Paleo Resources, Inc.

Management's Discussion and Analysis

For the years ended December 31, 2020 and 2019

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", "Paleo" 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, 2020 and 2019. The MD&A was prepared as of June 17, 2021 and should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2020 and 2019, including the notes thereto.

The Company's audited consolidated financial statements for the years ended December 31, 2020 and 2019 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.

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 EFR as the surviving company. 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 a 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.

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").

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. In Q4 2020, the Company impaired the unproved properties and the Cain-Carter #1 well due to expired leases.

In September 2019, construction of the Ranger A#1 pipeline was completed and the well was brought onto production. In Q4 2020, work commenced on the pipeline connection for Stampede A#1 and Jones #1.

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.

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.

The Company 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. The Company will provide operational updates as additional information becomes available.

The Burchell Lake Property

Pursuant to the Burchell Lake Property Amendment Agreement dated September 27, 2011, the Company has elected to not pursue any further drilling and development of the Burchell Lake Properties. In January 2021, the Company transferred the Burchell Lake mining claims.

Financial Review

This section should be read in conjunction with the audited consolidated financial statements for the years ended December 31, 2020 and 2019 and the corresponding notes thereto. These consolidated financial statements 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 after the date that the December 31, 2020 financial statements are available to be issued. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. As at December 31, 2020, the Company had a working capital deficiency of $7,804,363 (December 31, 2019 - $4,687,811) and an accumulated deficit of $41,705,187 (December 31, 2019 - $30,993,356). These conditions raise substantial doubt on the Company's ability to continue as a going concern. The Company will need additional funding in order to continue operations.

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. While the Company has been successful in obtaining funding in the past, 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.

Annual 2020 and 2019 Highlights

	Year ended December 31, 2020	2019
Selected Financial Results		
(US$ except share and per share amounts)		
Revenue, net of royalties	344,308	261,654
Lease operating expenses	98,425	254,198
Production taxes	22,811	4,367
General and administrative expenses	697,946	821,316
Depletion, depreciation, amortization and accretion	269,944	595,088
Impairment and dry hole expense	9,767,009	112,917
Interest expense	322,272	367,149
Foreign exchange gain (loss)	10,337	78,728
Gain on forgiveness of debt	72,442	3,353,990
Net income (loss) attributable to Paleo Resources, Inc.'s shareholders	(10,711,831)	1,479,561
Per common share – basic and fully diluted	$(0.04)	$0.01
Comprehensive income (loss)	(10,774,942)	1,334,044
Cash flow from operating activities	(602,817)	(952,412)
Per common share – basic and fully diluted	$(0.00)	$(0.00)
Total capital expenditures (excluding acquisitions)	202,360	928,897
Total assets	1,875,278	10,528,911
Total liabilities	8,867,781	7,378,713
Shareholders' equity (deficit)	(6,992,503)	3,150,198
Common Shares		
Common shares outstanding	313,179,813	235,286,816
Weighted average number of common shares outstanding		
Basic	277,541,099	235,286,816
Diluted	277,541,099	257,643,474
TSX Venture Share Trading Statistics		
(CDN$/share except volumes based on intra-day trading)		
High	0.040	0.100
Low	0.005	0.010
Close	0.010	0.030
Average daily volume	50,654	26,084

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
2020	**($)**	**($)**	**($)**	**($)**
Revenue, net	53,730	41,409	80,035	169,134
Net (loss) attributable to Paleo Resources, Inc.'s shareholders	(312,596)	(312,716)	(265,479)	(9,821,040)
Per share – basic and fully diluted	(0.00)	(0.00)	(0.00)	(0.04)
Comprehensive income (loss)	(135,019)	(338,811)	(439,747)	(9,861,365)
Cash flow from operating activities	(100,264)	(260,281)	(68,698)	(173,574)
Per share – basic and fully diluted	(0.00)	(0.00)	(0.00)	(0.00)
Total assets	10,366,143	11,637,840	11,534,798	1,875,278
Total liabilities	7,350,964	8,162,926	8,502,938	8,867,781
Shareholders' equity (deficit)	3,015,179	3,474,914	3,031,860	(6,986,392)
Weighted average number of common shares outstanding	235,286,816	249,552,438	313,179,813	313,179,813

	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 (deficit)	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

(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					
Oil and gas operations by segment		**2020**			2019	
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Crude oil	**-**	**-**	**-**	14,220	-	14,220
Natural gas liquids	**-**	**-**	**-**	-	-	-
Natural gas	**-**	**68,374**	**68,374**	-	74,731	74,731
Oil and natural gas sales, net of royalties	**-**	**68,374**	**68,374**	14,220	74,731	88,951
Other income	**-**	**-**	**-**	(225)	-	(225)
Total revenue	**-**	**68,374**	**68,374**	13,995	74,731	88,726
Lease operating expenses	**3,342**	**13,479**	**16,821**	15,045	10,637	25,682
Production taxes	**-**	**5,146**	**5,146**	-	(7,582)	(7,582)
Depletion, depreciation and amortization	**3,594**	**80,114**	**83,708**	(47,832)	117,950	70,118
Impairment and dry hole expenses		**9,043,092**	**9,043,092**		112,917	112,917
Sales volumes, net of royalties						
Light oil and natural gas liquids (bbls)	**-**	**-**	**-**	231	-	231
Natural gas (mcf)	**-**	**27,422**	**27,422**	68	36,194	36,262
Total sales volumes (boe)	**-**	**4,570**	**4,570**	242	6,032	6,274

	Year ended December 31					
Oil and gas operations by segment		**2020**			2019	
	Canada	**U.S.**	**Total**	Canada	U.S.	Total
Crude oil	**-**	**-**	**-**	78,271	-	78,271
Natural gas liquids	**-**	**-**	**-**	1,552	-	1,552
Natural gas	**-**	**204,709**	**204,709**	3,335	178,307	181,642
Petroleum and natural gas sales, net of royalties	**-**	**204,709**	**204,709**	83,158	178,307	261,465
Other income	**-**	**-**	**-**	189	-	189
Total revenue	**-**	**204,709**	**204,709**	83,347	178,307	261,654
Lease operating expenses	**26,330**	**72,095**	**98,425**	100,843	153,355	254,198
Production taxes	**-**	**22,747**	**22,747**	-	4,367	4,367
Depletion, depreciation, and amortization	**13,740**	**249,378**	**263,118**	97,789	497,299	595,088
Impairment and dry hole expenses		**9,043,092**	**9,043,092**		112,917	112,917
Sales volumes, net of royalties						
Light oil and natural gas liquids (bbls)	**-**	**-**	**-**	1,730	-	1,730
Natural gas (mcf)	**-**	**111,221**	**111,221**	1,632	80,438	82,070
Total sales volumes (boe)	**-**	**18,537**	**18,537**	2,002	13,406	15,408

For the three and twelve months ended December 31, 2020, the Company had revenue of $100,760 and $139,599, respectively, and general and administrative expense of $184,888 and $367,476, respectively, from Fintech platform operating segment acquired through the EFR acquisition attributable to the Company's shareholders.

For the three and twelve months ended December 31, 2020, the Company had oil and gas revenues of $68,374 and $204,709 compared to $88,726 and $261,654, respectively, during the same periods in 2019. Revenue for the three months ended December 31, 2020 was lower from that in the same periods of 2019 due to lower production from the Company's producing gas well in the USA. Revenue for the twelve months ended December 31, 2020 was down from that in the same periods of 2019 due to the existing Joffre oil well being shut-in in since August 2019 in connection with drilling the new 103/9-22 Joffre well.

Lease operating expenses for the three and twelve months ended December 31, 2020 were $16,821 and $98,425, as compared to $25,682 and $254,198, 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 twelve months ended December 31, 2020 were $5,210 and $22,811, as compared to ($7,582) and $4,367, respectively, in the same periods in 2019. Production taxes for the three and twelve months period ended December 31, 2020 reflect higher production from gas well in the USA.

General and administrative expenses (excluding stock-based compensation expense) for the three and twelve months ended December 31, 2020 was $267,501 and $697,946, compared to $197,621 and $815,359, respectively, in the same periods in 2019. The increase in G&A for the three months ended December 31, 2020 compared to the same period in 2019 is primarily due to additional of EFR. The decrease in G&A experienced for the twelve months 2020 periods compared to 2019 periods is primarily due to lower executive and employee compensation.

Interest expenses for the three and twelve months ended December 31, 2020 was $83,500 and $322,272, compared to $33,642 and $367,149, respectively, in 2019. Interest expenses for the twelve months ended December 31, 2020 were comprised of $300,166 in interest charges and $22,106 of amortization of debt discount on convertible debentures, as compared to $354,714 in interest charges and $12,435 of amortization of debt discount on convertible debentures in 2019. The decrease in interest expense for the twelve months ended December 31, 2020 period compared to 2019 period is primarily due to retirement of the credit facility and certain loans payable in 2019 and lower interest rate in 2020 compared to 2019.

The net income (loss) attributable to shareholders for the three and twelve months period ended December 31, 2020 was ($9,821,040) and ($10,711,831) as compared to $(347,291) and $1,479,561, respectively, during the same periods in 2019. The increase in loss between year to date periods is primarily attributable to $9 million non-cash impairment on proved and unproved oil and gas properties. The net cash flow used in operating activities for the three and twelve months ended December 31, 2020 was $173,574 and $602,817, respectively, compared to $116,300 and $952,412 in the same period of 2019.

Capital Expenditures

The Company incurred additions to unproved oil and gas properties (excluding acquisitions) of $nil (2019 -$116,191) and proved oil and gas properties of $202,360 excluding acquisition (2019 - $812,706) twelve months ended December 31, 2020. The capital expenditure activities in Canada and the US for the twelve months ended December 31, 2020 were as follows:

(a) Canada
There were $24,359 for expenditures on proved oil and gas properties in Canada during the twelve months ended December 31, 2020 (2019 - $459,013) 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 twelve months ended December 31, 2020, the Company incurred expenditures on unproved oil and gas properties of $nil as compared to $116,191 spent in 2019. Expenditures of $32,297 for 2020 was for drilling cost of 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. During the twelve months ended December 31, 2020, the Company incurred expenditures on proved oil and gas properties of $178,001 on the completion of the Yegua wells.

The Company incurred impairment expense of $8,620,615 for expired acreage and $390,180 on proved properties in 2020.

Liquidity and Capital Resources

The Company had a cash position of $147,189 at December 31, 2020, compared with a cash position of $235,263 at December 31, 2019. As at December 31, 2020, the Company had a working capital deficiency of $7,804,363 (December 31, 2019 - $4,687,811) and an accumulated deficit of $41,705,187 (December 31, 2019 - $30,993,356).

The Company had the following financing activities during 2020:

(a) For the three and twelve months ended December 31, 2020, the Company drawdown $40,619 and $565,619, respectively from the US JV Partner's subsidiary's loan.

(b) On December 8, 2020, the Company's subsidiary, Paleo Resources (USA), Inc., entered into a secured loan with the U.S. Small Business Administration ("SBA") in the amount of $100,600 under the Economic Injury Disaster Loan (the "EIDL Loan") with an interest rate of 3.75% and maturity date thirty years from the effective date of the EIDL Loan. The Economic Injury Disaster Loan was established under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act") and is administered by the SBA. Principal and interest payments of $491 is due every month beginning twelve months from the date of the EIDL loan.

On March 1, 2021, the entire amount of the existing loan from the subsidiary of US JV Partner has been assigned to Roger S. Braugh, Jr., a director and officer of Paleo, and Chris Pettit & Associates PC, a company controlled by Christopher J. Pettit, a director of Paleo, as trustee of a Trust, in the aggregate amount, including principal and interest, of $2,283,662, as to 50% to each, subject to approval of the TSX Venture Exchange. On March 30, 2021, the Company settled outstanding indebtedness, excluding interest, the aggregate amount of $2,096,619 now owing to director and trustee following the noted assignment, through the issuance of an aggregate of 132,474,848 common shares of the Company at a deemed price of CDN$0.02 per share. The common shares issued in connection with the Debt Settlement are subject to a hold period that expires on July 31, 2021.

In April 2021, holders of the Company's outstanding 2019 convertible debentures in the aggregate principal amount of CDN$2,682,799 or USD$2,000,674 (the "Debentures") have provided notice to require the Corporation to repurchase all amounts outstanding under the Debentures, in accordance with the terms of such Debentures. The Debentures provide the holders the right, upon at least 30 days written notice prior to the date that is two years following the original issuance date of such Debentures (the "Repurchase Date"), to require the Company to repurchase all amounts outstanding under the Debentures on such Repurchase Date, at a repurchase equal to 115% of the outstanding principal amount of the Debentures, together with payment of the interest on the principal amount accrued and unpaid to the Repurchase Date.

The total principal amount of the indebtedness due as a result of the repurchase notifications is CDN$3,085,219 or USD$2,300,775 (the "Repurchase Indebtedness") of which CDN$2,341,682 is due on June 5, 2021 and CDN$743,537 is due on July 25, 2021.

The Company intends to settle the Repurchase Indebtedness through the issuance of common shares of the Company.

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 debtor 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.

Share Capitalization

The Company is authorized to issue an unlimited number of common shares. On June 16, 2020, the Company authorized the issuance of an aggregate of 86,547,774 common shares of Paleo to the former shareholders of EFR 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. As of December 31, 2020, 313,179,813 common shares, 8,654,777 holdback 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 December 31, 2020, 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.

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 twelve months ended December 31, 2020

(a) During the twelve months ended December 31, 2020, a total of $36,275 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 December 31, 2020 was $229,760 (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 twelve months ended December 31, 2020, a total of $130,568 interest was accrued on promissory note and loan owing to the US JV Partner and its subsidiary. For the twelve months period ended December 31, 2020, net revenue after expenses were $85,403 from U.S. operations operated by the US JV Partner. At as December 31, 2020, the balance owing to the US JV Partner and its subsidiary in accounts payable is $972,839 (December 31, 2019 - $756,869).

(c) The Company assumed the loan due to US JV Partners of $62,500 as part of the acquisition of 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 December 31, 2020, deferred management fees totaled $65,466. For the three months and twelve months ended December 31, 2020, management fee revenue was $18,200 and $39,000 respectively, and $nil for 2019. The carried interest management fee revenue total $7,890 and $18,239 for the three months and twelve months ended December 31, 2020.

(e) The Company received reimbursement revenue for costs incurred from related parties totaling $44,852 and $46,352 for the three months and twelve months ended December 31, 2020 and $nil for 2019.

(f) The Company received consulting fee from a Company owned by a director and Trust totaling $nil and $7,525 for three months and twelve months ended December 31, 2020, respectively.

(g) On June 16, 2020, the Company authorized the issuance common shares of Paleo to the former shareholders of EFR. Charles Minshew, CEO of EFR is entitled to receive up to 14,978,269 common shares with 13,480,442 common shares received upon closing of the acquisition and 1,497,827 common shares subject to holdback ("Holdback Shares") and will be issued in the event that no claims diminish the available Holdback Shares per the terms of the merger agreement.

(h) Certain officers are shared with a related party and the officers' compensations are paid by the related party and not charged to the Company. The Company's president is providing services to the Company, from January 31, 2020, for no compensation.

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, 2020 totaled ($6,992,503) (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 December 31, 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 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 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 and oil and gas. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities oil and gas may be produced in the future, a profitable market will exist for them. 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 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. The Company's viability and potential success lie in its ability to develop, permit, exploit and generate revenue out of oil and gas reservoirs. Revenues, profitability and cash flow from Fintech operations will be influenced by petroleum and natural gas prices and by its relationship to attract potential investors interest in energy investments. 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. 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 industry. These factors include uncertainty regarding the price of petroleum and natural gas and the availability of equity financing for the purposes of mineral exploration and development. The price of crude oil and natural gas 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 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 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

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

June 17, 2021