



International Frontier Resources Corporation

Consolidated Financial Statements

December 31, 2019

Contents

	<u>Page</u>
Independent Auditors' Report	3
Consolidated Balance Sheets	7
Consolidated Statements of Operations and Comprehensive Loss	8
Consolidated Statements of Changes in Shareholders' Equity	9
Consolidated Statements of Cash Flows	10
Notes to the Consolidated Financial Statements	11-35



KPMG LLP
205 5th Avenue SW
Suite 3100
Calgary AB T2P 4B9
Telephone (403) 691-8000
Fax (403) 691-8008
www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of International Frontier Resources Corporation

Opinion

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

- the consolidated balance sheets as at December 31, 2019 and December 31, 2018
- the consolidated statements of operations and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' equity for the years then ended
- the consolidated statements of cash flows for the years then ended
- and notes to the consolidated financial statements, including a summary of significant accounting policies

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

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated financial position of the Entity as at December 31, 2019 and December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards ("IFRS").

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the "*Auditors' Responsibilities for the Audit of the Financial Statements*" section of our auditors' report.

We are independent of the Entity in accordance with the ethical requirements that are relevant to our audit of the financial statements in Canada and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.



Material Uncertainty Related to Going Concern

We draw attention to note 2 in the financial statements, which indicates that the Entity requires additional sources of capital and to raise sufficient resources to fund ongoing operating and development expenditures and commitments. As stated in note 2 in the financial statements, these events or conditions, along with other matters as set forth in note 2 in the financial statements impacting the Entity's ability to address these maturities, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Other Information

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

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

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

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

We obtained the information included in Management's Discussion and Analysis filed with the relevant Canadian Securities Commissions as at the date of this auditors' report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditors' report.

We have nothing to report in this regard.

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

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

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



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

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Canadian generally accepted auditing standards will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

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

We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.

The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Entity's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Entity's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Entity to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.
- Provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

A handwritten signature in black ink that reads 'KPMG LLP'. The letters are cursive and stylized.

Chartered Professional Accountants

Calgary, Canada

April 29, 2020

International Frontier Resources Corporation

Consolidated Balance Sheets

As at December 31, 2019 2018

Assets

Current

Cash and cash equivalents (Note 16)	\$	95,050	\$	425,030
Accounts receivable		25,180		851,365
Prepays and deposits		32,755		36,720
Shareholder loans (Note 14)		-		4,626,355
Restricted cash on deposit		-		300,000
		<u>152,985</u>		<u>6,239,470</u>
Tonalli purchase option (Note 14)		45,000		45,000
Shareholder loans (Note 14)		2,262,935		-
Investment in associates (Note 14)		3,598,815		358,840
Property, plant and equipment (Note 6)		3,295		3,940
	\$	<u>6,063,030</u>	\$	<u>6,647,250</u>

Liabilities

Current

Accounts payable and accrued liabilities	\$	748,900	\$	756,140
--	----	---------	----	---------

Shareholders' Equity

Share capital (Note 8a)	56,618,810	54,619,440
Contributed surplus (Note 8b)	12,511,795	12,204,285
Deficit	<u>(63,816,475)</u>	<u>(60,932,615)</u>
	<u>5,314,130</u>	<u>5,891,110</u>
	\$ <u>6,063,030</u>	\$ <u>6,647,250</u>

Going concern (Note 2)
 Commitments and contingencies (Note 15)
 Subsequent event (Notes 10 and 18)

On behalf of the Board of Directors

(Signed) "Gary Lyons" _____ Director **(Signed) "Anthony Kinnon"** _____ Director

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Operations and Comprehensive Loss

For the years ended

December 31,
2019

December 31,
2018

Expenses

General and administration	\$ 690,730	\$ 1,531,855
Pre-exploration costs	197,470	276,920
Depreciation (Note 6)	645	1,045
Impairment (Note 5)	-	5,569,785
Relinquishment of license	-	300,000
Share based compensation (Note 8d)	307,510	662,660
Gain on settlement of accounts payable (Note 9)	(104,155)	-
Write off of share purchase receivable (Note 12)	93,590	-
Provision for doubtful accounts (Note 12)	799,240	-
Gain on Tonalli purchase option (Note 14)	-	(45,000)
Loss on equity investment (Note 14)	<u>882,145</u>	<u>962,305</u>
	2,867,175	9,259,570
Finance income and expenses		
Interest income	315,375	116,830
Foreign exchange gain (loss)	<u>(332,060)</u>	<u>281,290</u>
	(16,685)	398,120
Net loss and comprehensive loss	\$ <u>(2,883,860)</u>	\$ <u>(8,861,450)</u>

Net loss per share (Note 11)

Basic and diluted	\$ <u>(0.02)</u>	\$ <u>(0.06)</u>
-------------------	------------------	------------------

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Changes in Shareholders' Equity

	December 31, 2019		December 31, 2018	
	Number	Amount	Number	Amount
Common shares				
Balance, beginning of year	152,072,385	\$ 54,619,440	144,395,885	\$ 52,895,985
Shares issued for cash	21,779,000	2,069,005	-	-
Shares issue on exercise of options	-	-	1,806,500	298,885
Shares issue on exercise of warrants	-	-	5,870,000	1,424,570
Share subscriptions obligation	-	5,000	-	-
Share Issue costs		(74,635)		-
Balance, end of year	<u>173,851,385</u>	<u>\$ 56,618,810</u>	<u>152,072,385</u>	<u>\$ 54,619,440</u>
Contributed surplus				
Balance, beginning of year		\$ 12,204,285		\$ 12,048,430
Share based compensation expense		307,510		662,660
Exercise and expiry of warrants		-		(388,660)
Exercise of stock options		-		(118,145)
Balance, end of year		<u>\$ 12,511,795</u>		<u>\$ 12,204,285</u>
Deficit				
Balance, beginning of year		\$ (60,932,615)		\$ (52,091,855)
Expiry of warrants		-		20,690
Net loss		(2,883,860)		(8,861,450)
Balance, end of year		<u>\$ (63,816,475)</u>		<u>\$ (60,932,615)</u>
Total shareholders' equity		<u>\$ 5,314,130</u>		<u>\$ 5,891,110</u>

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Cash Flows

For the years ended December 31,

2019

2018

Operating

Net loss	\$ (2,883,860)	\$ (8,861,450)
Non-cash items:		
Depreciation	645	1,045
Impairment	-	5,569,785
Gain on Tonalli purchase option (Note 14)	-	(45,000)
Share based compensation (Note 8d)	307,510	662,660
Gain on settlement of accounts payable (Note 9)	(104,155)	-
Write off share purchase receivable (Note 12)	93,590	-
Provision for doubtful accounts (Note 12)	799,240	-
Loss on equity investment (Note 14)	882,145	962,305
Unrealized foreign exchange loss	290,640	-
Change in non-cash working capital (Note 16)	<u>204,850</u>	<u>40,565</u>
	(409,395)	(1,670,090)

Investing

Investment in associates (Note 14)	-	(27,215)
Shareholder loan (Note 14)	(1,556,690)	(4,626,355)
Change in non-cash investing capital (Note 16)	<u>(363,265)</u>	<u>(129,295)</u>
Cash flow used in continuing investing activities	(1,919,955)	(4,782,865)

Financing

Shares issued for cash (Note 8)	2,069,005	-
Exercise of warrants	-	1,056,600
Exercise of options	-	180,650
Share subscription obligation	5,000	-
Share issuance costs	<u>(74,635)</u>	<u>-</u>
Cash flow from continuing financing activities	1,999,370	1,237,250

Net change in cash and cash equivalents **(329,980)** (5,215,705)

Cash and cash equivalents

Beginning of year	<u>425,030</u>	<u>5,640,735</u>
End of year	\$ 95,050	\$ 425,030

Supplemental cash flow information (Note 16)

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2019

1. Nature of operations

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

The Company was incorporated under the Canada Business Corporations Act in Alberta, Canada in 1997. The Company is listed on the TSX Venture Exchange, having the symbol IFR-V. The address of the Company's corporate office and principal place of business is Suite 1805, 222 3rd Avenue S.W., Calgary, Alberta, Canada.

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

2. Basis of preparation and statement of compliance

Statement of compliance

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

These financial statements were approved and authorized for issue by the Board of Directors on April 29, 2020.

Basis of measurement

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

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

Going concern

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

The Company had a net loss of \$2,883,860 and cash flows used in operations of \$409,935 for the year ended December 31, 2019, and a working capital deficit of \$595,915 as at December 31, 2019.

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

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

There is significant strain on the oil and gas industry due to the OPEC crisis and compounding impacts due to the COVID-19 global pandemic. Subsequent to December 31, 2019 oil prices have significantly declined, to levels where continued operations cannot be sustained at profitable levels. Operations within Tonalli were suspended until oil prices rise to profitable levels. There is no guarantee at this time as to if and when this will occur.

On January 17, 2020, the Company completed the previously announced rights offering. The Company issued 69,540,554 common shares of the Company at a price of \$0.01 per common share, raising total gross proceeds of \$695,406. Although the rights offering was successful and management has been successful in raising capital in the past, there is no assurance other raises of capital in the future will be successful.

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

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

These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. These adjustments could be material.

Functional and presentation currency

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

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

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2019

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

Significant accounting judgments, estimates and assumptions

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

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Significant judgments, estimates and assumptions made by management in the preparation of these financial statements are outlined below.

- Amounts recorded for depletion, depreciation and impairment expense, accretion expense, decommissioning liabilities, fair value measurements, and amounts used in impairment tests for exploration and evaluation assets, and property, plant and equipment are based on estimates. These estimates include petroleum and natural gas reserves, future petroleum and natural gas prices, future interest rates and future costs required to develop those reserves as well as other fair value assumptions.
- The total decommissioning liabilities is estimated based on the Company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years, based on current legal and constructive requirements and technology. The estimated obligations and actual costs may change significantly due to changes in regulations, technology, timing of the expenditure, and the discount rates used to determine the net present value of the obligations.
- The Company uses the Black-Scholes option pricing model in determining share-based compensation expense, which requires a number of assumptions to be made, including the risk-free interest rate, expected life of options and warrants, forfeiture rate, and expected share price volatility. Consequently, the actual share-based compensation expense may vary from the amount estimated.

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

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

- The determination of the type of joint arrangement as either a joint operation or a joint venture is based on management's determination of whether it has joint control over another entity and considerations include assessment of contractual agreements for unanimous consent of the parties on decision making of relevant activities. Once classified as a joint arrangement, management assesses whether it is structured through a separate vehicle and whether the legal form and contractual arrangements give the entity the direct right to the assets and obligations for the liabilities within the normal course of business, as well as the entity's rights to the economic benefit of assets and its involvement and responsibility for settling liabilities associated with the arrangement.
- Significant judgement is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters.

3. Summary of significant accounting policies

Cash and cash equivalents

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

Consolidation

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

Joint arrangements

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

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

Joint ventures arise when the Company has a right to the net assets of the arrangement. For these arrangements, the Company uses the equity method of accounting and recognizes initial

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2019

3. Summary of significant accounting policies (continued)

and subsequent investments at cost, adjusting for the Company's share of the joint venture's income or loss, less dividends received thereafter.

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

Allowance for doubtful accounts

The Company estimates losses on receivables based on known uncollectible accounts, if any, and historical experience of losses incurred and accrues a reserve on a receivable when, based on the judgement of management, it is probable that a receivable will not be collected and the amount of the reserve may be reasonably estimated.

Investment in associates

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

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

Revenue recognition

Interest income

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

Revenue from contracts with customers

The Company's Mexico joint venture generates oil revenue which is included in the profit or loss from investment in joint venture (Note 14). Oil revenue generated within the joint venture is recognized when the performance obligations are satisfied, and revenue can be reliably measured. Revenue is measured at the consideration specified in the contracts and represents amounts receivable for goods or services provided in the normal course of business, net of discounts, customs duties and sales taxes. Oil sales within the joint venture sold in Mexico are under long term floating price contracts. Performance obligations associated with the sale of crude oil are satisfied at the point in the time when the products are delivered, and title passes to the customer.

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

3. Summary of significant accounting policies (continued)

Exploration and evaluation assets and property, plant and equipment

i) Cost

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

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

ii) Exploration and evaluation costs

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

iii) Petroleum and natural gas properties

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

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

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

3. Summary of significant accounting policies (continued)

Oil and gas reserves are evaluated by an independent qualified reserve evaluator. The estimation of reserves is an inherently complex process and involves the exercise of professional judgment. Estimates are based on projected future rates of production, estimated commodity prices, engineering data and the timing of future expenditures, all of which are subject to uncertainty. Changes in reserve estimates can have an impact on reported net earnings through revisions to depletion and impairment expense, in addition to determining possible impairments of property, plant and equipment.

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

iv) Office furniture and equipment

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

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

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

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

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

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

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2019

3. Summary of significant accounting policies (continued)

Earnings per share amounts

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

Income taxes

Income tax expense comprises current and deferred tax. Income tax expense is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

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

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

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

Share-based payments and warrants

The Company uses the fair value method for valuing stock options and warrants. Under the fair value method, compensation costs attributable to all stock options and warrants granted are measured at fair value at the date of grant and expensed over the vesting period with a corresponding increase to contributed surplus. A forfeiture rate is estimated on the date of grant and is adjusted to reflect the actual number of awards that vest. The fair value of each option or warrant granted is estimated using the Black-Scholes option pricing model that takes into account the grant date, the exercise price and expected life of the option, the price of the underlying security, the expected volatility, the risk-free interest rate and dividends, if any, on the underlying security. Upon the exercise of the stock options and warrants, consideration received together

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

3. Summary of significant accounting policies (continued)

with the amount previously recognized in contributed surplus or warrants is recorded as an increase to share capital and the contributed surplus.

Financial instruments

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

i) Classification and measurement of financial assets:

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

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

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

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

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

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

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

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

a) Financial assets at FVTPL

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

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

a) Financial assets at amortized cost

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

a) Debt investments at FVOCI

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

ii) Classification and measurement of financial liabilities:

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

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

4. New accounting policies

a) IFRS 16 Leases

Effective January 1, 2019, the Company adopted IFRS 16, "Leases", which replaced IAS 17, "Leases" and IFRIC 4, "Determining Whether an Arrangement Contains a Lease".

i) Right-of-use assets

The Company recognizes right-of-use assets and lease liabilities at the lease commencement date. The assets are initially measured at cost, which comprises the initial amount of the lease liabilities adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use assets are depreciated to the earlier of the end of the useful life of the asset or the lease term using the straight-line method as this most closely reflects the expected pattern of consumption of the future economic benefits.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2019

The lease term includes periods covered by an option to extend if the Company is reasonably certain to exercise that option. In addition, the right-of-use assets are periodically reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liabilities.

ii) Lease liabilities

The lease liabilities are initially measured at the present value of the future lease payments, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate. Generally, the Company uses its incremental borrowing rate as the discount rate.

The lease liabilities are measured at amortized cost using the effective interest rate method. They are remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, or if the Company changes its assessment of whether it will exercise a purchase, extension or termination option. When the lease liabilities are remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use assets or is recorded in profit or loss if the carrying amount of the right-of-use assets has been reduced to zero. Lease payments are applied against the lease liabilities, with a portion allocated as cash finance expense using the effective interest rate method.

iii) Transition impact

The Company applied the new standard using the modified retrospective approach and, in accordance with the transitional provisions, comparative figures have not been restated.

Upon transition, the Company used the following practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- right-of-use assets and lease liabilities for leases with less than 12 months of lease term were not recognized;
- right-of-use assets and lease liabilities for leases of low-value assets were not recognized; and
- applied a single discount rate to a portfolio of leases with similar characteristics.

The adoption of IFRS 16 did not have a material impact on the Company's financial statements.

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

5. Exploration and evaluation assets

As at December 31 30, 2019, exploration and evaluation assets consist of total costs incurred less impairments in the Central Mackenzie Valley ("CMV"), Northwest Territories, Canada and Montana, USA.

Cost	Canada	USA	Total
Balance, as at December 31, 2017	\$ 23,356,100	\$ 2,748,730	\$ 26,104,830
Additions	-	-	-
Balance at December 31, 2018 and December 31, 2019	\$ 23,356,100	\$ 2,748,730	\$ 26,104,830

Accumulated Impairment	Canada	USA	Total
Balance, as at December 31, 2017	\$ (17,786,315)	\$ (2,748,730)	\$ (20,535,045)
Impairments	(5,569,785)	-	(5,569,785)
Balance at December 31, 2018 and December 31, 2019	\$ (23,356,100)	\$ (2,748,730)	\$ (26,104,830)

Carrying Value

Balance at December 31, 2018 and December 31, 2019	\$ -	\$ -	\$ -
---	-------------	-------------	-------------

As at December 31, 2018, the Company completed a review of its undeveloped properties included in exploration and evaluation assets. As there had been no activity in the area and the Company did not have any plans for future development, a total impairment of \$5,569,785 was recorded.

6. Property, plant and equipment

Cost	Office furniture and equipment
Balance at December 31, 2017 and 2018	\$ 137,570
Additions	-
Balance at December 31, 2019	\$ 137,570
Depletion and depreciation	
Balance at December 31, 2017	(132,585)
Depletion and depreciation	(1,045)
Balance at December 31, 2018	(133,630)
Depletion and depreciation	(645)
Balance at December 31, 2019	\$ (134,275)
Carrying Value	
Balance at December 31, 2018	\$ 3,940
Balance at December 31, 2019	\$ 3,295

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

7. Income taxes

- a) The total provision for income taxes differs from the expected amount by applying the combined federal and provincial tax rates of approximately 26.5% (2018- 27%) to loss before income taxes. This difference results from the following items:

	<u>2019</u>	<u>2018</u>
Loss before income taxes	\$ (2,883,860)	\$ (8,861,450)
Expected tax recovery of combined federal and provincial statutory rates	(764,223)	(2,393,000)
Increase (decrease) resulting from:		
Share based compensation	82,000	179,000
Foreign income tax rate differentials	(45,000)	(20,000)
Change in enacted tax rates and other	-	49,000
Change in unrecognized deferred tax asset	<u>727,223</u>	<u>2,185,000</u>
	<u>\$ -</u>	<u>\$ -</u>

- b) Unrecognized temporary differences and other items:

	<u>December 31, 2019</u>	<u>December 31, 2018</u>
Property plant and equipment	\$ 13,061,000	\$ 13,061,000
Capital losses	12,931,000	12,931,000
Non capital losses	12,274,000	10,967,000
Investment in associate and other	2,894,000	1,994,000
Foreign losses and other	<u>333,000</u>	<u>468,000</u>
	<u>\$ 41,493,000</u>	<u>\$ 39,421,000</u>

- c) Tax losses

The Company has incurred non-capital losses for income tax purposes of approximately \$12,274,000 (2018- \$10,967,000) in Canada. Unless sufficient taxable income is earned, these losses will expire between 2026 and 2049.

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

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

8. Share capital

- a) **Authorized:**
Unlimited common shares, Unlimited preferred shares

	Number of Shares	Amount
Balance at December 31, 2017	144,395,885	\$52,895,985
Shares issued via exercise of warrants	5,870,000	1,056,600
Contributed surplus transferred on exercise of warrants		367,970
Shares issued via exercise of stock options	1,806,500	180,650
Contributed surplus transferred on exercise of stock options		118,235
Balance at December 31, 2018	152,072,385	\$54,619,440
Shares issued via private placement (i)	21,779,000	2,069,005
Share purchase obligation (ii)		5,000
Shares issue costs		(74,635)
Balance at December 31, 2019	173,851,385	\$56,618,810

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

(ii) On November 25, 2019, the Company announced a rights offering to holders of its common shares at a price of \$0.01 per share for gross proceeds of up to \$695,406 with a closing date of January 13, 2020. Share issue costs of \$11,582 were incurred during the year ended December 31, 2019. In December 2019, the Company received \$5,000 of cash consideration for the purchase of 500,000 common shares in advance of closing and issuance of the shares.

b) Contributed surplus

	December 31, 2019	December 31, 2018
Balance, beginning of year	\$ 12,204,285	\$ 12,048,430
Share based compensation	307,510	662,660
Exercise of stock options	-	(118,145)
Exercise and expiry of warrants	-	(338,660)
Balance, end of year	<u>\$ 12,511,795</u>	<u>\$ 12,204,285</u>

c) Share purchase warrants

	December 31, 2019		December 31, 2018	
	Number of Warrants	Amount	Number of Warrants	Amount
Balance, beginning of year	-	\$ -	6,200,000	\$ 388,660
Expired	-	-	(330,000)	(20,690)
Exercised	-	-	(5,870,000)	(367,970)
Balance, end of year	<u>-</u>	<u>\$ -</u>	<u>-</u>	<u>\$ -</u>

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

8. Share capital (continued)

d) Stock options

The Company has a stock option plan available to consultants, officers, directors, and employees of the Company to be granted options of up to 10 percent of the issued and outstanding common shares of the Company. The exercise price of each option approximates the market price for the common shares on the date the option was granted. As at December 31, 2019, 14,525,000 common shares were reserved for issuance under the plan. Options granted under the plan vest within two years of the grant date and have a term of five years to expiry.

Outstanding and exercisable

	<u>December 31 ,</u> <u>2019</u>		<u>December 31,</u> <u>2018</u>	
	<u>Weighted</u>		<u>Weighted</u>	
	<u>Number of</u> <u>Options</u>	<u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Number of</u> <u>Options</u>	<u>Average</u> <u>Exercise</u> <u>Price</u>
Balance, beginning of year	10,900,000	\$ 0.17	13,786,500	\$ 0.16
Granted	7,250,000	0.08	300,000	0.16
Expired/cancelled	(3,625,000)	0.11	(1,380,000)	0.15
Exercised	-	-	(1,806,500)	0.10
Balance, end of year	<u>14,525,000</u>	<u>\$ 0.13</u>	<u>10,900,000</u>	<u>\$ 0.17</u>

<u>December 31, 2019</u>		<u>Options Outstanding</u>		<u>Options Exercisable</u>	
<u>Exercise Price</u>	<u>Options</u> <u>Outstanding</u>	<u>Weighted</u> <u>Average</u> <u>Contractual</u> <u>Life (years)</u>	<u>Weighted</u> <u>Average</u> <u>Exercise</u> <u>Price</u>	<u>Options</u> <u>Exercisable</u>	<u>Weighted</u> <u>Average</u> <u>Exercisable</u> <u>Price</u>
\$0.08	7,100,000	4.45	\$ 0.08	250,000	\$ 0.08
\$0.13 - \$0.16	3,375,000	1.01	\$ 0.14	3,375,000	\$ 0.14
\$0.22	4,050,000	2.93	\$ 0.22	4,050,000	\$ 0.22
	<u>14,525,000</u>	<u>3.31</u>	<u>\$ 0.13</u>	<u>7,675,000</u>	<u>\$ 0.13</u>

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

	<u>2019</u>	<u>2018</u>
Risk-free interest rate	1.41%	2.20%
Forfeiture rate	2.00%	2.00%
Expected life of options	5 years	5 years
Volatility	122.25%	130.00%
Dividend yield rate	0%	0%
Share price	\$ 0.08	\$0.16

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2019

9. Gain on settlement of accounts payable

At December 31, 2018, the Company had amounts owing of \$181,405 to the operator in relation to the estimated reclamation costs for the properties in which it holds a working interest located in the Northwest Territories, Canada. During the year ended December 31, 2019, the operator and the Company agreed to settle the outstanding payable for \$77,250. As such, a gain on settlement in the amount of \$104,155 has been recorded.

10. Capital management

In the management of capital, the Company includes certain working capital balances in the definition of capital. Management reviews its capital requirements on an ongoing basis and believes that its approach, given the relative size of the Company, is reasonable. As at December 31, 2019, the Company's capital as defined above is as follows:

	<u>December 31,</u> <u>2019</u>	December 31, 2018
Cash and cash equivalents	\$ 95,050	\$ 425,030
Restricted cash on deposit	-	300,000
Accounts receivable	25,180	851,365
Shareholder loan	-	4,626,355
Accounts payables and accrued liabilities	<u>(748,900)</u>	<u>(756,140)</u>
	<u>\$ (628,670)</u>	<u>\$ 5,446,610</u>

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

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

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

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

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

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2019

11. Per share amounts

	<u>2019</u>	<u>2018</u>
Net loss	\$ (2,883,860)	\$ (8,861,450)
Weighted average number of shares	166,200,764	148,166,154
Basic loss per share from continuing operations	\$ (0.02)	\$ (0.06)

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

12. Related party transactions

The Company paid compensation to key executives for the years ended December 31, 2019 and 2018 as follows:

	<u>2019</u>	<u>2018</u>
Executive officers – salaries and consulting fees	\$ 304,000	\$ 608,000
Stock based compensation	298,010	512,115
Director's fees	-	36,000
	\$ <u>602,010</u>	\$ <u>1,146,115</u>

At December 31, 2019, \$207,950 (2018 – \$36,150) was included in accounts payable and accrued liabilities owing to related parties.

Included in accounts receivable at December 31, 2019 is \$799,240 (2018 - \$501,630) representing amounts for reimbursement of overhead expenses owing from Tonalli, in which the Company's 99.80% owned Mexican subsidiary, Frontera, has a 50% shareholding. At December 31, 2019, these amounts have been deemed uncollectible at this time and an expected credit loss in the amount of \$799,240 was recorded against this receivable.

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

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

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

13. Segmented information

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

a) Net loss and comprehensive loss

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

<u>Year ended December 31, 2018</u>	<u>Canada</u>	<u>Mexico</u>	<u>Total</u>
Expenses			
General and administration	\$ 1,320,985	\$ 210,870	\$ 1,531,855
Pre exploration costs	24,920	252,000	276,920
Depreciation	885	160	1,045
Impairments	5,869,785	-	5,869,785
Share based compensation	662,660	-	662,660
Gain on Tonalli purchase option	(45,000)	-	(45,000)
Loss on equity investments	-	962,305	1,018,430
	<u>7,834,225</u>	<u>1,425,335</u>	<u>9,360,695</u>
Finance income and expenses			
Interest income	5,290	111,540	116,830
Foreign exchange gain	2,400	278,890	281,290
	<u>7,690</u>	<u>390,430</u>	<u>398,120</u>
Net loss and comprehensive loss	<u>\$ (7,826,545)</u>	<u>\$ (1,034,905)</u>	<u>\$ (8,861,450)</u>

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

13. Segmented information (continued)

a) Assets

As at December 31, 2019

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

As at December 31, 2018

	<u>Canada</u>		<u>Mexico</u>		<u>Total</u>
Total assets	\$ 1,130,400	\$	5,516,850	\$	6,647,250

14. Investment in associates

At December 31, 2019 The Company, through its Mexcan subsidiary Frontera's holds 50% investments in Tonalli Energia S.A.P.I. de CV ("Tonalli"), and Energia Mex Can ("Mexcan"), Mexican companies which are accounted for using the equity method.

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

<u>As at December 31, 2019</u>	<u>Tonalli</u>	<u>Mexcan</u>	<u>Total</u>
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
Balance, end of period	\$ 3,560,210	\$ 38,605	\$ 3,598,815
<u>As at December 31, 2018</u>	<u>Tonalli</u>	<u>Mexcan</u>	<u>Total</u>
Balance, beginning of year	\$ 1,293,930	\$ -	\$ 1,293,930
Contributions	-	27,215	27,215
Share of income (loss) for the year	(965,535)	3,230	(962,305)
Balance, end of year	\$ 328,395	\$ 30,445	\$ 358,840

At December 31, 2019, Frontera has loaned \$5,899,800 CAD equivalent to Tonalli in the form of a shareholder loans pursuant to a shareholder loan agreement. Per the terms of the amending agreement dated December 31, 2018, the loan had a maturity date of December 31, 2019 and accrued interest at Libor plus 2.75% in 2019.

At December 31, 2019, \$3,117,120 of the outstanding loan balance was converted to common shares of Tonalli and as a result were recognized as a contribution to the Tonalli equity investment. Furthermore, on December 31, 2019 the Company amended all remaining shareholder loans (including interest accrued to date) in the amount of \$2,142,500 USD (\$2,782,680 CAD equivalent) to bear interest at a rate of Libor plus 2.75% and extended the maturity date to December 31, 2024.

Interest accrued in 2019 was \$485,255 (2018 - \$129,385) and has been included in shareholder loan at December 31, 2019.

At December 31, 2019, the fair value of the shareholder loan is determined to be \$2,262,935 CAD. 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.

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2019

14. Investment in associates (continued)

The Company periodically assesses its investments to determine whether there is any indication of impairment. When there is an indication of impairment, an impairment loss in respect of an equity-method accounted investee is measured by comparing the recoverable amount of the investment with its carrying amount. An impairment loss is recognized in profit or loss and is reversed if there is a favorable change in the estimates used to determine the recoverable amount.

Tonalli

Summarized financial information

As at December 31,	2019	2018
Cash	\$ 523,560	\$ 314,050
Other current assets	1,884,055	2,891,795
Oil and gas properties	12,755,605	10,982,985
Other non current assets	2,385,820	1,506,295
Total assets	17,549,040	15,695,125
Current liabilities - payables and accruals	5,178,995	14,505,280
Long term liabilities	7,008,380	118,290
Total liabilities	12,187,375	14,623,570

For the year ended December 31,	2019	2018
Loss before income taxes	\$ (4,083,065)	\$ (3,572,720)
Deferred tax recovery	\$ 858,210	\$ 820,650
Net loss	\$ (1,844,725)	\$ (1,931,070)

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2019

14. Investment in associates (continued)

Mexcan

Summarized financial information

For the year ended December 31,	2019	2018
Net income before taxes	\$ 33,965	\$ 14,930
Net income	\$ (17,135)	\$ 6,460

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.

The exercise of the Option is subject to certain customary closing conditions, as well as the approval of the TSX Venture Exchange and the National Hydrocarbons Commission of Mexico. The fair value of the Option is determined to be \$45,000 at December 31, 2019. The Option is classified as a Level 3 financial instrument in the fair value hierarchy and is measured based on the adjusted net asset value of Tonalli with reference to a reserve report on Tonalli's oil and gas properties, the trading price of the Company's share at the valuation date and expected volatility.

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

15. Commitments and contingencies

- a) Effective July 1, 2019 the Company is party to an agreement to lease its new premises until June 30, 2020. 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 \$40,950.
- b) At December 31, 2019 Tonalli had completed all of the requirements to satisfy the minimum work commitments as required by the extension of the evaluation plan in conjunction with its license contract for Tecolutla and received full accreditation for its remaining work units.

Tonalli has no remaining work commitments with respect to the license contract at December 31, 2019.

16. Supplemental cash flow information

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

	<u>2019</u>	<u>2018</u>
Accounts receivable	\$ (559,295)	\$ (532,335)
Prepays and deposits	3,965	46,495
Restricted cash on deposit	300,000	-
Accounts payable and accrued liabilities	<u>96,915</u>	<u>397,110</u>
	<u>\$ (158,415)</u>	<u>\$ (88,730)</u>
Operating activities	\$ 204,850	\$ 40,565
Investing activities	<u>(363,265)</u>	<u>(128,295)</u>
	<u>\$ (158,415)</u>	<u>\$ (88,730)</u>
Taxes paid	\$ -	\$ -
Interest paid	\$ -	\$ -
Cash and cash equivalents are comprised of:		
Cash on hand - Canada	\$ 86,705	\$ 74,825
Cash on hand - Mexico	<u>8,345</u>	<u>350,205</u>
	<u>\$ 95,050</u>	<u>\$ 425,030</u>

International Frontier Resources Corporation

Notes to the Consolidated Financial Statements

December 31, 2019

17. Financial risk management

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

a) Credit risk

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

The maximum exposure to loss associated with accounts receivable is the total carrying amounts on the balance sheet. All amounts outstanding at December 31, 2019 are expected to be collected in 2020.

The following table presents the aging of the Company's accounts receivable at December 31, 2019:

Total accounts receivable	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
\$ 25,180	\$ -	\$ 3,695	\$ 3,385	\$ 18,100

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, 2019 is \$799,240 (2018 – \$nil).

b) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent the changes in market interest rates will impact the Company's interest rate price risk with respect to funds invested in short term marketable securities. As at December 31, 2019, the Company did not have any financial assets based on variable interest rates and as such the Company has no specific interest rate risk at year-end. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate risk.

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

17. Financial risk management (continued)

c) Foreign currency risk

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

At December 31, 2019, the carrying amount of the Company's Mexican pesos denominated net monetary assets was approximately \$38,120 pesos. Assuming all other variables remain constant, a fluctuation of one percent in the exchange rate of the Canadian dollar to the Mexican pesos at December 31, 2019 would have affected the value of such balances by approximately \$381 CAD.

At December 31, 2019, the carrying amount of the Company's U.S. dollar denominated monetary assets was approximately US \$80,980. Assuming all other variables remain constant, a fluctuation of one percent in the exchange rate of the Canadian dollar to the U.S. dollar at December 31, 2019 would have affected the value of such balances by approximately \$620 CAD.

d) Commodity Price Risk

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

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

e) Liquidity risk

Liquidity risk includes the risk that:

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

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

International Frontier Resources Corporation
Notes to the Consolidated Financial Statements
December 31, 2019

17. Financial risk management (continued)

f) Fair value of financial instruments

The Company classifies the fair value of financial instruments at fair value through profit or loss according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

At December 31, 2019 and December 31, 2018 cash and cash equivalents and restricted cash on deposit have been classified as Level 1. The Tonalli purchase option is classified as Level 3.

18. Subsequent event

a) Covid-19

The global impact of the COVID-19 as well as recent declines in spot prices for oil and gas have resulted in significant declines in global stock markets and has forecasted a great deal of uncertainty as to the health of the global economy. As a result, oil and gas companies are subject to liquidity risks in maintaining their revenues and earnings as well as ongoing and future development and operating expenditure requirements. These factors are likely to have a negative impact on the Company's ability to raise equity, if required, in the near future or on terms favorable to the Company. Impairment indicators for Tonalli's oil and gas properties could exist in future periods, if current conditions persist. The potential impact that COVID-19 will have on our business or financial results cannot be reasonably estimated at this time. However, any shutdowns requested or mandated by local or foreign government authorities in response to the outbreak of COVID-19 may have a material impact to the Company's planned operating activities.