



## **Paleo Resources, Inc.**

### **Management's Discussion and Analysis**

**For the three months and six months ended June 30, 2020 and 2019**

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On March 6, 2019, Tanager Energy Inc. ("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 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.

This Management's Discussion and Analysis ("MD&A") reviews the financial condition and results of operations of Paleo Resources for the unaudited interim periods ended June 30, 2020 and 2019. The MD&A was prepared as of August 31, 2020 and should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2020 and 2019, including the notes thereto, and the audited annual consolidated financial statements for the years ended December 31, 2019 and 2018, including the notes thereto, and the related MD&A.

The Company's unaudited condensed interim consolidated financial statements for three and six months ended June 30, 2020 and 2019 have been prepared in accordance with generally accepted accounting principles of the United States of America ("US GAAP") for interim financial information. All amounts in the financial statements are expressed in US dollars. The Company's financial statements are filed on the SEDAR website at [www.sedar.com](http://www.sedar.com).

## **Overview**

Paleo Resources is an oil and gas and mineral exploration company headquartered in San Antonio, Texas. The Company is active in oil and gas exploration and development in Western Canada and Texas. The common shares of the Company are listed on the TSX Venture Exchange under the stock symbol "PRE" and on the OTCQB Venture Market under the symbol "PRIEF".

## **Acquisition of EF Resources, Inc.**

On June 16, 2020, the Company completed the acquisition (the "Acquisition") of EF Resources, Inc. ("EFR"), the owner of the EnergyFunders financial technology platform. The Acquisition was completed pursuant to the terms of a merger agreement, whereby a wholly-owned US subsidiary of Paleo merged with and into EFR. 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 promissory note with the US JV Partner (hereinafter defined) and loan from a wholly owned subsidiary of US JV Partner to one of Paleo's wholly-owned US subsidiaries. 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.

EFR and related subsidiaries is an energy-focused crowdfunding company operating in the oil and gas industry. EF Resources Marketplace is financial technology platform dedicated to allowing individuals and entities to invest directly into energy investments. EFR manages investment portfolio companies, charging a carried interest on production income as well as a management fee on portfolio companies.

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## **Paleo Resources / POC Working Interests in Texas Oil and Gas Properties**

On June 27, 2016, the Company completed the acquisition, through its US subsidiary, of an undivided 50% interest in a non-producing well and in certain lease holdings, including well lease holdings, and a 50% joint venture participation right in the drilling of prospects underlying 223 square miles of 3D seismic data within an area of mutual interests ("AMI") of approximately 200,000 acres (312.5 square miles) geographical area, in Polk County and Tyler County Texas, to formations which include the Woodbine, Eagle Ford, and Yegua sandstones (the "Texas Assets"). In connection with the acquisition, Paleo Resources entered into a joint operating agreement with Paleo Oil Company, LLC ("POC").

Pursuant to the terms of the amended Exploration Agreement with POC (the "POC Agreement"), commencing with the drilling of the 2nd Yegua well and each Yegua well thereafter, the Company shall be responsible for paying 100% of all costs associated with the wells until it has in the aggregate spent the sum of \$3.5 million dollars (the "Carry Funding Amount"). Such associated well costs include, but are not limited to, lease acquisition costs, lease bonuses, title examination, curative, drilling, testing, completing, plugging prior to completion and equipping the well, and any facilities necessary to connect the well to a sales line or to bring the well on production. The Company will then receive 75% of the net revenue (less royalties and ORRI) from each of the Yegua wells that the Carry Funding Amount is applied toward. Once the Carry Funding Amount has been recouped out of this net revenue, the working interest will be reduced to 50% for each Yegua well. In addition, once the Carry Funding Amount has been spent, all additional Yegua wells will be drilled based on 50% the Company and 50% POC. In 2017, the Company drilled six joint venture wells in the Yegua formation, and incurred costs up to the Carrying Fund Amount in 2018.

In addition, pursuant to the POC Agreement, the Company will pay 100% of the costs associated with recompletion of the Cain-Carter #1 well and earns a 50% working interest in that well. The Cain-Carter #1 well has not been reworked or re-completed as of June 30, 2020. This workover is contemplated to occur in 2021.

In 2017, the Company drilled five successful wells in the Yegua formation in Polk County, Texas. The first two wells were put on production in September 2017 and both produced into Q2 2019. In September 2019, construction of the Ranger A#1 pipeline was completed and the well was brought onto production. The remaining two wells (Stampede A#1 and Jones #1) have yet to be tied into production pipelines. Work is scheduled to commence in Q2 2020 on the required pipeline connection for these wells.

## **The Joffre D-3 B Oil Pool**

In Alberta, Canada, the Company holds a 50% interest in the former Joffre D-3 Oil Unit No 1, and has plans to re-complete or re-drill up to 2 wells for oil production. In July of 2016, the Company installed a pumpjack on the first well and commenced oil and gas production. The well was shut in in August 2019 in conjunction with drilling the new 103/9-22-039-26W4/00 well (the "9-22 well") from the same well pad.

In the third quarter of 2019, the Company drilled and completed the 9-22 well in the Joffre B Pool lease in Alberta, Canada. The well was tested initially in September 2019 and a formal 72 hour well test was completed in October 2019.

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The 9-22 Well was perforated in the top four meters of the Leduc formation, from 2,163 m to 2,167 m measured depth. During the 72 hours test, the 9-22 Well flowed naturally, without artificial lift, averaging 231.27 barrels oil per day, 462.63 mcf gas per day, and 63.07 barrels water per day over the three days period.

The successful 9-22 well established the current water contact in the Leduc D-3 B Pool reservoir and confirmed the remaining thickness of the oil column, both by electric log and now positive production testing. Accordingly, the Company has determined that two suspended wells it operates in the Leduc D-3 B Pool are recompletion candidates as the remaining oil column can be accessed in both wells.

Paleo has secured the necessary approvals and permits for expanded sour service production facilities capable of handling the oil and gas rates expected from these wells. Paleo will provide operational updates as additional information becomes available.

### **The Burchell Lake Property**

The Company holds a 100% interest in 5,900 hectares at Burchell Lake in the Shebandowan gold camp in Ontario. About 300m east of Hermia Lake, an area has been identified that carries significant mineralization and yielded good gold and copper grades in six drill holes and one which returned low-grade copper and molybdenum over significant widths. The results of the geochemical pattern in this area suggest the zone is open to the east and west. The second area at the Burchell Lake Property, located about 1 km east of Fountain Lake and in the southwest part of the grid, is represented by six drill holes, all carrying substantial sulphide mineralization. The area's geochemical anomalies appear to continue to the south indicating the zone may be bigger than currently outlined. The Company has conducted a comprehensive review and compilation of the work done on the property to date. The Company will continue to evaluate options for further development work on the property, the possibility of a joint venture, or a sale of the asset.

### **Financial Review**

This section should be read in conjunction with the unaudited condensed interim consolidated financial statements for the three and six months ended June 30, 2020 and 2019 and the corresponding notes thereto. 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 June 30, 2020. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. As at June 30, 2020, the Company had a working capital deficiency of \$5,537,541 (December 31, 2019 - \$4,687,811) and an accumulated deficit of \$31,618,669 (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

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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 interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statements of financial position classifications that would be necessary if the going concern assumption was inappropriate.

**Second Quarter 2020 Highlights**

	<b>Three months ended</b>		<b>Six months ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Selected Unaudited Financial Results</b>				
<i>(US\$ except share and per share amounts)</i>				
Revenue, net of royalties	41,409	56,695	95,139	158,214
Lease operating expenses	25,066	71,389	51,185	201,676
Production taxes	6,616	3,212	14,101	11,079
General and administrative expenses (excluding share based compensation expenses)	90,926	245,457	225,879	438,220
Depletion, depreciation and accretion	48,178	83,110	114,547	198,164
Interest expense	74,520	70,354	158,539	182,075
Foreign exchange gain (loss)	(58,380)	20,692	(57,979)	(72,320)
Gain on forgiveness of debt	-	3,110,629	-	3,110,629
Net income (loss)	(312,716)	2,789,832	(625,313)	2,208,398
Per common share – basic and fully diluted	\$0.00	\$0.01	\$0.00	\$0.01
Comprehensive income (loss)	(338,811)	2,773,589	(473,831)	2,096,438
Cash flow from operating activities	(260,281)	(105,263)	(360,545)	(363,006)
Per common share – basic and fully diluted	(\$0.00)	\$0.00	(\$0.00)	\$0.00
Total capital expenditures (excluding acquisitions)	975	30,311	46,638	92,302
Total assets	11,637,840	10,822,326	11,637,840	10,822,326
Total liabilities	8,162,926	6,859,811	8,162,926	6,859,811
Shareholders' equity (deficit)	3,474,914	3,488,889	3,474,914	3,488,889
<b>Common Shares</b>				
Common shares outstanding	321,834,590	235,286,816	321,834,590	235,286,816
Weighted average number of common shares outstanding	249,552,438	235,286,816	242,419,627	183,417,361
<b>TSX Venture Share Trading Statistics</b>				
<i>(CDN\$/share except volumes based on intra-day trading)</i>				
High	0.04	0.080	0.04	0.100
Low	0.01	0.050	0.01	0.045
Close	0.01	0.050	0.01	0.050
Average daily volume	37,711	7,820	26,618	9,170

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Selected Quarterly Information

Following is a summary of selected unaudited financial information <sup>(1)</sup> of the Company for the quarterly periods indicated:

	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter
<b>2020</b>	<b>(\$)</b>	<b>(\$)</b>
Revenue, net of royalties	53,730	41,409
Net income (loss)	(312,596)	(312,716)
Per share – basic and fully diluted	(0.00)	(0.00)
Comprehensive income (loss)	(135,019)	(338,811)
Cash flow from operating activities	(100,264)	(260,281)
Per share – basic and fully diluted	(0.00)	(0.00)
Total assets	10,366,143	11,637,840
Total liabilities	7,350,964	8,162,926
Shareholders' equity (deficiency)	3,015,179	3,474,914
Weighted average number of common shares outstanding	235,286,816	249,552,438

	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
<b>2019</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>	<b>(\$)</b>
Revenue, net of royalties	101,519	56,695	14,714	88,726
Net income (loss)	(581,434)	2,789,832	(381,546)	(347,291)
Per share – basic and fully diluted	(0.00)	0.01	(0.00)	(0.00)
Comprehensive income (loss)	(677,151)	2,773,589	(376,146)	(386,248)
Cash flow from operating activities	(257,743)	(105,263)	(473,106)	(116,300)
Per share – basic and fully diluted	(0.00)	(0.00)	(0.00)	(0.00)
Total assets	9,994,411	10,822,326	10,833,506	10,528,911
Total liabilities	8,855,408	6,859,811	7,231,119	7,378,713
Shareholders' equity (deficiency)	1,139,003	3,962,515	3,602,387	3,150,198
Weighted average number of common shares outstanding	235,286,816	235,286,816	235,286,816	235,286,816

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	1 <sup>st</sup> Quarter	2 <sup>nd</sup> Quarter	3 <sup>rd</sup> Quarter	4 <sup>th</sup> Quarter
2018	(\$)	(\$)	(\$)	(\$)
Revenue, net of royalties	193,008	134,450	136,196	122,528
Net loss	(448,035)	(704,649)	(723,619)	(1,182,021)
Per share – basic and fully diluted	(0.00)	(0.00)	(0.00)	(0.01)
Comprehensive income (loss)	(269,599)	(695,816)	(729,897)	(949,331)
Cash flow from operating activities	(145,325)	(136,871)	(172,732)	(568,115)
Per share – basic and fully diluted	(0.00)	(0.00)	(0.00)	(0.00)
Total assets	11,667,790	11,066,377	10,758,841	10,125,107
Total liabilities	7,500,579	7,577,488	8,005,045	8,314,910
Shareholders' equity (deficiency)	4,167,211	3,488,889	2,753,796	1,810,197
Weighted average number of common shares outstanding	130,971,578	235,286,816	235,286,816	235,286,816

(1) 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 interim consolidated financial statements for the periods shown above.

## Financial highlights

Oil and gas operations by segment	Three months ended June 30					
	2020			2019		
	Canada	U.S.	Total	Canada	U.S.	Total
Crude oil	-	-	-	27,193	-	27,193
Natural gas liquids	-	-	-	163	-	163
Natural gas	-	37,409	37,409	995	28,407	29,402
Oil and natural gas sales, net of royalties	-	37,409	37,409	28,351	28,407	56,758
Other income	-	-	-	(63)	-	(63)
Total revenue	-	37,409	37,409	28,288	28,407	56,695
Operating expenses	7,012	18,054	25,066	39,376	32,013	71,389
Production taxes	-	6,616	6,616	-	3,212	3,212
Sales volumes, net of royalties						
Light oil and natural gas liquids (bbls)	-	-	-	698	-	698
Natural gas (mcf)	-	27,188	27,188	702	15,594	16,296
Total sales volumes (boe)	-	4,531	4,531	815	2,599	3,414

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Oil and gas operations by segment	Six months ended June 30					
	2020			2019		
	Canada	U.S.	Total	Canada	U.S.	Total
Crude oil	-	-	-	54,078	-	54,078
Natural gas liquids	-	-	-	2,264	-	2,264
Natural gas	-	<b>91,139</b>	<b>91,139</b>	3,380	98,252	101,632
Petroleum and natural gas sales, net of royalties	-	<b>91,139</b>	<b>91,139</b>	59,722	98,252	157,974
Other income	-	-	-	240	-	240
Total revenue	-	<b>91,139</b>	<b>91,139</b>	59,962	98,252	158,214
Operating expenses	<b>17,369</b>	<b>33,816</b>	<b>51,185</b>	78,380	123,296	201,676
Production taxes	-	<b>14,104</b>	<b>14,101</b>	-	11,079	11,079
Sales volumes, net of royalties						
Light oil and natural gas liquids (bbls)	-	-	-	1,352	-	1,352
Natural gas (mcf)	-	<b>58,086</b>	<b>58,086</b>	1,503	40,398	41,901
Total sales volumes (boe)	-	<b>9,681</b>	<b>9,681</b>	1,603	6,733	8,336

From June 16, 2020 to June 30, 2020, the Company had revenue of \$4,000 and general and administrative expense of \$21,501 from Fintech platform operating segment acquired through the EFR merger.

For the three and six months ended June 30, 2020, the Company had oil and gas revenues of \$37,409 and \$91,139 compared to \$56,695 and \$158,214, respectively, during the same periods in 2019. Revenue for the three and six months ended June 30, 2020 was down from that in the same periods of 2019 due to lower commodity pricing received from the Company's producing gas wells in the US and the existing Joffre oil well being shut-in in since August 2019 in connection with drilling the new 103/9-22 Joffre well.

Operating expenses for the three and six months ended June 30, 2020 were \$25,066 and \$51,185, as compared to \$71,389 and \$201,676, respectively, in the same periods in 2019. The decrease in operating expenses between the year to date periods is primarily related to reduced repair and maintenance expenses in the period in the US and the existing Joffre oil well being shut-in in Canada.

Production taxes for the three and six months ended June 30, 2020 were \$6,616 and \$14,101, as compared to \$7,867 and \$11,079, respectively, in the same periods in 2019. Production taxes for the three and six months period ended June 30, 2020 reflect an adjustment for US severance taxes in prior periods.

General and administrative expenses (excluding stock-based compensation expense) for the three and six months ended June 30, 2020 was \$90,926 and \$225,879, compared to \$245,457 and \$438,220, respectively, in the same periods in 2019. The decrease in G&A experienced for the 2020 periods compared to 2019 periods is primarily due to lower executive and employee compensation.

Interest expenses for the three and six months ended June 30, 2020 was \$74,520 and \$158,539, compared to \$70,354 and \$182,075, respectively, in 2019. Interest expenses for the six months ended June 30, 2020 were comprised of \$147,682 in interest charges and \$10,857 of amortization of debt discount on convertible debentures, as compared to \$182,075 in interest charges 2019. The decrease in interest expense for the six months ended June 30, 2020 period compared to 2019 period is primarily

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due to retirement of the credit facility and certain loans payable in 2019.

The net income (loss) for the three and six months period ended June 30, 2020 was (\$312,596) and (\$625,313) as compared to \$2,789,832 and \$2,208,398, respectively, during the same periods in 2019. The increase in loss between year to date periods is primarily attributable to \$3.1 million non-cash gain on settlement of debt on the credit facility and a gain on disposition of shares in 2019. The net cash flow used in operating activities for the three and six months ended June 30, 2020 was \$260,281 and \$360,545, respectively, compared to \$105,263 and \$363,006 in the same period of 2019.

## **Capital Expenditures**

The Company incurred additions to unproved oil and gas properties (excluding acquisitions) of \$32,297 (2019 - \$39,725) and proved oil and gas properties of \$14,341 (2019 - \$52,577) six months ended June 30, 2020. The capital expenditure activities in Canada and the US for the six months ended June 30, 2020 were as follows:

### **(a) Canada**

There were \$11,522 of expenditures on proved oil and gas properties in Canada during the six months ended June 30, 2020 (2019 - \$48,129) that were incurred on drilling, completion and equipping for the new 9-22 well and for planning, design and permitting of sour service production facilities in Joffre, Alberta.

### **(b) US**

During the six months ended June 30, 2020, the Company incurred expenditures on unproved oil and gas properties of \$32,297 as compared to \$39,725 spent in 2019. Expenditures of \$32,297 for 2020 was for drilling cost the Dorn Project well. 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. The Dorn Prospect well expenditures were expensed to dry hole.

## **Liquidity and Capital Resources**

The Company had a cash position of \$223,940 at June 30, 2020, compared with a cash position of \$235,263 at December 31, 2019. As at June 30, 2020, the Company had a working capital deficiency of \$5,537,541 (December 31, 2019 - \$4,687,811) and an accumulated deficit of \$31,618,669 (December 31, 2019 - \$30,993,356). For the three and six months period ended June 30, 2020, the Company drawdown \$300,000 from the US JV Partner's subsidiary's loan.

## **Share Capitalization**

The Company is authorized to issue an unlimited number of common shares. On June 16, 2020, the Company Paleo authorized the issuance of an aggregate of 86,547,774 common shares of Paleo to the former shareholders of EFR. As of June 30, 2020, 321,834,590 common shares and 2,000,000 stock options were outstanding for a total of 323,834,590 common shares on a fully diluted basis. As of June 30, 2020, a further 22,356,658 common shares would be issuable on conversion of

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convertible debentures based on a conversion price of CDN\$0.12/share for the Canadian dollar denominated debentures.

### **Transactions with Related Parties**

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 six months ended June 30, 2020

- (a) During the six months ended June 30, 2020, a total of \$17,617 interest was incurred on the convertible debentures held by a director and the Trust (hereinafter defined). Total accrued interest payable to the director and the Trust as of June 30, 2020 was \$227,979 (December 31, 2019 - \$229,254)
- (b) The Company conducts all of U.S. operations with one joint venture partner (the "US JV Partner"). 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 (the "Trust"). During the six months ended June 30, 2020, a total of \$65,163 interest was accrued on promissory note and loan owing to the US JV Partner and its subsidiary. For the six months period ended June 30, 2020, net revenue after expenses were \$50,415 from U.S. operations operated by the US JV Partner. At as June 30, 2020, the balance owing to the US JV Partner and its subsidiary in accounts payable is \$771,617 (December 31, 2019 - \$756,869).
- (c) The Company assumed the loan due to US JV Partners of \$62,500 as part of the merger with EFR.
- (d) The Company receives management fees from the investment companies managed by a Company's subsidiary, which at times are paid in advance and are recorded on the balance sheet as deferred management fees – related parties. As of June 30, 2020, deferred management fees totaled \$55,000. For the three months and six months ended June 30, 2020, management fee revenue was \$2,500 and \$nil for 2019.
- (e) The Company received reimbursement revenue for soft costs incurred from related parties totaling \$1,500 for the three months and six months ended June 30, 2020 and \$nil for 2019.
- (f) On June 16, 2020, the Company authorized the issuance common shares of Paleo to the former shareholders of EFR. Charles Minshew, CEO of EF Resources, is entitled to receive up to 14,978,269 common shares, being 13,480,442 "Closing Shares" due upon exchange and tender of outstanding EF Resources shares and 1,497,827 "Holdback Shares" in the event that no claims diminish the available Holdback Shares per the terms of the Merger Agreement.

### **Significant Accounting Judgments and 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. Estimates are also made in determining the fair value of assets and liabilities. Actual results could differ from those estimates.

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## **Capital Risk Management**

The Company manages its capital with the following objectives:

- To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and
- To maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

The Company considers its capital to be equity, comprising share capital, contributed surplus, reserves and deficit which at June 30, 2020 totaled \$3,474,914 (December 31, 2019 - \$3,150,198).

The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating and capital expenditures, and other investing and financing activities. The forecast is updated based on activities related to its mineral and oil and gas properties. The Company's capital management objectives, policies and processes have remained unchanged during the period ended June 30, 2020. The Company is not subject to any capital requirements imposed by a lending institution.

## **Property, Financial, Instruments, Risk Management and Sensitivity**

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate, foreign exchange rate and commodity and equity price risk.)

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and accounts receivable. Cash is held with select major Canadian chartered banks and major US banks, from which management believes the risk of loss to be minimal.

Accounts receivable include accrued and joint venture receivables from joint venture partners and a contract operator and sales tax receivable from government authorities in Canada. Accounts receivable includes certain joint venture receivables that are past due but not considered impaired. Management believes that the credit risk with respect to accounts receivable is minimal.

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and prices of commodities and equities.

In regard to interest rate risk, the Company has cash and cash equivalents balances and interest-bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term

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deposit certificates issued by banks with which it keeps its bank accounts. The credit facility and certain loans payable and the debentures are at fixed rates and not subject to rate fluctuations. There are two related party loans that bear interest at a floating rate of interest. The Company regularly monitors compliance to its cash management policy.

In regard to currency risk, the Company's functional and reporting currency is the US dollar and major purchases are transacted in both Canadian and US dollars. The Company operates its Canadian Assets through the Canadian parent company. As a result, the Company is subject to gains and losses from fluctuations in the Canadian Dollar.

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices of securities held by the Company or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, as they relate to gold and oil and gas, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

The Company's future profitability and viability from mineral and oil and gas exploration depends upon the world market price of valuable minerals and oil and gas pricing. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of valuable minerals and oil and gas may be produced in the future, a profitable market will exist for them. As of June 30, 2020, the Company was not a producer of valuable minerals, but is a producer of quantities of oil and gas. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options and warrants. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

## **Risks and Uncertainties**

On March 11, 2020, the World Health Organization characterized the global outbreak of the novel strain of coronavirus, COVID-19, as a "pandemic." To limit the spread of COVID-19, governments have taken various actions including the issuance of stay-at-home orders and social distancing guidelines, causing some businesses to suspend operations and a reduction in demand for many products from direct or ultimate customers. Such actions have resulted in a swift and unprecedented reduction in international and U.S. economic activity which, in turn, has adversely affected the demand for oil and natural gas and caused significant volatility and disruption of the financial markets.

The Company is unable to predict the impact that the COVID-19 pandemic will have on us, including our financial position, operating results, liquidity and ability to obtain financing in future reporting periods, due to numerous uncertainties.

Oil and gas and mineral drilling and exploration are speculative ventures. There is no certainty that expenditure on exploration and development will result in the discovery of economic oil and gas reserves or an economic ore body. At the present time, the Company does not hold any interest in a mining property in production. The Company's viability and potential success lie in its ability to develop, permit, exploit and generate revenue out of oil and gas reservoirs and mineral deposits. Revenues, profitability and cash flow from any future mining operations involving the Company will be influenced by precious and/or base metal prices and by the relationship of such prices to production costs. Such prices have fluctuated widely and are affected by numerous factors beyond

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the Company's control.

The Company's ability to raise additional funds and its future performance is largely tied to the financial markets related to exploration companies. In the first quarter of 2020, economic conditions in Canada, the US and worldwide have deteriorated as a result of COVID-19 as detailed above. Various factors impact the oil and gas and mining industry. These factors include uncertainty regarding the price of petroleum and natural gas, gold, and base metals and the availability of equity financing for the purposes of mineral exploration and development. The price of crude oil and natural gas, gold and base metals have been volatile in recent periods and financial markets have become unpredictable to the point where it has become difficult for companies, particularly junior exploration companies, to raise new capital. The Company's future performance is largely tied to the development of its current oil and gas interests and mineral property and the overall financial markets. Financial markets could be volatile, reflecting ongoing concerns about the global economy. Some companies worldwide have been affected negatively by these trends. As a result, the Company may have difficulties raising equity financing for the purposes of oil and gas and mineral exploration and development, particularly without excessively diluting the interests of its current shareholders. With continued market volatility expected, the Company's current strategy is to spend its funds in a prudent manner, continue drilling its Polk County Yegua and Joffre wells, review multiple low cost oil and gas ventures, and evaluate opportunities for the acquisition of non-conventional oil and gas plays. The Company believes that this focused strategy will enable it to meet the near-term challenges presented by the capital markets. These trends may limit the Company's ability to develop and/or further explore its mining properties, its oil and gas assets, and/or other property interests that could be acquired in the future. Management regularly monitors economic conditions and estimates their impact on the Company's operations and incorporates these estimates in short-term operating and longer-term strategic decisions.

## **Disclosure and Internal Financial Controls**

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the audited financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the audited financial statements, and (ii) the audited financial statements fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures ("DC&P") and internal control over financial reporting ("ICFR"), as defined in NI 52-109. In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's

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GAAP.

The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost-effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

### **Cautionary Note Regarding Forward Looking Statements**

This MD&A contains "forward-looking information" within the meaning of applicable Canadian securities legislation. All statements, other than statements of historical fact, included herein are forward-looking information. Generally, forward-looking information may be identified by the use of forward-looking terminology such as "plans", "expects" or "does not expect", "proposed", "is expected", "budgets", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases, or by the use of words or phrases which state that certain actions, events or results may, could, would, or might occur or be achieved. In particular, this MD&A contains forward-looking information regarding: the business of the Company; future opportunities; business strategies, goals and plans of the Company. There can be no assurance that such forward-looking information will prove to be accurate, and actual results and future events could differ materially from those anticipated in such forward-looking information. This forward-looking information reflects the Company's current beliefs and is based on information currently available to the Company and on assumptions the Company believes are reasonable. These assumptions include, but are not limited to: market acceptance and approvals, and future costs and expenses being based on historical costs and expenses.

Forward-looking information is subject to known and unknown risks, uncertainties and other factors that may cause the actual results, level of activity, performance or achievements of the Company to be materially different from those expressed or implied by such forward-looking information. Such risks and other factors may include, but are not limited to: volatility in market prices for oil and natural gas; liabilities inherent in oil and natural gas operations; uncertainties associated with estimating oil and natural gas reserves; geological, technical, drilling and processing problems; general business, economic, competitive, political and social uncertainties; general capital market conditions and market prices for securities; delay or failure to receive board or regulatory approvals; the actual results of future operations; competition; changes in legislation, including environmental legislation, affecting the Company; the timing and availability of external financing on acceptable terms; and lack of qualified, skilled labour or loss of key individuals. A description of additional assumptions used to develop such forward-looking information and a description of additional risk factors that may cause actual results to differ materially from forward-looking information can be found in Company's disclosure documents on the SEDAR website at [www.sedar.com](http://www.sedar.com). Although the Company has attempted to identify important factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other factors that cause results not to be as anticipated, estimated or intended. Readers are cautioned that the foregoing list of factors is not exhaustive. Readers are further cautioned not to place undue reliance on forward-looking information as there can be no assurance that the plans, intentions or expectations upon which they are placed will occur. Forward-looking information contained in this MD&A is expressly qualified by this cautionary statement. The forward-looking information contained in this MD&A represents the expectations of the Company as of the date of this MD&A and, accordingly, is subject to change after

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such date. However, the Company expressly disclaims any intention or obligation to update or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities law.

BOE Presentation. References herein to "boe" mean barrels of oil equivalent derived by converting gas to oil in the ratio of six thousand cubic feet (Mcf) of gas to one barrel (bbl) of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf:1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

On behalf of the board of directors

Roger S. Braugh, Jr.  
Interim Chief Executive Officer and Chairman of the Board  
Paleo Resources, Inc.

August 31, 2020