



**International Frontier Resources Corporation**

**Consolidated Financial Statements**

**December 31, 2020**

## Contents

	<b><u>Page</u></b>
Independent Auditors' Report	1
Consolidated Statements of Financial Position	5
Consolidated Statements of Operations and Comprehensive Loss	6
Consolidated Statements of Changes in Shareholders' Equity	7
Consolidated Statements of Cash Flows	8
Notes to the Consolidated Financial Statements	9-31



## INDEPENDENT AUDITORS' REPORT

To the Shareholders of International Frontier Resources Corporation

We have audited the consolidated financial statements of International Frontier Resources Corporation (the "Entity"), which comprise:

- the consolidated statements of financial position as at December 31, 2020 and December 31, 2019
- the consolidated statements of operations and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

(Hereinafter referred to as the "financial statements").

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2020 and December 31, 2019, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

### ***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 "Auditors' Responsibilities for the Audit of the Financial Statements" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the 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 financial statements, which indicates that the Entity requires additional sources of capital and to raise sufficient resources to fund ongoing operating and development expenditures and commitments. As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

### ***Other Information***

Management is responsible for the other information. Other information comprises:

- the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit and remain alert for indications that the other information appears to be materially misstated.

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' 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 in the auditors' report.

We have nothing to report in this regard.

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

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

In preparing the financial statements, management is responsible for assessing the Entity'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 Entity or to cease operations, or has no realistic alternative but to do so.



### ***Auditors' Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 the 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 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 Entity'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 Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.



- 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.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

The engagement partner on the audit resulting in this auditors' report is David Yung.

A handwritten signature in black ink that reads "KPMG LLP". The signature is written in a cursive, flowing style.

Chartered Professional Accountants

Calgary, Canada

April 23, 2021

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**International Frontier Resources Corporation**  
**Consolidated Statements of Financial Position**

As at December 31,

2020

2019

**Assets**

Current

Cash and cash equivalents (Note 14)	\$ 44,600	\$ 95,050
Accounts receivable	30,240	25,180
Prepays and deposits	25,030	32,755
	<u>99,870</u>	<u>152,985</u>
Tonalli purchase option (Note 11)	-	45,000
Shareholder loans (Note 11)	2,333,090	2,262,935
Investment in associates (Note 11)	-	3,598,815
Property, plant and equipment (Note 4)	2,535	3,295
	<u>\$ 2,435,495</u>	<u>\$ 6,063,030</u>

**Liabilities**

Current

Accounts payable and accrued liabilities	\$ 670,275	\$ 748,900
Long term debt (Note 12)	43,460	-
	<u>713,735</u>	<u>748,900</u>

**Shareholders' Equity**

Share capital (Note 6a)	57,294,860	56,618,810
Contributed surplus (Note 6b)	12,684,640	12,511,795
Deficit	(68,257,740)	(63,816,475)
	<u>1,721,760</u>	<u>5,314,130</u>
	<u>\$ 2,435,495</u>	<u>\$ 6,063,030</u>

Going concern (Note 2)

Commitments and contingencies (Note 13)

Subsequent event (Note 17)

On behalf of the Board of Directors

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

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

See accompanying notes to the consolidated financial statements.

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## International Frontier Resources Corporation

### Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31, 2020 2019

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#### Expenses

General and administration	\$ 640,485	\$ 690,730
Pre-exploration costs	24,150	197,470
Depreciation (Note 4)	760	645
Share based compensation (Note 6b)	172,845	307,510
Gain on settlement of accounts payable (Note 7)	(36,295)	(104,155)
Write off of share purchase receivable (Note 10)	-	93,590
Provision for doubtful accounts (Note 10)	-	799,240
Impairment of investment in associate (Note 11)	42,380	-
Loss on Tonalli purchase option (Note 11)	45,000	-
Loss on equity investment (Note 11)	<u>3,582,810</u>	<u>882,145</u>
	<b>4,472,135</b>	<b>2,867,175</b>

#### Finance income and expenses

Interest income	89,180	315,375
Foreign exchange loss	<u>(74,850)</u>	<u>(332,060)</u>
	14,330	(16,685)
Other income (Note 12)	<u>16,540</u>	<u>-</u>
	<b>30,870</b>	<b>-</b>

**Net loss and comprehensive loss** \$ (4,441,265) \$(2,883,860)

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#### Net loss per share (Note 9)

Basic and diluted	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>
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See accompanying notes to the consolidated financial statements.



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## International Frontier Resources Corporation

### Consolidated Statements of Changes in Shareholders' Equity

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	December 31, 2020		December 31, 2019	
	Number	Amount	Number	Amount
<b>Common shares</b>				
Balance, beginning of year	173,851,385	\$56,618,810	152,072,385	\$54,619,440
Shares issued for cash	69,540,554	690,405	21,779,000	2,069,005
Share subscriptions obligation (Note 6)		-		5,000
Share Issue costs		(14,355)		(74,635)
Balance, end of year	<u>243,391,939</u>	<u>\$ 57,294,860</u>	<u>173,851,385</u>	<u>\$ 56,618,810</u>
<b>Contributed surplus</b>				
Balance, beginning of year		\$ 12,511,795		\$ 12,204,285
Share based compensation expense (Note 6b)		172,845		307,510
Balance, end of year		<u>\$ 12,684,640</u>		<u>\$ 12,511,795</u>
<b>Deficit</b>				
Balance beginning of year		\$ (63,816,475)		\$ (60,932,615)
Net loss for the year		(4,441,265)		(2,883,860)
Balance, end of year		<u>\$ (68,257,740)</u>		<u>\$ (63,816,475)</u>
<b>Total shareholder's equity</b>		<u>\$ 1,721,760</u>		<u>\$ 5,314,130</u>

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See accompanying notes to the consolidated financial statements.

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## International Frontier Resources Corporation

### Consolidated Statements of Cash Flows

For the years ended December 31, 2020 2019

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#### Operating

Net loss	\$ (4,441,265)	\$ (2,883,860)
Non-cash items:		
Depreciation	760	645
Share based compensation (Note 6b)	172,845	307,510
Loss on Tonalli share purchase option	45,000	-
Gain on settlement of accounts payable (Note 7)	(36,295)	(104,155)
Write off share purchase receivable (Note 10)	-	93,590
Provision for doubtful accounts	-	799,240
Other income (Note 12)	(16,540)	-
Impairment of investment in associate (Note 11)	42,380	-
Loss on equity investment (Note 11)	3,582,810	882,145
Unrealized foreign exchange loss	74,615	290,640
Change in non-cash working capital (Note 14)	<u>(39,665)</u>	<u>204,850</u>
Cashflow used in operating activities	<b>(615,355)</b>	<b>(409,395)</b>

#### Investing

Shareholder loan (Note 11)	(67,775)	(1,556,690)
Change in non-cash investing capital (Note 14)	<u>(103,370)</u>	<u>(363,265)</u>
Cash flow used in investing activities	<b>(171,145)</b>	<b>(1,919,955)</b>

#### Financing

Long term debt (Note 12)	60,000	-
Shares issued for cash (Note 6)	690,405	2,074,005
Share issuance costs	<u>(14,355)</u>	<u>(74,635)</u>
Cash flow from financing activities	<b>736,050</b>	<b>1,999,370</b>
Net change in cash and cash equivalents	<b>(50,450)</b>	<b>(329,980)</b>
Cash and cash equivalents		
Beginning of year	<u>95,050</u>	<u>425,030</u>
End of year	<b><u>\$ 44,600</u></b>	<b><u>\$ 95,050</u></b>

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Supplemental cash flow information (Note 14)

See accompanying notes to the consolidated financial statements.

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# **International Frontier Resources Corporation**

## **Notes to the Consolidated Financial Statements**

December 31, 2020

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### **1. Nature of operations**

International Frontier Resources Corporation (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 is Suite 1805, 222 3<sup>rd</sup> Avenue S.W., Calgary, Alberta, Canada.

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"), and Energia Mex Can ("Mexcan"), Mexican companies which are accounted for using the equity method.

### **2. Basis of preparation and statement of compliance**

#### **Statement of compliance**

The consolidated financial statements (the "financial statements") have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board. A summary of the Company's significant accounting policies is presented in Note 3.

These financial statements were approved and authorized for issue by the Board of Directors on April 23, 2021.

#### **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 subsidiary and are expressed in Canadian dollars, unless otherwise stated.

#### **Going concern**

These financial statements have been prepared by management 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 loss of \$4,441,265 and cash flows used in operations of \$615,355 for the year ended December 31, 2020, and a working capital deficit of \$570,405 as at December 31, 2020.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2020

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

In March 2020, the World Health Organization declared a global pandemic following the emergence and rapid spread of a novel strain of the coronavirus (“COVID-19”). The pandemic and subsequent measures intended to limit its spread, contributed to significant volatility in global financial markets. The pandemic has adversely impacted global commercial activity and has reduced worldwide demand for commodities including crude oil, natural gas and natural gas liquids (“NGL”). The result was significant economic uncertainty and a decline in commodity prices through most of 2020. In general, the oil and gas industry reacted with reductions to capital and other spending, as well as production shut-ins, to try to manage through this price environment.

The full extent of the impact of COVID-19 on the Company’s operations and future financial performance is currently unknown. It will depend on future developments that are uncertain and unpredictable, including the duration and spread of COVID-19, its continued impact on financial markets on a macro-scale and any new information that may emerge concerning the effectiveness of available vaccines and the severity and spread of the virus. The pandemic presents uncertainty and risk with respect to the Company, its performance, and estimates and assumptions used by management in the preparation of its financial results.

The Company’s financial performance, operations and business are particularly sensitive to a reduction in the demand for and prices of crude oil and natural gas. The potential direct and indirect impact of the economic downturn related to COVID-19 have been considered in management’s estimates and assumptions at period end and have been reflected in the Company’s results with any significant changes described in the relevant financial statements note.

The Company’s ability to continue as a going concern is dependent on the successful operations of Tonalli as well as management’s ability to identify additional sources of capital and to raise sufficient resources to fund ongoing operating and development expenditures. There is no guarantee that the operations of Tonalli will be successful, or that additional sources of funding will be obtained.

These conditions indicate the existence of a material uncertainty that casts significant doubt about the Company’s ability to continue as a going concern.

These 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 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.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2020

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

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.

#### Significant accounting judgments, estimates and assumptions

The timely preparation of the financial statements in accordance with IFRS requires that management make estimates and assumptions and use judgment 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 judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

- Amounts recorded for depletion, depreciation and impairment expense, accretion expense, decommissioning liabilities, fair value measurements, and amounts used in impairment tests for exploration and evaluation assets, and property, plant and equipment are based on estimates. These estimates include petroleum and natural gas reserves, future petroleum and natural gas prices, future interest rates and future costs required to develop those reserves as well as other fair value assumptions.
- Oil and gas reserves are evaluated by an independent qualified reserve evaluator. The estimation of reserves is an inherently complex process and involves the exercise of professional judgment. Estimates are based on projected future rates of production, estimated commodity prices, engineering data and the timing of future expenditures, all of which are subject to uncertainty. Changes in reserve estimates can have an impact on reported net earnings through revisions to depletion and impairment expense, in addition to determining possible impairments of property, plant and equipment.
- The total decommissioning liabilities is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years, based on current legal and constructive requirements and technology. The estimated obligations and actual costs may change significantly due to changes in regulations, technology, timing of the expenditure, and the discount rates used to determine the net present value of the obligations.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2020

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

- 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
- 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.
- 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.

The COVID-19 pandemic is an evolving situation that will continue to have widespread implications for the Company's business environment, operations and financial condition. Management cannot reasonably estimate the length or severity of this pandemic, or the extent to which the disruption may materially impact the Company's financial statements in fiscal 2021 and beyond.

The pandemic and current market conditions have increased the complexity of estimates and assumptions used to prepare the financial statements, particularly related to recoverable amounts.

The recoverable amount of a cash-generating unit ("CGU") or an individual asset requires the use of estimates and assumptions, which are subject to change as new information becomes available. The severe drop in and volatility of forecasted commodity prices, due to reasons noted above, 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.

#### **Cash and cash equivalents**

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

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2020

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### 3. Summary of significant accounting policies

#### 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 loss.

#### 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.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2020

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### 3. Summary of significant accounting policies (continued)

#### Revenue from contracts with customers

The Company's Mexico joint venture generates oil revenue which is included in the profit or loss from investment in joint venture. Oil revenue generated within the joint venture is recognized when the performance obligations are satisfied, and revenue can be reliably measured. Revenue is measured at the consideration specified in the contracts and represents amounts receivable for goods or services provided in the normal course of business, net of discounts, customs duties, and sales taxes. Oil sales within the joint venture sold in Mexico are under long term floating price contracts. Performance obligations associated with the sale of crude oil are satisfied at the point in the time when the products are delivered, and title passes to the customer.

#### **Exploration and evaluation assets and property, plant and equipment**

##### **i) Cost**

Oil and gas properties and other property, plant and equipment are stated at cost. The chosen accounting policy requires management to determine the proper classification of activities designated as developmental or exploratory, which then determines the appropriate accounting treatment of the costs incurred for oil and natural gas exploration, evaluation, and development expenditures.

The results from an exploration drilling program can take considerable time to analyze and the determination that commercial reserves have been discovered requires both judgment and industry experience. Exploration drilling costs can fluctuate from year to year due to such factors as the level of exploratory spending, the level of risk sharing with third parties participating in the exploratory drilling and the degree of risk associated with drilling in particular areas.

##### **ii) Exploration and evaluation costs**

Once the legal right to explore has been acquired, direct costs of exploration activities are capitalized as intangible exploration and evaluation assets until the assets have been evaluated. Direct costs can include unproved property acquisition costs, geological and geophysical costs, exploratory drilling costs, materials used and contract labour costs. When technical feasibility and commercial viability are demonstrated, the exploration and evaluation costs are then transferred to property, plant, and equipment. As long as these assets remain classified as intangible exploration and evaluation assets, they are subject to technical, commercial and management review, as well as a review for indicators of impairment. If there are indicators of impairment, exploration and evaluation assets are tested for impairment at the operating segment level together with property, plant, and equipment. Exploration and evaluation assets are derecognized when the legal right to explore has expired or when the carrying value of the asset is no longer expected to be recoverable from future operations. Costs incurred before the Company has a legal right to explore are expensed in the period in which they are incurred as pre-exploration costs.

##### **iii) Petroleum and natural gas properties**

Petroleum and natural gas properties are recorded at cost less accumulated depletion and accumulated impairment losses. All direct costs related to the acquisition, exploration and development of petroleum and natural gas properties are initially capitalized. Costs are comprised of the asset's purchase price or construction costs, which can include lease acquisitions, geological and geophysical costs, equipment costs, drilling, completion and tie-in costs, overhead expenses directly related to development activities and an estimate of costs to decommission the asset.



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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2020

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### 3. Summary of significant accounting policies (continued)

Petroleum and natural gas properties are depleted using the unit-of-production method based on proven and probable reserves as determined by the Company's independent reserve evaluators, using estimated future prices and costs. The depletion cost base includes total capitalized costs plus the estimated future costs associated with developing proven and probable reserves.

Petroleum and natural gas properties are derecognized when no future economic benefits are expected from their use or disposal. The gain or loss arising from the derecognition is included in the statement of operations and comprehensive loss.

#### iv) Office furniture and equipment

Office furniture and equipment are stated at historical cost less depreciation and, where necessary, impairment losses. Depreciation is calculated using the following rates and methods:

Office furniture and equipment	20%
Computer equipment and software	30% - 100%

#### v) Impairment of exploration and evaluation assets and property, plant, and equipment

The Company's exploration and evaluation assets and property, plant and equipment are reviewed for indicators of impairment at each reporting date. If indicators of impairment exist, the Company will then perform an impairment test. The test requires that the Company estimate the assets' recoverable amount. The test must be performed at the lowest level of which an asset or a cash generating unit ("CGU") generates cash inflows that are largely independent of those from other assets or another CGU. If the carrying amount of an asset or CGU exceeds its recoverable amount, the asset or CGU is considered impaired and is written down to its recoverable amount.

The recoverable amount is calculated as the greater of an asset or CGU's fair value less costs to sell and its value-in-use. Fair value less costs to sell may be determined using discounted future net cash flows of proven and probable reserves using forecasted market prices and costs. Value-in-use is determined by estimating the present value of the future net cash flows expected to be derived from the continued use of the asset or CGU. Impairment losses are recognized as impairments in the statement of operations and comprehensive loss.

At each reporting date, an assessment is made as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indicators exist, the Company estimates the assets or CGU's recoverable amount. An impairment loss is reversed only to the extent that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined net of depletion, had no impairment loss been previously recognized for the asset or CGU. Such reversal is recognized in the statement of operations and comprehensive loss.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2020

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### 3. Summary of significant accounting policies (continued)

#### 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.

#### Government grants

Grants from the government are recognized at their fair value when there is reasonable assurance that the grant will be realized, and the Company will comply with all the attached conditions. Government grants receivable are recognized as income over the periods necessary to match them with the related costs which they are intended to compensate, on a systematic basis.

The Company recognizes the Canada Emergency Business Account (“CEBA”) program that was launched by the Government of Canada in response to the global COVID-19 pandemic as a long-term debt. The initial measurement of the accounting liability recognized to repay the lender is discounted using the prevailing market rates of interest, at that time, for a similar instrument (similar as to currency, term, type of interest rate, guarantees or other factors). The difference between the face value of the long-term obligation and the discounted value of the long-term obligation is accounted for as a government contribution which is included in other income on the consolidated statements of loss and comprehensive loss.

#### Income taxes

Income tax expense comprises current and deferred tax. Income 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 income tax relating to items recognized directly in equity is recognized in equity.

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 income tax liability may differ significantly from that estimated and recorded by management.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2020

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### 3. Summary of significant accounting policies (continued)

#### 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 that takes into account the grant date, the exercise price and expected life of the option, the price of the underlying security, the expected volatility, the risk-free interest rate and dividends, if any, on the underlying security. 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

Financial instruments comprised cash and cash equivalents, accounts receivable, shareholder loans, Tonalli purchase option, and accounts payable and accrued liabilities.

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.

ii) Impairment of financial assets:

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 loss and comprehensive loss.

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2020

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### 3. Summary of significant 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. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

a) 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.

a) 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.

iii) 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 cash equivalents, accounts receivable and shareholder loans as financial assets at amortized costs and accounts payable and accrued liabilities as financial liabilities at amortized cost. The Tonalli purchase option is classified as FVTPL. The Company has no contract assets or debt investments measured at FVOCI.

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**International Frontier Resources Corporation**  
**Notes to the Consolidated Financial Statements**  
December 31, 2020

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**4. Property, plant and equipment**

<b>Cost</b>	<b>Office furniture and equipment</b>
Balance at December 31, 2019	\$ 137,570
Additions	-
<b>Balance at December 31, 2020</b>	<b>\$ 137,570</b>
<b>Depletion and depreciation</b>	
Balance at December 31, 2018	(133,630)
Depletion and depreciation	(645)
Balance at December 31, 2019	(134,275)
Depletion and depreciation	(760)
<b>Balance at December 31, 2020</b>	<b>\$ (135,035)</b>
<b>Carrying Value</b>	
Balance at December 31, 2019	\$ 3,295
<b>Balance at December 31, 2020</b>	<b>\$ 2,535</b>

**5. 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 24% (2019- 26.5%) to loss before income taxes. This difference results from the following items:

	<u>2020</u>	<u>2019</u>
Loss before income taxes	\$ (4,441,265)	\$ (2,883,860)
Expected tax recovery of combined federal and provincial statutory rates	(1,066,000)	(764,223)
Increase (decrease) resulting from:		
Share based compensation	41,000	82,000
Foreign income tax rate differentials	(229,000)	(45,000)
Change in enacted tax rates and other	1,026,500	727,223
Change in unrecognized deferred tax asset	227,500	-
	<u>\$ -</u>	<u>\$ -</u>

- b) Unrecognized temporary differences and other items:

	<b>December 31, 2020</b>	December 31, 2019
Property plant and equipment	\$ 13,062,000	\$ 13,061,000
Capital losses	12,931,000	12,931,000
Non-capital losses	12,472,000	12,006,000
Investment in associate and other	6,704,000	2,894,000
Foreign losses and other	557,000	333,000
	<u>\$ 45,726,000</u>	<u>\$ 41,225,000</u>

**International Frontier Resources Corporation**  
**Notes to the Consolidated Financial Statements**  
December 31, 2020

**5. Income taxes** (continued)

	2019	Change in valuation allowance	Other comprehensive income	2020
Property, plant and equipment	\$ 3,526,000	\$ (391,000)	\$ -	\$ 3,135,000
Non-capital losses	3,229,000	(355,000)	(5,000)	2,869,000
Capital losses	1,746,000	(259,000)	-	1,487,000
Foreign losses	97,000	67,000	-	164,000
Investment in TE Corporation	881,000	1,166,000	(37,000)	2,011,000
Share issue costs	2,500	(500)	-	2,000
	<b>9,481,500</b>	<b>227,500</b>	<b>(42,000)</b>	<b>9,668,000</b>
Unrecognized	(9,481,500)	(227,500)	42,000	(9,668,000)
Deferred income tax asset	\$ -	\$ -	\$ -	\$ -

**c) Tax losses**

The Company has incurred non-capital losses for income tax purposes of approximately \$12,472,000 (2019- \$12,006,000) in Canada. Unless sufficient taxable income is earned, these losses will expire between 2026 and 2049.

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.

**6. Share capital**

**a) Authorized:**

Unlimited common shares, Unlimited preferred shares

	Number of Shares	Amount
<b>Balance at December 31, 2018</b>	<b>152,072,385</b>	<b>\$54,619,440</b>
Shares issued via private placement (i)	21,779,000	2,069,005
Share purchase obligation (ii)		5,000
Shares issue costs		(74,635)
<b>Balance at December 31, 2019</b>	<b>173,851,385</b>	<b>\$56,618,810</b>
Shares issued via rights offering (ii)	69,540,554	690,405
Shares issue costs		(14,355)
<b>Balance at December 31, 2020</b>	<b>243,391,939</b>	<b>\$57,294,860</b>

(i) On May 28, 2019, the Company closed a private placement for gross proceeds of \$2,069,005, (net \$2,005,950) which consisted of the issuance of 21,779,000 common shares at a price of \$0.095 per common share. All shares issued under the non-brokered placement are subject to a hold period of four months from the date of closing.

**International Frontier Resources Corporation**  
**Notes to the Consolidated Financial Statements**  
December 31, 2020

**6. Share capital (continued)**

(ii) On January 17, 2020, the Company completed a rights offering. The Company issued 69,540,554 common shares of the Company at a price of \$0.01 per common share, raising total gross proceeds of \$695,405. Share issue costs of \$14,355 were incurred. Officers and Directors of the Company purchase 25,002,948 common shares issued with respect to the rights offering. In December 2019, the Company received \$5,000 of cash consideration for the purchase of 500,000 common shares in advance of closing and the shares were issued on closing in January 2020.

**b) Contributed surplus**

	<b>December 31,</b> <b>2020</b>	December 31, 2019
Balance, beginning of year	\$ <b>12,511,795</b>	\$ 12,204,285
Share based compensation	<b>172,845</b>	307,510
Balance, end of year	\$ <b>12,684,640</b>	\$ <b>12,511,795</b>

**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. The exercise price of each option approximates the market price for the common shares on the date the option was granted. As at December 31, 2020, 11,600,000 common shares were reserved for issuance under the plan. Options granted under the plan vest within two years of the grant date and have a term of five years to expiry.

	<b>December 31 ,</b> <b>2020</b>		December 31, 2019	
	<b>Weighted</b>		Weighted	
	<b>Number of</b>	<b>Average</b>	Number of	Average
	<b>Options</b>	<b>Exercise</b>	Options	Exercise
		<b>Price</b>		<b>Price</b>
Balance, beginning of year	<b>14,525,000</b>	\$ <b>0.13</b>	10,900,000	\$ 0.17
Granted	-	-	7,250,000	0.08
Expired/cancelled	<b>(2,925,000)</b>	<b>0.13</b>	<b>(3,625,000)</b>	0.11
Balance, end of year	<b>11,600,000</b>	\$ <b>0.13</b>	<b>14,525,000</b>	\$ <b>0.13</b>

<b>December 31, 2020</b>		<b>Options Outstanding</b>		<b>Options Exercisable</b>	
	Options	Weighted	Weighted	Options	Weighted
<u>Exercise Price</u>	<u>Outstanding</u>	<u>Average</u>	<u>Average</u>	<u>Exercisable</u>	<u>Average</u>
		<u>Contractual</u>	<u>Exercise</u>		<u>Exercisable</u>
		<u>Life (years)</u>	<u>Price</u>		<u>Price</u>
\$0.08	6,600,000	3.70	\$ 0.08	4,866,667	\$ 0.08
\$0.13 - \$0.16	1,325,000	0.50	\$ 0.15	1,325,000	\$ 0.15
\$0.22	3,675,000	2.18	\$ 0.22	3,675,000	\$ 0.22
	<b>11,600,000</b>	<b>2.93</b>	<b>\$ 0.13</b>	<b>9,866,667</b>	<b>\$ 0.14</b>

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**International Frontier Resources Corporation**  
**Notes to the Consolidated Financial Statements**  
December 31, 2020

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**6. Share capital (continued)**

During the year ended December 31, 2019, the Company granted 7,250,000 stock options, of which 150,000 options were cancelled and 250,000 vested immediately. The remaining 6,850,000 options vest over three years. The weighted average fair market value of options granted in the period was \$0.08 per option. The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

	<b>2019</b>
Risk-free interest rate	1.41%
Forfeiture rate	2
Expected life of options	5 years
Volatility	122.25%
Dividend yield rate	0
Share price	\$ 0.08

**7. Gain on settlement of accounts payable**

At December 31, 2019, the Company had amounts owing of \$57,360 to the operator in relation to the estimated reclamation costs for the properties in which it holds its working interest located in the Northwest Territories, Canada. During the year ended December 31, 2020, the operator relinquished remaining freehold lands eliminating the deferred royalty payable accrued in 2019. As such, the amount payable at December 31, 2020 is \$21,065 and a gain on settlement in the amount of \$36,295 has been recorded in 2020.

**8. 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, 2020, the Company's capital as defined above is as follows:

	<b>December 31, 2020</b>	December 31, 2019
Cash and cash equivalents	\$ 44,600	\$ 95,050
Accounts receivable	30,240	25,180
Accounts payables and accrued liabilities	<u>(670,275)</u>	<u>(748,900)</u>
	<b>\$ (595,435)</b>	<b>\$ (628,670)</b>

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.

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.



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**International Frontier Resources Corporation**  
**Notes to the Consolidated Financial Statements**  
December 31, 2020

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**8. Capital management (continued)**

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.

In January 2020, the Company completed a rights offering and received total gross proceeds of \$695,406 from issuance of 69,540,554 commons shares at a price of \$0.01 per share.

**9. Per share amounts**

	<u>2020</u>	<u>2019</u>
Net loss	\$ (4,441,265)	\$ (2,883,860)
Weighted average number of shares	<u>241,105,674</u>	<u>166,200,764</u>
Basic loss per share from continuing operations	<u>\$ (0.02)</u>	<u>\$ (0.02)</u>

The Company has dilutive instruments outstanding, which consist of stock options. The dilutive impact of these instruments using the treasury stock method results in anti-dilution as a result of the Company incurring losses during the years presented.

**10. Related party transactions**

The Company paid compensation to key executives for the years ended December 31, 2020 and 2019 as follows:

	<u>2020</u>	<u>2019</u>
Executive officers – salaries and consulting fees	\$ 240,000	\$ 304,000
Stock based compensation	<u>154,090</u>	<u>298,010</u>
	<u>\$ 394,090</u>	<u>\$ 602,010</u>

At December 31, 2020, \$292,895 (2019 – \$304,000) was included in accounts payable and accrued liabilities owing to related parties.

Included in accounts receivable at December 31, 2020 is \$Nil (2019 - \$799,240) representing amounts for reimbursement of overhead expenses owing from Tonalli, in which the Company's 99.80% owned Mexican subsidiary, Frontera, has a 50% shareholding. At December 31, 2019, amounts owing were deemed uncollectible and an expected credit loss in the amount of \$799,240 was recorded against this receivable.

During the year ended December 31, 2019, accounts receivable from a Director of the Company in the amount of \$180,000 were settled for \$86,410, resulting in a loss of \$93,590.

The above transactions were incurred in the normal course of operations of the Company and have been recorded at the exchange amounts that were established and agreed upon by the related parties.

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2020

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#### 11. Investment in associates

At December 31, 2020, the Company, through its Mexcan subsidiary Frontera's holds 50% investments in Tonalli Energia S.A.P.I. de CV ("Tonalli"), and Energia Mex Can ("Mexcan"), Mexican companies which are accounted for using the equity method.

The Company's investment in Tonalli and Mexcan are as follows:

<b>As at December 31, 2020</b>	<b><u>Tonalli</u></b>	<b><u>Mexcan</u></b>	<b><u>Total</u></b>
Balance, beginning of year	\$ 3,560,210	\$ 38,605	\$ 3,598,815
Fair value adjustment of Tonalli loan	26,375	-	26,375
Share of income (loss) for the year	(3,586,585)	3,775	(3,582,810)
Impairments	-	(42,380)	(42,380)
<b>Balance, end of year</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>As at December 31, 2019</b>	<b><u>Tonalli</u></b>	<b><u>Mexcan</u></b>	<b><u>Total</u></b>
Balance, beginning of year	\$ 328,395	\$ 30,445	\$ 358,840
Contributions	3,117,120	-	3,117,120
Share of income (loss) for the year	(890,305)	8,160	(882,145)
Fair value adjustment of Tonalli loan	1,005,000	-	1,005,000
<b>Balance, end of year</b>	<b>\$ 3,560,210</b>	<b>\$ 38,605</b>	<b>\$ 3,598,815</b>

At December 31, 2020 the Company determined that the investment in Mexcan was impaired and an impairment loss of \$42,380 has been recorded on the Company consolidated statement of operations and comprehensive loss.

#### Shareholder loans

	<b><u>December 31, 2020</u></b>	<b><u>December 31, 2019</u></b>
Balance, beginning of year	\$ 1,777,680	\$ 4,626,355
Contributions	63,625	1,493,620
Conversion to Tonalli shares	-	(3,117,120)
Foreign exchange (gain) loss	(56,350)	(220,175)
Fair value adjustment	(26,375)	(1,005,000)
	<b>1,758,580</b>	1,777,680
Accrued interest	574,510	485,255
<b>Balance, end of year</b>	<b>\$ 2,333,090</b>	<b>\$ 2,262,935</b>

At December 31, 2020, Frontera has loaned \$2,789,955 CAD equivalent (December 31, 2019 - \$5,899,800 CAD equivalent) to Tonalli in the form of shareholder loans pursuant to a shareholder loan agreement.

At December 31, 2019, \$3,117,120 of the outstanding shareholder loan balance of \$5,899,800 CAD equivalent was converted to common shares of Tonalli and as a result were recognized as a contribution to the Tonalli equity investment.

Per the terms of the shareholder loan agreement the loans (plus interest accrued to date) have a maturity date of December 31, 2024 and bears interest at a rate of Libor plus 2.75%.

Interest accrued at December 31, 2020 was \$574,510 (December 31, 2019 - \$485,255) CAD equivalent and has been included in shareholder loans at December 31, 2020.

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**International Frontier Resources Corporation**  
**Notes to the Consolidated Financial Statements**  
December 31, 2020

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**11. Investment in associates (continued)**

At December 31, 2020, the fair value of the 2020 shareholder loan in the amount of \$63,625 was determined to be \$37,250. The difference of \$26,375 between the fair value of the shareholder loan and the loan balance is recorded as an increase in the Company's equity investment in Tonalli. At December 31, 2019, the fair value of the shareholder loan outstanding was determined to be \$2,262,935. The difference of \$1,005,000 between the fair value of the shareholder loan and the loan balance is recorded as an increase in the Company's equity investment in Tonalli in 2019.

**Summarized financial information**

**Tonalli**

<b>As at December 31,</b>	<b>2020</b>	<b>2019</b>
Cash	\$ 108,706	\$ 523,560
Other current assets	839,123	1,884,055
Oil and gas properties	8,600,951	12,755,605
Other non current assets	18,591	2,385,820
<b>Total assets</b>	<b>9,567,371</b>	<b>17,549,040</b>
Current liabilities - payables and accruals	4,108,402	5,178,995
Long term liabilities	7,054,433	7,008,380
<b>Total liabilities</b>	<b>11,162,835</b>	<b>12,187,375</b>
<b>For the year ended December 31,</b>	<b>2020</b>	<b>2019</b>
Loss before income taxes	\$ (5,276,377)	\$ (2,638,822)
Deferred tax recovery (expense)	\$ (2,280,272)	\$ 858,210
<b>Net loss</b>	<b>\$ (7,556,649)</b>	<b>\$ (1,780,612)</b>

**Mexcan**

<b>For the year ended December 31,</b>	<b>2020</b>	<b>2019</b>
Net income before taxes	\$ 16,050	\$ 33,965
<b>Net income</b>	<b>\$ 7,550</b>	<b>\$ 16,320</b>

On September 26, 2018, the Company entered into a share option agreement (the "Option Agreement") with its joint venture partner 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. Currently, Frontera holds 50% of the outstanding shares of Tonalli with IDESA holding the remaining 50%.

Under the terms of the Option Agreement, Frontera has the right to acquire the outstanding shares of Tonalli held by IDESA prior to the expiry date of September 25, 2020 upon payment of the exercise price in the amount of 70,000,000 common shares of the Company less the number of the Company's shares issued to IDESA prior to the exercise as part of the future private placement as set out in the Option Agreement. Pursuant to the Option Agreement, IDESA has agreed to subscribe for the Company's shares in the

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# International Frontier Resources Corporation

## Notes to the Consolidated Financial Statements

December 31, 2020

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### 11. Investment in associates (continued)

aggregate amount of a minimum of CDN\$1,000,000 as part of a future private placement of the Company's shares to be completed by Company before March 25, 2019. Subsequent to the year ended December 31, 2018, it was agreed that the Option Agreement would be amended to extend the date of the subscription of shares and on April 22, 2019 IDESA participated in a private placement and was issued 10,714,500 shares for proceeds of CDN \$1,017,880.

On September 25, 2020, the option had not been exercised and expired. The fair value of the Option which had been determined to be \$45,000 has been recognized as a loss in the period.

### 12. Long term debt

	December 31, 2020	December 31, 2019
Principal	\$ 60,000	\$ -
Less: amortized below market interest benefit	(16,540)	-
	<u>\$ 43,460</u>	<u>\$ -</u>

In 2020, the Company applied for and received a \$60,000 term loan under the Canada Emergency Business Account (the "CEBA term loan"), which is 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 is paid off by December 31, 2022, a quarter of the loan will be forgiven. 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, 2025.

In calculating the fair value of the loan, the Company applied an effective interest rate of 17.0% which corresponds to a rate that the Company would have obtained for a similar investment. The \$16,540 residual value was attributed to a governmental subsidy that is presented in the consolidated statement of operations in other income.

### 13. Commitments and contingencies

Effective July 1, 2020, the Company is party to an agreement to lease its new premises until June 30, 2021. The annual rent of the premises will consist of minimum rent plus occupancy costs. Minimum rent plus occupancy costs to the end of the lease is \$12,000.

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**International Frontier Resources Corporation**  
**Notes to the Consolidated Financial Statements**  
December 31, 2020

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**14. Supplemental cash flow information**

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

	<u>2020</u>	<u>2019</u>
Accounts receivable	\$ (108,430)	\$ (559,295)
Prepays and deposits	7,725	3,965
Restricted cash on deposit	-	300,000
Accounts payable and accrued liabilities	<u>(42,330)</u>	<u>96,915</u>
	<u>\$ (143,035)</u>	<u>\$ (158,415)</u>
Operating activities	\$ (39,665)	\$ 204,850
Investing activities	<u>(103,370)</u>	<u>(363,265)</u>
	<u>\$ (143,035)</u>	<u>\$ (158,415)</u>
Taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -
Cash and cash equivalents are comprised of:		
Cash on hand - Canada	\$ 38,750	\$ 86,705
Cash on hand - Mexico	<u>5,850</u>	<u>8,345</u>
	<u>\$ 44,600</u>	<u>\$ 95,050</u>

**15. 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 loss and comprehensive loss**

<u>Year ended December 31, 2020</u>	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Interest income	\$ 70	\$ 89,110	\$ 89,180
Other income	16,540	-	16,540
Foreign exchange gain (loss)	<u>2,070</u>	<u>(76,920)</u>	<u>(74,850)</u>
	<u>18,680</u>	<u>12,190</u>	<u>30,870</u>
Expenses			
General and administration	431,402	209,083	640,485
Pre exploration costs	24,150	-	24,150
Depletion and depreciation	752	8	760
Share based compensation	172,845	-	172,845
Gain on settlement of accounts payable	(36,295)	-	(36,295)
Impairment of investment in associate	-	42,380	42,380
Loss on Tonalli purchase option	45,000	-	45,000
Loss on equity investment	<u>-</u>	<u>3,582,810</u>	<u>3,582,810</u>
	<u>637,854</u>	<u>3,834,281</u>	<u>4,472,135</u>
Net loss and comprehensive loss	<u>\$ (619,174)</u>	<u>\$ (3,822,091)</u>	<u>\$ (4,441,265)</u>

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**International Frontier Resources Corporation**  
**Notes to the Consolidated Financial Statements**  
December 31, 2020

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**15. Segmented information (continued)**

<u>Year ended December 31, 2019</u>	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Interest income	\$ 1,568	\$ 313,807	\$ 315,375
Foreign exchange loss	(34,549)	(297,511)	(332,060)
	<u>(32,981)</u>	<u>16,296</u>	<u>(16,685)</u>
Expenses			
General and administration	430,018	260,712	690,730
Pre exploration costs	50,470	147,000	197,470
Depletion and depreciation	645	-	645
Share based compensation	307,510	-	307,510
Gain on settlement of accounts payable	(104,155)	-	(104,155)
Write off of share purchase receivable	93,590	-	93,590
Provision for doubtful accounts	799,240		799,240
Loss on equity investment	-	882,145	882,145
	<u>1,577,318</u>	<u>1,289,857</u>	<u>2,867,175</u>
Net loss and comprehensive loss	<u>\$ (1,610,299)</u>	<u>\$ (1,273,561)</u>	<u>\$ (2,883,860)</u>

**a) Assets**

**As at December 31, 2020**

	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Total assets	\$ 84,830	\$ 2,350,665	\$ 2,435,495

**As at December 31, 2019**

	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Total assets	\$ 184,830	\$ 5,878,200	\$ 6,063,030

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## International Frontier Resources Corporation

### Notes to the Consolidated Financial Statements

December 31, 2020

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#### 16. Financial risk management

The Company is exposed to financial risk in a range of financial instruments including cash and cash equivalents, accounts receivable, 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. All amounts outstanding at December 31, 2020 are expected to be collected in 2021.

The following table presents the aging of the Company's accounts receivable at December 31, 2020:

Total accounts receivable	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
\$ 30,240	\$ 830	\$ -	\$ 5,600	\$ 23,810

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.

The Company's loss allowance balance at December 31, 2020 is \$Nil (2019 – \$799,240).

##### 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, 2020, 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 year-end. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate risk.

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**International Frontier Resources Corporation**  
**Notes to the Consolidated Financial Statements**  
December 31, 2020

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**16. Financial risk management (continued)**

**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, 2020, the carrying amount of the Company's Mexican pesos denominated net monetary assets was approximately \$54,850 pesos. Assuming all other variables remain constant, a fluctuation of one percent in the exchange rate of the Canadian dollar to the Mexican pesos at December 31, 2020 would have affected the value of such balances by approximately CAD \$580.

At December 31, 2020, the carrying amount of the Company's U.S. dollar denominated monetary assets was approximately US \$3.820. Assuming all other variables remain constant, a fluctuation of one percent in the exchange rate of the Canadian dollar to the U.S. dollar at December 31, 2020 would have affected the value of such balances by approximately CAD \$38.

**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 and cash equivalents 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.



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**International Frontier Resources Corporation**  
**Notes to the Consolidated Financial Statements**  
December 31, 2020

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**16. Financial risk management (continued)**

**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.

At December 31, 2020 and December 31, 2019 cash and cash equivalents have been classified as Level 1. The Tonalli purchase option is classified as Level 3.

**17. Subsequent event**

In March 2021, the Company settled amounts owing of \$62,500 to a consultant in relation to services provided in 2019 for \$7,500.