

Paleo Resources, Inc.
Interim Consolidated Financial Statements
For the three and six months ended June 30, 2019 and 2018
(Unaudited, Expressed in US Dollars)

Auditor's Involvement

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

The Auditors' of Paleo Resources, Inc. have not performed a review of the interim consolidated financial statements for the three and six months ended June 30, 2019 and 2018.

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

	June 30, 2019 \$	December 31, 2018 \$
ASSETS		
Current assets		
Cash and cash equivalents	1,128,026	40,786
Accounts receivable and other assets	78,867	86,173
	1,206,893	126,959
Deposit (Note 4)	236,526	224,654
Oil and gas properties, successful efforts method (Note 5)	9,378,907	9,773,494
TOTAL ASSETS	10,822,326	10,125,107
LIABILITIES		
Current liabilities		
Accounts payable and accrued liabilities (Note 6)	1,316,038	1,319,552
Loans payable (Note 7)	3,875,591	2,815,591
Current portion of long-term debt (Note 9)	-	3,975,000
	5,191,629	8,110,143
Liability component of convertible debentures (Note 8)	1,476,115	-
Asset retirement obligations (Note 10)	192,067	204,767
TOTAL LIABILITIES	6,859,811	8,314,910
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share capital (Note 11)	31,729,775	31,729,775
Contributed surplus	3,161,109	3,155,152
Equity component of convertible debentures (Note 8)	49,923	-
Accumulated other comprehensive income (loss)	(713,773)	(601,813)
Deficit	(30,264,519)	(32,472,917)
Total shareholders' equity	3,962,515	1,810,197
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	10,822,326	10,125,107

Nature of operations and going concern (Note 1)

Approved on behalf of the Board

(signed) "Tom M. Crain, Jr."

President and Director

(signed) "Chris Pettit"

Director

Paleo Resources, Inc.
Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited, expressed in US Dollars)
For the three and six months ended June 30, 2019 and 2018

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	\$	\$		\$
Revenue				
Oil and gas sales, net of royalties	56,695	134,450	158,214	327,458
Expenses				
Operating	71,389	61,175	201,676	118,425
Production taxes	3,212	12,374	11,079	31,359
General and administrative	245,457	265,373	438,220	510,063
Depletion and depreciation (Note 5)	173,969	399,547	464,567	871,598
Finance expenses (Note 14)	83,110	67,231	198,164	389,653
Share-based payments	-	17,494	5,957	35,166
Mining royalty and staking	23,024	7,630	56,463	24,094
Loss (gain) on unrealized embedded derivatives (Note 8)	-	6,789	-	(640,277)
Foreign exchange	20,692	1,486	(72,320)	140,061
Gain on disposition of shares (Note 9)	(243,361)	-	(243,361)	-
Gain on settlement of debt (Note 9)	(3,110,629)	-	(3,110,629)	-
	(2,733,137)	839,099	(2,050,184)	1,480,142
Net income (loss) for the period	2,789,832	(704,649)	2,208,398	(1,152,684)
Comprehensive income (loss)				
Foreign currency translation	(16,243)	8,833	(111,960)	187,269
Comprehensive income (loss) for the period	2,773,589	(695,816)	2,096,438	(965,415)
Basic and diluted net loss per share (Note 15)	0.01	(0.00)	0.01	(0.01)
Weighted average number of common shares outstanding	235,286,816	235,286,816	235,286,816	183,417,361

The notes to the interim consolidated financial statements are an integral part of these statements.

Paleo Resources, Inc.
Interim Consolidated Statements of Cash Flows
(Unaudited, expressed in US Dollars)
For the six months ended June 30, 2019 and 2018

	2019 \$	2018 \$
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss) for the period	2,208,398	(1,152,684)
Adjustments:		
Depletion and depreciation	464,567	871,598
Accretion (Note 14)	16,089	183,049
Share-based payments	5,957	35,166
Unrealized foreign exchange	(211,603)	140,067
Loss (gain) on unrealized embedded derivative	-	(640,277)
Gain on settlement of debt	(3,110,629)	
Changes in non-cash working capital items (Note 17)	264,215	280,885
Net cash used in operating activities	(363,006)	(282,196)
CASH FLOWS FROM INVESTING ACTIVITIES		
Deposits	(2,345)	(1,643)
Additions to unproved oil and gas properties	(39,725)	(58,120)
Additions to proved oil and gas properties	(52,577)	(90,402)
Changes in non-cash working capital items (Note 17)	61,397	(29,524)
Net cash used in investing activities	(33,250)	(179,689)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from convertible debentures, net of issue costs	1,480,726	-
Proceeds from loans payable	1,343,000	400,000
Repayment of loans payable	(283,000)	-
Repayment of long-term debt	(1,200,000)	-
Net cash provided by financing activities	1,340,726	400,000
Effect of changes in foreign exchange rates on cash held in foreign currencies	142,770	3,285
Net increase (decrease) in cash and cash equivalents for the period	1,087,240	(58,600)
Cash and cash equivalents, beginning of the period	40,786	138,315
Cash and cash equivalents, end of the period	1,128,026	79,715
Supplemental information		
Interest paid	18,674	-

Other cash flow information (Note 17)

Paleo Resources, Inc.
Interim Consolidated Statements of Changes in Shareholders' Equity (Deficiency)
(Unaudited, expressed in US Dollars)

	Number of Shares #	Share Capital \$	Contributed Surplus \$	Equity Component of Convertible Debentures \$	Accumulated Other Comprehensive Income (Loss) \$	Deficit \$	Total Shareholders' Equity (Deficit) \$
Balance, December 31, 2017	124,835,388	22,024,994	3,119,450	-	(1,015,494)	(24,293,214)	(5,285,643)
Conversion of convertible debentures	110,451,428	9,704,781	-	-	-	-	9,704,781
Foreign currency translation	-	-	-	-	178,436	-	178,436
Share-based payments	-	-	17,672	-	-	-	17,672
Net loss for the period	-	-	-	-	-	(448,035)	(448,035)
Balance, March 31, 2018	235,286,816	31,729,775	3,137,122	-	(837,058)	(29,862,628)	4,167,211
Foreign currency translation	-	-	-	-	8,833	-	8,833
Share-based payments	-	-	17,494	-	-	-	17,494
Net loss for the period	-	-	-	-	-	(704,649)	(704,649)
Balance, June 30, 2018	235,286,816	31,729,775	3,154,616	-	(828,225)	(30,567,277)	3,488,889
Balance, December 31, 2018	235,286,816	31,729,775	3,155,152	-	(601,813)	(32,472,917)	1,810,197
Foreign currency translation	-	-	-	-	(95,717)	-	(95,717)
Share-based payments	-	-	5,957	-	-	-	5,957
Net loss for the period	-	-	-	-	-	(581,434)	(581,434)
Balance, March 31, 2019	235,286,816	31,729,775	3,161,109	-	(697,530)	(33,054,351)	1,139,003
Issue of convertible debentures	-	-	-	49,923	-	-	49,923
Foreign currency translation	-	-	-	-	(16,243)	-	(16,243)
Net income for the period	-	-	-	-	-	2,789,832	2,789,832
Balance, June 30, 2019	235,286,816	31,729,775	3,161,109	49,923	(713,773)	(30,264,519)	3,962,515

The notes to the interim consolidated financial statements are an integral part of these statements.

Paleo Resources, Inc.
Notes to the Interim Consolidated Financial Statements
As at and for the three and six months ended June 30, 2019
(Unaudited, expressed in US Dollars unless otherwise stated)

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 Resources" or the "Company"). In addition, the Company's subsidiary, Tanager Energy (USA) Inc. changed its name to Paleo Resources (USA), Inc.

Paleo Resources is an exploration company, engaged in the acquisition, exploration and development of precious and base metal properties in Ontario, Canada and oil and gas in Alberta, Canada and Texas, USA. 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 144 4th Avenue SW, Suite 1600, Calgary, AB T2P 3N4 and executive offices are located at 1980 Post Oak Blvd., Suite 1500, Houston, Texas 77056. The consolidated financial statements were approved by the Board of Directors on April 29, 2019.

Going concern

These interim consolidated financial statements, including comparatives, have been prepared in accordance with generally accepted accounting principles of the United States of America ("US GAAP") applicable to a going concern, which assumes continuity of operations and realization of assets and settlement of liabilities in the normal course of business for the foreseeable future, which is at least, but not limited to, one year from June 30, 2019. The Company is subject to risks and challenges similar to companies in a comparable stage of exploration and development. As at June 30, 2019, the Company had a working capital deficiency of \$3,984,736 (December 31, 2018 - \$7,983,184) and an accumulated deficit of \$30,264,519 (December 31, 2018 - \$32,472,917). The Company will need additional funding in order to continue operations. While the Company has been successful in obtaining funding in the past, through the issuance of equity and debentures and non-arm's length loans, there is no assurance that such funding will be available in the future. An inability to raise additional funds would adversely impact the future assessment of the Company as a going concern. These conditions indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

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

Paleo Resources, Inc.
Notes to the Interim Consolidated Financial Statements
As at and for the three and six months ended June 30, 2019
(Unaudited, expressed in US Dollars unless otherwise stated)

2. Basis of presentation

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

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

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

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

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

These interim consolidated financial statements have been prepared in accordance with US GAAP in effect as at the balance sheet date. These consolidated financial statements have been prepared on a historical cost basis except for the revaluation of certain financial instruments and share-based payment transactions that have been measured at fair value. They were prepared on a going concern basis and are presented in a reporting currency of US dollars ("USD"). The functional currency of the parent entity is Canadian Dollars ("CDN") and the functional currency of the US subsidiary is USD.

3. Significant accounting policies

(a) Basis of consolidation

These 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.

(i) Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company is exposed or has rights to variable returns from its involvement with the subsidiary and has the ability to affect those returns through its power over the subsidiary. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in these consolidated financial statements from the date that control commences until the date that control ceases.

Paleo Resources, Inc.
Notes to the Interim Consolidated Financial Statements
As at and for the three and six months ended June 30, 2019
(Unaudited, expressed in US Dollars unless otherwise stated)

3. Significant accounting policies *(continued)*

(ii) Transactions eliminated on consolidation

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing these consolidated financial statements.

(b) Use of estimates

The preparation of financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The most significant estimates pertain to the use of the going concern assumption, proved natural gas reserves and related cash flow estimates used in impairment tests of oil and natural gas properties, asset retirement obligations, and accrued natural gas revenues and operating expenses. Estimates are also made in determining the fair value of assets and liabilities including the valuation of the Company's embedded derivative liability component related to convertible debentures. Actual results could differ from those estimates.

(c) Cash and cash equivalents

Cash and cash equivalents consist of cash on hand.

(d) 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 receivables 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 June 30, 2019. There was no bad debt expense recognized for the periods ended June 30, 2019 and 2018.

(e) 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 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.

Paleo Resources, Inc.
Notes to the Interim Consolidated Financial Statements
As at and for the three and six months ended June 30, 2019
(Unaudited, expressed in US Dollars unless otherwise stated)

3. Significant accounting policies *(continued)*

Depreciation, depletion and amortization of the cost of proved oil and natural gas properties is calculated using the unit-of-production method. The reserve base used to calculate depreciation, depletion and amortization for leasehold acquisition costs and the cost to acquire proved properties is the sum of proved developed reserves and proved undeveloped 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.

When circumstances indicate that proved oil and natural gas properties may be impaired, the Company compares expected undiscounted future cash flows at a depreciation, depletion and amortization group level to the unamortized capitalized cost of the asset. If the expected undiscounted future cash flows, based on the Company's estimate of future crude oil and natural gas prices, operating costs, anticipated production from proved reserves and other relevant data, are lower than the unamortized capitalized cost, the capitalized cost is reduced to fair value. Fair value is generally calculated using the Income Approach described in the Fair Value Measurement Topic of the ASC, which considers estimated discounted future cash flows.

Furniture and fixtures are depreciated on a straight-line basis over periods ranging from two to five years.

(f) Financial instruments and fair value

The Company's financial instruments consist of cash and cash equivalents, accounts receivable, accounts payable, accrued liabilities, loans payable, convertible debentures, and long-term debt. Our financial instruments that are accounted for at fair value measurement consist of the embedded derivative component related to convertible debentures. The Corporation classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

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.

Cash, cash equivalents, accounts receivable, accounts payable and accrued liabilities are carried at cost, which approximates their fair value because of the short-term maturity of these instruments.

(g) Revenue recognition

In May 2014, the US Financial Accounting Standards Board ("FASB") issued new guidance on accounting for "Revenue from Contracts with Customers", which superseded the existing revenue recognition requirements and most industry-specific guidance. This new guidance requires that an entity recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Company expects to be entitled in exchange for those goods or services. The Company applied the new standard effective January 1, 2018 using the modified retrospective approach. As the Company enters into new contracts with customers, it will evaluate the recognition of revenue under the new standard.

Paleo Resources, Inc.
Notes to the Interim Consolidated Financial Statements
As at and for the three and six months ended June 30, 2019
(Unaudited, expressed in US Dollars unless otherwise stated)

3. Significant accounting policies *(continued)*

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

(h) 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.

(i) Asset retirement obligations

The Company records a liability for asset retirement obligations 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. These adjustments are recorded to the asset retirement obligation with an offsetting change to property and equipment. 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 loss and comprehensive loss.

Paleo Resources, Inc.
Notes to the Interim Consolidated Financial Statements
As at and for the three and six months ended June 30, 2019
(Unaudited, expressed in US Dollars unless otherwise stated)

3. Significant accounting policies (continued)

(j) 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.

(k) Concentrations of credit risk

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 June 30, 2019, the cash and cash equivalents were primarily concentrated in two financial institutions, one in Canada and one in the US. The Company periodically assesses the financial condition of these institutions and believe that any possible credit risk is minimal.

(l) Share-based payment 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.

(m) 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. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Paleo Resources, Inc.
Notes to the Interim Consolidated Financial Statements
As at and for the three and six months ended June 30, 2019
(Unaudited, expressed in US Dollars unless otherwise stated)

3. Significant accounting policies *(continued)*

(n) 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 that for basic, as all factors are anti-dilutive.

(o) Foreign currency translation

The United States dollar is the functional currency for all of the Company's consolidated subsidiaries. Any gains or losses on transactions or monetary assets or liabilities in currencies other than the functional 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.

(p) Recently issued accounting standards

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

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

Paleo Resources, Inc.
Notes to the Interim Consolidated Financial Statements
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3. Significant accounting policies (continued)

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, 2019, and interim periods within fiscal years beginning after December 15, 2020. Lessees and lessors are required to recognize and measure leases at the beginning of the earliest period presented in the financial statements using a modified retrospective approach. The Company is reviewing the provisions of ASU 2016 02 to determine the impact on its consolidated financial statements and related disclosures. We do not anticipate this to materially affect our financial statements. In July 2018, the FASB issued ASU 2018-11, "to provide entities with relief from the costs of implementing certain aspects of the new leasing standard, ASU 2016-02. Under ASU 2018-11, adopters will take a prospective approach, rather than a retrospective approach as initially prescribed, when transitioning to ASU 2016-02. Instead of recording the cumulative impact of all comparative reporting periods presented within retained earnings, we will now assess the facts and circumstances of all leasing contracts as of January 1, 2020. ASU 2018-11 does not change the effective dates for ASU 2016-02. We still do not anticipate this to materially affect our financial statements.

4. Deposit

The deposit 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%.

5. Oil and gas properties, successful efforts method

	June 30, 2019	December 31, 2018
Oil and gas properties	\$	\$
Unproved properties	8,819,766	8,780,218
Proved properties	3,288,209	3,243,383
Accumulated depletion and depreciation	(2,729,068)	(2,250,107)
	559,141	993,276
Total oil and gas properties, net	9,378,907	9,773,494

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

	June 30, 2019	December 31, 2018
Unproved properties	\$	\$
Balance, beginning of year	8,780,218	8,713,087
Additions	39,725	225,096
Transfer to proved properties	-	(19,135)
Asset retirement obligation adjustment (Note 10)	(177)	1,586
Foreign exchange	-	(1,674)
Balance, end of year	8,819,766	8,780,218

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

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

	June 30, 2019	December 31, 2018
	\$	\$
Proved properties		
Cost		
Balance, beginning of year	3,243,383	3,173,055
Additions	52,577	145,885
Transfer from unproved properties	-	19,135
Asset retirement obligation adjustments	(24,218)	(60,580)
Foreign exchange	16,467	(34,112)
Balance, end of year	3,288,209	3,243,383
Accumulated depletion and depreciation		
Balance, beginning of year	2,250,107	747,316
Depletion and depreciation	464,567	1,529,263
Foreign exchange	14,394	(26,472)
Balance, end of year	2,729,068	2,250,107
Net book value	559,141	993,276

Property Impairment

At June 30, 2019 and December 31, 2018, the Company evaluated its proved and unproved oil and gas properties for impairment. As a result of these assessments, no impairment was required as of June 30, 2019 and December 31, 2018.

6. Accounts payable and accrued liabilities

	June 30, 2019	December 31, 2018
	\$	\$
Accounts payable and other liabilities	452,954	807,570
Accounts payable to related parties	863,084	511,982
	1,316,038	1,319,552

As at June 30, 2019, the accounts payable to related parties includes interest accrued of \$225,918 (December 31, 2018 - \$225,033) on convertible debentures held by a director of the Company and a trust (the "Trust"), interest accrued of \$138,919 (December 31, 2018 - \$38,064) due on loans payable to a joint venture partner and its subsidiary (Note 7), \$498,247 (December 31, 2018 - \$248,885) due to a joint venture partner (Note 18) for JV accounts payable and cash calls payable. The debenture holders of the \$6,000,000 June 2016 debentures had agreed to delay the monthly interest payments since October 2017. The May 2016 and June 2016 convertible debentures were converted into common shares of the Company on November 3, 2017 and March 27, 2018, respectively.

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7. Loans payable

	June 30, 2019	December 31, 2018
	\$	\$
Loan from third-party lender	400,000	400,000
Promissory note from US JV Partner	1,462,591	1,745,591
Loan from subsidiary of US JV Partner	2,013,000	670,000
	3,875,591	2,815,591

The loan from a third-party lender is unsecured and bears interest at 6% per annum. This loan matured and was originally due and payable, along with accrued interest, on June 26, 2018. The loan was amended subsequent to December 31, 2018.

On April 11, 2019, the Company entered into a loan amendment with the third-party lender which extends the maturity date to December 1, 2019. The repayment of the loan shall be as follows: a) if the Company is successful in raising additional capital of at least \$3,500,000 on or before August 1, 2019, then the Company shall pay in full the balance of outstanding principal and accrued interest on or before August 10, 2019; or if the Company is unable to close a transaction to raise additional capital of \$3,500,000 by August 1, 2019, then the Company shall begin making monthly principal payments of \$50,000 each beginning on August 1, 2019 and the balance of the outstanding principal and accrued interest shall be due in full on December 1, 2019. The US JV Partner has agreed to provide a guarantee of \$400,000 in the event the Company fails to make the payment in part a) above and shall guarantee any monthly principal payments the Company fails to make in part b) above to a maximum of \$400,000. In August 2019, the Company made the first \$50,000 principal repayment.

In September 2018, the Company converted outstanding accounts payable owing to the US JV Partner in the amount of \$1,745,591 into a promissory note. In June 2019, the Company repaid \$283,000 of this promissory note. In September 2018, the Company also entered into a loan from a wholly owned subsidiary of the US JV Partner for a total available amount of \$1,250,000. Effective March 31, 2019, the total available amount of the loan was amended to \$2,100,000. As June 30, 2019, a total of \$2,013,000 was drawn under this loan. Each of these loans are guaranteed by the Company, shall be repaid on demand, provided that if no demand is made, the loans are due on September 1, 2020, bear interest at a rate of 0.5% above the Wall Street Journal prime rate, and are secured against all of the Company's US subsidiary oil and gas properties in Texas.

8. Convertible debentures

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

The Company determined that June 2019 debentures meet the definition of a compound financial instrument and determined the fair value of the liability by discounting the expected future cash flows of the convertible debenture using an interest rate of 17% representing management's estimate of the fair value interest rate for a similar instrument without the convertibility feature. The residual value was allocated to equity.

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8. Convertible debentures (continued)

The movement in the Company's 2019 convertible debentures is as follows:

Liability portion of convertible debentures

	\$
Principal of convertible debenture issuance	1,518,000
Less: Issue costs	(37,274)
Less: Derivative liability component	(49,923)
Fair value of liability component on initial recognition	1,430,803
Accretion expense	9,354
Foreign exchange	35,958
Balance, June 30, 2019	1,476,115

Equity

	\$
Equity component initially recognized	49,923
Balance, June 30, 2019	49,923

In July 2019, the Company closed a second tranche of the debenture offering. The Company settled a portion of the debt owed to the subsidiary of the US JV partner. Pursuant to the debt settlement, the Company issued debentures in the aggregate principal amount of CDN\$646,555 (\$482,000 at an assumed exchange rate of CDN\$0.7455 to US\$1.00) to shareholders of the US JV partner, namely Roger S. Braugh, Jr., a director of the Company and Chris Pettit & Associates PC, controlled by Christopher J. Pettit, a director of the Company, as trustee of a Trust.

2016 CD: On June 27, 2016, the Company issued the June 2016 debentures in the aggregate amount of \$6,000,000 as partial purchase price consideration for the acquisition of assets in Texas, USA.

The June 2016 debentures bear interest at a rate of six percent (6%) per annum, calculated and payable monthly and were to mature on June 27, 2019. The June debentures were secured against all of the real and personal property of the Corporation and the principal amount is convertible at any time after June 27, 2017 and prior to maturity at the holder's option into common shares of the Company ("Common Shares") at a conversion price of CDN\$0.07 per common share.

The June 2016 debentures were denominated in a currency other than the Company's functional currency. As a result, the conversion feature is treated as a derivative liability and its fair value is estimated at each financial position date with any changes recognized in earnings. The fair value of the liability component of the convertible debentures was determined by discounting the expected future cash flows of the convertible debenture using an interest rate of 25%. The liability component is accreted over the respective term to the principal value on maturity date and a corresponding non-cash accretion charge to profit or loss. The fair value of the embedded derivative component is adjusted to fair value at each financial position date.

On March 27, 2018, the June 2016 debentures were converted into 110,451,428 common shares of the Company (Note 11).

The fair value of the conversion feature was determined using a Black-Scholes option pricing model and the following assumptions effective immediately before conversion on March 27, 2018: (a) a CDN/US exchange rate of 1.2886, (b) dividend yield of 0%, (c) expected volatility of 134%, (d) risk free rate of 2.26%, (e) an expected life of 1.25 years, and (f) a share price of CDN\$0.09/share.

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8. Convertible debentures (continued)

The movement in the Company's 2016 convertible debentures is as follows:

Liability portion of convertible debentures		\$
Principal of convertible debenture issuance		6,000,000
Less: Issue costs		(15,298)
Less: Derivative liability component		(2,229,687)
Fair value of liability component on initial recognition		3,755,015
Accretion expense		571,437
Foreign exchange		(222,426)
Balance, December 31, 2016		4,104,026
Accretion expense		635,299
Foreign exchange		101
Balance, December 31, 2017		4,739,626
Accretion expense		168,885
Foreign exchange		54,231
Conversion to common shares		(4,962,742)
Balance, December 31, 2018		-
Embedded derivative related to convertible debentures		\$
Fair value of derivative liability component on initial recognition		2,229,687
Derivative gain on revaluation		(74,884)
Foreign exchange		561,287
Balance, December 31, 2016		2,716,090
Derivative loss on revaluation		3,199,638
Foreign exchange		(438,585)
Balance, December 31, 2017		5,477,143
Derivative gain on revaluation		(631,560)
Foreign exchange		(103,544)
Conversion to common shares		(4,742,039)
Balance, December 31, 2018		-

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9. Long-term debt

	June 30, 2019	December 31, 2018
	\$	\$
Credit Facility	-	3,775,000
Note payable	-	200,000
Balance, December 31, 2017	-	3,975,000
Less: current portion	-	(3,975,000)
Long-term portion	-	-

Credit Facility

On December 14, 2016 and in connection with an equity offering, the Company entered into a line of credit agreement (the "Credit Facility") with ACH Management, LLC, an arm's length third party private corporation ("ACH" or the "Lender") for \$8,000,000. The Credit Facility could be drawn at the option of the Company during the period ended December 14, 2017. The Credit Facility was to mature on December 14, 2019. Funds advanced under the Credit Facility bear interest at a rate of 6% per annum, payable monthly. The Credit Facility was secured by a first lien on the Company's Texas properties. The obligations of the Company under the Credit Facility were also guaranteed by the Company's wholly owned US subsidiary pursuant to an unconditional secured guarantee. The Lender and the holders of the outstanding debentures and notes of the Company entered into an intercreditor agreement that provided that such creditors would rank on a *pari passu* basis (only with respect to those specific creditors) in the event of any enforcement on any assets of the Company, provided that the Lender would have a first priority claim on certain property of the Company and its US subsidiary.

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

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

- 1) The Credit Facility availability end date was extended from December 14, 2017 to June 17, 2018 and the remaining \$4,225,000 available under the line of credit was agreed to be advanced by the Lender in varying scheduled amounts from October 3, 2017 through to December 5, 2017. The extension of the Credit Facility availability end date, in conjunction with the receipt of timely funding of the remaining \$4,225,000 from the Lender as of September 27, 2017, also extends the date that a minimum of twelve (12) wells in Polk County, Texas must be drilled and completed in the Yegua formation from December 31, 2017 to June 17, 2018. Monthly principal payments shall commence on the Credit Facility starting on the month after the Credit Facility availability date or July 2018.
- 2) The Lender granted the Company options to purchase certain interests in oil and gas properties, subject to entering into formal documentation.
- 3) The Lender entered into a subordination agreement ("the ACH Subordination Agreement") pursuant to which it has agreed to subordinate all of its rights in all collateral securing the loan under the Credit Facility and its right to repayment, to a future senior lender of the Company to be determined by the Company in its sole discretion. As reflected above, this subordination has become effective and no repayments under the Credit Facility are currently due by the Company to the Lender.
- 4) All interest accrued and payable under the Credit facility from inception until September 27, 2017 was waived. Interest was to commence on the Credit facility from September 28, 2017 forward.

After September 27, 2017 and through June 30, 2019, the Lender did not provide any further loan advances pursuant to the Amendments.

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9. Long-term debt (continued)

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

Litigation and Mediated Settlement Agreement

On April 18, 2018, William E. Robinson, Jr. (the "Plaintiff") filed a claim against the Company's lender ACH Management, LLC ("ACH"), the Company, and its wholly owned subsidiary, Tanager Energy (USA) Inc., as defendants, in a Dallas, Texas state court. ACH was also a shareholder in the Company. The Company filed an answer, affirmative defenses and counterclaims against the Plaintiff, and cross-claims against ACH.

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

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

Given the timely completion of the final payment and transfer of the shares to the Plaintiff, the existing lawsuit against the Company and its subsidiary was dismissed with prejudice. The remaining outstanding loan principal of \$2,775,000 and accrued interest has been forgiven and there shall be no further obligations under the credit facility. As a result, a gain on settlement of debt of \$3,110,629 has been recorded in consolidated statements of income (loss) and comprehensive income (loss) for the six months ended June 30, 2019.

On June 5, 2019, the Lender sold the remaining 10,851,810 common shares, as referred above, to a third party and the Company recognized a gain on disposition of shares of \$243,361 in the consolidated statements of income (loss) and comprehensive income (loss) for the six months ended June 30, 2019.

Loan Payable

In November 2017, the Company received a loan payable of \$200,000 from an arm's length third party individual. Pursuant to the terms of the loan, the loan is unsecured and bears interest at 6% per annum. Monthly principal payments on the loan were to commence in July 2018 and the loan shall mature and the remaining principal shall be due and payable on December 31, 2019. On March 25, 2019, the Company entered into a new loan agreement with the same arm's length third party individual extending the maturity date of the loan to December 31, 2020 with the \$200,000 outstanding principal and all accrued interest due at that date.

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

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10. Asset retirement obligations

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:

	June 30, 2019	December 31, 2018
	\$	\$
Balance, beginning of year	204,767	259,771
Accretion	6,735	17,509
Change in estimate	(24,395)	(58,994)
Foreign exchange	4,960	(13,519)
Balance, end of year	192,067	204,767

At June 30, 2019, the Company estimated the total undiscounted amount of cash flows required to settle its asset retirement obligations to be approximately \$472,000 (December 31, 2018 - \$472,000) which will be incurred between 2020 and 2043. A credit adjusted risk-free rate between 7.15% and 7.78% (December 31, 2018: 7.15% and 7.78%) and an inflation rate of 2.0% (2018: 2.0%) were used to calculate the fair value of the decommissioning liabilities as at June 30, 2019.

11. Share capital

(a) Authorized share capital

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

(b) Common shares issued

The change in issued share capital is as follows:

	Number of common shares	Amount \$
Balance, December 31, 2017	124,835,388	22,024,994
Conversion of convertible debentures (i)	110,451,428	9,704,781
Balance, December 31, 2018 and June 30, 2019	235,286,816	31,729,775

- (i) On March 27, 2018, the outstanding June 2016 convertible debentures in the aggregate principal amount of \$6,000,000 (Note 8) due on June 27, 2019, were converted by the holders at a conversion price of CDN\$0.07 per share, into an aggregate of 110,451,428 Common Shares of the Company. On conversion, the amount of the amortized liability component of \$4,962,742 and the fair value of the derivative component of \$4,742,039 were derecognized, and a total of \$9,704,781 has been recognized as an increase to share capital.

12. Warrants

On December 14, 2016 and December 22, 2016, the Company completed the closing of two separate tranches of a non-brokered private placement of 16,000,000 and 5,000,000 units ("Units"), respectively, or a total of 21,000,000 Units. Each Unit consisted of one common share of the Company and one common share purchase warrant ("Warrant"), with each Warrant entitling the holder thereof to purchase one additional common share at a price of CDN\$0.10 per common share until the date that is twenty months from the respective closing date until the date and CDN\$0.12 per common share for the period from twenty months from the respective closing date until the date that is thirty-two months from the respective closing date. All 21,000,000 common share purchase warrants remained outstanding as of December 31, 2018 and June 30, 2019. As of August 22, 2019, all 21,000,000 common share purchase warrants have expired unexercised.

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13. 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.

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, as to 50%, on the grant date, as to 25%, on each of the first and second anniversaries of the grant date. All of these stock options remain outstanding.

14. Finance expenses

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Interest expense ⁽¹⁾	70,354	64,511	182,075	206,604
Accretion on convertible debentures (Note 8)	9,354	(1,844)	9,354	173,931
Accretion on ARO (Note 10)	3,402	4,564	6,735	9,118
	83,110	67,231	198,164	389,653

(1) Interest expense for the three months ended June 30, 2019 includes \$7,819 (2018 – \$nil) of interest on convertible debentures, and \$62,535 (2018 – (\$64,511)) of interest accrued on the Credit Facility, Note Payable and Loans Payable. Interest expense for the six months ended June 30, 2019 includes \$7,819 (2018 – \$80,548) of interest on convertible debentures, and \$174,256 (2018 - \$126,056) of interest accrued on the Credit Facility, Note Payable and Loans Payable.

15. Net income (loss) per common share

The calculation of basic income (loss) per share for the three and six months ended June 30, 2019 was based on the net income attributable to common shareholders of \$2,789,589 and \$2,096,438 (2018 – net loss of \$704,649 and \$1,152,684) and the weighted average number of common shares outstanding of 235,286,816 (2018 – 235,286,816 and 183,417,361, respectively).

In computing weighted average diluted income (loss) and income (loss) per share for the three and six month periods ended June 30, 2019, a total of 2,000,000 (2018 - 2,000,000) common share options and 21,000,000 warrants (2018 - 21,000,000) were excluded from the denominator as a consequence of applying the treasury stock method and a total of 16,970,208 (2018 - nil) common shares issuable on conversion of convertible debentures were also added to the denominator as they were dilutive, resulting in diluted weighted average common shares of 252,257,024 (2018 – 235,286,816 and 183,417,361, respectively). As a consequence, a total of \$17,173 (2018 - \$nil) for interest accretion expense were added to the numerator.

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16. 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 six months ended June 30, 2019 and 2018:

- (a) A director of the Company provided CDN\$946,050 of the total CDN\$1,198,330 principal of the Canadian dollar convertible debenture financing raised in May 2016 and \$3,000,000 of the total \$6,000,000 principal of the US dollar convertible debenture financing raised in June 2016. In addition, another director acts as trustee of a Trust which provided the remaining \$3,000,000 of the US dollar convertible debenture financing raised in 2016. The Company incurred 10% coupon interest on the Canadian dollar debentures and 6% coupon interest on the US dollar denominated debentures. During the six months ended June 30, 2019, a total of \$nil (2018 - \$80,548) coupon interest was incurred on the June 2016 convertible debentures held by the director and the Trust. Total accrued interest payable to the director and the Trust as of June 30, 2019 was \$225,918 (December 31, 2018 - \$233,133) and is included in accounts payable and other liabilities. The Canadian dollar convertible debenture was converted by the director effective November 3, 2017 into 13,515,000 common shares of the Company. On March 27, 2018, the US dollar denominated debentures were converted into 110,451,428 Common Shares of the Company.
- (b) The Company conducts all of U.S. operations with one joint venture partner (the "US JV Partner"). The US JV Partner is owned by a director of the Company and a Trust controlled by another director in his capacity as trustee of the Trust. The US JV Partner is considered a related party for accounting purposes by virtue of a common director and that the ownership group of the US JV Partner also holds 123,966,428 common shares of the Company, representing an ownership of 52.69% of the Company. The results of the Company's US operations conducted with the US JV Partner are shown in the segmented financial information in Note 19. In September 2018, the Company converted outstanding accounts payable owing to the US JV Partner in the amount of \$1,745,591 into a promissory note. In addition, the Company entered into a loan from a wholly owned subsidiary of the US JV Partner for a total available amount of \$1,250,000 and later amended to \$2,100,000. For further details, refer to Note 8. Each of these loans bear interest at a rate of 0.5% above the Wall Street Journal prime rate. During the six months ended June 30, 2019, a total of \$100,855 (2018 - \$nil) interest was accrued on both of these loans. Included in accounts payable at June 30, 2019 is \$637,166 (December 2018 - \$248,885) owing to the US JV Partner and its subsidiary for accrued interest, joint venture and cash call payables.

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17. Other cash flow information

	2019	2018
	\$	\$
Changes in non-cash working capital items:		
Accounts receivable and other assets	10,220	143,096
Accounts payable and accrued liabilities	315,392	108,265
	325,612	251,361
Changes related to:		
Operating activities	264,215	280,885
Investing activities	61,397	(29,524)
	325,612	251,361
Non-cash transactions:		
Asset retirement obligation asset adjustments	24,395	2,781
Conversion of convertible debentures to share capital:		
Liability component of convertible debentures	-	(4,962,742)
Embedded derivative related to convertible debentures	-	(4,742,039)
Share capital	-	9,704,781

- (1) In March 2018, these convertible debentures were converted into common shares of the Company as described in Notes 8 and 11.

18. Revenue

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

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

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

The following table provides a summary of the Company's revenue disaggregated by revenue source for the three and six months ended June 30, 2019 and 2018:

	Three months ended June 30,		Six months ended June 30,	
	2019	2018	2019	2018
	\$	\$	\$	\$
Crude oil	27,193	24,665	54,078	51,833
Natural gas liquids	163	848	2,264	2,868
Natural gas	29,402	108,677	101,632	272,205
Petroleum and natural gas sales	56,758	134,190	157,974	326,906
Other income ⁽¹⁾	(63)	260	240	552
Total revenue	56,695	134,450	158,214	327,458

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

Paleo Resources, Inc.
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19. Segmented financial information

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

For the six months ended June 30, 2019

	Canada \$	U.S. \$	Corporate \$	Consolidated \$
REVENUES, NET OF ROYALTIES	59,962	98,252	-	158,214
EXPENSES				
Operating	78,380	123,296	-	201,676
Production taxes	-	11,079	-	11,079
General and administrative	-	-	438,220	438,220
Depletion and depreciation	42,463	422,104	-	464,567
Finance expenses	-	-	198,164	198,164
Share-based payments	-	-	5,957	5,957
Mining royalty and staking	56,463	-	-	56,463
Foreign exchange	-	-	(72,320)	(72,320)
Gain on disposition of shares	-	-	(243,361)	(243,361)
Gain on settlement of debt	-	-	(3,110,629)	(3,110,629)
TOTAL EXPENSES	177,306	556,479	(2,783,969)	(2,050,184)
Net loss for the period	(117,344)	(458,227)	2,783,969	2,208,398
Unproven oil and gas properties expenditures				
Additions	-	39,725	-	39,725
Asset retirement adjustments	-	(177)	-	(177)
Foreign currency translation	-	-	-	-
	-	39,548	-	39,548
Proven oil and gas properties expenditures				
Additions	48,129	4,448	-	52,577
Asset retirement adjustments	(23,522)	(696)	-	(24,218)
Foreign currency translation	2,073	-	-	2,073
	26,680	3,752	-	30,432
As at June 30, 2019				
Canadian assets	1,466,965	-	-	1,466,965
U.S. assets	-	9,355,361	-	9,355,361
Corporate assets	-	-	-	-
	1,466,965	9,355,361	-	10,822,326

Paleo Resources, Inc.
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19. Segmented financial information (continued)

For the six months ended June 30, 2018

	Canada \$	U.S. \$	Corporate \$	Consolidated \$
REVENUES, NET OF ROYALTIES	57,487	269,971	-	327,458
EXPENSES				
Operating	61,181	57,244	-	118,425
Production taxes	-	31,359	-	31,359
General and administrative	-	-	510,063	510,063
Depletion and depreciation	18,331	853,267	-	871,598
Finance expenses	-	-	389,653	389,653
Share-based payments	-	-	35,166	35,166
Mining royalty and staking	24,094	-	-	24,094
Gain on unrealized embedded derivatives	-	-	(640,277)	(640,277)
Foreign exchange	-	-	140,061	140,061
TOTAL EXPENSES	103,606	941,870	434,666	1,480,142
Net loss for the period	(46,119)	(671,899)	(434,666)	(1,152,684)
Unproven oil and gas properties expenditures				
Additions	-	58,120	-	58,120
Asset retirement adjustments	-	(147)	-	(147)
Foreign currency translation	-	-	-	-
	-	57,973	-	57,973
Proven oil and gas properties expenditures				
Additions	-	90,402	-	90,402
Asset retirement adjustments	(2,020)	(614)	-	(2,634)
Foreign currency translation	-	-	-	-
	(2,020)	89,788	-	87,768
As at June 30, 2018				
Canadian assets	719,623	-	-	719,623
U.S. assets	-	10,346,754	-	10,346,754
Corporate assets	-	-	-	-
	719,623	10,346,754	-	11,066,377

Paleo Resources, Inc.
Notes to the Interim Consolidated Financial Statements
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20. Commitments

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

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

Year	CDN \$
2019	35,377
2020	62,800
2021	91,600
2022	91,600
2023	91,600

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

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

In addition, pursuant to the exploration agreement, the Company has agreed to pay 100% of the costs associated with recompletion of the Cain-Carter #1 well and earns a 50% working interest in the net revenue from that well. The Cain-Carter #1 well has not been recompleted as of June 30, 2019.