flows
(Stated in Canadian Dollars)
For the periods ended June 30

	Three Months Ended		Six Months Ended	
	2016	2015	**2016**	2015
Operating activities				
Net income for the period	**$ 71,037**	$ 57,202	**$ 177,399**	$ 97,050
Items not affecting cash:				
Share based payments	**18,307**	1,426	**36,615**	3,979
Depreciation	**-**	2,148	**-**	2,541
Gain on sale of securities	**(128,996)**	(82,246)	**(349,206)**	(82,246)
Impairment of short-term investments	**15,014**	-	**93,673**	-
Income tax provision - deferred	**(4,350)**	-	**29,300**	-
	(28,988)	(21,470)	**(12,219)**	21,324
Other sources (uses) of cash from operations:				
Other receivables	**11,649**	27,516	**3,385**	28,972
Accounts payable and accrued liabilities	**3,678**	(167,213)	**4,378**	(160,752)
GST/HST payable	**-**	2,289	**-**	2,289
	(13,661)	(158,878)	**(4,456)**	(108,167)
Cash flow from investing activities:				
Purchase of investments	**(73,200)**	-	**(784,592)**	-
Return of capital on investments	**8,657**	14,714	**19,874**	29,393
Proceeds from sale of investments	**162,426**	324,872	**495,477**	324,872
Proceeds from sale of equipment	**-**	620	**-**	620
	97,883	340,206	**(269,241)**	354,885
Cash flow from financing activities:				
Proceeds from share issuance	**274,225**	-	**274,225**	-
Shares repurchased for cancellation	**-**	-	**-**	(2,245)
	274,225	340,206	**274,225**	(2,245)
Increase in cash and cash equivalents	**358,447**	181,328	**528**	244,473
Cash and cash equivalents, beginning of period	**1,880,547**	910,434	**2,238,466**	847,289
Cash and cash equivalents, end of period	**$ 2,238,994**	$1,091,762	**$2,238,994**	$1,091,762

Supplemental disclosure of cash flow information:				
Interest received	**$ 2,170**	$ 1,924	**$ 12,708**	$ 9,205
Income taxes paid	**$ -**	$ -	**$ -**	$ -

The accompanying notes are an integral part of these unaudited condensed interim 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 retains modest-sized, minority interests in several mature gas fields in Western Canada and maintains non-controlling equity investment positions in public companies. The Company holds exclusive rights to a patented, proprietary hydrogen gas generation technology, through its US subsidiary, Phoenix International Energy Inc., under a long-term technology license agreement with a major US research university. The Company is also actively pursuing its Synfuel Technology, exploring the generation of a replacement fuel using captured carbon, in conjunction with a major Canadian research university.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on August 26, 2016.

2. Basis of presentation and statement of compliance

Statement of compliance

The Company has prepared these condensed interim consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*, employing all of the same accounting policies and methods of computation as disclosed in the annual financial statements as at December 31, 2015.

The notes to these interim financial statements are intended to provide a description of events and transactions that are significant to an understanding to the changes in the Companyȏs financial position and performance since December 31, 2015. Certain disclosures that appear in the annual financial statements have not been reproduced in these condensed interim consolidated financial statements and, in this regard only, these condensed interim consolidated financial statements do not conform in all respects to the requirements of IFRS for annual financial statements. Accordingly, these condensed interim consolidated financial statements should only be read in conjunction with the annual financial statements as at December 31, 2015.

Basis of presentation

These unaudited condensed interim 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 unaudited condensed interim 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 unaudited condensed interim consolidated financial statements requires management to make judgments and estimates which, by their nature, are uncertain and which 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 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 investments may be impaired and the recognition and valuation of deferred tax amounts.

Functional currency

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

(Stated in Canadian Dollars)

3. Impairment of Financial Assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

Å significant financial difficulty of the issuer or counterparty; or

Å default or delinquency in interest or principal payments; or

Å it becoming probable that the borrower will enter bankruptcy or financial re-organization.

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income or loss to the extent that the carrying amount of the financial asset at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized in prior periods.

In the case of short-term and long-term investments indications of impairment would include a significant or prolonged decline in the fair value of the investment below its cost. ñSignificantò is evaluated against the original cost of the investment and ñprolongedò against the period in which the fair value has been below its original cost. Where there is evidence of impairment the difference between the acquisition cost, net of any prior impairment provision, and the current fair value is removed from other comprehensive income and recognized in net income or loss. Impairment losses on equity investments are not reversed through net income or loss. Increases in fair value subsequent to impairment are recognized in other comprehensive income.

4. Investments

Short-term investments consist of marketable securities held in publicly traded companies that are listed on stock exchanges in Canada and the United States.

Long-term investments are comprised as follows:

	June 30 2016	December 31 2015
385,729 shares (Dec. 2015 - 385,729 shares) in Starrex International Ltd. which is approximately 2.7% (Dec. 2015 - 2.7%) of that company's total issued shares.	**$ 250,507**	$ 578,594
2,001,500 shares (Dec. 2015 - 2,020,000 shares) in Theralase Technologies Inc. which is approximately 1.9% (Dec. 2015 - 1.9%) of that company's total issued shares.	**840,630**	868,600
	$ 1,091,137	$ 1,447,194

5. Interest in Oil and Gas Properties

	June 30 2016	December 31 2015
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.

(Stated in Canadian Dollars)

6. Related party transactions

During the period, the Company had the following transactions with officers and directors of the Company and private companies controlled by officers and directors of the Company:

The Company incurred expenses of $Nil (June 2015 - $25,000) for services rendered by its Chief Executive Officer. This amount is included in administrative expenses.

The Company incurred expenses of $30,374 (June 2015 - $Nil) for services rendered by its Interim Chief Executive Officer. This amount is included in administrative expenses.

The Company incurred expenses of $17,000 (June 2015 - $4,500) for services rendered by its Chief Financial Officer. This amount is included in administrative expenses.

The Company incurred share based payment expense of $36,615 (June 2015 - $3,979) relative to stock options granted to officers and directors during prior periods which had not vested prior to the current financial reporting period.

At June 30, 2016, $50,920 was payable to the related parties noted above and is included in accounts payable and accrued liabilities (December 31, 2015 - $33,897). The amount due is unsecured, non-interest bearing, and is due on demand.

7. Share capital

Authorized

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

Activity

During the period the Company completed a private placement transaction whereby it issued 200,000 working capital units, at a price of $1.40 per unit, for gross proceeds of $280,000. Costs of $5,775 were incurred in relation to this offering resulting in net proceeds of $274,225. Each working capital unit was comprised of one common share of the Company and one share purchase warrant. Each warrant entitles the holder to purchase an additional common share of the Company at a price of $1.50 until April 26, 2018. This private placement was offered exclusively to directors of the Company with the intent of aligning the interests of the Companyȏs directors with the interests of its shareholders.

During the year ended December 31, 2015 the Company repurchased 59,600 shares on the open market through a Normal Course Issuer Bid, at prices above the stated value, resulting in a decrease in retained earnings of $38,479. There were no similar share repurchases during the period ended June 30, 2016.

Warrants

	Number of warrants	Amount
Balance, beginning of period	-	$ -
Issued during the period	200,000	36,196
Balance, end of period	200,000	$ 36,196

	Number of Warrants	Exercise Price	Expiry Date
Issued Apr 29, 2016	200,000 [1]	$ 1.50	Apr. 26, 2018

[1] Directors and/or Officers of the Company hold these warrants.

(Stated in Canadian Dollars)

7. Share capital - continued

Warrants-continued

The following weighted average assumptions were used to calculate the fair value of the warrants issued during the year:

	June 30 2016	December 31 2015
Dividend yield	**Nil**	None granted
Risk free interest rate (%)	**0.67**	None granted
Expected stock volatility (%)	**35.95**	None granted
Expected life (years)	**2**	None granted

8. Stock-based compensation

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 totalling 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:

	June 30 2016	December 31 2015
Balance, beginning of period	**$ 328,080**	$ 273,417
Compensation expense related to stock options	**36,615**	54,663
Balance, end of period	**$ 364,695**	$ 328,080

Details of options outstanding:

	Common Shares Under option	Number of Options Vested	Exercise Price	Expiry Date
Granted May 21, 2013	50,000 (1)	50,000	$ 2.00	May 21, 2018
Granted Dec. 30, 2015	345,000 (1)	86,250 (2)	$ 1.40	Dec. 30, 2022

(1) Directors and officers of the Company hold these options.

(2) The options vested as to 25% as at the date of grant, and will vest as to 25% on each of December 30, 2016, 2017 and 2018. The Company currently anticipates that all options will vest.

The following weighted average assumptions were used to calculate the fair value of the stock options granted during the period:

	June 30 2016	December 31 2015
Dividend yield	**Nil**	Nil
Risk free interest rate (%)	**None issued**	0.62 ï 1.04
Expected stock volatility (%)	**None issued**	35.97 ï 41.57
Expected life (years)	**None issued**	7

(Stated in Canadian Dollars)

9. Project Development

Hydrogen Generation Project

The contract with a Canadian university specializing in research and development projects, for the development of hydrogen generation technology, concluded May 2014. Certain results of this contract remain in dispute, and the Company is contesting its obligation to pay any remaining amounts. A balance of $100,625 (Dec. 2015 - $100,625) in contractual payments, recorded in accordance with standard accounting practices, remains in accounts payable and accrued liabilities pending settlement. Negotiations are ongoing however the timing and terms of settlement are not currently determinable. Any reduction in the obligation, if any, will be recognized in income in the financial reporting period in which it becomes certain.

Synfuel Technology

Phoenix holds exclusive commercial rights to its proprietary Synfuel Technology which utilizes an innovative process using hydrogen and carbon feedstock, both commonly available from diverse sources, to produce a complete range of commercial conventional transportation and related liquid fuels. As at June 30, 2016 patent applications remain in process and the timing and outcome of the applications remain uncertain.

10. Administrative Expenses

	June 30 2016	June 30 2015
Management and corporate services	**$ 47,374**	$ 67,843
Professional fees	**21,506**	21,248
Occupancy costs	**-**	21,243
Shareholder services	**16,725**	17,314
Office and general	**3,062**	9,192
Travel	**6**	813
Insurance	**3,510**	-
	$ 92,183	$ 137,653

11. Income Taxes

Deferred tax liability

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

	June 30 2016	December 31 2015
Deferred tax assets:		
Non capital losses	**150,030**	179,330
Deferred tax liabilities:		
Unrealized gains on available for sale financial instruments	**(150,030)**	(179,330)
Deferred tax liabilities - net	**$ -**	$ -

(Stated in Canadian Dollars)

11. Income Taxes - continued

Movement in deferred tax liabilities

Deferred tax assets and liabilities have been offset where they relate to income taxes levied by the same taxation authority and the Company has the legal right and intent to offset.

	June 30 2016	December 31 2015
Balance, beginning of period	**$ -**	$ -
Recognized in profit and loss	**(29,300)**	78,400
Recognized in other comprehensive income	**29,300**	(78,400)
Balance, end of period	**$ -**	$ -

Unrecognized deferred tax assets

Deferred 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 tax assets have not been recognized in respect of the following deductible temporary differences:

	June 30 2016	December 31 2015
Non-capital losses carried forward	**$ 388,300**	$ 417,600
Interest in oil and gas properties	**357,240**	$ 357,240
Equipment and other	**38,220**	38,220

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.

12. Earnings per share

Basic and diluted earnings per share has been calculated based on the weighted average number of common shares outstanding of 4,755,925 (June 30, 2014 ï 4,745,018) for the six month period and 4,825,156 for the three month period (June 30, 2014 ï 4,744,894). Stock options and warrants were excluded from the calculation of the fully diluted weighted average number common shares because their effect would have been anti-dilutive.

13. 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 shareholdersô equity as capital. The Company manages its capital structure, and makes adjustments to it, in order to have funds available to support its corporate activities.

The Company is not subject to externally imposed capital requirements and there has been no change in the overall capital risk management strategy during the financial reporting period.

14. 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 Companyọs primary exposure to credit risk is in its cash. This risk is managed through the use of a major 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 Companyọs exposure to interest rate risk relates to its ability to earn interest income on cash balances at variable rates. The fair value of the Companyọs 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 and long-term investments as the Company trades investments within Canadian and US stock markets. The Companyọs exposure to currency risk relates to a short term investment that is denominated in US dollars and the potential impact because of changes in foreign exchange rates.

Sensitivity to Market Risk

A 15% increase or decrease in the fair values of the Company's short-term and long-term investments could result in an increase or decrease of approximately $1,025,000 in comprehensive income (loss).

A 15% increase or decrease in the Canadian dollar relative to the US dollar could result in an increase or decrease of approximately $12,500 in comprehensive income (loss).

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