Paleo Resources, Inc.

Management’s Discussion and Analysis

For the years ended December 31, 2019 and 2018

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 financial years ended December 31, 2019 and 2018. The MD&A was prepared as of May 29, 2020 and should be read in conjunction with the audited annual consolidated financial statements for the years ended December 31, 2019 and 2018, including the notes thereto.

The Company's consolidated financial statements for the years ended December 31, 2019 and 2018 have been prepared in accordance with generally accepted accounting principles of the United States of America ("US GAAP"). 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.

Under the U.S. Securities Exchange Act of 1934, a foreign private issuer ("FPI") is an entity incorporated or organized under the laws of a jurisdiction outside of the US, unless:

- more than 50% of its outstanding voting securities are directly or indirectly owned of record by US residents; and
- any of the following applies: (i) the majority of its executive officers or directors are U.S. citizens or residents; (ii) more than 50% of its assets are located in the United States; or (iii) its business is administered principally in the United States.

A company's ongoing FPI status is tested annually at the end of the most recently completed second fiscal quarter. If an issuer fails to qualify as an FPI at the end of its second fiscal quarter, it remains eligible to use the forms and rules applicable to FPIs until the end of that financial year.

As of June 30, 2018, the Company determined that it no longer qualifies as an FPI. Therefore, the Company must transition to U.S. domestic company reporting status and become subject to SEC reporting requirements applicable to a U.S. domestic company, beginning in 2019. These reporting requirements require that the Company's 2019 financial statements and selected financial data be recast into US GAAP and US dollar reporting currency for all periods presented, which will include the 2018 annual filings. In addition, the Company will be required to file annual, quarterly and current report filing with the SEC, comply with US insider filing requirements under the Exchange Act, and follow Regulation FD for "fair disclosure" of materially non-public information through public disclosure that is broadly available to all members of the public at the same time.

Previously the Company's consolidated financial statements to December 31, 2018 were presented in accordance with International Financial Reporting Standards ("IFRS") and stated in Canadian Dollars. Accordingly, the Company has now recast its consolidated financial statements in accordance with US GAAP and in US Dollars for prior periods as presented in order to comply with these SEC reporting requirements.

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 December 23, 2019, the Company announced that it has entered into a definitive Merger Agreement (the "Agreement") under which the Company will acquire EF Resources, Inc. ("EFR"), the owner of the EnergyFunders financial technology platform. The transaction has been unanimously approved by the board of directors of both the Company and EFR. Pursuant to the terms of the Agreement, the transaction is expected to be completed through a merger of EFR and an indirect US subsidiary of the Company under Texas law pursuant to which the Company shareholders and EFR shareholders will hold, on a fully diluted basis, 75% and 25% of the total issued common shares of the Company, respectively. Completion of the transaction is subject to a number of closing conditions, including restructuring of related party debt, acquisition of certain leasehold farm-in rights from related parties by the Company on terms agreeable to the parties, required regulatory approvals including the approval of the TSX Venture Exchange and compliance with any conditions to such approval, and other customary closing conditions for a transaction of this nature.

The transaction continues to be in progress.

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 has calculated that it has incurred costs up to the Carrying Fund Amount in 2018.

In addition, pursuant to the POC 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. During the fourth quarter of 2018, the Company rigged up and ran coil tubing in the Cain Carter #1 well down the tubing to clean out the well bore and prepare for a future fracture stimulation. In addition, well pressure data was gathered while a new wellhead was installed. The Cain-Carter #1 well has not been reworked or re-completed as of December 31, 2019 but this is currently anticipated to occur by early 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 pipelines.

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.

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 production had increased significantly and remained fairly steady through August 2019 when the well was shut-in 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.

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 hour 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 day period.

The successful 9-22 well has 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 both wells penetrated the remaining oil column, but were previously perforated below the current residual 12.36 meter (40.5 feet) oil column.

Paleo is working with its regulatory consultants on plans to permit and install 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 audited consolidated financial statements for the years ended December 31, 2019 and 2018 and the corresponding notes thereto. These 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 December 31, 2019. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. As at December 31, 2019, the Company had a working capital deficiency of $4,687,811 (2018 - $7,983,184) and an accumulated deficit of $30,993,356 (2018 - $32,472,917). 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 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.

Annual 2019 Highlights

	Years ended December 31, 2019	2018	2017
Selected Financial Results			
(US$ except share and per share amounts)			
Revenue, net of royalties	261,654	586,182	291,594
Lease operating expenses	254,198	247,657	206,401
Production taxes	4,367	53,419	11,900
General and administrative expenses (excluding share based compensation expenses)	815,359	1,382,599	1,157,721
Depletion, depreciation and accretion	595,088	1,546,772	529,296
Interest expense	367,149	550,358	1,189,138
Unrealized gain (loss) on embedded derivatives	-	631,560	(3,199,638)
Foreign exchange gain (loss)	78,728	(364,630)	291,483
Gain on forgiveness of debt	3,353,990	74,683	-
Net income (loss)	1,479,561	(3,058,324)	(8,033,044)
Per common share – basic and fully diluted	$0.01	$(0.01)	$(0.07)
Comprehensive income (loss)	1,334,044	(2,644,643)	(8,623,208)
Cash flow from operating activities	(952,412)	(1,023,043)	(1,425,767)
Per common share – basic and fully diluted	$(0.01)	$(0.01)	$(0.02)
Total capital expenditures (excluding acquisitions)	776,828	370,981	4,576,581
Total assets	10,528,911	10,125,107	12,029,714
Total liabilities	7,378,713	8,314,910	17,315,357
Shareholders' equity (deficit)	3,150,198	1,810,197	(5,285,643)
Common Shares			
Common shares outstanding	235,286,816	235,286,816	124,835,388
Weighted average number of common shares outstanding	235,286,816	209,565,251	110,483,569
TSX Venture Share Trading Statistics			
(CDN$/share except volumes based on intra-day trading)			
High	0.10	0.14	0.20
Low	0.01	0.03	0.08
Close	0.03	0.08	0.10
Average daily volume	26,084	22,818	78,656

Selected Quarterly Information

Following is a summary of selected unaudited financial information [(1)] of the Company for the quarterly periods indicated:

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
2019	**($)**	**($)**	**($)**	**($)**
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

	1st Quarter	2nd Quarter	3rd Quarter	4th 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

	Three months ended December 31					
Operations by operating segment		**2019**			2018	
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Crude oil	**14,220**	**-**	**14,220**	15,914	-	15,914
Natural gas liquids	**-**	**-**	**-**	1,726	-	1,726
Natural gas	**-**	**74,731**	**74,731**	822	103,541	104,363
Petroleum and natural gas sales, net of royalties	**14,220**	**74,731**	**88,951**	18,462	103,541	122,003
Other income	**(225)**	**-**	**(225)**	525	-	525
Total revenue	**13,995**	**74,731**	**88,726**	18,987	103,541	122,528
Operating expenses	**15,045**	**10,637**	**25,682**	37,062	18,594	55,656
Production taxes	**-**	**(7,582)**	**(7,582)**	**-**	12,375	12,375
Sales volumes, net of royalties						
Light oil and natural gas liquids (bbls)	**231**	**-**	**231**	601	-	601
Natural gas (mcf)	**68**	**36,194**	**36,262**	565	23,682	24,247
Total sales volumes (boe)	**242**	**6,032**	**6,274**	695	3,947	4,642

	Year ended December 31					
Operations by operating segment		**2019**			2018	
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Crude oil	**78,271**	**-**	**78,271**	101,639	-	101,639
Natural gas liquids	**1,552**	**-**	**1,552**	7,449	-	7,449
Natural gas	**3,335**	**178,307**	**181,642**	3,954	471,481	475,435
Petroleum and natural gas sales, net of royalties	**83,158**	**178,307**	**261,465**	113,042	471,481	584,523
Other income	**189**	**-**	**189**	1,659	-	1,659
Total revenue	**83,347**	**178,307**	**261,654**	114,701	471,481	586,182
Operating expenses	**100,843**	**153,355**	**254,198**	135,266	112,391	247,657
Production taxes	**-**	**4,367**	**4,367**	**-**	53,419	53,419
Sales volumes, net of royalties						
Light oil and natural gas liquids (bbls)	**1,730**	**-**	**1,730**	2,231	-	2,231
Natural gas (mcf)	**1,632**	**80,438**	**82,070**	3,031	125,717	128,748
Total sales volumes (boe)	**2,002**	**13,406**	**15,408**	2,736	20,953	23,689

For the three and twelve months ended December 31, 2019, the Company had oil and gas revenues of $88,726 and $261,654, compared to $122,528 and $586,182, respectively, during the same periods in 2018. Revenue for the three and twelve months ended December 31, 2019 was down from that in the same periods of 2018 due to lower commodity pricing received and lower sales volumes from the Company's producing gas wells in the US and the existing Joffre oil well being shut-in in August 2019 in connection with drilling the new 103/9-22 Joffre well. Revenue for the fourth quarter of 2019 of $88,726 was up $74,012 from revenue of $14,714 in the third quarter of 2019 due to the start of production from the Ranger well in the US in September 2019.

Operating expenses for the three and twelve months ended December 31, 2019 were $25,682 and $254,198, as compared to $55,656 and $247,657 in the same periods in 2018. The decrease in operating expenses between the year to date periods is primarily related to reduced production in the period in both the US and Canada. Operating expenses for fourth quarter of 2019 of $25,682 compare to operating expenses of $26,840 in the third quarter of 2019.

Production taxes for the three and twelve months ended December 31, 2019 were ($7,582) and $4,367, as compared to $12,375 and $53,419, respectively, in the same periods in 2018. The change in production taxes between periods is related to the reduction in US sales revenue. Production taxes for the three month period ended December 31, 2019 reflect a credit adjustment for US ad valorem taxes overestimated in prior periods.

General and administrative expenses (excluding stock-based compensation expense) for the three and twelve months ended December 31, 2019 was $197,621 and $815,359, compared to $503,191 and $1,382,599, respectively, in the same periods in 2018. The decrease in G&A experienced for the 2019 periods compared to 2018 periods is primarily due to lower legal fees incurred, offset slightly by higher executive and employee compensation. G&A expenses for the twelve months of 2018 include additional transaction costs attributable to legal and related costs in marketing a limited partnership investment for prospective Austin Chalk assets as well as an equity financing and asset purchase transaction that did not proceed. G&A expenses for 2018 also include significant further legal expenses defending, countering and later settling the lawsuit as described in the credit facility section of this MD&A.

Interest expenses for the year ended December 31, 2019 was $367,149, compared to $550,358 in 2018. Interest expenses for the year ended December 31, 2019 were comprised of $354,714 in interest charges and $12,435 of amortization of debt discount on convertible debentures, as compared to $378,795 in interest charges and $171,563 of amortization of debt discount on convertible debentures in 2018. Interest charges for the year ended December 31, 2019 includes $82,235 (2018 – $81,156) of interest on convertible debentures, and $272,479 (2018 – $297,639) of interest accrued on the Credit Facility, Note Payable and Loans Payable.

Gain on forgiveness of debt for the year ended December 31, 2019 was $3,353,990, compared to $74,683 in 2018. This gain in 2019 was due to the legal settlement of the former credit facility as described later in this MD&A. In 2018, this gain was due to the forgiveness of certain debt owed to a former joint venture partner.

The net income (loss) for the three and twelve months ended December 31, 2019 was $(347,291) and net income of $1,479,561, as compared to $(1,182,021) and $(3,058,324), respectively, during the same periods in 2018. The increase in income between year to date periods is primarily attributable to a $3.3 million gain on settlement of debt, reductions in production taxes, G&A, DD&A, impairment, interest expenses, share-based compensation expenses, and foreign exchange, partially offset by a decrease in revenue and the gain on unrealized embedded derivatives, as well as an increase in operating and mining expenses. The net cash flow used in operating activities for the three and twelve months ended December 31, 2019 was $116,300 and $952,412, as compared to $568,115 and $1,023,043, respectively, in the same periods of 2018.

Capital Expenditures

The Company incurred additions to unproved oil and gas properties (excluding acquisitions) of $116,191 (2018 - $225,096) and proved oil and gas properties of $812,706 (2018 - $145,885) for the year ended December 31, 2019. The capital expenditure activities in Canada and the US for the year December 31, 2019 were as follows:

(a) Canada
There were $522,750 of expenditures on proved oil and gas properties in Canada during the year ended December 31, 2019 (2018 - $4,047) 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 year ended December 31, 2019, the Company incurred expenditures on unproved oil and gas properties of $116,191 as compared to $225,096 spent in 2018. Expenditures of $116,191 for 2019 were comprised of $73,462 costs on drilling and completion operations on the Dorn Project well in Q4 2019 as well as $42,729 of additional costs on the Cain Carter #1 well. Expenditures of $225,096 spent in 2018 primarily related to lease bonus payments and land title work on undeveloped leases, as well as a coil tubing cleanout of the Cain Carter #1 well in the fourth quarter of 2018 to prepare for a future fracture stimulation treatment.

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.

Unproved properties for 2019 were adjusted by a credit note of $151,069 provided by the Company's related party US JV partner as of December 31, 2019. The adjustment provided for a credit of certain 2016 invoiced costs for the Polk County, Texas asset purchase that were overcharged to the Company.

Expenditures of $290,136 on proved oil and gas properties in 2019, as compared to $141,838 incurred on these Yegua wells in 2018. Expenditures for 2019 were primarily for the completion of the pipeline for the Ranger A#1 well that went into production in September 2019.

Liquidity and Capital Resources

The Company had a cash position of $235,263 at December 31, 2019, compared with a cash position of $40,786 at December 31, 2018. As at December 31, 2019, the Company had a working capital deficiency of $4,687,811 (December 31, 2018 - $7,983,184) and an accumulated deficit of $30,993,356 (December 31, 2018 - $32,472,917).

The Company had the following financing activities during 2018 and into 2019:

(a) With respect to a line of credit for $8,000,000 provided by a third-party lender in December 2016 for the purposes of funding the Company's 2017 drilling program in Polk County Texas, $3,775,000 was drawn as at December 31, 2017 and 2018. As a result of lender default due to the lender's failure to timely fund loan draw advances under the credit facility, the Company entered into amending agreements with the lender and no further draws were made. In addition, this Credit Facility was terminated in April 2019 as disclosed further in this MD&A.

(b) In November 2017, an arm's length third-party individual funded a $200,000 loan payable. The loan is unsecured, bears interest at 6% per annum and monthly principal payments were to commence in July 2018 and the loan was to mature and the remaining principal was to be due and payable on December 31, 2019.

On March 25, 2019, the Company entered into a new loan agreement with the same arm's length third-party individual extending the maturity date of the loan to December 31, 2020 with the $200,000 outstanding principal and all accrued interest due at that date.

In June 2019, this $200,000 loan was repaid after completion of the convertible debenture financing as described in Note 8 of the consolidated financial statements.

(c) On March 26, 2018, loan proceeds of $400,000 were received from a third-party lender. Pursuant to the terms of the loan agreement, the loan is unsecured and bears interest at 6% per annum. The loan matured and was originally due and payable, along with accrued interest, on June 26, 2018. During the third quarter of 2019, the Company made total principal payments of $100,000.

On November 15, 2019, the Company entered into a loan amendment with the third-party lender which extends the maturity date to December 16, 2019 and requires the payment of principal and accrued interest of $339,746 on that date. The US JV Partner has agreed to provide a guarantee of $339,746 in the event the Company fails to make the payment. The Company continues to be in negotiations with the third-party lender regarding a further extension of the maturity date.

(d) On March 27, 2018, the outstanding USD dollar denominated convertible debentures in the aggregate principal amount of $6,000,000 due on June 27, 2019, were converted by the holders at a conversion price of CDN$0.07 per share, into an aggregate of 110,451,428 Common Shares of the Company.

Roger S. Braugh, Jr., a director of the Company, acquired 55,225,714 Common Shares pursuant to the conversion, representing 23.47% of the issued and outstanding Common Shares of the Company. Upon completion of the conversion, Mr. Braugh now controls 68,740,714 Common Shares, or approximately 29.22% of the total issued and outstanding Common Shares. In addition, Chris Pettit & Associates PC, controlled by Mr. Pettit, a director of the Company, as trustee of a trust, acquired 55,225,714 Common Shares pursuant to the conversion, representing 23.47% of the issued and outstanding Common Shares of the Company.

(e) In September 2018, the Company converted outstanding accounts payable owing to the US JV Partner in the amount of $1,745,591 into a promissory note. In June 2019, the Company repaid $283,000 of this promissory note. 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. As of December 31, 2019, a total of $1,531,000 was drawn under this loan. Each of these loans are guaranteed by the Company, shall be repaid on demand, provided that if no demand is made, the loans are due on September 1, 2020, bear interest at a rate of 0.5% above the Wall Street Journal prime rate, and are secured against all of Company's US subsidiary oil and gas properties in Texas.

(f) On June 5, 2019, the Company issued subordinated secured convertible debentures (the "June 2019 debentures") in the aggregate amount of CDN$2,036,245

The June 2019 debentures bear interest at a rate of seven and a half percent (7.5%) per annum, payable monthly in arrears on the 15th day of the following month and will mature on the date that is three years from the closing date. The June 2019 debentures are secured by a subordinated (second-charge) security interest against the Company's working interest in the Joffre, Alberta property and convertible at any time at the holder's option into common shares of the Company at a conversion price of CDN$0.12 (US$0.0888 at an assumed exchange rate of CDN$0.74 to US$1.00) per common share. The holders of the June 2019 debentures shall have the right, upon at least 30 days written notice prior to the date that is two (2) years following the closing date, to require the Company to repurchase all amounts outstanding under the debentures on the date that is two (2) years following the closing date, at a repurchase price equal to 115% of the outstanding principal amount of the debenture, together with payment of the interest on the principal amount accrued and unpaid to the repurchase date.

All securities issued in connection with the offering were subject to a hold period of four months from the date of closing. The net proceeds from the offering were used for expenditures in developing the Company's properties in Joffre, Alberta and Polk County, Texas, and for general working capital purposes.

In July 2019, the Company closed a second tranche of the debenture offering. 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.

Additional financing will be required to develop and operate the Company's properties, additional projects and to replenish working capital. 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.

Credit facility

On December 14, 2016 and in connection with an equity offering, the Company entered into a line of credit agreement (the "Credit Facility") with ACH Management, LLC, an arm's length third party private corporation ("ACH" or the "Lender") for $8,000,000. The Credit Facility could be drawn at the option of the Company during the period ended December 14, 2017. The Credit Facility was to mature on December 14, 2019. Funds advanced under the Credit Facility were to bear interest at a rate of 6% per annum, payable monthly. The Credit Facility was secured by a first lien on the Company's Texas properties.

The obligations of the Company under the Credit Facility were also guaranteed by the Company's wholly owned US subsidiary pursuant to an unconditional secured guarantee. The Lender and the holders of the outstanding debentures and notes of the Company entered into an intercreditor agreement that provided that such creditors would rank on a pari passu basis (only with respect to those specific creditors) in the event of any enforcement on any assets of the Company, provided that the Lender would have a first priority claim on certain property of the Company and its US subsidiary.

As of August 2017, the Company had drawn an aggregate of $3,775,000 on the Credit Facility.

Following the failure of the Lender to timely fund loan draw advances, the Company and Lender agreed to amendments of the Credit facility on July 27, 2017 and September 27, 2017 (the "Amendments"). Pursuant to the terms of the Amendments:

1) The Credit Facility availability end date was extended from December 14, 2017 to June 17, 2018 and the remaining $4,225,000 available under the line of credit was agreed to be advanced by the Lender in varying scheduled amounts from October 3, 2017 through to December 5, 2017. The extension of the Credit Facility availability end date, in conjunction with the receipt of timely funding of the remaining $4,225,000 from the Lender as of September 27, 2017, also extends the date that a minimum of twelve (12) wells in Polk County, Texas must be drilled and completed in the Yegua formation from December 31, 2017 to June 17, 2018. Monthly principal payments shall commence on the Credit Facility starting on the month after the Credit Facility availability date or July 2018.

2) The Lender granted the Company options to purchase certain interests in oil and gas properties, subject to entering into formal documentation.

3) The Lender entered into a subordination agreement ("the ACH Subordination Agreement") pursuant to which it has agreed to subordinate all of its rights in all collateral securing the loan under the Credit Facility and its right to repayment, to a future senior lender of the Company to be determined by the Company in its sole discretion. As reflected in Note 8 of the financial statements, this subordination has become effective and no repayments under the Credit Facility were due by the Company to the Lender.

4) All interest accrued and payable under the Credit facility from inception until September 27, 2017 was waived. Interest was to commence on the Credit facility from September 28, 2017 forward.

   After September 27, 2017, the Lender did not provide any further loan advances pursuant to the Amendments.

The Amendments also included further remedies that were available to the Company due to the default of the Lender. Pursuant to the July 27, 2017 amendment, the Lender was restricted from exercising, selling, transferring or assigning all common share purchase warrants held by the Lender. Pursuant to the September 27, 2017 amendment, the Lender agreed that up to 12,337,500 common shares of the Company held by the Lender would be available for repurchase or sale to a third party (with the proceeds being paid to the Company), were held in escrow until completion of such repurchase or sale. In the event of a repurchase and cancellation of such shares by the Company, the purchase price of CDN$0.10 per share would be deemed to be a further loan advance under the Credit Facility. During the fourth quarter of 2017, the Lender sold 383,190 common shares to a third party for $30,000 which was recognized by the Company as a gain on disposition of shares on the

2017 consolidated statements of loss. In addition, as of September 27, 2017, all common share purchase warrants held by the Lender (Note 12 of the financial statements) were available to be cancelled or transferred to third parties by the Lender at the discretion of the Company.

Litigation and Mediated Settlement Agreement

On April 18, 2018, William E. Robinson, Jr. (the "Plaintiff") filed a claim against the Company's lender ACH Management, LLC ("ACH"), the Company, and its wholly owned subsidiary, Tanager Energy (USA) Inc., as defendants, in a Dallas, Texas state court. ACH was also a shareholder in the Company. The Plaintiff's claims arose from alleged fraudulent representations and omissions by ACH which induced the Plaintiff to make investments and loans, directly or indirectly, to the Company. The total amount of recoupment sought by the Plaintiff was US$3,775,000. The Plaintiff was also seeking unspecified amounts for legal fees, pre and post judgement interest at the highest rate allowed by law, and unspecified exemplary damages against ACH. The Plaintiff had sued ACH for fraud, fraud by non-disclosure, and statutory fraud. The Plaintiff had sued the Company defendants for money had and received and seeks relief in the form of a declaratory judgment that 21,000,000 common shares and 21,000,000 share purchase warrants (Notes 11 and 12 of the financial statements), originally issued in December 2016, should be issued in the name of the Plaintiff instead of ACH. The Company denied all allegations and claims for relief and vigorously defended the claims filed against them by the Plaintiff.

On October 5, 2018, the Company filed a third amended answer, affirmative defenses and original counterclaims against the Plaintiff and cross-claims against ACH. The counterclaims against the Plaintiff and cross-claims against ACH include many allegations including breach of contract, fraud and fraudulent inducement, tortious interference, and joint participation and joint liability. Pursuant to this filing, Tanager requested the court to dismiss the claim by the Plaintiff against the Company, and seek a judgment for actual, consequential and special damages sustained by the Company exemplary damages to be assessed in an amount to be determined by the jury, an award of attorney's fees allowed by statute and contract and court costs, and pre and post judgment interest awarded to the Company, in addition to an injunction and sanctions against the Plaintiff. The total amount sought under the counterclaim and cross-claims by the Company was in excess of US$1 million and to be determined by jury trial.

A mediation among the parties occurred resulting in the execution of a Mediated Settlement Agreement (the "Agreement") dated December 11, 2018 setting forth a binding agreement among William E. Robinson, Jr., ACH Management, LLC, Tanager Energy Inc., and Tanager Energy (USA) Inc. (collectively the "Parties").

Pursuant to the Agreement, the Company was to pay to the Plaintiff in the total amount of $1,000,000, to be paid in equal installments over 4 months on dates from January 15 through April 15, 2019. During the three months ended March 31, 2019, $750,000 of payments were made. After the final $250,000 payment to the Plaintiff made was by the Company on April 12, 2019, the Company had no further obligations to any of the Parties. Also, after the final payment, with respect to the securities of the Company currently held by ACH, 9,765,000 common shares were transferred from ACH to the Plaintiff, and the remaining 10,851,810 common shares and 21,000,000 common share purchase warrants (Note 12 of the financial statements) were to be cancelled, transferred or assigned by ACH, as directed by the Company at a future date.

Given the timely completion of the final payment and transfer of the shares to the Plaintiff, the existing lawsuit against the Company and its subsidiary was dismissed with prejudice. The remaining outstanding loan principal of $2,775,000 and accrued interest has been forgiven and there are no further obligations under the credit facility. As a result, a gain on settlement of debt of $3,110,629 has been recorded in consolidated statements of income (loss) and comprehensive income (loss) for year ended December 31, 2019.

On June 5, 2019, the Lender sold the remaining 10,851,810 common shares, as referred above, to a third party and the Company recognized a further gain on settlement of debt of $243,361 in the consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2019.

Share Capitalization

The Company is authorized to issue an unlimited number of common shares. As of December 31, 2019, 235,286,816 common shares and 2,000,000 stock options were outstanding for a total of 237,286,816 common shares on a fully diluted basis. As of December 31, 2019, a further 22,356,658 common shares would be issuable on conversion of convertible debentures based on a conversion price of CDN$0.12/share for the Canadian dollar denominated debentures.

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. All of these stock options have vested and remain outstanding.

On August 22, 2019, all the 21,000,000 share purchase warrants expired unexercised.

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 years ended December 31, 2019 and 2018:

(a) The Company incurred 6% coupon interest on the 2016 US dollar denominated debentures and 7.5% coupon interest on the 2019 Canadian dollar denominated debentures. During the year ended December 31, 2019, a total of $30,145 (2018 - $81,156) coupon interest was incurred on the portion of these convertible debentures held by a director and the Trust. Total accrued interest payable to the director and the Trust as of December 31, 2019, 2018 was $229,254 (2018 – $225,033) and is included in accounts payable and other liabilities. On March 27, 2018, the US dollar denominated debentures were converted into 110,451,428 Common Shares of the Company.

(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 US JV Partner is considered a related party for accounting purposes by virtue of a common director and that the ownership group of the US JV Partner also holds 123,966,428 common shares of the Company, representing an ownership of 52.69% of the Company. The results of the Company's US operations conducted with the US JV Partner are shown in the segmented financial information in Note 19 of the financial statements. In September 2018, the Company converted outstanding accounts payable owing to the US JV Partner in the amount of

$1,745,591 into a promissory note. In addition, the Company entered into a loan from a wholly owned subsidiary of the US JV Partner for a total available amount of US$1,250,000 and later amended to $2,100,000. For further details, refer to Note 7 of the financial statements. Each of these loans bear interest at a rate of 0.5% above the Wall Street Journal prime rate. During the year ended December 31, 2019, a total of $189,078 (2018 - $38,064) interest was accrued on both of these loans. Included in accounts payable as at December 31, 2019 is $756,869 (2018 - $286,949) owing to the US JV Partner and its subsidiary.

(c) In October 2018, the Company, on behalf of its US JV Partner, arranged for acquisition of the other 50% interest held in the Joffre, Alberta D-3 B oil pool assets from its former JV partner for CDN$300,000 (US$228,953 equivalent) payable in cash. Pursuant to the terms of the agreement with the former JV partner, it was agreed that all net balances owing to or from the Company would be settled for no further consideration. As a result, in the fourth quarter of 2018 the Company reduced its accounts receivable, accounts payable and extinguished the CDN$190,000 loan payable to the former JV partner (Note 7 of the financial statements) and recorded the $74,683 difference to a gain on settlement on the Consolidated Statements of Loss and Comprehensive Loss.

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.

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 December 31, 2019 totaled $3,150,198 (December 31, 2018 - $1,810,197).

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 December 31, 2019. 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.

The Company's approach to managing liquidity risk is to endeavor to have sufficient liquidity to meet liabilities when due. As at December 31, 2019, the Company had cash and cash equivalents of $235,263 (December 31, 2018 - $40,786) to settle current liabilities of $5,029,518 (December 31, 2018 - $8,110,143). Most of the Company's third-party accounts payable have contractual maturities of less than 30 days and are subject to normal trade terms, other than amounts due to related parties which may have no fixed terms of repayment. Current liabilities include $3,979,714 (2018 - $2,927,573) of amounts due to related parties for accrued interest, joint venture payables and loans as is further described in notes 6 and 7 of the financial statements.

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 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 December 31, 2019, 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.

Recent Developments

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 closely monitoring the current and potential impacts of COVID-19 on all aspects of our business and geographies, including how it has impacted, and may in the future impact our operations, financial results, liquidity, contractors, customers, employees and vendors. The Company continue to monitor a number of factors that may cause actual results of operations to differ from our historical results or current expectations. Mentioned above, these factors include: the impact of the COVID-19 pandemic and the related economic downturn, the historically low natural gas liquids prices, and ramifications of the crude oil price war between the Organization of Petroleum Exporting Countries ("OPEC") /Saudi Arabia and Russia that occurred in March. While OPEC agreed in April to cut production, downward pressure on prices has continued and could continue for the foreseeable future, particularly given concerns over available storage capacity for refined products such as crude, and refinery inputs including condensate and NGLs. These and other factors could affect the Company's oil and gas properties, operations, earnings and cash flows for some period and could cause such results to not be comparable to those of the same period in previous years. Commodity prices are expected to continue to be volatile as a result of the changes in oil and natural gas production, inventories and demand, as well as national and international economic pressure. The Company cannot predict when prices will improve and stabilize. The results presented in the 2019 financial statements are not necessarily indicative of future operating results.

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. These uncertainties include the severity of the virus, the duration of the outbreak, governmental or other actions taken to combat the virus (which could include limitations on our operations or the operations of our customers and vendors), and the effect that the COVID-19 pandemic and the current oil price wars have on the demand for natural gas and natural gas liquids. The situation surrounding COVID-19 remains fluid and unpredictable, and the Company is actively managing our response and assessing potential impacts to our financial position and operating results, as well as any adverse developments that could impact our business. However, at this point, the Company does not anticipate any prolonged negative financial consequences to our financial position.

Risks and 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 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. Subsequent to December 31, 2019, 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 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. 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 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, **[*signed*] Roger S. Braugh, Jr.**

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

May 29, 2020