# Paleo Resources, Inc.
## Condensed Interim Consolidated Financial Statements
***For the three months ended March 31, 2020 and 2019***
*(Unaudited, expressed in US Dollars)*

## Auditor's Involvement

National Instrument 51-102, Part 4, Subsection 4.3(3)(a), requires that if an auditor has not performed a review of the interim financial statements there must be an accompanying notice indicating that the interim financial statements have not been reviewed by an auditor.

The Auditors' of Paleo Resources, Inc. have not performed a review of the condensed interim consolidated financial statements for the three months ended March 31, 2020 and 2019.

## Paleo Resources, Inc.
### Condensed Interim Consolidated Balance Sheets
***(Unaudited, expressed in US Dollars)***
**As at**

| | **March 31, 2020 $** | December 31, 2019 $ |
|---|---|---|
| **ASSETS** | | |
| **Current assets** | | |
| Cash and cash equivalents | **189,924** | 235,263 |
| Accounts receivable | **26,235** | 33,162 |
| Prepaid expenses and deposits | **78,980** | 73,282 |
| | **295,139** | 341,707 |
| Deposit (Note 3) | **221,485** | 240,729 |
| Oil and gas properties, successful efforts method (Note 4) | | |
| Proved properties, net | **1,228,904** | 1,325,860 |
| Unproved properties | **8,620,615** | 8,620,615 |
| **TOTAL ASSETS** | **10,366,143** | 10,528,911 |
| **LIABILITIES** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | | |
| Related parties | **998,919** | 986,123 |
| Third parties | **889,432** | 749,804 |
| Loans payable (Note 5) | | |
| Related parties | **2,993,591** | 2,993,591 |
| Third parties | **300,000** | 300,000 |
| | **5,181,942** | 5,029,518 |
| Convertible debentures (Note 6) | | |
| Related parties | **451,379** | 470,463 |
| Third parties | **1,414,660** | 1,562,137 |
| Asset retirement obligations (Note 7) | **302,983** | 316,595 |
| **TOTAL LIABILITIES** | **7,350,964** | 7,378,713 |
| **SHAREHOLDERS' EQUITY** | | |
| Class A common shares, no par, unlimited shares authorized and 235,286,816 shares issued and outstanding at March 31, 2020 and December 31, 2019 (Note 8) | **31,729,775** | 31,729,775 |
| Additional paid in capital | **3,161,109** | 3,161,109 |
| Accumulated other comprehensive loss | **(569,753)** | (747,330) |
| Accumulated deficit | **(31,305,952)** | (30,993,356) |
| Total shareholders' equity | **3,015,179** | 3,150,198 |
| **TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY** | **10,366,143** | 10,528,911 |

Approved on behalf of the Board

*(signed) "Tom M. Crain, Jr."*
President and Director

*(signed) "Chris Pettit"*
Director

*The accompanying notes are an integral part of these unaudited interim consolidated financial statement.*

# Paleo Resources, Inc.
## Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
***(Unaudited, expressed in US Dollars)***
**For the three months ended March 31, 2020 and 2019**

| | 2020<br>$ | 2019<br>$ |
|---|---|---|
| **Revenue** | | |
| Oil and gas sales, net of royalties | **53,730** | 101,519 |
| **Operating costs and expenses** | | |
| Lease operating expenses | **26,119** | 130,287 |
| Production taxes | **7,485** | 7,867 |
| General and administrative expenses | | |
| Share-based compensation expenses | - | 5,957 |
| Other general and administrative expenses | **134,952** | 192,763 |
| Depletion, depreciation, and accretion (Note 4 and 7) | **66,373** | 293,931 |
| Impairment (Note 4) | **32,297** | - |
| Mining royalty and staking | **15,482** | 33,439 |
| Total operating costs and expenses | **282,708** | 664,244 |
| **Loss from operations** | **(228,978)** | (562,725) |
| **Other income and (expense)** | | |
| Interest expense (Note 10) | **(84,019)** | (111,721) |
| Foreign exchange gain (loss) | **401** | 93,012 |
| Other income and (expense), net | **(83,618)** | (18,709) |
| **Net loss attributable to shareholders** | **(312,596)** | (581,434) |
| **Comprehensive income (loss)** | | |
| Foreign currency translation | **177,577** | (95,717) |
| **Comprehensive loss attributable to shareholders** | **(135,019)** | (677,151) |
| Basic and diluted net loss per share (Note 11) | **(0.00)** | (0.00) |
| Weighted average number of common shares outstanding | **235,286,816** | 235,286,816 |

*(Unaudited, expressed in US Dollars)*

| | Number of Shares | Share Capital | Additional Paid In Capital | Accumulated Other Comprehensive Income (Loss) | Deficit | Total Shareholders' Equity (Deficit) |
|---|---|---|---|---|---|---|
| | # | $ | $ | $ | $ | $ |
| **Balance, December 31, 2019** | **235,286,816** | **31,729,775** | **3,161,109** | **(747,330)** | **(30,993,356)** | **3,150,198** |
| Foreign currency translation loss | - | - | - | 177,577 | - | 177,577 |
| Share-based compensation | - | - | - | - | - | - |
| Net loss for the year | - | - | - | - | (312,596) | (312,596) |
| **Balance, March 31, 2020** | **235,286,816** | **31,729,775** | **3,161,109** | **(569,753)** | **(31,305,952)** | **3,015,179** |
| Balance, December 31, 2018 | 235,286,816 | 31,729,775 | 3,155,152 | (601,813) | (32,472,917) | 1,810,197 |
| Foreign currency translation | - | - | - | (95,717) | - | (95,717) |
| Share-based payments | - | - | 5,957 | - | - | 5,957 |
| Net loss for the period | - | - | - | - | (581,434) | (581,434) |
| **Balance, March 31, 2019** | **235,286,816** | **31,729,775** | **3,161,109** | **(697,530)** | **(33,054,351)** | **1,139,003** |

**Paleo Resources, Inc.**
**Interim Consolidated Statements of Cash Flows**
***(Unaudited, expressed in US Dollars)***
**For the three months ended March 31, 2020 and 2019**

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss for the period | **(312,596)** | (581,434) |
| Adjustments: | | |
| Depletion, depreciation and accretion | **66,373** | 293,931 |
| Impairment | **-** | - |
| Debt discount amortization (Note 6) | **5,509** | - |
| Share-based compensation | **-** | 5,957 |
| Unrealized foreign exchange | **18,201** | (112,869) |
| Changes in assets and liabilities | | |
| Accounts receivable | **4,124** | (4,709) |
| Prepaid expenses and deposits | **(8,610)** | - |
| Accounts payable and accrued liabilities | **126,735** | 141,380 |
| Net cash used in operating activities | **(100,264)** | (257,743) |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Deposits | **(1,101)** | (1,133) |
| Additions to unproved oil and gas properties | **941** | (349) |
| Additions to proved oil and gas properties | **(79,604)** | (13,328) |
| Proceeds on disposition of unproved properties | **-** | - |
| Net cash used in investing activities | **(79,764)** | (14,810) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Proceeds from related party loans payable | - | 1,113,000 |
| Repayment of long-term debt | - | (750,000) |
| Net cash provided by financing activities | **-** | 363,000 |
| Effect of changes in foreign exchange rates on cash held in foreign currencies | **134,689** | 17,688 |
| Net increase (decrease) in cash and cash equivalents for the period | **(45,339)** | 108,135 |
| Cash and cash equivalents, beginning of the period | **235,263** | 40,786 |
| **Cash and cash equivalents, end of the period** | **189,924** | 148,921 |

**Paleo Resources, Inc.**
**Condensed Interim Consolidated Statements of Cash Flows**
***(Unaudited, expressed in US Dollars)***
**For the three months ended March 31, 2020 and 2019**

| | **2020** **$** | 2019 $ |
|---|---|---|
| **Supplemental cash flow disclosures** | | |
| Interest paid | **37,823** | - |
| Income taxes paid | **-** | - |
| **Non-cash transactions** | | |
| Asset retirement obligation asset revision | **-** | 23,428 |
| **Non-cash investing activities** | | |
| Change in unproved properties in accounts payable | **941** | 869 |
| Change in proved properties in accounts receivable and accounts payable | **(66,238)** | 47,445 |

## 1. Description of business and going concern

*Description of business*

Tanager Energy Inc. ("Tanager") was incorporated in 1945 and in fiscal 2013, the name of the Company was changed to "Tanager Energy Inc." In addition, on June 20, 2016 Tanager incorporated Tanager Energy (USA) Inc., a wholly owned subsidiary. On August 6, 2018, Tanager incorporated Tanager Chalk, Inc., a wholly owned subsidiary of Tanager Energy (USA) Inc.

On March 6, 2019, Tanager continued from the Province of Alberta to the Province of British Columbia pursuant to a resolution passed by shareholders of Tanager at the annual general and special meeting held on December 19, 2018. On April 11, 2019, the Company amended its articles of incorporation to change its name from Tanager Energy Inc. to Paleo Resources, Inc. (“Paleo Resources” or the “Company”). In addition, the Company’s subsidiary, Tanager Energy (USA) Inc. changed its name to Paleo Resources (USA), Inc.

Paleo Resources is an exploration company, engaged in the acquisition, exploration and development of oil and gas in Alberta, Canada and Texas, USA and precious and base metal properties in Ontario, Canada. The Company's common shares are listed on the TSX Venture Exchange under the symbol PRE and on the OTCQB Venture Market in the U.S. as PRIEF. The primary office is located at 716 S Frio St, Suite 201, San Antonio, TX 78207.

*Going concern*

These unaudited condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with generally accepted accounting principles of the United States of America (“US GAAP”) applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future, which is at least, but not limited to, one year from March 31, 2020. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. As at March 31, 2020, the Company had a working capital deficiency of $4,886,803 (December 31, 2019 - $4,687,811) and an accumulated deficit of $31,305,952 (December 31, 2019 - $30,993,356). The Company will need additional funding in order to continue operations. While the Company has been successful in obtaining funding in the past, principally through the issuance of equity and debentures and non-arm’s length loans, there is no assurance that such funding will be available in the future. An inability to raise additional funds would adversely impact the future assessment of the Company as a going concern. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company’s ability to continue as a going concern.

The Company is dependent upon its ability to finance its operations and oil and gas drilling programs through financing activities that may include issuances of additional debt or equity securities. The recoverability of the carrying value of exploration and evaluation assets and plant property and equipment, and, ultimately, the Company’s ability to continue as a going concern, is dependent upon the existence and economic recovery of reserves, the ability to raise financing to complete the exploration and development of the properties, and upon future profitable production or, alternatively, upon the Company’s ability to dispose of its interests in one or more assets on an advantageous basis, all of which are uncertain. These unaudited condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and consolidated statements of financial position classifications that would be necessary if the going concern assumption was inappropriate.

**2. Basis of presentation**

*Interim financial statements*

The accompanying unaudited condensed interim consolidated financial statements have been prepared in accordance with US GAAP for interim financial information and with the appropriate rules and regulations of the SEC. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with US GAAP have been condensed or omitted pursuant to such rules and regulations. All adjustments which are, in the opinion of management, necessary for a fair presentation of the financial position and results of operations for the interim periods presented have been included. The unaudited interim financial information and notes hereto should be read in conjunction with the Company's consolidated financial statements as of and for the years ended December 31, 2019 and 2018. The results of operations for interim periods are not necessarily indicative of results to be expected for a full fiscal year. These unaudited condensed interim consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments and share-based payment transactions that have been measured at fair value. They were prepared on a going concern basis and are presented in a reporting currency of US dollars ("USD"). The functional currency of the parent entity is Canadian Dollars ("CDN") and the functional currency of the US subsidiary is USD.

*Basis of consolidation*

These unaudited condensed interim consolidated financial statements consolidate the accounts of the Company and its wholly owned subsidiary, Paleo Resources (USA), Inc. The Company incorporated two wholly owned entities, Tanager Energy GP, LLC and Tanager Energy, LP on December 31, 2017 and Tanager Chalk, Inc. on August 6, 2018 and these entities are inactive to date. Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these unaudited consolidated financial statements.

*Use of estimates*

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to the use of the going concern assumption, proved natural gas reserves and related cash flow estimates used in impairment tests of oil and natural gas properties, asset retirement obligations, and accrued natural gas revenues and operating expenses. Actual results could differ from those estimates.

*Recently issued accounting standards*

The Corporation, an emerging growth company ("EGC"), has elected to take advantage of the benefits of the extended transition period provided for in Section 7(a)(2)(B) of the Securities Act, for complying with new or revised accounting standards which allows the Corporation to defer adoption of certain accounting standards until those standards would otherwise apply to private companies.

In August 2018, the FASB issued ASU 2018-13, ''Fair Value Measurement (Topic 820): Disclosure Framework Changes to the Disclosure Requirements for Fair Value Measurement,'' the purpose of which is to improve the effectiveness of fair value measurement disclosures. The amendments in this ASU are the result of a broader disclosure project called FASB Concepts Statement, Conceptual Framework for Financial Reporting—Chapter 8: Notes to Financial Statements, which the FASB finalized on August 28, 2018. The FASB used the guidance in the Concepts Statement to improve the effectiveness of ASC 820's disclosure requirements. ASU 2018-13 is effective for all entities for fiscal years beginning after December 15, 2019, including interim periods therein. Early adoption is permitted for any eliminated or modified disclosures upon issuance of this ASU. The Company is currently assessing the impact of the new standards on these consolidated financial statements.

In February 2016, the FASB issued ASU 2016 02, "Leases (Topic 842)" (ASU 2016-02), which significantly changes accounting for leases by requiring that lessees recognize a right of use asset and a related lease liability representing the obligation to make lease payments, for all lease transactions with terms greater than one year. Additional disclosures about an entity's lease transactions will also be required. ASU 2016-02 defines a lease as "a contract, or part of a contract,

*(Unaudited, expressed in US Dollars unless otherwise stated)*

**2. Basis of presentation (continued)**

that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration." ASU 2016-02 is effective for fiscal years beginning after December 15, 2020. The Company elects to defer adoption of this ASU until January 1, 2021 as allowed for an emerging growth company. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented in the financial statements using a modified retrospective approach. The Company does not anticipate this to impact our consolidated financial statements at this time.

**3. Deposit**

At March 31, 2020 deposit of $221,485 (December 31, 2019 - $240,729) relates to payments to the Alberta Energy Regulator ("AER") held in trust as security deposits in connection with AER estimated net future abandonment liabilities for operated Alberta well licenses. The deposit bears interest at bank prime minus 1.95%.

**4. Oil and gas properties, successful efforts method**

| | **March 31, 2020** | December 31,2019 |
|---|---|---|
| **Oil and gas properties** | **$** | $ |
| Proved properties | **6,246,533** | 6,318,074 |
| Accumulated depletion, depreciation, and impairment | **(5,017,629)** | (4,992,214) |
| Proved properties, net | **1,228,904** | 1,325,860 |
| Unproved properties | **8,620,615** | 8,620,615 |
| Total oil and gas properties, net | **9,849,519** | 9,946,475 |

The movement in the Company's proved oil and gas properties is as follows:

| | **March 31, 2020** | December 31,2019 |
|---|---|---|
| **Proved properties** | **$** | $ |
| **Cost** | | |
| Balance, beginning of period | **6,318,074** | 5,388,095 |
| Additions | **13,366** | 812,706 |
| Transfer from unproved properties | **-** | - |
| Asset retirement obligation adjustments | **-** | 88,111 |
| Gain (loss) on foreign exchange translation | **(84,907)** | 29,162 |
| Balance, end of period | **6,246,533** | 6,318,074 |
| **Accumulated depletion, depreciation, and impairment** | | |
| Balance, beginning of period | **4,992,214** | 4,394,819 |
| Depletion and depreciation | **61,414** | 579,369 |
| Gain (loss) on foreign exchange translation | **(35,999)** | 18,026 |
| Balance, end of period | **5,017,629** | 4,992,214 |
| **Net book value** | **1,228,904** | 1,325,860 |

*(Unaudited, expressed in US Dollars unless otherwise stated)*

4. **Oil and gas properties, successful efforts method (continued)**

The movement in the Company's unproved oil and gas properties is as follows:

| Unproved properties | March 31, 2020<br>$ | December 31,2019<br>$ |
|---|---|---|
| Balance, beginning of period | **8,620,615** | 8,780,218 |
| Additions | **32,267** | 116,191 |
| Properties adjustment | **-** | (151,069) |
| Disposition | **-** | (12,278) |
| Impairment | **(32,267)** | (112,917) |
| Transfer to proved properties | **-** | - |
| Asset retirement obligation adjustment (Note 8) | **-** | 470 |
| Balance, end of period | **8,620,615** | 8,620,615 |

*Property Impairment*

The Company periodically reviews oil and natural gas properties for impairment when facts and circumstances indicate that their carrying value may not be recoverable.

**Proved Properties**

In order to determine whether the carrying value of an asset is recoverable, the Company compares net capitalized costs of proved oil and natural gas properties to estimated undiscounted future net cash flows using management's expectations of future oil and natural gas prices. These future price scenarios reflect the Company's estimation of future price volatility. If the net capitalized cost exceeds the undiscounted future net cash flows, the Company writes the net cost basis down to the discounted future net cash flows, which is management's estimate of fair value. Significant inputs used to determine the fair value include estimates of: (i) reserves; (ii) future operating and development costs; (iii) future commodity prices; and (iv) a market-based weighted average cost of capital rate. The underlying commodity prices embedded in the Company's estimated cash flows are the product of a process that begins with NYMEX forward curve pricing, adjusted for estimated location and quality differentials, as well as other factors that the Company's management believes will impact realizable prices.

The Company conducted an impairment test of the carrying value on March 31, 2020 and December 31, 2019 and concluded there was no impairment.

**Unproved Properties**

In order to determine whether the carrying value of its unproved properties are recoverable, the Company evaluates whether sufficient progress has been made on assessing the reserves and the economic and operating viability of each project. Such progress is assessed based upon various facts and circumstances and indicators including: (i) review of lease term expiries and expectations whether the leases are expected to be renewed or drilled upon in the future; (ii) occurrence of dry holes being drilled on the project; (iii) commitment of company project personnel at appropriate levels and skills for the project; (iv) costs that are being incurred to assess the reserves and their potential development; (v) assessment of the economic, legal, political, and environmental aspects of the development in progress; (vi) existence (or active negotiations) of sales contracts with customers for the oil and gas, as well as agreements with joint venture partners; (vii) existence of firm plans, established timetables, or contractual commitments for the development; (viii) progress being made on contractual arrangements that will permit future development; (ix) identification of existing transportation and other infrastructure that is or will be available for the project; and (x) identification of sources of capital to fund the project.

*(Unaudited, expressed in US Dollars unless otherwise stated)*

4. **Oil and gas properties, successful efforts method (continued)**

The Company has reviewed for indicators of impairment of its unproved properties as of December 31, 2019. At December 31, 2019, for its Yegua formation assets in the US, the Company determined that there were indicators of impairment and tested the unproved properties for impairment. The indicators observed include that certain individual Yegua formation area leases with undeveloped acreage that have expired or are not expected to be renewed or drilled upon in the future. As at March 31, 2020, the Company has measured an impairment of $nil (December 31, 2019 - $21,430) based upon the carrying value of those individual area leases. In the fourth quarter of 2019, the Company's Dorn Prospect well in the Yegua formation was drilled and testing operations were concluded. The Dorn Prospect well produced non-commercial quantities of gas and water from multiple prospective sandstone sections, and the Company has decided to plug and abandon the well as a dry hole. Impairment expense for the three months ended March 31, 2020 included $32,297 (year ended December 31, 2019 - $91,487) of costs from the Dorn Prospect well.

## 5. Loans payable

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Promissory note from US JV Partner | **1,462,591** | 1,462,591 |
| Loan from subsidiary of US JV Partner | **1,531,000** | 1,531,000 |
| Total loans payable from related parties | **2,993,591** | 2,993,591 |
| Loan from third-party lender | **300,000** | 300,000 |
| | **3,293,591** | 3,293,591 |

In September 2018, the Company converted outstanding accounts payable owing to the US JV into a promissory note. The maturity date of the loans has been extended to June 30, 2021, and all monthly payments of principal and interest are deferred until the maturity date (Note 16).

In September 2018, the Company also entered into a loan from a wholly owned subsidiary of the US JV Partner for a total available amount of $1,250,000. Effective March 31, 2019, the total available amount of the loan was amended to $2,100,000. The maturity date of the loans has been extended to June 30, 2021, and all monthly payments of principal and interest are deferred until the maturity date (Note 16).

The loan from the third-party joint venture partner was entered into on October 1, 2018.

## 6. Convertible debentures

| | **March 31, 2020** | December 31, 2019 |
|---|---|---|
| | **$** | $ |
| Convertible debentures issued to related parties | **451,379** | 470,463 |
| Convertible debentures issued to third parties | **1,414,660** | 1,562,137 |
| | **1,866,039** | 2,032,600 |

**2019 CD:** On June 5, 2019, the Company issued subordinated secured convertible debentures (the "debentures") in the aggregate amount of CDN$2,036,245 ($1,518,000 at an assumed exchange rate of CDN$0.7455 to US$1.00).

In July 2019, the Company closed a second tranche of the debenture offering (the "2019 debentures"). The Company settled a portion of the debt owed to the subsidiary of the US JV partner. Pursuant to the debt settlement, the Company issued debentures in the aggregate principal amount of CDN$646,554 ($482,000 at an assumed exchange rate of CDN$0.7455 to US$1.00) to shareholders of the US JV partner, namely Roger S. Braugh, Jr., a director of the Company and Chris Pettit & Associates PC, controlled by Christopher J. Pettit, a director of the Company, as trustee of a Trust.

*(Unaudited, expressed in US Dollars unless otherwise stated)*

### 6. Convertible debentures (continued)

The following table summarizes the movement of Company's 2019 convertible debentures:

| | **March 31, 2020** **$** | December 31, 2019 $ |
|---|---|---|
| Balance, beginning of period | **2,032,600** | - |
| Convertible debentures issued, net of issuance cost | **-** | 1,955,813 |
| Amortization of issuance cost | **5,509** | 12,435 |
| Foreign exchange | **(172,070)** | 64,352 |
| Balance, end of period | **1,866,039** | 2,032,600 |

### 7. Asset retirement obligations

The Company's asset retirement obligations ("ARO") represent the present value of the estimated cash flows expected to be incurred to plug, abandon and remediate producing properties, excluding salvage value, at the end of their productive lives in accordance with applicable laws. Change in estimated liabilities during the period relate primarily to changes in estimates of asset retirement costs. Change in estimated liabilities can also include, but are not limited to, change of estimated inflation rates, change in property lives and expected timing of settlement.

The following table presents the reconciliation of the carrying amount of the obligation associated with the reclamation and abandonment of the Company's oil and gas properties:

| | **March 31, 2020** **$** | December 31, 2019 $ |
|---|---|---|
| **Balance, beginning of period** | 316,595 | 204,767 |
| Accretion | 5,509 | 15,719 |
| Additions | - | 31,581 |
| Change in estimate | - | 57,000 |
| Foreign exchange | (19,121) | 7,528 |
| **Balance, end of period** | 302,983 | 316,595 |

### 8. Common stock

*(a)* Authorized common stock

The authorized common stock consists of an unlimited number of Class A common shares. The common shares do not have a par value. All issued shares are fully paid.

*(b)* Common shares issued and outstanding

| | **Number of common shares** | **Amount $** |
|---|---|---|
| **Balance, March 31, 2020 and December 31, 2019** | **235,286,816** | **31,729,775** |

*(Unaudited, expressed in US Dollars unless otherwise stated)*

## 9. Stock options

On April 6, 2017, the Company granted 2,000,000 stock options to directors and officers of the Company with an exercise price of CDN$0.15 and an expiry date of April 6, 2022. These stock options vest, as to 50%, on the grant date, as to 25%, on each of the first and second anniversaries of the grant date. As of December 31, 2019, all of these stock options have vested and remain outstanding.

For the three months ended March 31,2020 and 2019, the Company recorded share-based compensation expense of $nil and $5,957, respectively.

## 10. Interest expense

| | For the three months ended March 31, | |
|---|---|---|
| | **2020** | 2019 |
| | **$** | $ |
| Interest expense (1) | **78,510** | 111,721 |
| Debt discount amortization (Note 6) | **5,509** | - |
| | **84,019** | 111,721 |

(1) Interest expense for the three months ended March 31, 2020 includes $37,300 (2019 – $nil) of interest on convertible debentures, and $41,210 (2019 – $111,721) of interest accrued on the Credit Facility, Note Payable and Loans Payable.

## 11. Net loss per common share

The calculation of basic and diluted loss per share for the three months ended March 31, 2020 was based on the net loss attributable to common shareholders of $312,596 (2019 – $581,434) and the weighted average number of common shares outstanding of 235,286,816 (2019 – 235,286,816).

The Company excluded the following shares from the diluted loss per share calculations because they were anti-dilutive at March 31, 2020 and 2019:

| | **2020** | 2019 |
|---|---|---|
| | **$** | $ |
| Share options | **2,000,000** | 2,000,000 |
| Warrants | **-** | 21,000,000 |
| Convertible debentures | **22,356,658** | - |
| | **24,356,658** | 23,000,000 |

*(Unaudited, expressed in US Dollars unless otherwise stated)*

## 12. Related party transactions

Related parties include the Board of Directors, senior management and enterprises that are controlled by these individuals. Related party transactions are conducted in the normal course of operations under normal market conditions and terms. The following transactions were entered into with related parties during the three months ended March 31, 2020 and 2019:

| Related Party | Transactions | **2020** $ | 2019 $ |
|---|---|---|---|
| Director and Trust(1) | Convertible debentures - interest expense incurred | **8,922** | - |
| US JV Partner and sub(2) | Promissory note and loan interest expense incurred | **36,723** | 46,408 |
| US JV Partner | US operation expense and revenue, net | **(21,806)** | 42,467 |

(1) Total accrued interest payable to the director and the Trust as of March 31, 2020 was $227,133 (December 31, 2019 – $229,254) and is included in accounts payable and other liabilities

(2) The US JV Partner is owned by a director of the Company and a Trust controlled by another director in his capacity as trustee of the Trust. Included in accounts payable as at March 31, 2020 is $771,786 (December 31, 2019 - $756,869) owing to the US JV Partner and its subsidiary

## 13. Revenue

The Company sells its production pursuant to variable price contracts entered into by the Company's operator or contract operator of its joint operations. The transaction price for variable priced contracts is based on the commodity price, adjusted for quality, location, or other factors, whereby each component of the pricing formula can be either fixed or variable, depending on the contract terms. Under the contracts, the Company is required to deliver a fixed or variable volume of crude oil, natural gas, and NGLs to the contract counterparty. Revenue is recognized when a unit of production is delivered to the contract counterparty. The amount of revenue recognized is based on the agreed transaction price.

Currently, all of the Company's crude oil, natural gas and NGLs is sold on the Company's behalf at spot prices received by the operator or contract operator of the Company's joint operations. Gathering fees charged to third parties are earned under multi-year contracts at fixed fees by volume.

Revenue from petroleum and natural gas sales is presented net of associated royalties.

The following table provides a summary of the Company's revenue disaggregated by revenue source for the three months ended March 31, 2020 and 2019:

| | **2020** $ | 2019 $ |
|---|---|---|
| Crude oil | **-** | 26,885 |
| Natural gas liquids | **-** | 2,101 |
| Natural gas | **53,730** | 72,230 |
| Petroleum and natural gas sales | **53,730** | 101,216 |
| Other income (1) | **-** | 303 |
| Total revenue | **53,730** | 101,519 |

(1) Other income primarily consists of gathering fee income and sulfur sales.

*(Unaudited, expressed in US Dollars unless otherwise stated)*

## 14. Segmented financial information

The Company's reportable segments are determined based on its geographic locations. Canada includes the exploration for, and development and production of, crude oil and natural gas in Alberta, Canada and the acquisition, exploration, and development of precious and base metal properties in Ontario, Canada. U.S. includes the exploration for, and the development and production of, crude oil and natural gas in Texas, USA. Corporate includes corporate activities and items not allocated between operating segments.

**For the three months ended March 31, 2020**

| | Canada | U.S. | Corporate | **Consolidated** |
|---|---|---|---|---|
| | $ | $ | $ | **$** |
| **Revenue, net of royalties** | - | 53,730 | - | **53,730** |
| **Operating costs and expenses** | | | | |
| Lease operating expenses | 10,357 | 15,763 | - | **26,119** |
| Production taxes | - | 7,485 | - | **7,485** |
| General and administrative | | | | |
| Share-based payments | - | - | - | **-** |
| Other general and administrative expenses | | - | 134,952 | **134,952** |
| Depletion, depreciation and accretion | 3,289 | 63,084 | - | **66,373** |
| Impairment | - | 32,297 | - | **32,297** |
| Mining royalty and staking | 15,482 | - | - | **15,482** |
| Total operating costs and expenses | 29,128 | 118,629 | 134,952 | **282,709** |
| **Loss from operations** | (29,128) | (64,899) | (134,952) | **(228,978)** |
| **Other income and (expense)** | | | | |
| Interest expense | - | - | (84,019) | **(84,019)** |
| Foreign exchange gain | - | - | 401 | **401** |
| Gain on forgiveness of debt | - | - | - | **-** |
| Gain on disposition of unproved properties | - | - | - | **-** |
| Gain on disposition of share | - | - | - | **-** |
| Other income and (expense), net | - | - - | 83,618 | **(83,618)** |
| **Net loss attributable to shareholders** | (29,128) | (64,899) | (51,334) | **(312,596)** |
| **Unproved oil and gas properties expenditures** | | | | |
| Additions | - | 32,297 | - | **32,297** |
| Properties adjustment | - | - | - | **-** |
| Disposition | - | (32,297) | - | **(32,297)** |
| Asset retirment adjustments | - | - | - | **-** |
| | - | - | - | **-** |
| **Proved oil and gas properties expenditures** | | | | |
| Additions | 11,068 | 2,298 | - | **13,366** |
| Asset retirment adjustments | - | - | - | **-** |
| Foreign currency translation | (84,907) | - | - | **(84,907)** |
| | (73,839) | 2,298 | - | **(71,541)** |

**As at March 31, 2020**

| | | | | |
|---|---|---|---|---|
| Canadian assets | 1,013,000 | - | - | **1,013,000** |
| U.S. assets | - | 9,353,141 | - | **9,353,141** |
| Corporate assets | - | - | - | **-** |
| | 1,013,000 | 9,353,141 | - | **10,366,141** |

*(Unaudited, expressed in US Dollars unless otherwise stated)*

**14. Segmented financial information** *(continued)*

| **For the three months ended March 31, 2019** | Canada | U.S. | Corporate | **Consolidated** |
|---|---|---|---|---|
| | $ | $ | $ | **$** |
| **Revenue, net of royalties** | 31,674 | 69,845 | - | **101,519** |
| | | | | |
| **Operating costs and expenses** | | | | |
| Lease operating expenses | 39,004 | 91,283 | - | **130,287** |
| Production taxes | - | 7,867 | - | **7,867** |
| General and administrative | | | | |
| Share-based payments | - | - | 5,957 | **5,957** |
| Other general and administrative expenses | | - | 192,763 | **192,763** |
| Depletion, depreciation and accretion | 16,377 | 274,221 | - | **290,598** |
| Impairment | - | - | - | **-** |
| Mining royalty and staking | 33,439 | - | - | **33,439** |
| Total operating costs and expenses | 88,820 | 373,371 | 198,720 | **660,911** |
| **Loss from operations** | (57,146) | (303,526) | (198,720) | **(559,392)** |
| | | | | |
| **Other income and (expense)** | | | | |
| Interest expense | - | - | (115,054) | **(115,054)** |
| Foreign exchange gain | - | - | 93,012 | **93,012** |
| Gain on forgiveness of debt | - | - | - | **-** |
| Gain on disposition of unproved properties | - | - | - | **-** |
| Gain on disposition of share | - | - | - | **-** |
| Other income and (expense), net | - | - - | 22,042 | **(22,042)** |
| **Net loss attributable to shareholders** | (57,146) | (303,526) | (176,678) | **(581,434)** |
| | | | | |
| **Unproved oil and gas properties expenditures** | | | | |
| Additions | - | 1,218 | - | **1,218** |
| Properties adjustment | - | - | - | **-** |
| Disposition | - | (91) | - | **(91)** |
| Asset retirment adjustments | - | - | - | **-** |
| | - | 1,127 | - | **1,127** |
| **Proved oil and gas properties expenditures** | | | | |
| Additions | 29,282 | 31,491 | - | **60,773** |
| Asset retirment adjustments | (19,208) | 12,590 | - | **(6,618)** |
| Foreign currency translation | 7,826 | - | - | **7,826** |
| | 17,900 | 44,081 | - | **61,981** |
| | | | | |
| **As at March 31, 2020** | | | | |
| Canadian assets | 375,515 | - | - | **375,515** |
| U.S. assets | - | 9,618,893 | - | **9,618,893** |
| Corporate assets | - | - | - | **-** |
| | 375,515 | 9,618,893 | - | **9,994,408** |

*(Unaudited, expressed in US Dollars unless otherwise stated)*

## 15. Commitments

(a) The Company has the following debt obligation principal repayments over the next five years (Note 5 and 6):

| Year | $ |
|---|---|
| 2020 | 3,293,591 |
| 2021 | 1,866,039 |
| 2022 | - |
| 2023 | - |
| 2024 | - |

(b) The Company currently holds a 100% interest in the Burchell Lake Gold Property.

The Company must perform a required level of evaluation activity, to maintain its mining property in good standing. The failure of the Company to meet these requirements would lead to the forfeiture of the Company's rights to the claims comprising this property or parts thereof. The Company is required to incur the following minimum expenditures for the next five years to maintain its claims in good standing:

| Year | CDN $ |
|---|---|
| 2020 | 52,752 |
| 2021 | 91,600 |
| 2022 | 91,600 |
| 2023 | 91,600 |
| 2024 | - |

The Burchell Lake Gold Property is subject to a 3% Net Smelter Return Royalty ("NSR") and is subject to advance royalty payments of CDN $40,000 per annum, payable to the original optionors of the properties, subject to certain criteria. These funds are to be recouped out of future production.

(c) Pursuant to an exploration agreement with the US JV Partner, the Company committed to pay for 100% of the costs of the first joint venture well drilled in the Yegua formation and will earn a 50% working interest in the net revenue from that well. Further, the Company shall pay an aggregate maximum of $3,500,000 (the "Carry Funding Amount") for 100% of the costs of all subsequent Yegua wells which allows the Company to earn a 75% working interest in the net revenue from these wells until the Carry Funding Amount has reached payout. After payout of the Carry Funding Amount, the Company's working interest in these and future wells shall reduce to 50%. In 2017, the Company drilled six joint venture wells in the Yegua formation and has calculated that it has incurred costs up to the Carrying Fund Amount in 2018.

In addition, pursuant to the exploration agreement, the Company has agreed to pay 100% of the costs associated with recompletion of the Cain-Carter #1 well and earns a 50% working interest in the net revenue from that well. The Cain-Carter #1 well has not been recompleted as of March 31, 2020.

## 16. Subsequent events

On June 16, 2020, the Company has completed the acquisition (the "Acquisition") of EF Resources, Inc. ("EFR"), the owner of the EnergyFunders financial technology platform, subject to final approval of the TSX Venture Exchange. The Acquisition was completed pursuant to the terms of a merger agreement, whereby EFR merged with a US subsidiary of Paleo. Pursuant to the Acquisition, Paleo authorized the issuance of an aggregate of 86,547,774 common shares of Paleo to the former shareholders of EFR, representing 25% of the total issued and outstanding common shares of Paleo on a fully diluted basis, of which 77,892,997 shares have been issued and 8,654,777 shares are subject to a holdback in respect of certain representations and warranties provided in favor of Paleo pursuant to the merger agreement.

Prior to and as a condition to the closing of the Acquisition, Paleo further amended the terms of the existing loans from each of Paleo Oil Company, LLC and Energy Reserve Capital LLC to its wholly-owned subsidiary, Paleo Resources (USA), Inc., subject to final approval of the TSX Venture Exchange. The maturity date of the loans has been extended to June 30, 2021, and all monthly payments of principal and interest are deferred until the maturity date. All other terms of the loans remain unchanged.