Paleo Resources, Inc.
Consolidated Financial Statements
December 31, 2020 and 2019
(Expressed in US Dollars)

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and Board of Directors of
Paleo Resources, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Paleo Resources, Inc. and its subsidiaries (collectively, the "Company") as of December 31, 2020 and 2019, and the related consolidated statements of operations and comprehensive income (loss), changes in shareholders' equity (deficit), and cash flows for the years then ended, and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020 and 2019, and the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Going Concern Matter

The accompanying financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the financial statements, the Company has suffered recurring losses from operations and has a net capital deficiency that raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB and in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ MaloneBailey, LLP
www.malonebailey.com
We have served as the Company's auditor since 2019.
Houston, Texas
June 17, 2021

Paleo Resources, Inc.
Consolidated Balance Sheets
(Expressed in US Dollars)
As at

	December 31, 2020 $	December 31, 2019 $
ASSETS		
Current assets		
Cash and cash equivalents	**147,189**	235,263
Accounts receivable		
Related parties	**9,253**	-
Third parties	**31,626**	33,162
Prepaid expenses and deposits	**30,291**	73,282
	218,359	341,707
Deposit (Note 4)	**247,893**	240,729
Goodwill	**439,458**	-
Oil and gas properties, successful efforts method (Note 5)		
Proved properties, net	**969,568**	1,325,860
Unproved properties	**-**	8,620,615
TOTAL ASSETS	**1,875,278**	10,528,911
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities		
Related parties	**1,457,188**	986,123
Third parties	**760,220**	749,804
Deferred management fee – related parties	**65,466**	-
Loans payable (Note 6)		
Related parties	**3,621,710**	2,993,591
Third parties	**300,000**	300,000
Convertible debentures (Note 7)		
Related parties	**505,693**	-
Third parties	**1,312,445**	-
	8,022,722	5,029,518
Convertible debentures (Note 7)		-
Related parties	**-**	470,463
Third parties	**278,608**	1,562,137
Loans payable, third parties (Note 6)	**174,703**	-
Asset retirement obligations (Note 8)	**391,748**	316,595
TOTAL LIABILITIES	**8,867,781**	7,378,713
SHAREHOLDERS' EQUITY (DEFICIT)		
Class A common shares, no par, unlimited shares authorized and 313,179,813 and 235,286,816 issued and outstanding at December 31, 2020 and December 31, 2019, respectively (Note 9)	**32,368,127**	31,729,775
Additional paid in capital	**3,161,109**	3,161,109
Accumulated other comprehensive loss	**(810,441)**	(747,330)
Accumulated deficit	**(41,705,187)**	(30,993,356)
Total Paleo Resources, Inc.'s shareholders' equity (deficit)	**(6,986,392)**	3,150,198
Non-controlling interest	**(6,111)**	-
Total equity (deficit)	**(6,992,503)**	3,150,198
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,875,278**	10,528,911

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

Approved on behalf of the Board

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

Paleo Resources, Inc.
Consolidated Statements of Operations and Comprehensive Income (Loss)
(Expressed in US Dollars)
For the years ended December 31, 2020 and 2019

	2020 $	2019 $
Revenue		
Oil and gas sales, related parties, net of royalties	**204,709**	178,308
Oil and gas sales, third parties, net of royalties	**2,715**	83,346
Reimbursement revenue, related parties	**46,352**	-
Reimbursement revenue, third parties	**33,293**	-
Management fees - related parties	**57,239**	-
	344,308	261,654
Operating costs and expenses		
Lease operating expenses	**98,425**	254,198
Production taxes	**22,811**	4,367
General and administrative	**697,946**	821,316
Depletion, depreciation, amortization and accretion (Notes 5 and 7)	**269,944**	595,088
Impairment and dry hole expense (Note 5)	**9,767,009**	112,917
Mining royalty and staking	**(1,122)**	72,498
Total operating costs and expenses	**10,855,013**	1,860,384
Loss from operations	**(10,510,705)**	(1,598,730)
Other income and (expense)		
Interest expense	**(322,272)**	(367,149)
Foreign exchange gain	**10,337**	78,728
Other income, related parties	**21,289**	-
Gain on forgiveness of debt	**72,422**	3,353,990
Gain on disposition of unproved properties	**-**	12,722
Other income and (expense), net	**(218,224)**	3,078,291
Net income (loss)	**(10,728,929)**	1,479,561
Net (loss) attributable to non-controlling interest	**(17,098)**	-
Net income (loss) attributable to Paleo Resources, Inc.'s shareholders	**(10,711,831)**	1,479,561
Comprehensive loss		
Foreign currency translation	**(63,111)**	(145,517)
Comprehensive income (loss) for the year	**(10,774,942)**	1,334,044
Basic and diluted net income (loss) per share (Note 11)	**($0.04)**	$0.01
Weighted average number of common shares outstanding - basic	**277,541,099**	235,286,816
Weighted average number of common shares outstanding - diluted	**277,541,099**	257,643,474

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

Paleo Resources, Inc.
Consolidated Statements of Cash Flows
(Expressed in US Dollars)
For the years ended December 31, 2020 and 2019

	2020 $	2019 $
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the year	**(10,728,929)**	1,479,561
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depletion, depreciation, amortization, and accretion	**269,944**	595,088
Impairment	**9,734,712**	112,917
Share-based compensation	**-**	5,957
Debt discount amortization (Note 7)	**22,106**	12,435
Unrealized foreign exchange gain	**(3,978)**	(209,191)
Gain on forgiveness of debt	**(72,422)**	(3,110,629)
Gain on disposition of assets	**-**	(12,722)
Changes in operating assets and liabilities		
Account receivable	**(4,154)**	28,031
Deferred income, related parties	**(44,563)**	-
Prepaid expenses and deposits	**43,684**	(35,936)
Accounts payable and accrued liabilities	**180,783**	182,077
Net cash used in operating activities	**(602,817)**	(952,412)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits	**(2,324)**	(4,763)
Cash from EF Resources acquisition (Note 3)	**27,365**	-
Additions to unproved oil and gas properties	**-**	(60,581)
Additions to proved oil and gas properties	**(122,175)**	(181,170)
Proceeds on disposition of unproved properties	**-**	25,000
Net cash used in investing activities	**(97,134)**	(221,514)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from convertible debentures, net of issue costs	**-**	1,473,813
Proceeds from related party loans payable	**565,619**	1,343,000
Proceeds from third party loans payable	**100,600**	-
Repayment of related party loans payable	**-**	(283,000)
Repayment of third party loans payable	**-**	(100,000)
Repayment of long-term debt	**-**	(1,200,000)
Distribution to noncontrolling interest	**(3,222)**	-
Net cash provided by financing activities	**662,997**	1,233,813
Effect of changes in foreign exchange rates on cash held in foreign currencies	**(51,120)**	134,590
Net increase (decrease) in cash and cash equivalents for the year	**(88,074)**	194,477
Cash and cash equivalents, beginning of the year	**235,263**	40,786
Cash and cash equivalents, end of the year	**147,189**	235,263

Paleo Resources, Inc.
Consolidated Statements of Cash Flows
(Expressed in US Dollars)
For the years ended December 31, 2020 and 2019

	2020 **$**	2019 $
Supplemental cash flow disclosures		
Interest paid	**151,492**	88,070
Income taxes paid	**-**	-
Non-cash investing and financing activities		
Revision in asset retirement obligation	**32,297**	88,581
Change in unproved properties in accounts payable	**-**	95,459
Shares issued for acquisition for EF Resources Inc.	**638,352**	-
Additions to proved properties in accounts payable	**80,185**	631,536
Convertible debentures issued in settlement of related party loan	**-**	482,000

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

Consolidated Statements of Changes in Shareholders' Equity (Deficit)

(Expressed in US Dollars)

	Number of Shares #	Common Stock $	Additional Paid In Capital $	Accumulated Other Comprehensive Income (Loss) $	Deficit $	Paleo Resources, Inc.'s Shareholders' Equity $	Noncontrolling Interest $	Total Shareholders' Equity (Deficit) $
Balance, December 31, 2018	235,286,816	31,729,775	3,155,152	(601,813)	(32,472,917)	1,810,197		1,810,197
Foreign currency translation loss	-	-	-	(145,517)	-	(145,517)	-	(145,517)
Share-based compensation	-	-	5,957	-	-	5,957	-	5,957
Net income for the year	-	-	-	-	1,479,561	1,479,561	-	1,479,561
Balance, December 31, 2019	**235,286,816**	**31,729,775**	**3,161,109**	**(747,330)**	**(30,993,356)**	**3,150,198**	**-**	**3,150,198**
Common stock issued for acquisition of EF Resources	77,892,997	638,352				638,352	14,209	652,561
Noncontrolling interest distribution							(3,222)	(3,222)
Foreign currency translation loss	-	-	-	(63,111)	-	(63,111)		(63,111)
Net loss for the year	-	-	-	-	(10,711,831)	(10,711,831)	(17,098)	(10,728,929)
Balance, December 31, 2020	**313,179,813**	**32,368,127**	**3,161,109**	**(810,441)**	**(41,705,187)**	**(6,986,392)**	**(6,111)**	**(6,992,503)**

1. Description of business and going concern

Description of business

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

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

Paleo is an exploration company, engaged in the acquisition, exploration and development of oil and gas properties in Alberta, Canada and Texas, USA. In 2020, Paleo discontinued the precious and base metal operation in Ontario, Canada. As the discontinuation of the mining operation did not represent a strategic shift and did not have a major effect on the Company's operations and financial results, the Company determined that discontinued operations reporting was not applicable.

On June 16, 2020, the Company completed the merger transaction contemplated by the Agreement and Plan of Merger ("Merger Agreement") dated December 20, 2019, by and among Paleo Resources, Paleo EFR Acquisition, a wholly-owned subsidiary of Paleo, ("Merger Sub"), and EF Resources, Inc. ("EFR"). Pursuant to the terms of the Merger Agreement, at the effective time, the Merger Sub merged with and into EFR, with EFR continuing as the surviving corporation and becoming a wholly-owned subsidiary of Paleo. EFR is the owner of the EnergyFunders financial technology platform. EFR and related subsidiaries is an energy-focused crowdfunding company operating in the oil and gas industry. The results of operations of EFR are included with those of Paleo from June 16, 2020 to December 31, 2020 (Note 2).

The Company's common shares are listed on the TSX Venture Exchange under the symbol PRE and on the OTCQB Venture Market in the U.S. as PRIEF. The primary office is located at 716 S Frio St, Suite 201, San Antonio, TX 78207.

Going concern

The Company's 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 of 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. These consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

2. Significant accounting policies

Basis of presentation

These consolidated financial statements have been prepared in accordance with US GAAP in effect as at the balance sheet date and are presented in a reporting currency of US dollars ("USD"). The functional currency of the parent entity is Canadian Dollars ("CDN") and the functional currency of the US subsidiary is USD.

Principles of consolidation

These consolidated financial statements consolidate the accounts of the Company and its wholly owned subsidiary, Paleo Resources (USA), Inc. The Company incorporated two wholly owned entities, Tanager Energy GP, LLC and Tanager Energy, LP on December 31, 2017 and Tanager Chalk, Inc. on August 6, 2018 and these entities are inactive to date.

As of June 16, 2020, the Company's wholly owned subsidiaries include EFR and all affiliated entities in which EFR has a controlling financial interest. To determine if EFR holds a controlling financial interest in an entity, EFR first evaluates if it is required to apply the variable interest entity (VIE) model to the entity; otherwise, the entity is evaluated under the voting interest model.

If EFR holds current or potential rights that give it the power to direct the activities of a VIE that most significantly impact the VIEs economic performance, combined with a variable interest that gives EFR the right to receive potentially significant benefits or the obligation to absorb potentially significant losses, EFR has a controlling financial interest in that VIE. Rights held by others to remove the party with power over the VIE are not considered unless one party can exercise those rights unilaterally. When changes occur to the design of an entity, EFR reconsiders whether it is subject to the VIE model. EFR continuously evaluates whether it has a controlling financial interest in a VIE.

EFR holds a controlling financial interest in other entities where EFR currently holds, directly or indirectly, more than 50% of the voting rights or where the Company exercises control through substantive participating rights or as a general partner. If EFR is a general partner, it considers substantive removal rights held by other partners in determining if EFR holds a controlling financial interest. EFR revaluates whether it has a controlling financial interest in these entities when its voting or substantive participating rights change.

Unconsolidated VIEs and other entities in which EFR has significant influence, but not a controlling financial interest, are accounted for as equity method investments. EFR typically holds a voting interest of 20% to 50% for significant influence.

Entities that EFR does not have significant influence, typically less than 20% voting interest, are recorded at cost less impairment.

As of June 16, 2020, Company's consolidated subsidiaries includes EFR; EnergyFunders, LLC; EF Advisor, LLC; EF Funding Portal, LLC; EF GP, LLC; EF MGMT HLD, LLC; EF VC2, LLC and EF VC6, LLC.

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in consolidation.

Use of estimates

The preparation of consolidated 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, valuation of goodwill, valuation of intangible assets related to customer relationships, proved natural gas reserves and related cash flow estimates used in impairment tests of oil and natural gas properties, asset retirement obligations, and accrued natural gas revenues and operating expenses. Actual results could differ from those estimates.

2. Significant accounting policies *(continued)*

Cash and cash equivalents

Cash and cash equivalents include highly liquid instruments with an original maturity of three months or less are stated at cost, which approximates fair value.

Accounts receivable and allowance for doubtful accounts

Accounts receivable are primarily consisting of sales tax receivable from government authorities in Canada and trade and accrued accounts receivable from industry partners. There are no past due receivables from industry partners that are considered impaired. We review all outstanding accounts receivable balances and record a reserve for amounts that we expect will not be fully recovered. Actual balances are not applied against the reserves until substantially all collection efforts have been exhausted. Our allowance for doubtful accounts was nil as of December 31, 2020 (2019 - $nil). There was no bad debt expense recognized for the years ended December 31, 2020 and 2019.

Goodwill

The Company's goodwill relates to the June 16, 2020 acquisition of EFR. Goodwill represents the excess of the purchase price over the estimated fair value of the net assets acquired in the acquisition of a business. Goodwill is not amortized; rather, it is tested for impairment annually and when events or changes in circumstances indicate that the fair value of a reporting unit with goodwill has been reduced below carrying value. The impairment test requires allocating goodwill and other assets and liabilities to reporting units. To assess impairment, the Company has the option to qualitatively assess if it is more likely than not that the fair value of the reporting unit is less than the book value. Absent a qualitative assessment, or, through the qualitative assessment, if the Company determines it is more likely than not that the fair value of the reporting unit is less than the book value, a quantitative assessment is prepared to calculate the fair market value of the reporting unit. If it is determined that the fair value of the reporting unit is less than the book value, the recorded goodwill is impaired to its implied fair value with a charge to operating expenses.

Intangible assets

The Company's intangible asset relates to customer relationship asset acquired by Company through the acquisition of EFR. The Company evaluates the recoverability of finite-lived intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of such assets is not recoverable, the carrying amount of such assets are reduced to fair value. For 2020, the Company recorded $6,083 in amortization expense and impairment expense of $723,917 on the intangible asset related to customer relationship.

Oil and natural gas properties

The Company accounts for its crude oil and natural gas exploration and production activities under the successful efforts method of accounting.

Oil and natural gas lease acquisition costs are capitalized when incurred. Unproved properties with acquisition costs that are not individually significant are aggregated. If the unproved properties are determined to be productive, the appropriate related costs are transferred to proved oil and natural gas properties. Lease delay rentals are expensed as incurred.

Oil and natural gas exploration costs, other than the costs of drilling exploratory wells, are expensed as incurred. The costs of drilling exploratory wells are capitalized pending determination of whether the Company has discovered proved commercial reserves. If proved commercial reserves are not discovered, such drilling costs are expensed. In some circumstances, it may be uncertain whether proved commercial reserves have been discovered when drilling has been completed. Such exploratory well drilling costs may continue to be capitalized if the reserve quantity is sufficient to justify its completion as a producing well and sufficient progress in assessing the reserves and the economic and operating

2. Significant accounting policies *(continued)*

viability of the project is being made. Costs to develop proved reserves, including the costs of all development wells and related equipment used in the production of crude oil and natural gas, are capitalized.

Depletion of the cost of proved oil and natural gas properties is calculated using the unit-of-production method. The reserve base used to calculate depletion for leasehold acquisition costs and the cost to acquire proved properties is proved reserves. With respect to lease and well equipment costs, which include development costs and successful exploration drilling costs, the reserve base includes only proved developed reserves.

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

Proved Properties

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

The Company conducted an impairment test of the carrying value of its proved oil and gas properties and recognized impairment expenses for years ended December 31, 2020 and 2019 of $390,180 and $nil, respectively.

Unproved Properties

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

The Company has reviewed for indicators of impairment of its unproved properties as of December 31, 2020 and December 31, 2019. As at December 31, 2020, the Company recognized an impairment of $8,620,615 (December 31, 2019 - $112,917) based upon the carrying value of those individual area leases.

2. Significant accounting policies *(continued)*

Fair value of financial instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value maximize the use of observable inputs and minimize the use of unobservable inputs. The Company utilizes a three-level valuation hierarchy for disclosures of fair value measurements, defined as follows:

Level 1—Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2—Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3—Valuations in this level are those with inputs for the asset or liability that are not based on observable market data. The Corporation makes its own assumptions about how market participants would price the assets and liabilities.

The carrying value of short term instruments, including cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities. and short term loans and convertible debentures approximate fair value due to the relatively short period to maturity for these instruments. The carrying value of long-term debt approximates fair value since the related rates of interest approximate current market rates. There are no financial assets and liabilities carried at fair value on a recurring basis as of December 31, 2020 and 2019.

Revenue recognition

The Company recognizes revenue under Accounting Standards Codification 606, *Revenue from Contracts with Customers ("Topic 606")*. Topic 606 requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. Revenue recognition is evaluated through the following five steps: (i) identification of the contract, or contracts, with a customer; (ii) identification of the performance obligations in the contract; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations in the contract; and (v) recognition of revenue when or as a performance obligation is satisfied.

Revenue from the sale of crude oil, natural gas, and natural gas liquids ("NGLs") is measured based on the consideration specified in contracts with customers, excludes amounts collected on behalf of third parties and is presented net of royalties paid and accrued. The Company recognizes revenue when it transfers control of the product to the buyer. This is generally at the time the customer obtains legal title to the product and when it is physically transferred to the delivery mechanism agreed with the customer, often pipelines or other transportation methods.

The Company evaluates its arrangements with third parties and partners to determine if the Company acts as the principal or as an agent. In making this evaluation, management considers if the Company obtains control of the product delivered, which is indicated by the Company having the primary responsibility for the delivery of the product, having the ability to establish prices or having inventory risk. If the Company acts in the capacity of an agent rather than as a principal in a transaction, then the revenue is recognized on a net basis, only reflecting the fee, if any, realized by the Company from the transaction.

Gathering fees charged to other entities for use of facilities owned by the Company are evaluated by management to determine if these originate from contracts with customers or from incidental or collaborative arrangements. Gathering

2. Significant accounting policies *(continued)*

fees charged to other entities that are from contracts with customers are recognized in revenue when the related services are provided.

Revenue from managing investee companies is measured based on the consideration specified in the partnership operating agreements. The Company recognizes management fee revenue as services are provided to investee companies and collectability is reasonably assured.

In the course of managing investee companies, the Company incurred expenses pertaining to investee companies and the related oil and gas projects. Revenue from reimbursement fee is measured based on the time and expenses spent on behalf of the customers. The Company recognizes revenue when it incurred the expenses or when the investment fund is delivered to its customers and collectability is reasonably assured.

Joint operations

The Company conducts its exploration and development activities independently, as well as jointly with others through joint operations. All of the Company's current interests in joint arrangements are classified as joint operations. To account for these arrangements, the Company recognizes its proportionate share of the related revenues, expenses, assets and liabilities of such joint operations.

Asset retirement obligations

The Company records a liability for asset retirement obligations ("ARO") at fair value in the period in which the liability is incurred if a reasonable estimate of fair value can be made. The associated asset retirement cost is capitalized as part of the carrying amount of the long-lived asset. Subsequently, the asset retirement cost is allocated to expense using a systematic and rational method of the asset's useful life. Recognized asset retirement obligation relates to the plugging and abandonment of oil and natural gas wells. Management periodically reviews the estimates of the timing of well abandonments as well as the estimated plugging and abandonment costs, which are discounted at the credit adjusted risk free rate. Subsequent adjustments in the cost estimate are reflected in the ARO liability and the amounts continue to be amortized over the useful life of the related long-lived assets. An ongoing accretion expense is recognized for changes in the value of the liability as a result of the passage of time, which is recorded in depreciation, depletion, amortization, and accretion expense in the consolidated statements of operations and comprehensive income (loss).

Provisions

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. All provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

Concentrations of credit risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents and accounts receivable. Exposure is controlled to credit risk associated with these instruments by (i) placing assets and other financial interests with credit-worthy financial institutions, (ii) maintaining policies over credit extension that include the evaluation of customers' financial condition and monitoring paying history, although the Company does not have collateral requirements and (iii) netting derivative assets and liabilities for counterparties with a legal right of offset. At December 31, 2020 and 2019, the cash and cash equivalents were primarily concentrated in three financial institutions, one in Canada and two in the US. The Company periodically assesses the financial condition of these institutions and believe that any possible credit risk is minimal.

2. Significant accounting policies *(continued)*

Share-based compensation transactions

The fair value of equity-settled share options granted is recognized as an expense over the vesting period with a corresponding increase in equity.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Management is required to estimate forfeitures and revise its estimates of the number of equity-settled share options expected to vest each period. The impact of any revisions to management's estimate on forfeitures, if any, is recognized during the period. Management defines forfeitures as share-based payments for which the counterparty does not fulfill the vesting conditions.

Taxes

Tax expense comprises current and deferred tax. Tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Earnings (loss) per share

Basic earnings or loss per share is calculated by dividing the earnings or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding for the period. Diluted earnings or loss per share is determined by adjusting the earnings attributable to common shareholders and the weighted average number of common shares outstanding for the effects of dilutive instruments such as stock options, warrants, convertible debentures and other dilutive instruments granted to employees. In the calculation of diluted per share amounts, outstanding dilutive instruments are assumed to have been converted or exercised on the later of the beginning of the year and the date granted. The number of additional shares related to convertible debentures is calculated assuming the debentures are converted into common shares by dividing the face value of convertible debentures by the conversion price. Earnings is adjusted for interest or accretion, net of tax, related to the convertible debentures. In loss per share situations, the diluted per share amount is the same as the effect would be anti-dilutive.

Foreign currency translation

The financial statements are presented in a reporting currency of US dollars ("USD"). The functional currency of the parent entity is Canadian Dollars ("CDN") and the functional currency of the US subsidiaries is USD. Any gains or losses on transactions or monetary assets or liabilities in currencies other than the reporting currency are included in net income in the current period. Gains and losses on translation of balances denominated in Canadian dollars are included in accumulated other comprehensive income.

2. Significant accounting policies *(continued)*

Recently issued accounting standards

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

In March 2020, the FASB issued ASU No. 2020-04 - Reference Rate Reform (Topic 848), codified as ASC 848 ("ASC 848"). This was followed by ASU No. 2021-01, Reference Rate Reform (Topic 848): Scope ("ASU 2021-01"), issued in January 2021. The purpose of ASC 848 is to provide optional guidance to ease the potential effects on financial reporting of the market-wide migration away from Interbank Offered Rates ("IBORs") to alternative reference rates. ASC 848 applies only to contracts, hedging relationships, and other transactions that reference a reference rate expected to be discontinued because of reference rate reform. The guidance may be applied upon issuance of ASC 848 through December 31, 2022. We do not expect a material impact from the adoption of this ASU.

In December 2019, the FASB issued ASU 2019-12, Income Taxes (Topic 740). The ASU simplifies the accounting for income taxes by removing certain exceptions to the general principles in Topic 740 and modifies other areas of the topic to clarify the application of GAAP. Certain amendments within the standard are required to be applied on a retrospective basis and others on a prospective basis. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. Early adoption is permitted. The Company is currently assessing the impact of adopting this new guidance.

In February 2016, the FASB issued ASU 2016 02, "Leases (Topic 842)" (ASU 2016-02), which significantly changes accounting for leases by requiring that lessees recognize a right of use asset and a related lease liability representing the obligation to make lease payments, for all lease transactions with terms greater than one year. Additional disclosures about an entity's lease transactions will also be required. ASU 2016-02 defines a lease as "a contract, or part of a contract, that conveys the right to control the use of identified property, plant, or equipment (an identified asset) for a period of time in exchange for consideration." ASU 2016-02 is effective for fiscal years beginning after December 15, 2018 and interim periods therein for public entities and public not for profit entities and is effective for fiscal years beginning after December 15, 2019 and interim periods within fascial years beginning after December 15, 2020 for all other entities. ASU 2020-05 further amended the effective date to fiscal years beginning after December 15, 2019 and interim periods therein and beginning for public not for profit entities and effective date to fiscal years beginning after December 15, 2021, and interim periods with fiscal years beginning after December 15, 2022 for all other entities. The Company does not anticipate this to impact our consolidated financial statements at this time and adoption is expected in fiscal year beginning after December 15, 2021.

(Expressed in US Dollars unless otherwise stated)

3. Acquisition of EF Resources, Inc.

On June 16, 2020, the Company completed its acquisition of EFR with the issuance of 86,547,774 shares of common stock in exchange for all outstanding shares 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. The results of EFR's operations since the closing date of the acquisition are included in the consolidated statement of operations through December 31, 2020. The Company's common stock closing price on June 16, 2020 was $0.01 CDN. The fair value of the Company's common stock was $638,352 USD (at assumed exchange rate of CDN $0.7376 to US$1.00).

In connection with the acquisition, Paleo incurred acquisition-related costs of $75,950 which are included in general and administrative expenses.

The acquisition has been accounted for as a business combination, therefore, the purchase price was allocated to the assets acquired and the liabilities assumed based on their estimated acquisition date fair values based on then currently available information.

The following table sets forth the Company's allocation of the purchase price to the assets acquired and liabilities assumed as of the acquisition date.

	Purchase Price Allocation
Consideration:	
Fair value of the Company's common stock	**$638,352**
Assets acquired	
Cash	$ 27,365
Accounts receivable	3,563
Goodwill	439,458
Intangible asset	730,000
Proved properties	20,245
Less liabilities assumed and non-controlling interest	
Accounts payable and accrued liabilities	304,803
Deferred management revenue	104,467
Deferred rent liability	5,562
Asset retirement obligations	16,635
Notes payable, related parties	62,500
Note payable, third party	74,103
Non-controlling interest	14,209
Total purchase price	**$638,352**

(Expressed in US Dollars unless otherwise stated)

3. Acquisition of EF Resources, Inc. *(continued)*

The results of operations attributable to EFR are included in the Company's consolidated statement of operations and comprehensive income (loss) beginning on June 16, 2020. Revenues of $139,599 and net loss of $951,496 attributable to the Company's shareholders from EFR were generated from June 16, 2020 to December 31, 2020.

The following unaudited pro forma condensed combined financial information was derived from historical financial statements of Paleo and EFR and gives the effect to the acquisition as if it had occurred on January 1, 2019. The below information reflects pro forma adjustment for the issuance of the Company's common stock in exchange for EFR's outstanding share of common stock, as well as pro forma adjustments based on available information and certain assumptions that the Company believes are reasonable as of the closing date of the acquisition.

Additionally, unaudited pro forma earnings were adjusted to excluded acquisition-related costs incurred by EFR of $161,450 and Paleo of $75,950. The pro forma results of operations do not include any cost savings or other synergies that may result from the acquisition or any estimated costs that have been or will be incurred by the Company to integrate the EFR assets.

The unaudited pro forma condensed combined financial information has been included for comparative purposes and is not necessarily indicative of the results that might have actually occurred had the acquisition taken place on January 1, 2019; furthermore, the financial information is not intended to be a projection of future results.

	For the years ended December 31,	
	2020	**2019**
	$	**$**
Revenue	448,498	760,657
Net income (loss) attributable to Paleo shareholders	(10,740,955)	1,024,837
Net income (loss) per common share - basic and diluted	($0.03)	$0.00
Weighted average shares outstanding:		
Basic and diluted	313,179,813	313,179,813

4. Deposit

The deposit $247,893 (2019 - $240,729) relates to payments to the Alberta Energy Regulator ("AER") held in trust as security deposits in connection with AER estimated net future abandonment liabilities for operated Alberta well licenses. The deposit bears interest at bank prime minus 1.95%.

(Expressed in US Dollars unless otherwise stated)

5. Oil and gas properties, successful efforts method

	2020	2019
Oil and gas properties	**$**	$
Proved properties	**6,594,169**	6,318,074
Accumulated depletion, depreciation, and impairment	**(5,624,601)**	(4,992,214)
Proved properties, net	**969,568**	1,325,860
Unproved properties	**-**	8,620,615
Total oil and gas properties, net	**969,568**	9,946,475

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

	2020	2019
Proved properties	**$**	$
Cost		
Balance, beginning of year	**6,318,074**	5,388,095
Additions	**222,605**	812,706
Asset retirement obligation adjustments	**32,297**	88,111
Gain on foreign exchange translation	**21,193**	29,162
Balance, end of year	**6,594,169**	6,318,074
Accumulated depletion, depreciation, and impairment		
Balance, beginning of year	**4,992,214**	4,394,819
Depletion and depreciation	**242,207**	579,369
Impairment	**390,180**	-
Gain on foreign exchange translation	**-**	18,026
Balance, end of year	**5,624,601**	4,992,214
Net book value	**969,568**	1,325,860

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

	2020	2019
Unproved properties	**$**	$
Balance, beginning of period	**8,620,615**	8,780,218
Additions		116,191
Properties adjustment	**-**	(151,069)
Disposition	**-**	(12,278)
Impairment	**(8,620,615)**	(112,917)
Asset retirement obligation adjustment (Note 8)	**-**	470
Balance, end of period	**-**	8,620,615

(Expressed in US Dollars unless otherwise stated)

6. Loans payable

	2020	2019
	$	$
Promissory note from US JV Partner	**1,462,591**	1,462,591
Loan from US JV Partner	**62,500**	-
Loan from subsidiary of US JV Partner	**2,096,619**	1,531,000
Total loans payable from related parties	**3,621,710**	2,993,591
Loan from third-party lender	**300,000**	300,000
Paycheck Protection Program loan	**74,103**	
Economic Injury Disaster Loan	**100,600**	-
	4,096,413	3,293,591

In September 2018, the Company converted outstanding accounts payable owing to the US JV into a promissory note. On May 29, 2020, the Company entered into a Modification of Note and Liens agreement with the lender which extended the maturity date of the outstanding balance of the loan of $1,462,591 to June 30, 2021, and all monthly payments of principal and interest are deferred until the maturity date.

In September 2018, the Company also entered into a loan agreement with 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. On May 29, 2020, the Company entered into a Modification of Note and Liens agreement with the lender which extended the maturity date of the outstanding balance of the loan of $1,531,000 to June 30, 2021, and all monthly payments of principal and interest are deferred until the maturity date. On March 1, 2021, the wholly owned subsidiary of the US JV Partner has assigned the entire amount of the existing loan to equally to Roger S Braugh, Jr., a director and officer of Paleo, and Chris Pettit & Associated 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, subject to approval of the TSX Venture Exchange. See Note (19) Subsequent event.

The loan from a third-party lender is unsecured and bears interest at 6% per annum. 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. On July 17, 2020, Jim Durham (the “Plaintiff”), the third party lender, filed a claim against the Company and a related party who is the loan guarantor for Breach of Contract/Guaranty. The Plaintiff demands the repayment of loan plus interest and attorney’s fees.

On April 21, 2020, the Company’s subsidiary, EnergyFunders, LLC, entered into an unsecured loan with the U.S. Small Business Administration ("SBA") in the amount of $74,103 under the Paycheck Protection Program (the "PPP Loan") with an interest rate of 1.0% and maturity date two years from the effective date of the PPP Loan. The Paycheck Protection Program was established under the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act") and is administered by the SBA. Payments are required to be made in eighteen monthly installments of principal and interest, with the first payment being due on the date that is seven months after the date of the PPP loan. Under the CARES Act, the PPP Loan is eligible for forgiveness for the portion of the PPP Loan proceeds used for payroll costs and other designated operating expenses for up to eight weeks, provided at least 75% of PPP Loan proceeds are used for payroll costs and the Company meets all necessary criteria for forgiveness. Receipt of these funds requires the Company to, in good faith, certify that the PPP Loan was necessary to support ongoing operations of the Company during the economic uncertainty created by the COVID-19 pandemic. This certification further requires the Company to take into account current business activity and the ability to access other sources of liquidity sufficient to support ongoing operations in a manner that is not significantly detrimental to the business. Additionally, the SBA provides no assurance that the Company will obtain forgiveness of the PPP Loan in whole or in part.

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.

(Expressed in US Dollars unless otherwise stated)

7. Convertible debentures

	2020	2019
	$	$
Convertible debentures issued to related parties	**505,693**	470,463
Convertible debentures issued to third parties	**1,591,053**	1,562,137
	2,096,746	2,032,600

2019 CD: 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 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 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 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.

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

In April 2021, the holders of the Company's 2019 convertible debentures in the aggregate principal amount of CDN$2,682,799 have provided notice to require the Company to repurchase all amounts outstanding under the terms of the debentures. See Note (19) Subsequent event.

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

	2020	2019
	$	$
Balance, beginning of period	**2,032,600**	-
Convertible debentures issued, net of issuance cost	**-**	1,955,813
Amortization of issuance cost	**22,106**	12,435
Foreign exchange	**42,040**	64,352
Balance, end of period	**2,096,746**	2,032,600

(Expressed in US Dollars unless otherwise stated)

8. Asset retirement obligations

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

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

	2020 **$**	2019 $
Balance, beginning of period	316,595	204,767
Accretion	21,654	15,719
Additions	16,635	31,581
Change in estimate	32,297	57,000
Foreign exchange	4,567	7,528
Balance, end of period	391,748	316,595

9. Common stock

(a) Authorized common stock

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

(b) Common shares issued and outstanding

The change in issued share capital is as follows:

	Number of common shares	**Amount $**
Balance December 31, 2019	**235,286,816**	**31,729,775**
Issued for EF Resources acquisition	77,892,997	638,352
Balance December 31, 2020	**313,179,813**	**32,368,127**

10. Stock options

The Company has a Stock Option Plan (the "Plan") to provide incentive for the directors, officers, employees, consultants and service providers of the Company. The total number of options granted to any one individual in any 12 month period, will not exceed 5% of the issued common shares of the Company.

Under the Plan, options may be granted to directors, officers, key employees and consultants of the Company. The Plan is a "rolling" stock option plan reserving for issuance upon the exercise of options granted pursuant to the plan a maximum of 10% of the issued and outstanding shares of the Company at any time, less any shares required to be reserved with respect to options granted by the Company prior to the implementation of the Plan.

(Expressed in US Dollars unless otherwise stated)

10. Stock options *(continued)*

Under TSX Venture Exchange policies, a "rolling" stock option plan which sets the number of common shares issuable under the plan at a maximum of 10% of the issued and outstanding common shares at the time of the grant must be approved and ratified by shareholders on an annual basis.

On April 6, 2017, the Company granted 2,000,000 stock options to directors and officers of the Company with an exercise price of CDN$0.15 and an expiry date of April 6, 2022. These stock options vest 50% on the grant date and 25% on each of the first and second anniversaries from the grant date. As of December 31, 2020, all of these stock options have vested and remain outstanding. As of December 31, 2020, the 2,000,000 outstanding options have a weighted average term of 1.25 years and an intrinsic value of zero.

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

11. Net income (loss) per common share

Basic net income (loss) per common share is computed by dividing net loss available to common stockholders by the weighted average number of common shares outstanding. Diluted net loss per common share is computed similar to basic net loss per common share except that the denominator is increased to include the number of additional common shares that would have been outstanding if the potential common shares had been issued and if the additional common shares were dilutive. The treasury stock method and as if converted methods are used to determine the dilutive shares for the Company's options and warrants and convertible notes, respectively. In periods when losses are reported, the weighted-average number of common shares outstanding excludes common stock equivalents, because their inclusion would be anti-dilutive.

The following table sets forth the computation of basic and diluted income per common share for the years ended December 31, 2020 and 2019:

	2020	2019
Numerator:		
Net income (loss) attributable to Paleo's shareholders	($10,711,831)	$1,479,561
Add: interest expense on convertible debentures	-	82,235
Numerator for basic and diluted income	($10,711,831)	$1,561,796
Denominator:		
Weighted average number of common shares outstanding - basic	277,541,099	235,286,816
Dilution effect of if-converted debentures	-	22,356,658
Denominator for weighted average number of common shares outstanding -diluted	277,541,099	257,643,474
Net income (loss) per common shares - diluted	($0.04)	$0.01

The Company excluded the following shares from diluted income (loss) per share calculations because they are anti-dilutive

	2020	2019
EFR holdback shares	8,654,777	-
Share options	2,000,000	2,000,000
Convertible debentures shares	22,356,658	-
Total shares	33,011,435	2,000,000

(Expressed in US Dollars unless otherwise stated)

12. Related party transactions

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

Related Party	Transactions	**2020** $	2019 $
Director and Trust[1]	Convertible debentures - interest expense incurred	**36,275**	30,145
US JV Partner and sub[2]	Promissory note and loan interest expense incurred	**130,568**	189,078
US JV Partner	US operation revenues and expenses, net	**85,403**	280,842

(1) Total accrued interest payable to the director and the Trust as of December 31, 2020 was $229,760 (2019 – $229,254) and is included in accounts payable and other liabilities.

(2) The US JV Partner is owned by a director of the Company and a Trust controlled by another director in his capacity as trustee of the Trust. Included in accounts payable as at December 31, 2020 is $972,839 (December 31, 2019 - $756,869) owing to the US JV Partner and its subsidiary.

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 $65,466 (2019 -$nil). For the year ended December 31, 2020, management fee revenue was $39,000 and $nil for 2019. The Company received a carried interest in investee companies as part of management fee. Management fees from the carried interest for the years ended December 31, 2020 and 2019 were $18,239 and $nil, respectively.

The Company received reimbursement revenue for costs incurred from related parties totaling $46,352 for the year ended December 31, 2020 and $nil for 2019.

The Company received consulting income from related parties totaling $7,525 for the year ended December 31, 2020 and $nil for 2019.

On June 16, 2020, the Company authorized the issuance of common shares of Paleo to the former shareholders of EFR (see Note 3). 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.

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.

(Expressed in US Dollars unless otherwise stated)

13. Income Taxes

The provision for income taxes is as follows:

	2020	2019
	$	$
Current tax expense (benefit)	**-**	-
Deferred tax expense (benefit)		
Canada	**(102,450)**	1,142,007
United States	**(2,272,608)**	(255,777)
Total deferred tax benefit	**(2,375,058)**	886,230
Total income tax expense (benefit) before valuation allowance	**(2,375,058)**	886,230
Valuation allowance (utilization of losses carried)	**2,375,058**	(886,230)
	-	-

On June 28, 2019 Alberta Bill 3, the Job Creation Tax Cut (Alberta Corporate Tax Amendment) Act, was signed into law resulting in a reduction of the Alberta corporate tax rate from 12% to 11% effective July 1, 2019, with further 1% rate reductions to take effect every year on January 1 until the general corporate tax rate is 8% on January 1, 2022.

The Company's Canadian statutory income tax rate of 23.0% (2019- 23%) is comprised of a Federal rate of 15% and an Alberta provincial tax rate of 8% for the 2020 and 2019 tax year, which is based upon the expected utilization of existing temporary differences in years after 2021.

The Company's US subsidiary has a statutory income tax rate of 21% consisting of federal taxes of 21% and no state income tax in Texas for 2020 and 2019 tax years.

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

	2020	2019
	$	$
Deferred tax assets:		
Net-operating losses carried forward	**889,444**	757,081
Net-operating losses carried forward (USA)	**4,057,259**	1,529,298
Financing costs	**(1,318)**	8,158
Oil and gas properties	**2,205,193**	1,949,958
Less valuation allowance	**(7,150,578)**	
	-	-

The Company has CDN$4,923,654 (2019 – CDN$4,275,201) net operating losses in Canada which expire between 2025 and 2039. The Company has net operating losses for income tax purposes in the U.S. of US$19,320,279 (2019 – $7,282,370), of which $18,079,653 expire between 2035 and 2039 and $1,240,626 will carry forward indefinitely. Canadian and US tax returns for the years 2017 to 2020 are subject to examination by the respective tax authorities.

(Expressed in US Dollars unless otherwise stated)

14. Revenue

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

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

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

The following table provides a summary of the Company's oil and gas revenue attributable to the Company's shareholder disaggregated by revenue source December 31, 2020 and 2019:

	2020	2019
	$	$
Crude oil	**2,715**	78,271
Natural gas liquids	**-**	1,552
Natural gas	**204,709**	181,642
Petroleum and natural gas sales	**207,424**	261,465
Other income (1)	**-**	189
Total revenue	**207,424**	261,654

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

Revenue received from third party operator and from the US JV Partner represented 1% and 99%, respectively, of the total revenue during the year ended December 31, 2020. For 2019, revenue received from one contractor operator was 32% and 68% from US JV Partner.

The Company recognizes management fee revenue as services are provided to investee companies only when a firm agreement or contract is in place, services have been rendered and collectability is reasonably assured. Management fees received related to future management activities are recorded as deferred revenue and recognized as revenue based on the agreed monthly fixed fee. For the years ended December 31, 2020 and 2019, management fee revenue was $39,000 and $nil, respectively. The Company also receives a carried interest in investee companies as part of management fee. For the years ended December 31, 2020 and 2019, carried interest management fee was $18,239 and $nil, respectively.

The Company recognizes reimbursement revenue relating to soft costs incurred on behalf of investee companies at the time the costs have been incurred and the reimbursement is reasonably assured. The related expenses incurred is reported under general and administrative expenses in the consolidated statements of operations and comprehensive income (loss). The Company received reimbursement revenue for soft costs incurred from related parties for the years ended December 31, 2020 and 2019 of $1,500 and $nil, respectively. For the years ended December 31, 2020 and 2019, platform reimbursement revenue was $78,145 and $nil, respectively.

(Expressed in US Dollars unless otherwise stated)

15. Segment information

The Company's reportable segments are determined based on its geographic locations and types. The Canada segment includes the exploration for, and development and production of, crude oil and natural gas in Alberta, Canada and the acquisition, exploration and development of precious and base metal properties in Ontario, Canada. U.S. includes the exploration for, and the development and production of, crude oil and natural gas in USA. As of June 16, 2020, the Company added Fintech platform to its reportable segments. The Fintech platform includes the operations of the energy-focused investment listing and investment portfolio management activities. Corporate includes corporate activities and items not allocated between operating segments.

For the year ended December 31, 2020

	Canada	U.S.	Fintech platform	Corporate	**Consolidated**
	$	$	$	$	**$**
Revenue, net	-	204,709	139,599	-	**344,308**
Operating costs and expenses					
Lease operating expenses	26,330	72,095	-	-	**98,425**
Production taxes	-	22,747	64	-	**22,811**
General and administrative	-	-	367,476	330,470	**697,946**
Depletion, depreciation, amortization, and accretion	13,740	249,378	6,826	-	**269,944**
Impairment and dry hole expense	-	9,043,092	723,917	-	**9,767,009**
Mining royalty and staking	(1,122)	-	-	-	**(1,122)**
Total operating costs and expenses	38,948	9,387,312	1,098,283	330,470	**10,855,013**
Loss from operations	(38,948)	(9,182,603)	(958,684)	(330,470)	**(10,510,705)**
Other income and (expense)					
Interest expense	-	-	(410)	(321,862)	**(322,272)**
Foreign exchange gain	-	-	-	10,337	**10,337**
Gain on forgiveness of debt	-	-	-	72,422	**72,422**
Other income	-	-	7,525	13,764	**21,289**
Other income and (expense), net	-	-	7,115	(225,339)	**(218,224)**
Net loss	(38,948)	(9,182,603)	(951,569)	(555,809)	**(10,728,929)**
Net loss attributable to non-controlling interest			(17,098)		**(17,098)**
Net loss attributable to Paleo Resources, Inc. sharehol(	(38,948)	(9,182,603)	(934,471)	(555,809)	**(10,711,831)**
Proved oil and gas properties expenditures	24,359	198,246	-	-	**222,605**

As at December 31, 2020					
Canadian assets	925,085	-	-	-	**925,085**
U.S. oil and gas operation assets	-	444,710	-	-	**444,710**
U.S. Fintech platform operation assets	-	-	505,483	-	**505,483**
	925,085	444,710	505,483	-	**1,875,278**

(Expressed in US Dollars unless otherwise stated)

15. Segment information *(continued)*

For the year ended December 31, 2019	Canada	U.S.	Corporate	**Consolidated**
	$	$	$	**$**
Revenue, net of royalties	83,347	178,307	-	**261,654**
Operating costs and expenses				
Lease operating expenses	100,843	153,355	-	**254,198**
Production taxes	-	4,367	-	**4,367**
General and administrative expenses				
Share-based payments	-	-	5,957	**5,957**
Other general and administrative expenses	-	-	815,359	**815,359**
Depletion, depreciation and accretion	97,789	497,299	-	**595,088**
Impairment	-	112,917	-	**112,917**
Mining royalty and staking	72,498	-	-	**72,498**
Total operating costs and expenses	271,130	767,938	821,316	**1,860,384**
Loss from operations	(187,783)	(589,631)	(821,316)	**(1,598,730)**
Other income and (expense)				
Interest expense	-	-	(367,149)	**(367,149)**
Foreign exchange gain	-	-	78,728	**78,728**
Gain on forgiveness of debt	3,110,629	-	-	**3,110,629**
Gain on disposition of unproved properties	-	12,722	-	**12,722**
Gain on disposition of shares	-	-	243,361	**243,361**
Other income and (expense), net	3,110,629	12,722	(45,060)	**3,078,291**
Net income attributable to shareholders	2,922,846	(576,909)	(866,376)	**1,479,561**
Unproved oil and gas properties expenditures	-	(46,686)	-	**(46,686)**
Proved oil and gas properties expenditures	628,259	301,720	-	**929,979**
As at December 31, 2019				
Canadian assets	1,116,669	-	-	**1,116,669**
U.S. assets	-	9,412,242	-	**9,412,242**
Corporate assets	-	-	-	**-**
	1,116,669	9,412,242	-	**10,528,911**

(Expressed in US Dollars unless otherwise stated)

16. Commitments

(a) The Company has the following debt obligation principal repayments over the next five years (Note 6 and 7):

Year	$
2021	5,739,848
2022	352,711
2023	-
2024	-
Thereafter	100,600

(b) As described in Note 3, the Company completed the Acquisition with EFR. EFR leases its office under a long-term operating lease agreement that was effective from June 1, 2018 to October 31, 2023. The lease contains an early termination option which allows EFR to terminate the lease at the end of the 41st full month provided nine months advance notice is given and an early termination fee equal to the sum of two months base rent plus one-month base rent prorated for each year remaining on the lease.

The lease contains the following provisions, nine months free rent, and annual rent increases. The total amount of rental payments due over the lease term is being charged on a straight-line basis over the term of the lease. The difference between rent expense recorded and the amount paid is credited or charged to deferred rent liability. The Company incurred rent expense of $22,777 for the year ended December 31, 2020 and $nil for 2019.

Future minimum rental commitments under the operating lease are as follows as of December 30, 2020:

Year	USD $
2021	46,607
2022	47,545
2023	40,560

17. Subsequent events

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. On January 15, 2021, the Company completed the transfer of Burchell Lake mining claims to mineral interest owners.

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. 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 an agreed upon 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.

On March 9, 2021, the Company entered into a Common Stock Purchase and License Agreement with Field Genie, Inc. Field Genie, Inc.("FGI") is a technology service provider that uses advanced artificial intelligence techniques to deliver solutions using spatial/geo intelligence and computer vision, including real-time detection and recognition of objects and patterns. In connection with the above agreement, the Company agreed to purchase a maximum of 50,000 shares of common stock of FGI at $10 per share or an aggregate purchase price of $500,000 in exchange for a license to certain intellectual property of FGI. The purchase price is payable over a period of 12 months.

In April 2021, a Company's subsidiary entered into an unsecured loan with the U.S. Small Business Administration ("SBA") in the amount of $74,103 under the Paycheck Protection Program Second Draw.

17. Subsequent events *(continued)*

In April 2021, holders of the Company's outstanding 2019 convertible debentures in the aggregate principal amount of CDN$2,682,799 (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 (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 issuance of common shares of the Company.