



International Frontier Resources Corporation

Management Discussion and Analysis

For the six months ended June 30, 2018

International Frontier Resources Corporation (“International Frontier” or “IFR” or the “Corporation”) 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. IFR also has oil and natural gas interests in the Central Mackenzie Valley (“CMV”), Northwest Territories, Canada.

The following is management’s discussion and analysis (“MD&A”) of IFR’s operating and financial results for the period ended June 30, 2018, as well as information concerning the Corporation’s future outlook based on currently available information. The MD&A has been prepared by management as at August 17, 2018 in accordance with International Financial Reporting Standards, in Canadian dollars and should be read in conjunction with the interim unaudited consolidated financial statements as at June 30, 2018 together with the accompanying notes. This MD&A contains forward-looking statements. See “*Forward Looking Statements*”.

The interim unaudited consolidated financial statements at June 30, 2018 include the accounts of the Corporation, its 99.80% owned Mexican subsidiary, Petro Frontera S.A.P.I de CV (“Frontera”) accounted for on the proportionate consolidation method. All inter-company transactions and balances are eliminated upon consolidation. The consolidated financial statements also include Frontera’s 50% investment in Mexican associate company, Tonalli Energia S.A.P.I. de CV (“Tonalli”) accounted for using the equity method of accounting.

The quarterly financial statements have not been reviewed or audited on behalf of the shareholders by the Corporation’s independent external auditors. All financial measures presented in this MD&A Report are expressed in Canadian dollars unless otherwise indicate. 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.

Summary of First Quarter Results

Selected financial information:

| For the three months ended | June 30, 2018 | March 31, 2018 | June 30, 2017 |
|--|----------------------|-----------------------|----------------------|
| Statement of operations | | | |
| Interest Income | \$ 31,445 | \$ 2,590 | \$ 9,575 |
| Gain on disposition of properties | \$ - | \$ - | \$ 716,310 |
| Net loss and comprehensive loss | | | |
| Net income (loss) and comprehensive loss | \$ (1,087,435) | \$ (809,265) | \$ 73,815 |
| Loss per share | | | |
| Net loss per share | \$ (0.01) | \$ (0.01) | \$ 0.001 |
| Cash flow | | | |
| Net cash provided (used in) | | | |
| Operating activities | \$ (1,032,515) | \$ (571,425) | \$ (296,225) |
| Investing activities | \$ - | \$ (2,317,515) | \$ (39,340) |
| Financing activities | \$ 1,078,600 | \$ 53,650 | \$ 75,000 |
| <hr/> | | | |
| Balance sheet - Assets | | | |
| Exploration and evaluation assets | \$ 5,569,785 | \$ 5,569,785 | |
| Property and equipment | \$ 4,450 | \$ 4,985 | |
| Total assets | \$ 12,757,470 | \$ 13,211,590 | |
| Working capital | \$ 3,465,605 | \$ 5,683,860 | |

Discussion of Operations

Exploration and evaluation assets

Impairments

| Three months ended | June 30, 2018 | March 31, 2018 | Dec. 31, 2017 |
|---------------------------|----------------------|-----------------------|----------------------|
| Northwest Territories | \$ - | \$ - | \$ 844,550 |
| North West Montana | - | - | 644,865 |
| | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 1,489,415</u> |

- The carrying value of exploration and evaluation properties of \$5,569,785 at June 30, 2018 (December 31, 2017 - \$5,569,785) have been evaluated and it was determined that no costs had met the
- ere also evaluated for impairment at June 30, 2018 and it was determined that requirements to be transferred to property and equipment.
- These costs wan impairment of \$Nil (Q1, 2018 - \$Nil, Q4, 2017 - \$1,489,715). The Impairment at December 31, 2017 is made up of the following:
 - (i) \$844,550 with respect to lease rentals paid to date on properties in the Northwest Territories as the Corporation plans to relinquish its remaining licenses.
 - (ii) \$644,865 with respect to the remaining net book value of its properties in Montana as there has been no activity in the area and the Corporation does not have any plans for further development.

Interest income

- In Q2, 2018 interest income from short-term investments was \$31,445 (Q1, 2018 - \$2,590, Q2, 2017 - \$9,575.) The increase in interest income is due to interest accrued on shareholder loan receivable outstanding in the Company's wholly owned subsidiary Petro Frontera at June 30, 2018.

General and administrative expenses

| Three months ended: | June 30, 2018 | March 31, 2018 | December 31, 2017 |
|------------------------------|----------------------|-----------------------|--------------------------|
| Professional fees | \$ 82,635 | \$ 6,740 | \$ 93,720 |
| Consulting fees and salaries | 101,250 | 199,865 | 99,300 |
| Rent and corporate costs | 99,145 | 58,685 | 82,275 |
| Filing and transfer fees | 13,880 | 13,260 | 2,850 |
| Corporate travel | 21,585 | 7,400 | 27,055 |
| Business development | 124,590 | 42,835 | 13,570 |
| Investor relations | 37,100 | 62,800 | 93,475 |
| | <u>\$ 480,190</u> | <u>\$ 391,585</u> | <u>\$ 412,245</u> |

- Total general and administration expenses in the three months ended June 30, 2018 were \$480,190 an 22.6% increase as compared to the previous quarter.
- In Q2, 2018 General and administration costs included a \$20,000 renewal fee for the Company's bond held with Export Development Canada and \$70,000 in costs with respect to one-time marketing fees incurred in the period

Net loss

- For the three months ended June 30, 2018 the Company recorded a net loss of \$1,087,435 (\$0.01 loss per share) as compared to \$809,265 (\$0.01 loss per share) for Q1, 2018 (Net income for Q2, 2017 - \$73,815 or \$0.01 per share)
- The increased loss in Q2, 2018 as compared with Q1, 2018 is the result of increased G&A expenses in Q2 2018 and an increase in the equity loss in the Company's joint venture Tonalli Energia.

Share based compensation

- During 2017 the Corporation granted 4,875,000 options. Total compensation expense recorded in respect of these options in Q2, 2018 was \$163,150 (Q1, 2018- \$161,350). The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model.

Investing Activities

Mexico

On September 21, 2015, a Mexican corporation, Tonalli was set up to participate in Mexico's Energy Reform. The original shareholders of Tonalli were Petro Frontera (a subsidiary of IFR) 47.5%, Grupo Idesa 50% and Enrique Miranda 2.5%.

On October 3, 2016, the Corporation entered into a share purchase agreement with Industrias Miral, S.A. De C.V., the 5% shareholder of Petro Frontera, the Corporation's Mexican subsidiary. Pursuant to the agreement, the Corporation purchased from the shareholder, 24 Series A shares of Petro Frontera, for a consideration of \$100. As a result of this agreement, the Corporation owns 99.80% of Petro Frontera, which effectively owns 50% of the shares of Tonalli.

In Q2, 2016 Tonalli was awarded the Onshore Oil and Gas Development Block 24 (the "Tecolutla Block"). The Tecolutla Block was awarded to Tonalli as the first-place bidder did not provide the required financial guarantees. The Tecolutla license agreement was signed on August 25th, 2016.

A summary of the License terms 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 km² 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 have been drilled into the producing reservoir. 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. Tonalli's experienced operating team intends to deploy advanced carbonate drilling, completion and recompletion techniques in the Tecolutla Block.

On July 12, 2017, Tonalli participated in the Mexican Energy Reform Onshore Bid Round 2.3. The Corporation was not awarded any licenses but placed second in bidding on Block CS-03 and came in third place on Blocks CS-02 and CS-04.

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 develop the Tecolutla Block.

At June 30, 2018, Tonalli completed its planned workover of the Tec-2 well and the drilling of the Tec-10 well in order to satisfy the minimum work requirement as required by the License Contract. The Corporation's 50% share of total costs incurred for these activities was CAD \$1.75 million. Tonalli is currently working on the application for the accreditation of the work units earned

On July 6, 2018 TE Corporation received approval from Mexico's National Hydrocarbons Commission ("CNH") to extend its Tecolutla evaluation plan. Subject to final approval for the modification of the work program, Tonalli intends to perform an additional workover and drill a horizontal well as part of this extension.

Commitments

- Effective December 1, 2017, the Corporation is party to an agreement to lease its new premises until June 29, 2019. 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 as follows:

| | |
|------|-----------|
| 2018 | \$ 24,500 |
| 2019 | \$ 25,000 |

- On August 25, 2016, the Company's 50% owned Joint Venture, Tonalli, met all of the terms and conditions and signed a license contract with the Mexico Comisión Nacional de Hidrocarburos (CNH) for the Onshore Oil and Gas Development Block 24, Tecolutla, granting TE Corporation the right to develop and produce hydrocarbons. As required by the CNH, TE Corporation secured from a Mexican institution a US\$1,764,100 performance bond toward the guarantee of performance of the minimum work programs. In conjunction with this, in 2017, the Company announced the closing of an Account Performance Security Guarantee (APSG) facility of US \$882,050 with Export Development Canada ("EDC"). The APSG facility ("Guarantee Facility") is provided as 50% of a performance bond issued by the Company's 50% owned joint venture company TE Corporation. Upon completion of the minimum work program, the performance bond will be returned.
- On July 6, 2018 Tonalli received approval from Mexico's National Hydrocarbons Commission ("CNH") to extend its Tecolutla evaluation plan. Subject to final approval for the modification of the work program, Tonalli intends to perform an additional workover and drill a horizontal well as part of this extension. As a result, TE Corporation posted an additional performance bond relative to the new work program in the amount of US\$1,534,000.

Outstanding shares, options and warrants

The Corporation's share capital structure is as follows:

| As of: | June 30, 2018 | August 17, 2018 |
|---------------------------|----------------------|------------------------|
| Common shares outstanding | 151,022,385 | 151,022,385 |
| Options outstanding | 13,030,000 | 13,030,000 |
| Fully diluted | 164,052,385 | 164,052,385 |

Additional details on the shares and stock options outstanding at June 30, 2018 are available in the notes to the June 30, 2018 interim unaudited financial statements.

Summary of Quarterly Results

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

| Quarter ended: | Sept 30, 2016 | Dec 31, 2016 | March 31, 2017 | June 30, 2017 |
|--|------------------|-----------------|-------------------|------------------|
| Statement of operations | | | | |
| Sales volumes - BOE/ day (Canada) | 38 | 23 | 28 | - |
| Production volumes - BOE/ day (Canada) | 38 | 26 | 28 | - |
| Oil revenues, net (Canada) | \$ 111,155 | \$ 71,815 | \$ 105,695 | \$ - |
| Net loss and comprehensive loss | \$ (616,035) | \$ (1,690,950) | \$ (812,765) | \$ 73,815 |
| Net loss per share | | | | |
| Basic | \$ (0.007) | \$ (0.010) | \$ (0.010) | \$ 0.001 |
| Diluted | \$ (0.006) | \$ (0.010) | \$ (0.010) | \$ 0.001 |
| Balance Sheet | | | | |
| Total assets | \$ 11,665,815 | \$ 10,289,555 | \$ 14,252,585 | \$ 13,284,045 |
| Working capital | \$ 2,781,185 | \$ 1,698,095 | \$ 5,662,500 | \$ 5,288,040 |
| Restricted Cash on deposit | \$ 300,000 | \$ 300,000 | \$ 300,000 | \$ 300,000 |
| Funds flow from operations | \$ 35,345 | \$ (613,470) | \$ (994,285) | \$ (296,225) |

| Quarter ended: | September 30, 2017 | December 31 2017 | March 31, 2018 | June 30, 2018 |
|---------------------------------|-----------------------|---------------------|-------------------|------------------|
| Statement of operations | | | | |
| Net loss and comprehensive loss | \$ (334,270) | \$ - | \$ (809,265) | \$ (1,087,435) |
| Net loss per share | | | | |
| Basic | \$ (0.003) | \$ (0.03) | \$ (0.01) | \$ (0.01) |
| Diluted | \$ (0.003) | \$ (0.03) | \$ (0.01) | \$ (0.01) |
| Balance Sheet | | | | |
| Total assets | \$ 12,803,075 | \$ 13,211,590 | \$ 12,669,115 | \$ 12,757,470 |
| Working capital | \$ 4,266,230 | \$ 5,683,860 | \$ 3,012,915 | \$ 3,465,605 |
| Restricted Cash on deposit | \$ 300,000 | \$ 300,000 | \$ 300,000 | \$ 300,000 |
| Funds flow from operations | \$ (671,235) | \$ (165,350) | \$ (571,425) | \$ (1,032,515) |

Non Gaap measures

This MD&A contains the term “funds flow from 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 Corporation to provide shareholders and potential investors with additional information regarding the Corporation’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 Corporation’s performance. The Corporation considers funds from operations to be a key measure of operating performance as it demonstrates the Corporation’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 Corporation’s operations on a continuing basis by eliminating certain non-cash charges and charges that are nonrecurring. Funds from operations is not a standardized measure and therefore may not be comparable with the calculation of similar measures for other entities.

Liquidity, capital resources and financing activities

| Three months ended | June 30, 2018 | March 31, 2018 | June 30, 2017 |
|---|---------------|----------------|---------------|
| Opening cash position | \$ 2,805,445 | \$ 5,640,735 | \$ 5,474,320 |
| <u>Inflow of funds</u> | | | |
| Share issuance - net of share issue costs | - | - | 28,000 |
| Adjusted funds flow | (1,032,515) | (548,850) | (296,225) |
| Proceeds from warrant exercises | 1,038,600 | 18,000 | 18,000 |
| Proceeds from stock option exercises | 40,000 | 35,650 | 29,000 |
| | 46,085 | (495,200) | (221,225) |
| <u>Outflow of funds</u> | | | |
| Capital expenditures | - | - | (39,340) |
| Investment in Tonalli Energia | - | (2,340,090) | - |
| | 46,805 | (2,835,290) | (260,565) |
| Closing cash position | \$ 2,851,530 | \$ 2,805,445 | \$ 5,213,755 |

Working Capital

At June 30, 2018 cash and cash equivalents were \$2,851,530 (December 31, 2017 \$5,640,735), and working capital was \$3,465,605 (December 31, 2017 - \$5,683,860). At June 30, 2018, the Corporation had restricted cash securing a letter of credit in the amount of \$300,000 (2017 - \$300,000); the letter of credit secures a work deposit on the Corporation’s Northwest Territories Exploration License 495.

The decrease in working capital at June 30, 2018 is the result of investment of \$2,309,540 in the Corporation’s Mexico operations and a loss in operations for the period of \$1,581,365 mitigated by proceeds from the exercise of warrants in June 2018 of \$1,038,600.

Planned Capital Program

- On July 6, 2018 Tonalli received approval from Mexico’s National Hydrocarbons Commission (“CNH”) to extend its Tecolutla evaluation plan. Subject to final approval for the modification of the work program, Tonalli intends to perform an additional workover and drill a horizontal well as part of this extension. Tonalli is currently working on determining the budgeted expenditures for these operations
- Tonalli intends to submit a long-term development plan to CNH for Tecolutla before the July 6th, 2019 expiry of this second phase of the evaluation period.

Future Capital Requirements

The Corporation regularly forecasts its capital needs on an annual, quarterly and monthly basis. The Corporation's current internally generated cash flows provide sufficient capital for the Corporation's current exploration plans. Historically, the Corporation has relied on proceeds from the sale of its Common Shares to fund its operations. In order to accelerate the Corporation's current exploration programs, the Corporation may require additional capital. The timing, pace, scope and amount of the Corporation's capital expenditures is largely dependent on the operator's capital expenditure program(s) and the availability of capital to the Corporation.

The majority of the properties in which the Corporation currently has an interest are in the exploration stage and do not generate any revenue. The Corporation therefore is dependent upon partnerships with industry and external financing to fund the majority of its future exploration programs. The Corporation will spend existing working capital and will seek additional financing as needed. The Corporation 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 Corporation includes cash and cash equivalents, accounts receivable 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 Corporation is reasonable. As at June 30, 2018, the Corporation's capital as defined above was approximately \$3,685,875 (December 31, 2017 – \$5,900,645).

Related Party Transactions

The amounts paid to officers and directors during for the periods ended June 30, 2018 and 2017 are provided below, these costs are included in general and administrative expenses.

| Six months ended June 30, | 2018 | 2017 |
|----------------------------------|-------------------|-------------------|
| Executive compensation | \$ 304,000 | \$ 340,000 |
| Stock based compensation | 240,760 | - |
| Director's fees | 24,000 | 24,000 |
| Royalty Incentive Program | - | 4,060 |
| | \$ 568,760 | \$ 368,060 |

Financial Instruments

The Corporation holds various forms of financial instruments. The nature of these instruments and the Corporation's operations expose the Corporation to interest rate risk, foreign exchange risk, fair value risk and industry credit risk. The Corporation 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 Corporation's financial instruments as at June 30, 2018 and 2017 include cash and cash equivalents, receivables, restricted cash on deposit, reclamation deposits and payables and accruals. The fair values of receivables, reclamation deposits and payables and accruals approximate their carrying amounts due to their short terms to maturity. The cash and cash equivalents and the restricted cash on deposit balances are equal to their fair values.
- b) **Credit risk:** Substantially all of the receivables are with customers and joint venture partners in the oil and gas industry and are subject to normal industry credit risks. Though, the Corporation markets its oil to only one-marketer revenues are not significant so that the exposure to the Corporation is minimized. Management does not believe that there is significant credit risk arising from any of the Corporation's customers or partners, as substantially all amounts outstanding at June 30, 2018 have been received subsequent to

period end. The maximum exposure to loss arising from accounts receivable at any given time is equal to their total carrying amounts on the balance sheet.

| Total receivables: | 0 to 30 days | 31 to 60 days | 61 to 90 days | Greater than 90 days |
|--------------------|--------------|---------------|---------------|----------------------|
| \$ 879,205 | \$ 299,420 | \$ 93,330 | \$ (63,170) | \$ 549,625 |

- c) **Interest rate risk:** The Corporation is exposed to interest rate cash flow risk to the extent the changes in market interest rates will impact the Corporation's interest rate price risk. The Corporation does not use interest rate hedges or fixed interest rate contracts to manage the Corporation'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 Corporation during the period ended June 30, 2018.
- d) **Foreign currency risk:** The Corporation is exposed to risks arising from fluctuations in foreign currency exchange rates, primarily between Canadian and U.S. dollars. The Corporation does not utilize any foreign currency-based derivatives. To manage this risk and to defer the realization of any resulting currency loss from converting Canadian dollars to US dollars, the Corporation retains cash balances in both US and Canadian dollars.
- e) **Liquidity risk:** Liquidity risk is the risk that the Corporation will not be able to meet its financial obligations as they become due. The Corporation's objective in managing liquidity risk is to ensure that it has sufficient resources available to meet its liabilities when due. At June 30, 2018 the Corporation's payables and accruals were \$410,820 most of which are due for payment within normal terms of trade, which is generally between 30 and 60 days. The Corporation regularly reviews its accounts payable balances and follows up on amounts past due. The Corporation's financial liabilities are summarized below:

| Total payables | 0 to 30 days | 31 to 60 days | 61 to 90 days | Greater than 90 days |
|----------------|--------------|---------------|---------------|----------------------|
| \$ 344,860 | \$ 58,610 | \$ 53,540 | \$ (1,210) | \$ 233,920 |

Accounting Policies and Estimates

The Corporation is assessing the new and revised accounting pronouncements that have been issued that are not yet effective:

New Accounting Policies

Change in accounting policies

i) IFRS 9 Financial Instruments

This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortized cost or fair value. To be classified and measured at amortized cost, assets must satisfy the business model test for managing the financial assets and have certain contractual cash flow characteristics. All other financial instrument assets are to be classified and measured at fair value. This standard allows an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading) in other comprehensive income, with dividends as a return on these investments being recognized in profit or loss. In addition, those equity instruments measured at fair value through other comprehensive income would no longer have to apply any impairment requirements nor would there be any 'recycling' of gains or losses through profit or loss on disposal. The accounting for financial liabilities continues to be classified and measured in accordance with IAS 39, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch.

The Company has implemented IFRS 9 and has determined that the measurement of financial instruments does not have a material impact on the disclosures in the financial statements.

ii) IFRS 15 Revenue from Contracts with Customers

The IASB issued IFRS 15, Revenue from Contracts with Customers, which provides a single principle-based framework to be applied to all contracts with customers. IFRS 15 replaces the previous revenue standard IAS 18, Revenue, and the related interpretations on revenue recognition. The standard scopes out contracts that are considered to be lease contracts, insurance contracts and financial instruments. The new standard is a control-based model as compared to the existing revenue standard which is primarily focused on risks and rewards. Under the new standard, revenue is recognized when a customer obtains control of a good or service. Transfer of control occurs when the customer has the ability to direct the use of and obtain the benefits of the good or service.

The Company has determined that IFRS 15 will not affect the current financial statements as the Company currently does not have any revenue contracts.

Future accounting policies

i) IFRS 16 Leases

IFRS 16 was issued in January 2016 and specifies how an IFRS reporter will recognize, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. Lessors continue to classify leases as operating or finance, with IFRS 16's approach to lessor accounting substantially unchanged from its predecessor, IAS 17.

This standard is effective for reporting periods beginning on or after January 1, 2019.

The Corporation is examining the impact of this standard on its consolidated financial statements.

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 Corporation. 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 balance sheet as a liability. A change in estimated future asset restoration costs will change the liability on the balance sheet 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 Corporation's business activities and it will continue to provide risk for International Frontier's exploration projects.

Need to Replace and Grow Reserves

The future oil and natural gas production of International Frontier, 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 International Frontier 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 International Frontier 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 International Frontier 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 International Frontier depends on its ability to find, acquire, develop and commercially produce oil and natural gas reserves. No assurance can be given that International Frontier will be able to continue to locate satisfactory properties for acquisition or participation. Moreover, if such acquisitions or participation are identified, International Frontier 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.

Contingent Resources

The resources assigned to the Corporation's properties have been classified as contingent. The Canadian Oil and Gas Evaluation Handbook Volume 1 defines contingent resources as quantities of oil and gas estimated to be potentially recoverable from known accumulations using established technology or technology under development, but which are not currently considered to be commercially recoverable due to one or more contingencies. Contingent Resources are further classified in accordance with the level of certainty associated with the estimates and may be sub classified based on project maturity and/or characterized by their economic status.

- **Low Estimate:** This is considered to be a conservative estimate of the quantity that will actually be recovered from the accumulations. If probabilistic methods are used this term reflects a P90 confidence level.
- **Best Estimate:** This is considered to be the best estimate of the quantity that will actually be recovered from the accumulation. If probabilistic methods are used this term is a

- measure of the central tendency of the uncertainty distribution (most likely/mode, P50/median, or arithmetic average/mean).
- High Estimate: This is considered to be an optimistic estimate of the quantity that will actually be recovered from the accumulation. If probabilistic methods are used, this term reflects a P10 confidence level.

There is no certainty that a gas pipeline will be constructed to tie-in the Corporation's contingent resources, nor is there certainty that it will be commercially viable to produce any portion of the contingent resources identified in the McDaniel & Associates contingent resource report on the Corporation's Northwest Territories properties dated December 31, 2013.

Volatility of Oil and Natural Gas Prices

The operational results and financial condition of International Frontier 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 International Frontier and could result in a reduction of the net production revenue of the Corporation causing a reduction in its oil and gas acquisition and development activities. In addition, bank borrowings that might be made available to the Corporation are typically determined in part by the borrowing base of the reserves of International Frontier. A sustained material decline in prices from historical average prices could reduce the borrowing base of International Frontier, therefore reducing the bank credit available to International Frontier and could require that a portion of such bank debt be repaid.

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, International Frontier is not fully insured against all of these risks, nor is all such risks insurable. Although International Frontier 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 International Frontier 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 International Frontier and may delay exploration and development activities. To the extent International Frontier is not the operator of its oil and gas properties, the Corporation 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 International Frontier which could result in reduction of the revenue received by the Corporation.

Competition

There is strong competition relating to all aspects of the oil and natural gas industry. International Frontier 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 International Frontier.

Key Personnel

The success of International Frontier 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 International Frontier. International Frontier does not have key person insurance in effect for management. The contributions of these individuals to the immediate operations of International Frontier 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 International Frontier 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 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 International Frontier or its assets. Such regulation may be changed to impose higher standards and potentially more costly obligations on International Frontier. There can be no assurance that future environmental costs will not have a material adverse effect on International Frontier.

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 Corporation’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.
- Third party resource estimates.

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

- future oil and natural gas production levels from IFR’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 Corporation’s ability to obtain financing on acceptable terms, as required.

The Corporation'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; and
- fluctuations in foreign exchange or interest rates and stock market volatility
- ability to raise project finance capital from chartered banks

This forward-looking information represents the Corporation'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 Corporation 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 Corporation and factors that could affect its operations and financial results are included in reports on file with Canadian securities regulatory authorities, including the Corporation's Annual Information Form, and may be accessed through the SEDAR website (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 Corporation 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 Corporation's forward-looking statements are expressly qualified in their entirety by this cautionary statement.

Other information

Additional information regarding International Frontier Corporation's reserves and other data are available on SEDAR at www.sedar.com