

Phoenix Canada Oil Company Limited

Unaudited Condensed Interim Consolidated Financial Statements

March 31, 2017

(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 May 30, 2017. They have not been reviewed by the Company's 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)

As at March 31, 2017 and December 31, 2016

	March 31 2017	December 31 2016
ASSETS		
Current assets		
Cash	\$ 2,955,709	\$ 2,685,813
Short-term investments (note 4)	5,526,388	5,750,720
Other receivables	22,396	29,276
	8,504,493	8,465,809
Long-term investments (note 4)	857,061	741,599
Interest in oil and gas properties (note 5)	1	1
	\$ 9,361,555	\$ 9,207,409
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (note 6)	\$ 139,913	\$ 136,621
Equity		
Share capital (note 7)	4,423,202	4,423,202
Warrants (note 7)	36,196	36,196
Contributed surplus reserve (note 8)	409,080	401,594
Accumulated other comprehensive income	2,335,215	2,236,791
Retained earnings	2,017,949	1,973,005
	9,221,642	9,070,788
	\$ 9,361,555	\$ 9,207,409

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)

For the periods ended March 31, 2017 and 2016

	Share Capital				Accumulated		
	Number of	Paid up		Contributed	Other	Retained	
	Shares	Amount	Warrants	Surplus	Comprehensive	Earnings	Total
					Income		
Balance, December 31, 2015	4,686,694	\$ 4,185,173	\$ -	\$ 328,080	\$ 2,579,742	\$ 1,543,267	\$ 8,636,262
Share based payments	-	-	-	18,308	-	-	18,308
Other comprehensive loss for the period	-	-	-	-	(225,197)	-	(225,197)
Net income for the period	-	-	-	-	-	106,362	106,362
Balance, March 31, 2016	4,686,694	4,185,173	-	346,388	2,354,545	1,649,629	8,535,735
Private placement	200,000	238,029	36,196	-	-	-	274,225
Share based payments	-	-	-	55,206	-	-	55,206
Other comprehensive loss for the period	-	-	-	-	(117,754)	-	(117,754)
Net income for the period	-	-	-	-	-	323,376	323,376
Balance, December 31, 2016	4,886,694	4,423,202	36,196	401,594	2,236,791	1,973,005	9,070,788
Share based payments	-	-	-	7,486	-	-	7,486
Other comprehensive income for the period	-	-	-	-	98,424	-	98,424
Net income for the period	-	-	-	-	-	44,944	44,944
Balance, March 31, 2017	4,886,694	\$ 4,423,202	\$ 36,196	\$ 409,080	\$ 2,335,215	\$ 2,017,949	\$ 9,221,642

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 three month periods ended March 31

	2017	2016
Revenue		
Oil and gas income	\$ 539	\$ 136
Direct Costs		
Operating (recovered) expenses	(2,412)	224
Gross income (loss)	2,951	(88)
Expenses		
Administrative (notes 6 and 9)	60,884	46,736
Foreign exchange	441	364
Project development costs	707	-
Share based payments (notes 6 and 8)	7,486	18,308
	69,518	65,408
Loss before investment income, sale of investments and impairment	(66,567)	(65,496)
Investment income	59,822	63,957
Gain on sale of investments	98,949	220,210
Impairment of short term investments	(61,967)	(78,659)
Income before provision for income taxes	30,237	140,012
Recovery of (provision for) income taxes ñ deferred (note 10)	14,707	(33,650)
Net income for the period	\$ 44,944	\$ 106,362
Earnings per common share		
Basic	\$ 0.01	\$ 0.02
Fully diluted	\$ 0.01	\$ 0.02
Weighted average number of shares		
Basic	4,886,694	4,686,694
Fully diluted	4,900,115	\$ 4,686,694
Comprehensive income (loss)		
Items of other comprehensive loss to be subsequently reclassified to net income		
Unrealized income on short-term investments	\$ 76,520	\$ 326,676
Unrealized income (loss) on long-term investments	115,462	(470,197)
Reclassification of gains included in net income for the period	(78,851)	(115,326)
Deferred taxes	(14,707)	33,650
Other comprehensive income (loss) for the period	98,424	(225,197)
Net income for the period	44,944	106,362
Net comprehensive income (loss) for the period	\$ 143,368	\$ (118,835)

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 three month periods ended March 31

	2017	2016
Operating activities		
Net income for the period	\$ 44,944	\$ 106,362
Items not affecting cash:		
Impairment of short term investments	61,967	78,659
Gain on sale of investments	(98,949)	(220,210)
Share based payments	7,486	18,308
Income tax (recovery) provision - deferred	(14,707)	33,650
	741	16,769
Other sources of cash from operations:		
Other receivables	6,880	(8,264)
Accounts payable and accrued liabilities	3,292	700
	10,913	9,205
Cash flow from investing activities:		
Purchase of investments	(46,500)	(711,392)
Return of capital on investments	7,123	11,217
Proceeds from disposal of investments	298,360	333,051
	258,983	(367,124)
Increase (decrease) in cash	269,896	(357,919)
Cash, beginning of period	2,685,813	2,238,466
Cash, end of period	\$ 2,955,709	\$ 1,880,547

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

Phoenix Canada Oil Company Limited

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2017

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, two of which are classified as long-term. It also holds minority interest investments in several mature gas fields in Western Canada, the carrying value of which is \$1. In addition, 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 has also announced that, as a result of a strategic review process, it is currently evaluating acquisition targets that would generate additional shareholder value through the purchase of operating assets.

These unaudited condensed interim consolidated financial statements were approved by the Board of Directors on May 30, 2017.

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, 2016.

The notes to these unaudited interim condensed financial statements are intended to provide a description of events and transactions that are significant to an understanding to the changes in the Company's financial position and performance since December 31, 2016. 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, 2016.

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 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 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 investments may be impaired and the recognition and valuation of deferred tax amounts.

Phoenix Canada Oil Company Limited

Notes to the Unaudited Condensed Interim Consolidated Financial Statements

(Stated in Canadian Dollars)

March 31, 2017

2. Basis of presentation and statement of compliance - continued

Functional currency

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

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:

- Ç significant financial difficulty of the issuer or counterparty; or
- Ç default or delinquency in interest or principal payments; or
- Ç 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. "Significant" is evaluated against the original cost of the investment and "prolonged" 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 numerous publicly traded companies that are listed on stock exchanges in Canada and the United States.

Long-term investments, which represent less than 3% interests in each entity, are comprised as follows:

	March 31 2017	December 31 2016
385,729 shares (Dec. 2016 - 385,729 shares) in Starrex International Ltd.	\$ 231,437	\$ 250,724
1,925,000 shares (Dec. 2016 ñ 1,925,000 shares) in Theralase Technologies Inc.	625,625	490,875
	\$ 857,062	\$ 741,599

Phoenix Canada Oil Company Limited

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5. Interest in Oil and Gas Properties

	March 31 2017	December 31 2016
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.

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 following amounts are included in administrative expenses (*note 9*):

The Company incurred expenses of \$21,187 (Mar. 2016 - \$14,102) for services rendered by its Interim Chief Executive Officer.

The Company incurred expenses of \$11,000 (Mar. 2016 - \$8,500) for services rendered by its Chief Financial Officer. This amount is included in administrative expenses.

The Company incurred share based payment expense of \$7,486 (Mar. 2016 - \$18,308) relative to stock options granted to officers and directors during prior periods and had not vested prior to the start of the current financial reporting period.

At March 31, 2017, \$93,900 was payable to the related parties noted above and is included in accounts payable and accrued liabilities (December 31, 2016 - \$90,638). 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 year ended December 31, 2016 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 Company's directors with the interests of its shareholders.

Warrants

	Number of warrants	Amount
Balance, December 31, 2015 and March 31, 2016	-	\$ -
Issued during the period	200,000	36,196
Balance, December 31, 2016 and March 31, 2017	200,000	\$ 36,196

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March 31, 2017

7. Share capital - continued

	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.

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

	March 31 2017	December 31 2016
Dividend yield	None granted	Nil
Risk free interest rate (%)	None granted	0.67
Expected stock volatility (%)	None granted	35.95
Expected life (years)	None granted	2

8. 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:

	March 31 2017	December 31 2016
Balance, beginning of period	\$ 401,594	\$ 328,080
Compensation expense related to stock options	7,486	73,514
Balance, end of period	\$ 409,080	\$ 401,594

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⁾	172,500 ⁽²⁾	\$ 1.40	Dec. 30, 2022

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

⁽²⁾ 50% of these options have vested, and the remainder will vest as to 25% on each of December 30, 2017 and December 30, 2018. The Company currently anticipates that all options will vest.

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(Stated in Canadian Dollars)

March 31, 2017

9. Administrative Expenses

	March 31 2017	March 31 2016
Management and corporate services (note 6)	\$ 32,187	\$ 22,602
Shareholder services	8,890	11,352
Professional fees	14,742	9,910
Insurance	1,512	1,755
Office and general	954	1,117
Travel	2,599	-
	\$ 60,884	\$ 46,736

10. Income Taxes

Deferred tax liability

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

	March 31 2017	December 31 2016
Deferred tax assets:		
Non capital losses carried forward	188,650	173,950
Deferred tax liabilities:		
Unrealized gains on available for sale financial instruments	(188,650)	(173,950)
Deferred tax liabilities - net	\$ -	\$ -

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.

	March 31 2017	December 31 2016
Balance, beginning of period	\$ -	\$ -
Recognized in profit and loss	14,707	(43,377)
Recognized in other comprehensive income	(14,707)	43,377
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:

	March 31 2017	December 31 2016
Non-capital losses carried forward	\$ 724,940	\$ 781,510
Interest in oil and gas properties	341,910	341,910
Equipment and other	35,930	35,930

Phoenix Canada Oil Company Limited

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(Stated in Canadian Dollars)

March 31, 2017

10. Income Taxes - continued

The non-capital losses carried forward will expire, if not utilized, between 2030 and 2036. 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.

11. 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, 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.

12. 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 and long-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 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 10% 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 \$640,000 in comprehensive income (loss).

A 10% increase or decrease in the Canadian dollar relative to the US dollar could result in an increase or decrease of approximately \$9,800 in other comprehensive income (loss) and an increase or decrease of approximately \$3,600 in net income.

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