International Frontier Resources Corporation

Consolidated Financial Statements

December 31, 2023 and 2022

Contents

INDEPENDENT AUDITOR'S REPORT[1]

To the Shareholders of International Frontier Resources Corporation:

Opinion

We have audited the consolidated financial statements of International Frontier Resources Corporation and its subsidiaries (the "Company"), which comprise the consolidated statement of financial position as at December 31, 2023, and the consolidated statements of income (loss) and other comprehensive income (loss), changes in shareholders' deficiency and cash flows for the year then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2023, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards.

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the consolidated financial statements in Canada, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Material Uncertainty Related to Going Concern

We draw attention to Note 2 in the consolidated financial statements, which indicates that the Company incurred a net loss during the year ended December 31, 2023 and, as of that date, the Company had a working capital deficiency and an accumulated deficit. As stated in Note 2, these events or conditions, along with other matters as set forth in Note 2, indicate that a material uncertainty exists that may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the Material Uncertainty Related to Going Concern section, we have determined the matter described below to be the key audit matterto be communicated in our report.

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Investment in Tonalli

Key Audit Matter Description

The Company, through its Mexican subsidiary Frontera holds a 42.63% investment in Tonalli Energia S.A.P.I. de CV ("Tonalli").

The Company recorded a gain on its investment in Tonalli of $256,390 and other income of $472,780 on the expiry of a Letter of Intent ("LOI") for the proposed sale of its equity investment.

The Company's equity accounted investments are reviewed at each reporting date to assess whether there is any indication of impairment or impairment reversal. The Company concluded that there were no indicators of impairment reversal in the Company's investment in Tonalli.

Please refer to Note 3 - Summary of material accounting policy information, and Note 16 - Investment in Associates.

We identified the investment in Tonalli as a key audit matter due to:
• The significant estimates and judgments used by management.
• The significant auditor judgment required.
• The effort in performing procedures related to the key assumptions used.

Audit Response

We responded to this matter by performing audit procedures relating to the investment in Tonalli. Our audit work in relation to this included, but was not restricted to, the following:

• Obtain an understanding of management's assumptions and methodology in assessing the impairment indicators for reveral.

• Inspected Board resolution for companies dilution of investment.

• Recalculated the gain on investment.

• Traced contributions to paid during the year to the bank statement.

• Inspected the executed LOI and traced payments through to the bank account.

• Reviewed Management's accounting memo for the gain recognized on the LOI.

• Reviewed financial stament disclosures to ensure accuracy and completeness.

Other Matter

The consolidated financial statement for the year ended December 31, 2022 were audited by another auditor who expressed an unmodified opinion on those statements on May 15, 2023.

Other Information

Management is responsible for the other information. The other information comprises Management's Discussion and Analysis.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. We obtained Management's Discussion and Analysis prior to the date of this auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with Canadian generally accepted auditing standards, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Craig Bloom.

Calgary, Alberta

MNP LLP

April 29, 2024

Chartered Professional Accountants

International Frontier Resources Corporation
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)
As at December 31,

		2023		2022
Assets				
Current				
Cash (Notes 9, 18)	**$**	**17,130**	$	25,470
Accounts receivable (Notes 9, 20)		**45,500**		43,460
Prepaids expenses (Note 5)		**35,030**		17,080
	$	**97,660**	$	86,010
Liabilities				
Current				
Accounts payable and accrued liabilities (Note 9)	**$**	**652,950**	$	529,920
Due to related parties (Notes 9, 16)		**17,420**		347,695
Finance payable (Notes 6, 9)		**22,235**		-
		692,605		877,615
Long-term debt (Note 7)		**53,410**		50,090
		746,015		927,705
Shareholders' Deficit				
Share capital (Note 8a)		**58,671,850**		58,671,850
Contributed surplus (Note 8b)		**12,789,650**		12,789,650
Deficit		**(72,109,855)**		(72,303,195)
		(648,355)		(841,695)
	$	**97,660**	$	86,010

Going concern (Note 2)
Subsequent events (Note 21)

On behalf of the Board of Directors

(Signed) "Steve Hanson" Director **(Signed) "Anthony Kinnon"** Director

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Income (Loss) and Comprehensive Income (Loss)

(Expressed in Canadian Dollars)

For the years ended December 31,

		2023		2022
Expenses				
General and administration (Note 19)	**$**	**505,975**	$	657,325
Share-based compensation (Note 8b)		**-**		22,865
Loss on settlement of shareholder loans (Note 16)		**-**		3,269,300
Loss (gain) on equity investment in Tonalli (Note 16)		**(256,390)**		453,095
Impairment of investment in associate (Note 17)		**-**		152,850
Loss on equity investment in Mexcan (Note 17)		**-**		17,565
		249,585		4,573,000
Other Income				
Gain on settlement of accounts payable (Note 10)		**(25,065)**		-
Gain on derecognition of convertible debenture (Note 11)		**-**		(678,835)
Gain on derecognition of line of credit (Note 12)		**-**		(393,015)
Other income (Note 16)		**(472,780)**		-
		497,845		1,071,850
Finance income (expenses)				
Interest income		**-**		105,495
Accretion on long term debt (Note 7)		**(3,320)**		(3,320)
Interest on finance payables (Note 6)		**(530)**		-
Interest on convertible debenture (Note 17)		**-**		(45,390)
Interest on line of credit (Note 17)		**-**		(6,820)
Foreign exchange gain (loss)		**(51,070)**		392,610
		(54,920)		442,575
Net income (loss) and comprehensive income (loss)	**$**	**193,340**	$	(3,058,575)
Net income (loss) per share (Note 13)				
Basic and diluted	**$**	**0.01**	$	(0.20)

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Changes in Shareholders' Deficit

(Expressed in Canadian Dollars)

For the years ended December 31,

	2023		2022	
	Number	**Amount**	Number	Amount
Common shares				
Balance, beginning of year	**14,955,397**	**$ 58,671,850**	14,955,397	$ 58,671,850
Balance, end of year	**14,955,397**	**$ 58,671,850**	14,955,397	$ 58,671,850
Contributed surplus				
Balance, beginning of year		**$ 12,789,650**		$ 12,766,785
Share-based compensation expense (Note 8b)		**-**		22,865
Balance, end of year		**$ 12,789,650**		$ 12,789,650
Deficit				
Balance beginning of year		**$ (72,303,195)**		$ (69,244,620)
Net income (loss)		**193,340**		(3,058,575)
Balance, end of year		**$ (72,109,855)**		$ (72,303,195)
Total shareholders' deficit		**$ (648,355)**		$ (841,695)

The 2022 and 2023 number of shares have been retroactively restated for effect of the twenty-to-one share consolidation as defined in Note 1.

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Cash Flows

(Expressed in Canadian Dollars)

For the years ended December 31,

	2023	2022
Operating		
Net loss	**$ 193,340**	$ (3,058,575)
Non-cash items:		
Accretion of long-term debt (Note 7)	**3,320**	3,320
Share-based compensation (Note 8b)	**-**	22,865
Gain on derecognition of line of credit (Note 12)	**-**	(393,015)
Gain on derecognition of convertible debenture (Note 11)	**-**	(678,835)
Gain on settlement of accounts payable (Note 10)	**(25,065)**	-
Other income (Note 16)	**(472,780)**	-
Loss on settlement of shareholder loans (Note 16)	**-**	3,269,300
(Gain) Loss on equity investment in Tonalli (Note 16)	**(256,390)**	605,945
Unrealized foreign exchange (gain) loss	**49,680**	(396,820)
Change in non-cash working capital (Note 18)	**128,105**	224,200
Cash flow used in continuing operating activities	**(379,790)**	(401,615)
Investing		
Shareholder loans (Note 16)	**-**	(498,035)
Shareholder loans collected (Note 16)	**-**	187,630
Equity investment in associates (Note 16)	**(118,840)**	(120,880)
Deposit on Option Agreement (Note 16)	**472,780**	-
Drilling deposit (Note 11)	**-**	508,260
Change in non-cash investing working capital (Note 18)	**-**	(14,510)
Cash flow from investing activities	**353,940**	62,465
Financing		
Line of credit (Note 12)	**-**	380,125
Convertible debenture (Note 11)	**-**	(379,410)
Finance payable (Note 6)	**(7,265)**	-
Change in non-cash investing working capital (Note 18)	**29,500**	56,680
Cash flow from financing activities	**22,235**	57,395
Foreign exchange gain (loss) on cash held in foreign currencies	**(4,725)**	895
Net change in cash	**(8,340)**	(280,860)
Cash, beginning of year	**25,470**	306,330
Cash, end of year	**$ 17,130**	$ 25,470

Supplemental cash flow information (Note 18)

1. Nature of operations

International Frontier Resources Corporation ("IFR" or the "Company") is an independent Canadian publicly traded company, the principle business of which is to acquire, develop, exploit and produce oil and natural gas in Mexico.

The Company was incorporated under the Canada Business Corporations Act in Alberta, Canada in 1997. The Company is listed on the TSX Venture Exchange, having the symbol IFR-V. The address of the Company's corporate office and principal place of business The Issuer's head office is located in Calgary and its registered office is located at 10, 628 - 12 Avenue SW, Calgary, AB T2R 0H6.

The consolidated financial statements include the accounts of the Company and its 99.80% owned Mexican subsidiary, Petro Frontera S.A.P.I de CV ("Frontera"), which is accounted for using the consolidation method. All inter-company transactions and balances are eliminated upon consolidation. The consolidated financial statements also include Frontera's 50% investments in Tonalli Energia S.A.P.I. de CV ("Tonalli"), a Mexican company which is accounted for using the equity method and its 99.80% interest in Energia Mex Can ("Mexican"), a Mexican company which is accounted for using the consolidation method.

On November 27, 2023, the Company consolidated its common shares on the basis of one (1) new post-consolidation common share for every twenty (20) existing pre-consolidation common share (the "Consolidation"). The Consolidation reduces the number of outstanding common shares from 299,107,939 to approximately 14,955,397. Proportionate adjustments have been applied retrospectively to the Company's outstanding stock options, restricted share units, and deferred share units.

2. Basis of preparation and statement of compliance

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") in effect as of January 1, 2023. A summary of the Company's material accounting policy information is presented in Note 3.

These consolidated financial statements were approved and authorized for issue by the Board of Directors on April 29, 2024.

Basis of measurement

These financial statements have been prepared on a historical cost basis, unless otherwise required.

The Company's financial statements include the accounts of the Company and its subsidiaries and are expressed in Canadian dollars, unless otherwise stated.

Going concern

These financial statements have been prepared on a going concern basis, which assumes that the Company will continue its operations for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business.

The Company had a net income of $194,340 and cash flows used in operations of $379,790 for the year ended December 31, 2023 and a working capital deficit of $594,945 as at December 31, 2023.

2. Basis of preparation and statement of compliance (continued)

Company's net income for the year ended 2023 includes a non-recuring non-cash gain of $472,780 with respect to the gain on the Letter of Intent with Jaguar (see Note 16) and a non-recuring non-cash gain of $256,390 on the Company's investment in Tonalli (see Note 16) the resulting normalized net loss at December 31, 2023 not including these gains is $534,830. The Company's only income generating activities are related to its investment in Tonalli which has been incurring losses and using cash in its operating activities since inception.

The Company's ability to continue as a going concern is dependent on its ability to raise capital in the near term. Capital is required to fund ongoing general and administrative costs, the working capital deficit and for further development and operations of the Company, including Tonalli. There is no guarantee that capital can be raised, and, if it can, whether the further development of Tonalli will result in successful operating results and cash flows. If the Company does not continue to raise capital in the near term, there is risk that the Company may be required to seek creditor protection or be forced to liquidate assets of the Company. These conditions indicate that a material uncertainty exists that may cast significant doubt about the Company's ability to continue as a going concern.

In April 2024, the Company completed financing for net proceeds of $668,061 (see Note 21). The Company believes that the proceeds of the financing will be adequate to fund the Company's working capital requirements for at least twelve months from the date of approval of these consolidated financial statements and to allow the company sufficient funds to pursue additional opportunities for future investment.

Management believes that the going concern assumption is appropriate for these consolidated financial statements and that the Company will meet its operating and capital requirements. These consolidated financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. These adjustments could be material.

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars which is the Company's reporting currency. The Company's subsidiaries transact in currencies that other than the Canadian dollar and have a functional currency of Mexican peso. The functional currency of a subsidiary is the currency of the primary economic environment in which the subsidiary operates. Transactions denominated in a currency other than the functional currency are translated at the prevailing rates on the date of the transaction. Any monetary items held in a currency which is not the functional currency of the subsidiary are translated to the functional currency at the prevailing rate as at the date of the statement of financial position. All exchange differences arising as a result of the translation to the functional currency of the subsidiary are recorded in net earnings.

Translation of all assets and liabilities from the respective functional currencies to the reporting currency are performed using the rates prevailing at the statement of financial position date. The differences arising upon translation from the functional currency to the reporting currency are recorded as currency translation adjustments in other comprehensive income (loss) and are held within accumulated other comprehensive income (loss) until a disposal or partial disposal of a subsidiary. A disposal or partial disposal with then give rise to realized foreign exchange gain or loss which is recorded in net earnings.

2. Basis of preparation and statement of compliance (continued)

Material accounting judgements, estimates and assumptions

The timely preparation of the consolidated financial statements in accordance with IFRS requires that management make estimates and assumptions and use judgement regarding the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. The estimated fair value of financial assets and liabilities, by their very nature, are subject to measurement uncertainty. Accordingly, actual results may differ from estimated amounts as future confirming events occur.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Significant judgements, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

Significant accounting estimates

a) Share-based payments

The Company uses the Black-Scholes option pricing model in determining share-based compensation expense, which requires a number of assumptions to be made, including the risk-free interest rate, expected life of options and warrants, forfeiture rate, and expected share price volatility. Consequently, the actual share-based compensation expense may vary from the amount estimated. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant.

b) Deferred taxes and liabilities

The measurement of a deferred tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Corporation's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful operations of the Corporation. To the extent that management's assessment of the Corporation's ability to utilize future tax deductions changes, the Corporation would be required to recognize more or fewer deferred tax assets, and future tax provisions or recoveries could be affected.

c) Recoverable amount of cash-generating unit ("CGU")

The recoverable amount of a cash-generating unit ("CGU"), an equity accounted investment or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. Current geopolitical events, including the invasion of Ukraine, inflation increases and volatility in commodity pricing have increased the risk of measurement uncertainty in determining the estimated recoverable amounts, especially estimating the economic proved and probable oil and gas reserves and the related cash flows, and estimating forecasted oil and gas commodity prices.

2. Basis of preparation and statement of compliance (continued)

Significant accounting judgements

a) Joint arrangements

The determination of the type of joint arrangement as either a joint operation or a joint venture is based on management's determination of whether it has joint control over another entity and considerations include assessment of contractual agreements for unanimous consent of the parties on decision making of relevant activities. Once classified as a joint arrangement, management assesses whether it is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity the direct right to the assets and obligations for the liabilities within the normal course of business, as well as the entity's rights to the economic benefit of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

b) Income taxes

Significant judgement is required in determining the provision for income taxes There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters.

c) Going Concern

Management has applied judgement in the assessment of the Company's ability to continue as a going concern, considering all available information, and concluded that the going concern assumption is appropriate for a period of at least twelve months following the Auditor's report date.

d) Identification of impairment and impairment reversal indicators

Judgement is required to assess when indicators of impairment or impairment reversal exist and when a calculation of the recoverable amount is required. The company's equity accounted investments are reviewed at each reporting date to assess whether there is any indication of impairment or impairment reversal. The assessment considers whether there are significant changes with an adverse effect that have taken place in the technological, market, economic or legal environment in which the associate operates, and indicates that the cost of the investment in the equity instrument may not be recovered and whether there is significant financial difficulty of the associate in determining impairment and any interest from market participants in determining impairment reversal.

3. Summary of material accounting policies

Cash

Cash includes cash on hand, balances with banks, cash held in trust and short-term deposits with original maturities of three months or less.

Consolidation

The financial statements of the Company comprise the financial statements of the Company and its subsidiary Frontera. All intercompany transactions and balances are eliminated on consolidation. Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its investment with the entity and has the ability to affect those returns through its power over the entity.

Joint arrangements

Certain of the Company's activities are conducted through joint arrangements in which two or more parties have joint control. A joint arrangement is classified as either a joint operation or a joint venture, depending on the rights and obligations of the parties to the arrangement.

Joint operations arise when the Company has a direct ownership interest in jointly controlled assets and obligations for liabilities. The financial statements include the Company's proportionate share of the assets, liabilities, revenues, expenses and cash flows of this type of arrangement.

Joint ventures arise when the Company has a right to the net assets of the arrangement. For these arrangements, the Company uses the equity method of accounting and recognizes initial and subsequent investments at cost, adjusting for the Company's share of the joint venture's income or loss, less dividends received thereafter.

At each reporting date, the Company determines whether there is objective evidence that the investment in the joint venture is impaired. If there is such evidence, the Company calculates the amount of impairment as the difference between the recoverable amount of the joint venture and the carrying value, then recognizes the loss in the consolidated statement of operations and comprehensive income (loss).

Expected Credit Losses

The Company has elected to measure loss allowances for trade receivables and contract assets at an amount equal to lifetime expected credit losses ("ECLs"). The maximum period considered when estimating ECLs is the maximum contractual period over which the Company is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Company expects to receive). ECLs are discounted at the effective interest rate of the financial asset.

Loss allowances for financial assets are deducted from the gross carrying amount of the assets. Impairment losses on financial assets are presented under "other expenses" in the consolidated statements of income (loss) and comprehensive income (loss).

3. Summary of material accounting policies (continued)

Investment in associates

Investments in associates are accounted for using the equity method when the Company determines that it has significant influence over an investment. Investments of this nature are recorded at original cost. Investments in associates which arise from a loss in control of a subsidiary are recorded at fair value on the date of the loss of control. The investment is adjusted periodically for the Company's share of the profit or loss of the investment after the date of acquisition. The investor's share of the profit or loss of the investee is also recognized in the Company's profit or loss. Contributions made increase the carrying amount of the investment and distributions received reduce the carrying amount of the investment.

The Company assesses investments in associates for impairment whenever changes in circumstances or events indicate that the carrying value may not be recoverable. An impairment loss in respect of an equity-method accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss and is reversed if there is a favorable change in the estimates used to determine the recoverable amount.

Revenue recognition

Interest income

Interest income is recognized as the interest accrues using the effective interest method.

Earnings per share amounts

Basic earnings per common share are computed by dividing the earnings by the weighted average number of common shares outstanding during the period. Diluted earnings per share amounts are calculated giving effect to the potential dilution that would occur if stock options, warrants or other contracts to issue common shares were exercised or converted to common shares. The treasury stock method is used to determine the dilutive effect of stock options, warrants and other dilutive instruments. The treasury stock method assumes that proceeds received from the exercise of in-the-money stock options are used to repurchase common shares at the average market price.

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 the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the liability method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are recognized for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable net earnings will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilized. Deferred tax relating to items recognized directly in equity is recognized in equity.

3. Summary of material accounting policies (continued)

Deferred tax assets and liabilities are recognized at expected tax rates in effect in the year when the asset is expected to be realized or the liability settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. The effect of a change to the tax rate on the future tax assets and liabilities is recognized in net earnings when substantively enacted.

The determination of the Company's income and other tax liabilities requires interpretation of complex laws and regulations often involving multiple jurisdictions. All tax filings are subject to audit and potential reassessment after the lapse of considerable time. Accordingly, the actual tax liability may differ significantly from that estimated and recorded by management.

Share-based payments

The Company uses the fair value method for valuing stock options and warrants. Under the fair value method, compensation costs attributable to all stock options and warrants granted are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the date of grant and is adjusted to reflect the actual number of awards that vest. The fair value of each option or warrant granted is estimated using the Black-Scholes option pricing model.

Upon the exercise of the stock options and warrants, consideration received together with the amount previously recognized in contributed surplus or warrants is recorded as an increase to share capital.

Financial instruments

At December 31, 2023, financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, finance payable, due to related parties and long term debt. Financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial instruments are measured based on their classification as follows:

i) Classification and measurement of financial assets:

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated at fair value through profit or loss ("FVTPL"):

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

A debt investment is measured at fair value through other comprehensive income ("FVOCI") if it meets both of the following conditions and is not designated at FVTPL

- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and,
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

3. Summary of material accounting policies (continued)

On initial recognition of an equity investment that is not held for trading, the Company may irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income ("OCI"). This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. On initial recognition, the Company may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortized cost or at FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant financing component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

The following accounting policies apply to the subsequent measurement of financial assets:

a) Financial assets at FVTPL

These assets are subsequently measured at fair value. Gains and losses, including any interest or dividend income, are recognized in profit or loss.

b) Financial assets at amortized cost

These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

c) Debt investments at FVOCI

These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognized in profit or loss. Other net gains and losses are recognized in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

ii) Classification and measurement of financial liabilities:

Financial liabilities are classified and measured at amortized cost or FVTPL. A financial liability is classified at FVTPL if it is a derivative or it is designated as such on initial recognition. Financial liabilities
at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

The Company has classified cash and accounts receivable as financial assets at amortized costs and accounts payable and accrued liabilities, finance payable and long-term debt as financial liabilities at amortized cost. The Company has no contract assets or debt investments measured at FVOCI.

A financial liability is derecognized from the statement of financial position when, and only when the obligation specified in the contract is discharged or cancelled or expired.

4. Adoption of New Standards

a) New accounting pronouncements adopted effective January 1, 2023

On January 1, 2023, the Company adopted the following pronouncements and amendments as issued by the IASB. The adoption of these standards did not have a material impact on the Company's financial statements.

i) Disclosure of Accounting Policies (Amendments to IAS 1 Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgement in Notes)

Effective January 1, 2023, the Company adopted amendments to IAS 1 and IFRS Practice Statement 2. The amendments aim to make accounting policy disclosures more informative by replacing the requirement to disclose 'significant accounting policies' with 'material accounting policy information. The amendments also provide guidance under what circumstance, the accounting policy information is likely to be considered material and therefore requiring disclosure.

These amendments have no effect on the measurement or presentation of any items in the Consolidated financial statements of the Company but affect the disclosure of accounting policies of the Company.

ii) Definition of Accounting Estimates (Amendments to IAS 8 Accounting policies, Changes in Accounting Estimates and Errors)

Effective January 1, 2023 the Company adopted amendments to IAS 8 (Definition of Accounting Estimates) issued February 12, 2021. The amendments to IAS 8, which added the definition of accounting estimates, clarify that the effects of a change in an input or measurement technique are changes in accounting estimates, unless resulting from the correction of prior period errors. These amendments clarify how entities make the distinction between changes in accounting estimate, changes in accounting policy and prior period errors.

These amendments had no effect on the consolidated financial statements of the Company at December 31, 2023.

iii) Supplier Finance Arrangements (Amendment to IAS 7, Statement of Cash Flows and IFRS 7, Financial Instruments: Disclosures)

Effective January 1, 2023 the Company early adopted amendments to IAS 7 and IFRS 7 (Supplier Finance Arrangements (Amendment to IAS 7, Statement of Cash Flows and IFRS 7, Financial Instruments: Disclosures) issued on May 25, 2023 and effective for period beginning on or after January 1, 2024. The amendments to IAS 7 require an entity to provide additional disclosures about its supplier finance arrangements and the amendments to IFRS 7 add supplier finance arrangements as an example within the liquidity risk disclosure requirements of.

These amendments have no effect on the measurement or presentation of any items in the Consolidated financial statements of the Company but affect the presentation with respect to Supplier Finance Arrangements on Company's Consolidated Statements of Cashflow and the disclosure in Note 17 Financial Instruments in the Notes to Company's Consolidated Financial Statements.

b) New standards, interpretations and amendments not yet effective

There are a number of standards, amendments to standards, and interpretations which have been issued by the IASB that are effective in future accounting periods that the Company has decided not to adopt early.

(Expressed in Canadian Dollars)

4. Adoption of New Standards (continued)

The following amendments are effective for the period beginning January 1, 2024:

a) Liability in a Sale and Leaseback (Amendments to IFRS 16 Leases)

b) Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 Presentation of Financial Statements)

c) Non-current Liabilities with Covenants (Amendments to IAS 1 Presentation of Financial Statements)

d) Lack of Exchangeability (Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates)

The Company is currently assessing the impact of these new accounting standards and amendments and does not expect them to have a material impact on the Company.

5. Prepaid Expenses

Prepaid expenses consists of the following amounts at December 31, 2023 and 2022:

	December 31, 2023	**December 31, 2022**
Insurance	**$ 23,785**	$ 5,835
Conferences	**11,245**	11,245
Balance, end of year	**$ 35,030**	$ 17,080

6. Finance Payable

In October 2023, the Company entered into an arrangement with a finance company to pay certain invoices in the amount of $29,500 on the Company's behalf. As per the terms of the agreement dated October 16, 2023, the total amounts financed of $29,500 were paid to the supplier and are owing to the finance company bearing interest at 12.38% with a maturity date of September 15, 2024.

	December 31, 2023	**December 31, 2022**
Principal	**$ 29,500**	$ -
Less: principal payments	**(7,265)**	-
Interest accrued	**530**	-
Interest paid	**(530)**	-
Balance, end of year	**$ 22,235**	$ -

As a result of the above arrangement, there were non-cash transfers from accounts payable to finance payable of $29,500 during the year ended December 31, 2023.

(Expressed in Canadian Dollars)

7. Long term debt

	December 31, 2023	December 31, 2022
Principal	**$ 60,000**	$ 60,000
Less: amortized below market interest benefit	**(16,540)**	(16,540)
Accretion	**9,950**	6,630
Balance, end of year	**$ 53,410**	$ 50,090

In 2020, the Company applied for and received a $60,000 term loan under the Canada Emergency Business Account (the "CEBA term loan"), which was one of the Canadian government's COVID-19 economic recovery measures. The CEBA term loan is non-interest bearing for the initial term ending on December 31, 2022 (the "Initial Term"). If the loan was paid off by December 31, 2022, 33% of the loan would have been forgiven. In October 2023, the initial term for repayment of the CEBA loan was extended to January 18, 2024. If the CEBA term loan is not fully repaid by the end of the Initial Term, then the unpaid balance will bear interest at the rate of 5% per annum, payable monthly, and will mature on December 31, 2026. The Company did not pay the loan on the deadline for the Initial Term on January 18, 2024.

In determining the fair value of the loan, the Company applied an effective interest rate of 17% which corresponds to a rate that the Company would have obtained for a similar debt instrument.

8. Share capital

a) Authorized:

	Number of Shares	Amount
Balance at December 31, 2021 and 2023	**14,955,397**	**$ 58,671,850**

The Company is authorized to issue an unlimited number of common shares without par value. As at December 31, 2023, the number of issued and outstanding common shares is 14,955,397.

On November 27, 2023, the Company consolidated its common shares on the basis of one (1) new post-consolidation common share for every twenty (20) existing pre-consolidation common share (the "Consolidation"). The Consolidation reduced the number of outstanding common shares from 299,107,939 to 14,955,394. Proportionate adjustments have been made retrospectively to the Company's outstanding stock options.

b) Contributed surplus

	December 31, 2023	December 31, 2022
Balance, beginning of year	**$ 12,789,650**	$ 12,766,785
Share-based compensation	**-**	22,865
Balance, end of year	**$ 12,789,650**	$ 12,789,650

(Expressed in Canadian Dollars)

8. Share capital (continued)

c) Stock options

The Company has a stock option plan available to consultants, officers, directors, and employees of the Company to be granted options of up to 10 percent of the issued and outstanding common shares of the Company. Options granted under the plan vest within two years of the grant date and have a term of five years to expiry. The following options were outstanding at December 31, 2023 and 2022:

	December 31, 2023		**December 31, 2022**	
	Number of options	**Weighted average exercise price**	Number of options	Weighted average exercise price
Balance, beginning of year	**345,000**	**$ 1.60**	528,750	$ 2.62
Expired/cancelled	**(15,000)**	**(1.60)**	(183,750)	(4.40)
Balance, end of year	**330,000**	**$ 1.60**	345,000	$ 1.60

December 31, 2023

Exercise Price	Options Outstanding	Weighted Average Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$1.60	0,000	0.44	$ 1.60	330,000	$ 1.60
	330,000	**0.44**	**$ 1.60**	**330,000**	**$ 1.60**

9. Capital management

In the management of capital, the Company includes certain working capital balances in the definition of capital. Management reviews its capital requirements on an ongoing basis and believes that its approach, given the relative size of the Company, is reasonable. As at December 31, 2023, the Company's capital as defined above is as follows:

	December 31, 2023	December 31, 2022
Cash and cash equivalents	**$ 17,130**	$ 25,470
Accounts receivable	**45,500**	43,460
Accounts payables and accrued liabilities	**(652,950)**	(529,920)
Due to related parties	**(17,420)**	(347,695)
Finance payable	**(22,235)**	-
	$ (629,975)	$ (808,685)

The Company is in the business of oil and gas exploration in Mexico. Management determines the Company's capital structure and makes adjustments to it based on funds available to the Company in order to support the acquisition, exploration and development of oil and gas properties. The Board of Directors has not established quantitative return on capital criteria for capital management but rather relies upon the expertise of the management team to sustain the future development of the business.

(Expressed in Canadian Dollars)

9. Capital management (continued)

The majority of the properties in which the Company currently has an interest are in the exploration stage and do not generate any revenue. The Company therefore is dependent upon partnerships with industry and external financing to fund the majority of its future exploration programs. The Company will spend existing working capital and will seek additional financing as needed. The Company will continue to assess new properties and to seek to acquire an interest in additional properties if management feels there is sufficient geologic or economic potential.

Historically, the Company has relied on proceeds from the sale of its common shares to fund its operations. In order to accelerate the Company's current exploration programs, the Company may require additional capital. The timing, pace, scope and amount of the Company's capital expenditures is largely dependent on planned capital expenditure programs and the availability of capital to the Company.

The Company may obtain funds for future capital investments from strategic alliances with other energy or financial partners, the issuance of additional common shares, preferred shares or debt securities, project financing, sale of property interests, or other arrangements, all of which may dilute the interest of the Company's existing shareholders. In the current economic environment, there can be no assurances that the Company can raise capital through the sale of its shares.

10. Gain on settlement of accounts payable

In October 2023, the Company settled amounts owing of $25,065 including (i) $14,275 to a supplier in relation to regulatory fees related to 2020, 2021 and 2022 for $1,050 and (ii) in December 2023, a Director and Executive Officer of the Company relieved the Company of its obligation for amounts owing of $11,840 related to expenses incurred on behalf of the Company.

11. Convertible Debenture

	December 31, 2023		December 31, 2022	
Convertible debenture at face value	**$**	**-**	$	910,830
Accrued interest on debenture at face value		**-**		92,110
Foreign exchange		**-**		55,305
Repayment of principal and accrued interest		**-**		(379,410)
Gain on derecognition of convertible debenture		**-**		(678,835)
Balance, end of year	**$**	**-**	$	-

In 2022 the Company recognized a gain on the derecognition of $678,835 pursuant to the 10% per annum secured convertible debenture (the "Convertible Debenture") issued on June 11, 2021, for gross proceeds of $750,000 USD ($910,830 CAD equivalent). The Convertible Debenture had a 3-year term, maturing on June 11, 2024 (the "Maturity Date") bearing interest at 10% per annum, calculated semi-annually, and payable on the conversion date or maturity date.

(Expressed in Canadian Dollars)

11. Convertible Debenture (continued)

On April 8, 2022, the parties entered into a Convertible Debenture Amendment Agreement (the "Amendment Agreement") where the lender agreed to the derecognition of $225,000 USD of the remaining balance of the Convertible Debenture plus any accrued interest owing leaving a remaining balance of $125,000 USD as at June 30, 2022. At June 30, 2022 and pursuant to the above the Company recorded a total gain on derecognition in the amount of $518,445, which represents $417,400 CAD equivalent ($325,000 USD) in total principal derecognized and $101,045 CAD equivalent ($78,715 USD) in accrued interest derecognized as at June 30, 2022. On August 25, 2022 pursuant to the sale of Tonalli shares to Jaguar (see Note 16) the remaining balance of $125,000 USD plus accrued interest ($160,390 CAD) was derecognized.

In addition, pursuant to the terms of the debenture on July 5, 2021, $400,000 USD ($508,260 CAD equivalent at December 31, 2021) of the proceeds of the Debenture were advanced to a service company to be held in trust as a deposit (the "Deposit) for the drilling of a well. On March 8, 2022, $100,000 USD of the amounts held in trust was released to the Company for its own account. The remaining $300,000 USD was released to the service company. In conjunction with the release of the funds held in trust, the Company made a principal repayment in the amount of $379,410 ($300,000 USD) against the outstanding balance of the Convertible Debenture.

12. Line of Credit

	December 31, 2023		December 31, 2022	
Principal	**$**	**-**	$	380,125
Accrued interest		**-**		7,910
Foreign exchange		**-**		6,070
Gain on derecognition of line of credit		**-**		(394,105)
Balance, end of year	**$**	**-**	$	-

In 2022 the Company recognized a gain on the derecognition of $393,015 pursuant to a Line of Credit Agreement (the "Agreement") entered into by the Company on April 4, 2022, where the lender agreed to provide a working capital line to the Company of up to $300,000 USD in the form of a non-revolving unsecured Line of Credit bearing interest at 10.5%. The loan had a term of one year and was forgivable if a definitive agreement with respect to the Company's Proposed Transaction was not signed by June 30, 2022. At June 30, 2022, a definitive agreement had not yet been signed and the outstanding balance of the loan plus accrued interest to June 30, 2022 was derecognized as per the Agreement. As a result a total gain on derecognition of $393,015 CAD equivalent, which represents $386,195 CAD equivalent ($300,000 USD) in total principal derecognized and $7,910 CAD equivalent ($6,625 USD) in accrued interest derecognized at June 30, 2022 less VAT recoverable on accrued interest of $1,090 CAD ($865 USD), was recorded in the consolidated statements of income (loss) and comprehensive income (loss) for the year ended December 31, 2022.

13. Per share amounts

	Twelve months ended December 31,			
		2023		**2022**
Net income (loss)	**$**	**193,340**	$	(3,058,575)
Weighted average number of shares		**14,955,397**		14,955,397
Basic income (loss) per share	**$**	**0.01**	$	(0.20)

(Expressed in Canadian Dollars)

13. Per share amounts (continued)

Basic income (loss) per share is computed by dividing net loss (the numerator) by the weighted average number of outstanding common shares for the period (the denominator). Options outstanding have been excluded from computing diluted loss per share because they are anti-dilutive or not in the money.

14. Related party transactions

The Company paid compensation to key executives for the years ended December 31, 2023 and 2022 as follows:

		2023		2022
Executive officers – consulting fees	$	**210,000**	$	190,000
Share-based compensation		**-**		22,865
	$	**210,000**	$	212,865

At December 31, 2023, $339,145 (2022– $207,620) was included in accounts payable and accrued liabilities. On April 8, 2024, the Company settled $225,000 of the amounts owing via a debt to share conversion at a share price of $0.05 per share (see Note 21).

15. Income taxes

a) The total provision for income taxes differs from the expected amount by applying the combined federal and provincial tax rates of approximately 23% (2022 - 23%) to loss before income taxes. This difference results from the following items:

		2023		2022
Income (loss) before income taxes	$	**193,340**	$	(3,058,575)
Expected tax provision (recovery) of combined federal and provincial statutory rates		**44,000**		(703,470)
Increase (decrease) resulting from:				
Share based compensation		**-**		5,300
Foreign income tax rate differentials		**2,000**		(210,600)
Change in enacted tax rates and other		**215,173**		(373,700)
Change in unrecognized deferred tax asset		**(261,173)**		1,282,470
	$	**-**	$	-

b) Unrecognized temporary differences and other items:

		December 31, 2023		December 31, 2023
Property plant and equipment	$	**9,770,488**	$	12,491,000
Capital losses		**12,930,650**		12,931,000
Non-capital losses		**12,625,700**		12,626,000
Investment in associate and other		**5,726,956**		8,436,000
Foreign losses and other		**781,546**		303,000
	$	**41,835,340**	$	46,787,000

(Expressed in Canadian Dollars)

15. Income taxes (continued)

c) Tax losses

The Company has incurred non-capital losses for income tax purposes of approximately $12,626,000 (2022- $12,626,000) in Canada. Unless sufficient taxable income is earned, these losses will expire between 2027 and 2052.

In addition, the Company has $12,931,000 of capital losses that can be carried forward indefinitely and used to offset future taxable capital gains.

	2022	Change in valuation allowance	2023
Property, plant and equipment	$ 2,873,000	(625,788)	$ 2,247,212
Non-capital losses	2,904,000	(89)	2,903,911
Capital losses	1,487,000	1,487,050	2,974,050
Foreign losses	84,000	95,755	179,755
Investment in TE Corporation	2,531,000	(1,213,801)	1,317,199
Share issue costs	5,000	(4,300)	700
	9,884,000	**(261,173)**	**9,622,827**
Unrecognized deferred income tax asset	(9,884,000)	-	(9,622,827)
	$ -	-	**$ -**

16. Investment in associates

At December 31, 2023, the Company, through its Mexcan subsidiary Frontera holds a 42.63% (2022 – 50%) investment in Tonalli Energia S.A.P.I. de CV ("Tonalli"), a Mexican company which is accounted for using the equity method and a 99.80% interest in Energia Mex Can ("Mexcan"), a Mexican company which is accounted for using the consolidation method.

On May 31, 2022, the Company entered into a share option agreement (the "Option Agreement') with its joint venture partner Grupo Idesa S.A.de C.V. ("IDESA") pursuant to which the Company's wholly owned Mexican subsidiary Frontera was granted the option (the "Option") to purchase all of the outstanding shares in Tonalli held by IDESA.

Under the terms of the Option Agreement, Frontera had the right to acquire the outstanding shares of Tonalli held by IDESA for an exercise price of $1.

On August 25, 2022, the Company exercised its option and acquired IDESA's shares of Tonalli. On the same date, and pursuant to a purchase and sale agreement dated August 25, 2022, the Company sold 50% of its Tonalli Shares to Jaguar Exploración y Producción de Hidrocarburos, S.A.P.I. de C.V ("Jaguar") for $1USD (the "Tonalli Share Transaction").

The Company has incurred losses on its equity investment in Tonalli which resulted in the Company's share of cumulative losses continuing to exceed its investment in Tonalli. As a result, the associated investment in Tonalli is $Nil at December 31, 2023. For the year ended December 31, 2023, the Company incurred a loss on its equity investment in Tonalli of $519,068 (2022 –$513,575). As at December 31, 2023, the Company's cumulative unrecognized share of net losses in Tonalli is $2,088,586 (2022 – $1,569,519). In 2023, the Company contributed $118,840 (2022 - $120,880) in equity contributions to Tonalli.

(Expressed in Canadian Dollars)

16. Investment in associates (continued)

For the year ended December 31, 2023, the Company recognized a gain on its equity investment in Tonalli of $256,390 (2022 – loss and impairment totaling $605,945).

In evaluating the Company's investment in Tonalli at December 31, 2023, the Company took into consideration the Option to Purchase as described per the Company's Letter of Intent with Jaguar below which expired in August 2023, the reduction of cash calls payable and resulting dilution in Tonalli in the fourth quarter of 2023 and the potential for a future sale of the Company's interest in Tonalli. The Company concluded that there were no indications at December 31, 2023 that would trigger a reversal of the impairment in the Company's investment in Tonalli.

Due to related parties

At December 31, 2023, the following amounts were due to Tonalli from Frontera and Mexcan. Amounts due to related parties were due on demand, non-interest bearing and unsecured.

	Frontera	Mexcan	Total
Balance, December 31, 2021	**$ -**	**$ -**	**$ -**
Share subscription payable (i)	332,215	**-**	332,215
Due to Tonalli	-	15,480	15,480
Balance, December 31, 2022	**$ 332,215**	**$ 15,480**	**$ 347,695**
Contributions (i)	(118,840)	-	**(118,840)**
Cancellation of shares (i)	(256,390)	-	**(256,390)**
Cash calls payable (ii)	962,385	-	**962,385**
Foreign exchange loss (i)	43,015	1,940	**44,955**
Dilution	(962,385)	-	**(962,385)**
Balance, December 31, 2023	**$ -**	**$ 17,420**	**$ 17,420**

(i) At September 30, 2023 the Company had a balance of amounts owing to Tonalli of $256,390 CAD equivalent for shares of Tonalli that had been issued to Frontera on December 31, 2022 for it's outstanding equity contribution at December 31, 2022. At September 30, 2023 the period to pay the balance of amounts owing to Tonalli had expired and shares were issued Jaguar for the amounts corresponding to amounts owing by Frontera. As a result, as at September 30, 2023 Frontera's equity interest in Tonalli was 48.30% (2022 – 50%). At September 30, 2023 the amount is no longer payable to Tonalli and a gain on investment of $256,390 has been recorded on the Company's consolidated statements of income (loss) and comprehensive income (loss) at December 31, 2023.

(ii) At December 31, 2023 Frontera has amounts owing to Tonalli for its share of cash calls issued in 2023 in the amount of $962,385. As at December 29, 2023 the shareholder agreed by way of a shareholder resolution that shares would be issued to Jaguar for all amounts contributed to Tonalli by Jaguar including Frontera's share of contributions owing as of that date. As a result as at December 31, 2023 Frontera's equity interest in Tonalli was 42.63% (2022 – 50%) and there were no amounts payable to Tonalli.

16. Investment in associates (continued)

Shareholder Loans

At December 31, 2022 Frontera had loaned $3,939,190 CAD equivalent to Tonalli in the form of a shareholder loan pursuant to a shareholder loan agreement. Per the terms of the shareholder loan agreement, the loans (plus interest accrued to date) had a maturity date of December 31, 2024, and bore interest at a rate of Libor plus 2.75%. Interest accrued at December 31, 2022, was $855,900 (2021 - $656,905) CAD equivalent.

During the year ended December 31, 2022, Frontera extended a new shareholder loan in the amount of $498,035 (2021 - $68,970) to Tonalli. The fair value of the loan was determined to be $345,185 (2021 - $40,780). The difference of $152,850 (2021 - $28,190) between the fair value of the shareholder loan and the loan balance was recorded as an increase in the Company's equity investment in Tonalli and impaired in the consolidated statements of loss and comprehensive loss.

On August 25, 2022, pursuant to the Tonalli Share Transaction, the Company agreed to derecognize its shareholder loans. As a result, the shareholder loans receivable plus accrued interest of $3,269,300 ($3,380,890 less recovery of VAT on accrued interest payable of $111,590) have been impaired at December 31, 2022, and recorded in the consolidated statements of income (loss) and comprehensive income (loss).

Letter of Intent

On May 9, 2023 the Company announced that it has entered into an agreement with Jaguar (the "Letter of Intent") dated April 28, 2023 which provides Jaguar with (i) the option to extend the Proposed Farm-In Arrangement contemplated pursuant to a letter of intent ("LOI") dated November 28, 2022 and expiring on April 30, 2023 or (ii) the option to purchase the remaining 50% of the shares of Tonalli which are owned by IFR (the "Option to Purchase").

On May 2, 2023, IFR received $357,600 (US$262,500) from Jaguar as a deposit on the Option to Purchase. This deposit will be refunded by IFR within 15 business days in the event that Jaguar exercises the Option to Purchase, and IFR fails to achieve shareholder approval within 90 days of the exercise of the Option to Purchase, should such shareholder approval be required by the TSXV.

On July 28, 2023 IFR and Jaguar entered into an agreement to extend the Letter of Intent previously announced on May 9, 2023. (the "Amended Letter of Intent"). In accordance with the Amended Letter of Intent Jaguar will have until August 31, 2023 to exercise either the Option to Extend or the Option to Purchase. In consideration for the extension Jaguar made an additional payment of $115,180 (US$87,500) to IFR.

As at the date of expiry on August 31, 2023 Jaguar had not exercised either option per the Letter of Intent. As a result, the total Deposit received in the amount of $472,780 CAD equivalent is no longer refundable to Jaguar and has been recorded as other income on the Company's consolidated statements of income (loss) and comprehensive income (loss).

(Expressed in Canadian Dollars)

17. Segmented information

The Company's activities are conducted in two geographic segments: Canada and Mexico. All activities relate to exploration for and development of petroleum and natural gas resources.

a) Net income (loss) and comprehensive income (loss)

Year ended December 31, 2023	Canada	Mexico	Total
Expenses			
General and administration	$ 493,980	$ 11,995	$ 505,975
Gain on equity investment in Tonalli	-	(256,390)	(256,390)
	493,980	(244,395)	249,585
Other Income			
Gain on settlement of accounts payable	25,065	-	25,065
Other Income	-	472,780	472,780
	25,065	472,780	497,845
Finance income (expenses)			
Accretion	(3,320)	-	(3,320)
Interest on short term debt	(530)	-	(530)
Foreign exchange loss	(4,785)	(46,285)	(51,070)
	(8,635)	(46,285)	(54,920)
Net income (loss) and comprehensive income (loss)	$ (477,550)	$ 670,890	$ 193,340

(Expressed in Canadian Dollars)

17. Segmented information (continued)

Year ended December 31, 2022	Canada	Mexico	Total
Expenses			
General and administration	$ 624,845	$ 32,480	$ 657,325
Share based compensation	22,865	-	22,865
Impairment of Investment in Associate	-	152,850	152,850
Impairment of Shareholder Loans	-	3,269,300	3,269,300
Loss on equity investment in Tonalli	-	453,095	453,095
Loss on equity investment in Mexican		17,565	17,565
	647,710	3,925,290	4,573,000
Other Income			
Gain on derecognition of convertible debenture	678,835	-	678,835
Gain on derecognition of line of credit	-	393,015	393,015
	678,835	393,015	1,071,850
Finance income (expenses)			
Interest income	-	105,495	105,495
Accretion	(3,320)	-	(3,320)
Interest on convertible debenture	(45,390)	-	(45,390)
Interest on line of credit	-	(6,820)	(6,820)
Foreign exchange gain (loss)	(15,600)	408,210	392,610
	(64,310)	506,885	442,575
Net loss and comprehensive loss	$ (33,185)	$ (3,025,390)	$ (3,058,575)

b) Assets

As at December 31, 2023

	Canada	Mexico	Total
Total assets	$ 56,125	$ 41,535	$ 97,660

As at December 31, 2022

	Canada	Mexico	Total
Total assets	$ 46,210	$ 39,800	$ 86,010

(Expressed in Canadian Dollars)

18. Supplemental cash flow information

Changes in non-cash working capital items from continuing operations increase (decrease) cash and cash equivalents as follows:

		2023		2022
Accounts Receivable	**$**	**(2,040)**	$	(45,665)
Prepaids and deposits		**(17,950)**		17,465
Accounts payable and accrued liabilities		**148,625**		294,570
Finance payable		**29,500**		-
	$	**158,135**	$	266,370

Operating activities	**$**	**128,105**	$	224,200
Investing activities	**$**	**-**	$	(14,510)
Financing activities	**$**	**29,500**	$	56,680
Interest paid	**$**	**530**	$	-

Cash and cash equivalents are comprised of:

		2023		2022
Cash on hand – Canada	**$**	**13,920**	$	22,625
Cash on hand – Mexico		**3,210**		2,845
	$	**17,130**	$	25,470

19. General and administration

General and administration expenses include the following costs incurred during the years ended December 31, 2023 and December 31, 2022:

		2023		2022
Consulting fees and salaries	$	240,000	$	250,000
Professional fees		152,415		241,885
Rent and corporate costs		81,940		123,400
Filing and transfer fees		24,820		36,260
Corporate travel		6,800		5,780
	$	**505,975**	**$**	**657,325**

20. Financial risk management

The Company is exposed to financial risk in a range of financial instruments including cash, accounts receivable, due to related parties, long-term debt and accounts payable and accrued liabilities. The Company manages its exposure to financial risks by operating in a manner that minimizes its exposure to the extent practical. The main financial risks affecting the Company are discussed below:

a) Credit risk

Credit risk arises when a failure by counter parties to discharge their obligations could reduce the amount of future cash inflows from financial assets on hand at the balance sheet date.

The maximum exposure to loss associated with accounts receivable is the total carrying amounts on the statement of financial position.

The following table presents the aging of the Company's accounts receivable at December 31, 2023:

Total accounts receivable	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
$ 45,500	$ 6,965	$ -	$ -	$ 38,535

The maximum exposure to credit risk is represented by the carrying amount on the balance sheet of all the financial assets.

Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance based on lifetime expected credit losses experience adjusted for forward looking factors with a corresponding charge to earnings. If the Company subsequently determines an account is uncollectible, the account is written off with a corresponding charge to the allowance account.

b) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent the changes in market interest rates will impact the Company's interest rate price risk with respect to funds invested in short term marketable securities. As at December 31, 2023, the Company did not have any financial assets based on variable interest rates and as such the Company has no specific interest rate risk at period-end. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate risk.

c) Foreign currency risk

Foreign currency risk is the risk that a variation in exchange rates between the Canadian dollar and foreign currencies will affect the Company's operating and financial results. The Company is exposed to foreign currency risk as the Company has financial instruments denominated in US dollars and Mexican pesos. The Company's management monitors the exchange rate fluctuations on a regular basis. The Company does not use currency derivative instruments to manage the Company's exposure to foreign currency fluctuations.

At December 31, 2023, the carrying amount of the Company's Mexican pesos denominated net monetary assets was equivalent to approximately $320.

At December 31, 2023, the carrying amount of the Company's U.S. dollar denominated monetary assets was approximately US $65.

20. Financial risk management (continued)

d) Commodity price risk

Commodity price risk is the risk that future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum are impacted by the relationship between the Canadian dollar and Mexican peso, the Canadian dollar and United States dollar, global economic events and Mexican government policies.

The operations of Tonalli are affected by changes in commodity prices, which in turn, will affect the Company's investment in associates.

e) Liquidity risk

Liquidity risk includes the risk that:

- The Company will not have sufficient funds to settle a transaction on the due date.
- The Company will be forced to sell financial assets at a value which is less than what they are worth; or,
- The Company may be unable to settle or recover a financial asset at all.

The Company's operating cash requirements, including amounts projected to complete budgeted capital expenditures are continuously monitored and adjusted as input variables change. These variables include, but are not limited to, opening cash balance, available bank lines, oil and natural gas production from existing wells, results from new wells drilled, commodity prices, and cost overruns on capital projects and changes to government regulations relating to prices, taxes, royalties, land tenure, allowable production and access to equity markets. As these variables change, liquidity risks may necessitate the need for the Company to conduct equity issues or obtain project debt financing (see also Note 2).

During the year ended December 31, 2023 the Company entered into a supplier finance arrangement to pay for certain invoices in the amount of $29,500 as described in Note 6. The Company does not anticipate to enter into these types of transactions in the future.

f) Fair value of financial instruments

The Company classifies the fair value of financial instruments at fair value through profit or loss 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.

21. Subsequent events

i) On April 8, 2024, the Company settled outstanding indebtedness with certain officers and consultants of the Company (the "Shares for Debt Settlement") through the issuance of common shares of the Company. Pursuant to the Shares for Debt Settlement, the Company issued a total of 4,500,000 commons shares at a deemed price of $0.05 per share in satisfaction of outstanding amounts of $225,000. The common shares issued pursuant to the Shares for Debt Settlement will be subject to a hold period that expires on August 9, 2024.

ii) On April 15, 2024 the Company granted, pursuant to its Incentive Stock Option Plan, 1,600,000 stock options to purchase common shares to directors, officers and consultants of IFR, with an exercise price of $0.06 per share and an expiry date of April 15, 2029. All of the options granted vest immediately.

iii) On April 25, 2024, the Company closed a brokered private placement for gross proceeds of $816,500, (net $668,061) which consisted of the issuance of 16,330,000 units of the Company (the "Units") at a price of $0.05 per Unit (the "Offering"). Each Unit consists of one common share in the capital of the Corporation (a "Common Share") and one-half of one Common Share purchase warrant (each whole warrant, a "Warrant"). Each whole Warrant will entitle the holder thereof to purchase one additional Common Share (a "Warrant Share") for a period of 5 years following the closing of the Offering at an exercise price of $0.10 per Warrant Share.

The Offering consisted of a combination of:

a) 4,782,000 Units for gross proceeds of $239,100 pursuant to the listed issuer financing exemption available under Part 5A of National Instrument 45-106 – Prospectus Exemptions ("NI 45-106").

b) 11,548,000 Units for gross proceeds of $577,400 pursuant to the TSX Venture Exchange offering document exemption available under part 5 of NI 45-106.