



**International Frontier Resources Corporation**

**Management Discussion and Analysis**

**For the Years ended December 31, 2020 and 2019**

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 following is management's discussion and analysis ("MD&A") of IFR's operating and financial results for the year ended December 31, 2020, as well as information concerning the Company's future outlook based on currently available information. The MD&A has been prepared by management as at April 23, 2021 and should be read in conjunction with the audited consolidated financial statements as at December 31, 2020 and 2019 together with the accompanying notes, the Statement of Reserves Data and Other Oil and Gas Information contained in the Company's annual information form dated December 31, 2020. This MD&A contains forward-looking statements. See "*Forward Looking Statements*".

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

The annual consolidated financial statements have been audited by the Company's independent external auditors and approved by the Audit Committee and the Board of Directors.

All financial measures presented in this MD&A are expressed in Canadian dollars unless otherwise indicated. References herein to "boe" mean barrels of oil equivalent derived by converting gas to oil in the ratio of six thousand cubic feet (Mcf) of gas to one barrel (bbl) of oil. Boe may be misleading, particularly if used in isolation. A boe conversion ratio of 6 Mcf: 1 bbl is based on an energy conversion method primarily applicable at the burner tip and does not represent a value equivalency at the wellhead.

## Annual Results

The following table summarizes results for the years ended December 31,

	2020	2019	2018
<b>Statements of operations</b>			
Interest income	\$ 89,180	\$ 315,375	\$ 116,830
Net loss and comprehensive loss	\$ (4,441,265)	\$ (2,883,860)	\$ (8,861,450)
Loss per share	\$ (0.02)	\$ (0.02)	\$ (0.06)
<b>Cash flow</b>			
Net cash provided (used in)			
Operating activities	\$ (615,355)	\$ (409,395)	\$ (1,670,090)
Investing activities	\$ (171,145)	\$ (1,919,955)	\$ (4,782,865)
Financing activities	\$ 736,050	\$ 1,999,370	\$ 1,237,250
<b>Statements of financial position</b>			
<b>Assets</b>			
Investment in associates	\$ -	\$ 3,598,815	\$ 358,840
Total assets	\$ 2,435,495	\$ 6,063,030	\$ 6,647,250
Working capital	\$ (570,405)	\$ (595,915)	\$ 5,483,330

## Discussion of Operations

### Interest income

- In 2020, the Company earned interest income of \$70 from short-term investments (2019 – \$1,568), the decrease was due to a decrease in amounts being invested at December 31, 2020.
- Also included in interest income in 2020 is \$89,110 (2019 – \$313,807) of interest accrued in Frontera, with respect to shareholder loans to Tonalli.

### General and administrative expenses

Year ended December 31,	2020	2019
Professional fees	\$ 171,000	\$ 136,380
Consulting fees and salaries	287,620	249,370
Rent and corporate costs	152,700	183,535
Filing and transfer fees	29,165	63,240
Corporate travel	-	21,960
Investor relations	-	36,245
	<b>\$ 640,485</b>	<b>\$ 690,730</b>

- In 2020, general and administrative expenses were \$640,485, a decrease of \$50,245 or 7.27% as compared with \$690,730 in 2019.
- The decrease in general and administration expenses is mainly a result of an overall reduction in general and corporate costs incurred in the year and a reduction in costs as a result of fewer costs incurred due to limited travel and investor relations activities due to COVID 19.

### Net loss

- For the year ended December 31, 2020, the Company recorded a net loss from continuing operations of \$4,441,265 (\$0.02 loss per share) as compared to \$2,883,860 (\$0.02 loss per share) at December 31, 2019.
- Increased loss at December 31, 2020 is a result of an increased equity loss in Tonalli related to impairment of oil and gas properties in that period.

### Share based compensation

- In 2020, the Company recorded a compensation expense of \$172,845 (2019 – \$307,510) with respect to options granted in 2018 and 2019. The fair value of options granted was estimated on the date of grant using the Black-Scholes option-pricing model.
- There were no options granted in 2020.

### Investing activities

#### Long term debt

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.

To estimate the fair value, the debt component was estimated first at \$60,000, considering the interest free aspect of the loan. A 17.0 % effective rate was used 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 statement of operations as other income.

### ***Investment in Tonalli Energia S.A.P.I. de C.V.***

On September 21, 2015, a Mexican Company, Tonalli Energia S.A.P.I de C.V. Tonalli was set up to participate in Mexico's Energy Reform. The shareholders of Tonalli are Frontera (50%) and Grupo IDESA S.A. de C.V. (50%).

In 2018, Frontera acquired a 50% interest in Energia Mex Can in association with its investment in Tonalli. The investments are accounted for using the equity method.

The Company's investments 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's consolidated statement of loss.

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 a shareholder loan 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 loan at December 31, 2020 .

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 \$2,602,930. 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.

## ***Tonalli Share Option Agreement***

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 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.

## **Tonalli Operations**

### ***Tecolutla Contract***

A summary of the License terms for the Tecolutla Block is as follows;

- **Effective Date:** August 2016
- **Term:** 25 years plus two possible extensions of five years each
- **National Content Rule:** 22% escalating to 38%
- **Appraisal Period:** one to two years to Perform a Minimum Work Program of one well and one work over at an estimated cost of US\$1.8 million
- **Performance Guarantee:** 50% of assigned value of 4600 Work Units (\$1.8 MM US)
- **Royalties:**
  - Base Oil Royalties (7.5% @ \$48 US linear to 14% @ 100\$ US Brent)
  - Additional Bid Royalty of 31.22% of the contract value of hydrocarbons produced
  - A royalty to the surface landowner in an amount of 1% of the contract value subject to negotiation after the signing of the Licence (being directed by the Mexican energy regulator, the National Hydrocarbons Commission (“CNH”))

The Tecolutla Block is a 7.2 km<sup>2</sup> block in the Tampico-Misantla Basin located within the state of Veracruz. The producing carbonate oil reservoir in the Tecolutla Block is the El Abra formation at a depth of 2,340 meters. 3D seismic has been acquired over the entire Tecolutla Block and 7 wells were drilled into the Tecolutla Block. Peak production of over 900 bbl/d occurred from the Tecolutla Block in 1972 from 4 wells, with 1 producing well remaining as of December 2014.

### ***Evaluation Plan***

- On November 26, 2020, CNH granted an exclusive 9 month extension to all operators participating in Round 1.3. As a result, Tonalli received an extension of its Evaluation Plan with respect to the Tecolutla Block until August 27, 2021.
- In August 2020, CNH granted a 4 month extension to all operators due to COVID-19. As a result, Tonalli received an extension of its Evaluation Plan with respect to the Tecolutla Block until November 27, 2020.

- In July 2019, Tonalli received an extension of its Evaluation Plan with respect to the Tecolutla Block until July 6, 2020. There were no additional work commitments with respect to the Tecolutla Contract.
- In June 2019, Tonalli had completed the full requirements for the drilling of the TEC-11 well in order to satisfy the minimum work requirement as required by the extension of the evaluation plan. On June 6, 2019, Tonalli received full accreditation for its remaining 4,800 work units.
- In December 2018, Tonalli completed drilling of the TEC-11 well and satisfied the requirements to earn the work units under the modification of its evaluation plan.
- In November 2018, Tonalli received accreditation for 4,000 work units with respect to the TEC-10 drill and in June 2019 Tonalli received accreditation of its remaining 600 work units. The performance bond was returned in January 2019 upon fulfillment and approval of the required work program.
- On July 6, 2018, Tonalli received approval from the CNH to extend its Tecolutla evaluation plan and final approval for the modification of the work program was received on October 18, 2018 which resulted in a commitment of an additional 4,000 work units.
- On September 23, 2017, the Mexican energy regulator, the CNH, approved Tonalli's evaluation plan for the Tecolutla Block. The evaluation plan outlines in detail the scheduled work program to meet 4,600 work units on the Tecolutla Block.

### Operations

	Year ended		Three months ended	
	31-Dec-20	31-Dec-19	31-Dec-20	31-Dec-19
<b>Total Production (bbl/day)</b>	52	90	64	75
Oil sales	\$902,107	\$2,297,417	\$ 247,295	\$ 460,459
Royalties	(378,843)	(920,156)	(104,179)	(187,025)
Production and operating expenses	(448,369)	(1,175,368)	(108,887)	(284,721)
<b>Total operating netback (\$/bbl) <sup>(1)</sup></b>	<b>\$ 74,895</b>	<b>\$ 201,892</b>	<b>\$ 34,229</b>	<b>\$ (11,287)</b>
Oil Sales (\$/bbl)	\$ 47.38	\$ 70.25	\$ 42.21	\$ 67.52
Royalties (\$/bbl)	(19.90)	(28.14)	(17.78)	(27.42)
Field operating costs (\$/bbl)	(23.55)	(35.94)	(18.59)	(41.75)
<b>Total operating netback (\$/bbl) <sup>(1)</sup></b>	<b>\$ 3.93</b>	<b>\$ 6.17</b>	<b>\$ 5.84</b>	<b>\$ (1.66)</b>
<b>Total production (bbl)</b>	<b>19,041</b>	<b>32,702</b>	<b>5,858</b>	<b>6,820</b>

(1) See Non-GAAP measures

### Sales Volumes/Price

- Price is calculated using the agreed upon formula per the Company's executed Commercialization Contract with PEMEX.
- The decrease in total production in 2020 as compared to 2019 is due to the shut-in of production in Q2, 2020 due to declining commodity prices. Production resumed on July 1, 2020 at an average rate of 68 bbl/day for the three month period ended September 30, 2020 and remained relatively consistent in Q4, 2020.

### Royalties

- Total royalties are made up of the base royalty calculated using the formula as prescribed in the Tecolutla Contract and the additional bid or contract royalty of 31.22%.

## Production and operating costs

- Operating costs decreased by \$544,396 or 59.17% in 2020 as compared to 2019.
- The reduction in operating costs is due to the shut in of operations in Q2, 2020 and the additional reduction of operation costs as a result of the construction and purchase of additional equipment in the field.

## Commitments

- 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.

## Outstanding shares, options and warrants

The Company's share capital structure is as follows:

<b>As of:</b>	<b>December 31, 2020</b>	<b>April 23, 2021</b>
Common shares outstanding	243,391,939	243,391,939
Options outstanding	11,600,000	14,525,000
Fully diluted	254,991,939	257,916,939

## Summary of Quarterly Results

The following table summarized the Company's financial and operating highlights for the past eight quarters:

<b>Quarter ended:</b>	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>
	<b>2019</b>	<b>2019</b>	<b>2019</b>	<b>2019</b>
<b>Statements of operations</b>				
Net loss and comprehensive loss	\$ (588,960)	\$ (575,100)	\$ (157,865)	\$ (1,561,935)
Net loss per share				
Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
<b>Statements of financial position</b>				
Total assets	\$ 6,088,220	\$ 7,667,055	\$ 7,602,215	\$ 6,063,030
Working capital	\$ 5,189,300	\$ 6,791,585	\$ 6,750,225	\$ (595,915)
Funds flow from (used in) operations (1)	\$ (47,895)	\$ (172,375)	\$ (135,470)	\$ (54,525)
<b>Quarter ended:</b>				
	<b>March 31,</b>	<b>June 30,</b>	<b>September 30,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2020</b>	<b>2020</b>	<b>2020</b>
<b>Statements of operations</b>				
Net loss and comprehensive loss	\$ (223,615)	\$ (1,051,910)	\$ (308,070)	\$ (2,857,670)
Net loss per share				
Basic and diluted	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)
<b>Statements of financial position</b>				
Total assets	\$ 6,412,020	\$ 5,427,495	\$ 5,132,910	\$ 2,435,495
Working capital	\$ (73,215)	\$ (268,460)	\$ (410,730)	\$ (570,405)
Funds flow from (used in) operations (1)	\$ (17,475)	\$ (138,315)	\$ (118,285)	\$ (32,940)

(1) See Non-GAAP measures

## **Non-GAAP measures**

### Funds flow from (used in) operations

This MD&A contains the term “funds flow from (used in) operations”, which is commonly used in the oil and natural gas industry. This term is not defined by IFRS and therefore may not be comparable to similar measures presented by other companies. There are measures commonly used in the oil and gas industry and by the Company to provide shareholders and potential investors with additional information regarding the Company’s liquidity and its ability to generate funds to finance its operations. These terms should not be considered an alternative to, or more meaningful than, cash provided by operating activities or net earnings as determined in accordance with IFRS as indicators of the Company’s performance. The Company considers funds from (used in) operations to be a key measure of operating performance as it demonstrates the Company’s ability to generate the necessary funds to fund sustaining capital and future growth through capital investment. Management believes that such a measure provides an insightful assessment of the Company’s operations on a continuing basis by eliminating certain non-cash charges and charges that are nonrecurring. Funds from (used in) operations is not a standardized measure and therefore may not be comparable with the calculation of similar measures for other entities.

### Operating Netback

Operating netback is a common non-GAAP metric used in the oil and gas industry. Management believes this measurement assists management and investors to evaluate the specific operating performance by product at the oil and gas lease level. Operating netback is calculated as gross revenue less royalties, production and operating on a per unit basis.

## **Liquidity, capital resources and financing activities**

### ***Working Capital***

### ***Working Capital***

At December 31, 2020, the Company has cash and cash equivalents of \$44,600 (December 31, 2019 - \$95,050) and a working capital deficit of \$570,405 (December 31, 2019 – \$595,515).

During Q1 2020, the Company received total proceeds of \$690,405 as part of a rights offering. In 2020, the Company received \$60,000 with respect to the Canadian Emergency Business Account “(CEBA)”.

### ***Planned Capital Program***

Tonalli has fulfilled its capital obligations with respect to its evaluation period. The Company will work towards completing and obtaining approval for its development plan before any further plans are made for further development of the Tecolutla field.

### ***Future Capital Requirements***

The Company regularly forecasts its capital needs on an annual, quarterly and monthly basis. The Company’s current internally generated cash flows provide sufficient capital for the Company’s current exploration plans. 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 the operator’s capital expenditure program(s) and the availability of capital to the Company.

The majority of the properties in which the Company currently has an interest are in the exploration stage and do not generate any significant revenue at this time. 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.

In the management of capital, the Company includes cash and cash equivalents, accounts receivable, shareholder loan and restricted cash less accounts payable and accrued liabilities 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 was approximately \$(595,435) (2019 – \$(628,670)).

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.

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.

The 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.

## Related Party Transactions

The amounts paid to officers and directors during the years ended 2020 and 2019 are provided below, these costs are included in general and administrative expenses.

<b>December 31,</b>	<b>2020</b>	<b>2019</b>
Executive compensation	\$ 240,000	\$ 304,000
Stock based compensation	154,090	298,100
	<u>\$ 394,090</u>	<u>\$ 602,010</u>

## Summary of Fourth Quarter Results

	<b>Three months ended,</b>		<b>Three months ended,</b>	
	<b>December 31,</b>		<b>September 30,</b>	
<b>For the three months ended</b>	<b>2020</b>	<b>2019</b>	<b>2020</b>	<b>2019</b>
<b>Statements of operations</b>				
Interest income	\$ 20,015	\$ 81,180	\$ 20,465	\$ 84,150
Net loss and comprehensive loss	\$ (2,857,670)	\$ (1,561,935)	\$ (308,070)	\$ (157,865)
Loss per share	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.00)
<b>Cash flow</b>				
Net cash provided (used in)				
Operating activities	\$ (32,940)	\$ (54,525)	\$ (118,285)	\$ (135,470)
Investing activities	\$ (23,055)	\$ (89,220)	\$ (24,100)	\$ (167,030)
Financing activities	\$ 20,000	\$ (6,580)	\$ -	\$ -
	<b>December 31, 2020</b>	<b>December 31, 2019</b>		
<b>Statements of financial position</b>				
Investment in associates	\$ -	\$ 3,598,815		
Total assets	\$ 2,435,495	\$ 6,063,030		
Working capital	\$ (570,405)	\$ (595,915)		

## Q4 General and administrative expenses

<b>Three months ended:</b>	<b>December 31,</b>	<b>September 30,</b>	<b>December 31,</b>
	<b>2020</b>	<b>2020</b>	<b>2019</b>
Professional fees	\$ 115,485	\$ 24,600	\$ 93,965
Consulting fees and salaries	61,595	75,000	51,595
Rent and corporate costs	25,535	37,810	53,295
Filing and transfer fees	6,040	1,120	6,190
Corporate travel	-	-	5,370
	<u>\$ 208,655</u>	<u>\$ 138,530</u>	<u>\$ 210,415</u>

- In Q4, 2020, general and administrative expenses were \$208,655, an increase of \$70,125 or 50.62% as compared with \$138,530 in Q3, 2020 (Q4, 2019 - \$210,415).
- The increase in G&A in the fourth quarter of 2020 is due to the accrual of audit fees for the year ended December 31, 2020.

#### Q4 Net loss

- For the three months ended December 31, 2020, the Company recorded a net loss of \$2,857,670 (\$0.01 loss per share) as compared to \$308,070 (\$0.00 loss per share) for Q3, 2020 (net loss for Q4, 2019 - \$1,561,935 or \$0.01 loss per share).
- The increased loss in Q4, 2020, as compared with Q3, 2020 is a result of an increased equity loss in Tonalli related to impairment of oil and gas properties in that period.

#### Financial Instruments

The Company holds various forms of financial instruments. The nature of these instruments and the Company's operations expose the Company to interest rate risk, foreign exchange risk, fair value risk and industry credit risk. The Company manages its exposure to these risks by operating in a manner that minimizes its exposure to the extent practical.

- a) Fair value of financial assets and liabilities: The Company's financial instruments as at December 31, 2020 and 2019 include cash and cash equivalents, accounts receivable, shareholder loans and accounts payable and accrued liabilities. The fair values of accounts receivable and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. Cash and cash equivalents and the restricted cash on deposit balances are equal to their fair values.
- b) 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. All balances receivable greater than 60 days are owing from related parties, there are no material financial assets due from third parties that are past due.

Should the Company determine that the ultimate collection of a receivable is in doubt, it will provide the necessary provision in its allowance for doubtful accounts based on historical credit loss 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 allowance for doubtful accounts balance at December 31, 2020 is \$Nil (December 31, 2019 – \$799,240) with the expense being charged to the income statement.

- c) **Interest rate risk:** 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. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. A 1% increase or decrease in interest rates would have had no material impact on the cash flow of the Company during the period ended December 31, 2020.
- d) **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.

- e) **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.

- f) **Liquidity risk:** Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to ensure that it has sufficient resources available to meet its liabilities when due. At December 31, 2020, the Company's accounts payables and accrued liabilities were \$604,650 the majority of which are due to related parties of the Company at December 31, 2020. The Company regularly reviews its accounts payable balances and follows up on amounts past due. The Company's financial liabilities are summarized below:

Total accounts payable and accrued liabilities	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
\$ 670,275	\$ 94,075	\$ 14,650	\$ 36,970	\$ 524,580

## Accounting Policies and Estimates

### Critical Accounting Estimates

Management is required to make judgments, assumptions and estimates in the application of International Financial Reporting Standards that have a significant impact on the financial results of the Company. Reserve estimates are a key component in the calculation of depletion, depreciation and accretion costs. A change in reserve quantity estimates will result in a corresponding change in DD&A costs. In addition, if capitalized costs are determined to be in excess of the calculated ceiling, which is based on reserve quantities and values, the excess must be written off as an expense. Decommissioning liabilities are estimated, discounted and carried on the statement of financial position as a liability. A change in estimated future asset restoration costs will change the liability on the statement of financial position and the amortization of the decommissioning liabilities included in property and equipment.

### Operational and other business risks

#### Current Economic Conditions

The volatility in the price of oil and natural gas has created a substantially more volatile business environment. These conditions may limit certain of the Company's business activities and it will continue to provide risk for the Company's exploration projects.

#### Need to Replace and Grow Reserves

The future oil and natural gas production of the Company, and therefore future cash flows, are highly dependent upon ongoing success in exploring its current and future undeveloped land base, exploiting the current producing properties, and acquiring or discovering additional reserves. Without reserve additions through exploration, acquisition or development activities, reserves and production will decline over time as reserves are depleted.

The business of discovering, developing, or acquiring reserves is capital intensive. To the extent cash flows from operations are insufficient and external sources of capital become limited or unavailable, the ability of the Company to make the necessary capital investments to maintain and expand its oil and natural gas reserves may be impaired. There can be no assurance that the Company will be able to find and develop or acquire additional reserves to replace and grow production at acceptable costs.

### ***Exploration, Development and Production Risks***

Oil and natural gas exploration in Mexico involve a high degree of risk, which even with a combination of experience, knowledge and careful evaluation may not be able to overcome. There is no assurance that expenditures made on future exploration by the Company will result in new discoveries of oil and natural gas in commercial quantities. It is difficult to project the costs of implementing an exploratory drilling program due to the inherent uncertainties of drilling in unknown formations, the costs associated with encountering various drilling conditions such as over pressured zones, tools lost in the hole and changes in drilling plans and locations as a result of prior exploratory wells or additional seismic data and interpretations thereof.

The long-term commercial success of the Company depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that the Company will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participation are identified, the Company may determine that current markets, terms of acquisition and participation or pricing conditions make such acquisitions or participations uneconomic.

Future oil and gas exploration may involve unprofitable efforts, not only from dry wells, but from wells that are productive but do not produce sufficient net revenues to return a profit after drilling, operating and other costs. Completion of a well does not assure a profit on the investment or recover of drilling, completion and operating cost. In addition, drilling hazards or environmental damage could greatly increase the cost of operations, and various field operating conditions may adversely affect the production from successful wells. These conditions include delays in obtaining governmental approvals or consents, shut-ins of connected wells resulting from extreme weather conditions, insufficient storage or transportation capacity or other geological and mechanical conditions. While diligent well supervision and effective maintenance operations can contribute to maximizing production rate over time, production delays and declines from normal field operating conditions cannot be eliminated and can be expected to adversely affect revenue and cash flow levels to varying degrees.

In addition, oil and gas operations are subject to the risks of exploration, development and production of oil and natural gas properties, including encountering unexpected formations or pressures, premature declines of reservoirs, blowouts, sour gas releases, fires and spills. Losses resulting from the occurrence of any of these risks could have a materially adverse effect on future results of operations, liquidity and financial condition.

### ***Volatility of Oil and Natural Gas Prices***

The operational results and financial condition of the Company will be dependent on the prices received for oil and natural gas production. Oil and natural gas prices have fluctuated widely during recent years and are determined by supply and demand factors, including weather and general economic conditions, as well as conditions in other oil and natural gas regions. Any decline in oil and natural gas prices could have an adverse effect on the operations, proved reserves, and financial conditions of the Company and could result in a reduction of the net production revenue of the Company causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings that might be made available to the Company are typically determined in part by the borrowing base of the reserves of the Company.

### ***Operational Hazards and Other Uncertainties***

Oil and natural gas exploration operations are subject to all the risks and hazards typically associated with such operations, including hazards such as fire, explosion, blowouts, and oil spills, each of which could result in substantial damage to oil and natural gas wells, production facilities, other property and the environment or in personal injury. In accordance with industry practice, the Company is not fully insured against all of these risks, nor is all such risks insurable. Although the Company will maintain liability insurance, where available, in an amount which it considers adequate and consistent with industry practice, the nature of these risks is such that liabilities could exceed policy limits, in which event the Company could incur significant costs that could have a material adverse effect upon its financial condition. Business interruption insurance may also be purchased for selected facilities, to the extent that such insurance is available. Oil and natural gas production operations are also subject to all the risks typically associated with such operations, including premature decline of reservoirs and the invasion of water into producing formations.

Oil and natural gas exploration and development activities are dependent on the availability of drilling and related equipment in the particular areas where such activities will be conducted. Demand for such equipment or access restrictions may affect the availability and/or cost of such equipment to the Company and may delay exploration and development activities. To the extent the Company is not the operator of its oil and gas properties, the Company will be dependent on other operators for timing of activities related to non-operating properties and will be largely unable to direct or control the activities of the operators.

Although property title reviews will be done according to industry standards prior to the purchase of most oil and natural gas producing properties or the commencement of drilling wells, such reviews do not guarantee or certify that an unforeseen defect in the chain of title will not arise to defeat the claim of the Company which could result in reduction of the revenue received by the Company.

### ***Competition***

There is strong competition relating to all aspects of the oil and natural gas industry. The Company will actively compete for capital, skilled personnel, undeveloped land, reserve acquisitions, access to drilling rigs, service rigs and other equipment, access to processing facilities and pipeline and refining capacity, and in all other aspects of its operations with a substantial number of other organizations, many of which may have greater technical and financial resources than does the Company.

### ***Key Personnel***

The success of the Company will depend in large measure on certain key personnel. The loss of the services of such key personnel could have a material adverse effect on the Company. The Company does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of the Company are likely to be of central importance. In addition, the competition for qualified personnel in the oil and natural gas industry is intense and there can be no assurance that the Company will be able to continue to attract and retain all personnel necessary for the development and operation of its business.

### ***Environmental Risks***

The oil and natural gas industry is subject to environmental regulation pursuant to a variety of international conventions and Canadian federal, provincial and municipal laws, regulations, and guidelines, Mexico federal and state law, regulations and guidelines and Montana state laws and regulations. A breach of such regulations may result in the imposition of fines or issuances of clean up orders in respect of the Company or its assets. Such regulation may be changed to impose higher standards and potentially more costly obligations on the Company. There can be no assurance that future environmental costs will not have a material adverse effect on the Company.

## ***Doing business in Mexico***

These risks include but are not limited to: (i) The regulatory and legal environment; (ii) risks presented by political opposition to energy reform and public opinion; and (iii) security challenges presented by corruption and drug cartels.

Addressing the first two challenges calls for a comprehensive approach to public affairs; the logistical and security challenges require a strategy to safeguard a company's assets and its reputation. Failing to engage closely with government regulators can create miscommunications and lead to missed opportunities. Engaging with stakeholders outside the government may be even more essential than working within it.

Lastly, corruption, oil theft and drug-related violence continue to be significant concerns in Mexico. The government still needs to address how it plans to secure pipelines, zones of onshore exploration, and land bases for deep-water development. Companies that venture into some of the new areas would be advised to develop their own security infrastructure and plans.

## **Forward Looking Statements**

Certain statements contained in this MD&A, constitute forward-looking statements. The use of any of the words "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe", "strategy" and similar expressions are intended to identify forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements are based on reasonable assumptions, but no assurance can be given that these expectations will prove to be correct and the forward-looking statements included in this MD&A should not be unduly relied upon. These statements are made only as of the date of this MD&A.

In particular, this MD&A may contain forward-looking statements including, but not limited to, the following:

- oil and natural gas production rates;
- commodity prices for crude oil or natural gas;
- supply and demand for oil and natural gas;
- capital expenditure programs;
- future exploration, development and production costs;
- timing of drilling plans;
- plans for and results of exploration and development activities;
- expectations regarding the Company's ability to raise capital and to continually add to oil and natural gas reserves through acquisitions, exploration and development; and
- treatment under governmental regulatory regimes and tax laws.

With respect to forward-looking statements contained in this MD&A and other documents of public record, the Company has made assumptions regarding, among other things:

- future oil and natural gas production levels from the Company's properties and the prices obtained from the sales of such production;
- the level of future capital expenditure required to exploit and develop reserves; and
- the Company's ability to obtain financing on acceptable terms, as required.

The Company's actual results could differ materially from those anticipated in these forward-looking statements and information as a result of assumptions proving inaccurate and of both known and unknown risks as set forth below:

- general economic, political, market and business conditions;
- risks inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, capital, acquisitions of reserves, undeveloped lands, drilling equipment and skilled personnel;

- geological, technical, drilling and processing problems;
- incorrect assessments of the value of acquisitions;
- the availability of capital on acceptable terms;
- volatility in market prices for oil and natural gas;
- actions by governmental authorities, including regulatory, environmental and taxation policies;
- fluctuations in foreign exchange or interest rates and stock market volatility; and
- ability to raise project finance capital from chartered banks.

This forward-looking information represents the Company's views as of the date of this MD&A and such information should not be relied upon as representing its views as of any subsequent date. IFR has attempted to identify important factors that could cause actual results, performance or achievements to vary from those current expectations or estimates expressed or implied by the forward-looking information. There may be other factors, however, that cause results, performance or achievements not to be as expected or estimated and that could cause actual results, performance or achievements to differ materially from current expectations. There can be no assurance that forward-looking information will prove to be accurate, as results and future events could differ materially from those expected or estimated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. The Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as expressly required by applicable securities legislation.

Additional information regarding the Company and factors that could affect its operations and financial results are included in reports on file with Canadian securities regulatory authorities, including the Company's Annual Information Form, and may be accessed through the SEDAR website ([www.sedar.com](http://www.sedar.com)). Furthermore, the forward-looking statements contained in this MD&A are made as of the date of this MD&A and the Company does not undertake any obligation to update publicly or to revise any of the included forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by applicable securities laws. The Company's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

### ***Other information***

Additional information regarding the Company's reserves and other data are available on SEDAR at [www.sedar.com](http://www.sedar.com)