International Frontier Resources Corporation

Consolidated Financial Statements

December 31, 2022

Contents

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

INDEPENDENT AUDITOR'S 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 statements of financial position as at December 31, 2022 and December 31, 2021
- the consolidated statements of operations and comprehensive loss for the years then ended
- the consolidated statements of changes in shareholders' (deficit) 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 Company as at December 31, 2022 and December 31, 2021, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Basis for Opinion

We conducted our audit in accordance with Canadian generally accepted auditing standards. Our responsibilities under those standards are further described in the **"*Auditor's Responsibilities for the Audit of the Financial Statements*"** section of our auditor's 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 is required to raise capital in the near term to fund ongoing general and administrative costs, the working capital deficit and for further development and operations of the Entity. If the Entity does not raise capital in the near term, there is risk that the Entity may be required to seek creditor protection or be forced to sell assets or the Entity.

As stated in Note 2 in the financial statements, these events or conditions, along with other matters as set forth in Note 2 in the financial statements, indicate that a material uncertainty exists that may cast significant doubt on the Entity's ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements for the year ended December 31, 2022. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

In addition to the matter described in the **"*Material Uncertainty Related to Going Concern*"** section of the audit report, we have determined the matters described below to be the key audit matters to be communicated in our auditor's report.

Derecognition of convertible debenture and line of credit

We draw your attention to Note 3, Note 4, and Note 5 to the financial statements. The Entity has recorded a gain on derecognition of convertible debenture of $678,835 and gain on derecognition of line of credit of $393,015. A financial liability is derecognized from the statement of financial position when, and only when, the obligation specified in the contract is discharged or cancelled or expired.

Why the matter is a key audit matter

We identified the determination of the gain on derecognition of convertible debenture and the gain on derecognition of line of credit as a key audit matter. Significant auditor attention was required to evaluate if the convertible debenture and the line of credit was discharged or cancelled, given the magnitude of the gains on derecognition.

How the matter was addressed in the audit

The following are the primary procedures we performed to address this key audit matter.

- We inspected the relevant agreements that related to the derecognition of the convertible debenture and line of credit
- We confirmed with the counterparty that amounts previously owed were no longer outstanding as at December 31, 2022.

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 auditor's report. If, based on the work we have performed on this other information, we conclude that there is a material misstatement of this other information, we are required to report that fact in the auditor's report.

We have nothing to report in this regard.

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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB), 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.

Auditor's 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 auditor's report that includes our opinion.

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

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of 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 auditor’s 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 auditor’s report. However, future events or conditions may cause the Entity to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the group Entity to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

KPMG LLP

Chartered Professional Accountants

Calgary, Canada
May 15, 2023

International Frontier Resources Corporation

Consolidated Statements of Financial Position

As at December 31,	2022	2021
Assets		
Current		
Cash and cash equivalents (Note 16)	**$ 25,470**	$ 306,330
Accounts receivable	**43,460**	12,145
Prepaids and deposits	**17,080**	34,545
Deposits (Note 4)	**-**	505,480
Shareholder loans (Note 14)	**-**	251,955
	86,010	1,110,455
Shareholder loans (Note 14)	**-**	2,437,505
	$ 86,010	$ 3,547,960
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 9)	**$ 529,920**	$ 306,330
Due to related parties (Note 14)	**347,695**	-
	877,615	306,330
Convertible debenture (Note 4)	**-**	1,000,845
Long term debt (Note 6)	**50,090**	46,770
	927,705	1,353,945
Shareholders' (Deficit) Equity		
Share capital (Note 7a)	**58,671,850**	58,671,850
Contributed surplus (Note 7b)	**12,789,650**	12,766,785
(Deficit) Equity	**(72,303,195)**	(69,244,620)
	(841,695)	2,194,015
	$ 86,010	$ 3,547,960

Going concern (Note 2)
Subsequent events (Note 18)

On behalf of the Board of Directors

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

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Operations and Comprehensive Loss

For the years ended December 31,	2022	2021
Expenses		
General and administration	**$ 657,325**	$ 775,500
Depreciation	**-**	2,535
Share based compensation (Note 7b)	**22,865**	82,145
Gain on settlement of accounts payable (Note 9)	**-**	(73,900)
Other income (Note 10)	**-**	(55,540)
Gain on derecognition of convertible debenture (Note 4)	**(678,835)**	-
Gain on derecognition of line of credit (Note 5)	**(393,015)**	-
Loss on settlement of shareholder loans (Note 14)	**3,269,300**	-
Loss on equity investment in Tonalli (Note 14)	**605,945**	229,970
Loss on equity investment in Mexcan (Note 14)	**17,565**	-
	3,501,150	960,710
Finance income and expenses		
Interest income	**105,495**	78,390
Accretion on long term debt (Note 6)	**(3,320)**	(3,310)
Interest on convertible debenture (Note 4)	**(45,390)**	(46,660)
Interest on line of credit (Note 5)	**(6,820)**	
Foreign exchange gain (loss)	**392,610**	(54,590)
	442,575	(26,170)
Net loss and comprehensive loss	**$ (3,058,575)**	$ (986,880)
Net loss per share (Note 11)		
Basic and diluted	**$ (0.01)**	$ (0.00)

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation

Consolidated Statements of Changes in Shareholders' (Deficit) Equity

For the years ended December 31,

	2022		2021	
	Number	**Amount**	**Number**	**Amount**
Common shares				
Balance, beginning of year	**299,107,939**	**$58,671,850**	243,391,939	$57,294,860
Shares issued for cash (Note 7a)	**-**	**-**	40,000,000	1,000,000
Shares issued for debt (Note 7a)	**-**	**-**	15,716,000	392,900
Share Issue costs		**-**		(15,910)
Balance, end of year	**299,107,939**	**$ 58,671,850**	299,107,939	$ 58,671,850
Contributed surplus				
Balance, beginning of year		**$ 12,766,785**		$ 12,684,640
Share based compensation expense (Note 7b)		**22,865**		82,145
Balance, end of year		**$ 12,789,650**		$ 12,766,785
(Deficit) Equity				
Balance beginning of year		**$ (69,244,620)**		$ (68,257,740)
Net loss for the year		**(3,058,575)**		(986,880)
Balance, end of year		**$ (72,303,195)**		$ (69,244,620)
Total shareholders' (deficit) equity		**$ (841,695)**		$ 2,194,015

See accompanying notes to the consolidated financial statements.

International Frontier Resources Corporation
Consolidated Statements of Cash Flows

For the years ended December 31,	**2022**	2021
Operating		
Net loss	**$ (3,058,575)**	$ (986,880)
Non-cash items:		
Depreciation	**-**	2,535
Accretion of long term debt (Note 6)	**3,320**	3,310
Share based compensation (Note 7b)	**22,865**	82,145
Gain on settlement of accounts payable (Note 9)	**-**	(73,900)
Gain on derecognition of line of credit (Note 5)	**(393,015)**	-
Gain on derecognition of convertible debenture (Note 4)	**(678,835)**	-
Loss on settlement of shareholder loans (Note 14)	**3,269,300**	-
Loss on equity investment in Tonalli (Note 14)	**605,945**	229,970
Unrealized foreign exchange (gain) loss	**(396,820)**	49,805
Change in non-cash working capital	**224,200**	111,435
Cash flow used in continuing operating activities	**(401,615)**	(581,580)
Investing		
Shareholder loans (Note 14)	**(498,035)**	(522,155)
Shareholder loans collected (Note 14)	**187,630**	
Equity investment in associates (Note 14)	**(120,880)**	-
Drilling deposit (Note 4)	**508,260**	(493,860)
Change in non-cash investing working capital	**(14,510)**	(87,515)
Cash flow from (used in) continuing investing activities	**62,465**	(1,103,530)
Financing		
Shares issued for cash (Note 7a)	**-**	1,000,000
Line of credit (Note 5)	**380,125**	-
Convertible debenture (Note 4)	**(379,410)**	910,830
Share issuance costs	**-**	(15,910)
Change in non-cash investing working capital	**56,680**	46,660
Cash flow from financing activities	**57,395**	1,941,580
Foreign exchange gain on cash held in foreign currencies	**895**	5,260
Net change in cash and cash equivalents	**(280,860)**	261,730
Cash and cash equivalents		
Beginning of period	**306,330**	44,600
End of period	**$ 25,470**	$ 306,330

Supplemental cash flow information (Note 16)

See accompanying notes to the consolidated financial statements.

1. Nature of operations

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

The Company was incorporated under the Canada Business Corporations Act in Alberta, Canada in 1997. The Company is listed on the TSX Venture Exchange, having the symbol IFR-V. The address of the Company's corporate office and principal p1lace of business is Suite 1400, 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"), a Mexican company which is accounted for using the equity method and its 99.80% interest in Energia Mex Can ("Mexcan"), a Mexican company which is accounted f`or using the consolidation method.

On December 14, 2022, the Company entered into a non-binding Letter of Intent ("LOI") dated November 28, 2022, with Jaguar Exploration and Produccion 2.3, S.A.P.I. de C.V. ("Jaguar") with respect to a Farm-in Arrangement of Jaguar's 100% undivided working interest in the TM-01 License Contract in the Veracruz state of Mexico. The LOI reflects the intention that IFR will acquire a working interest in the TM-01 License Contract from Jaguar in consideration for IFR issuing common shares of IFR ("Common Shares") to Jaguar and IFR participating in the costs of conducting certain Work Programs in relation to the TM-01 License Contract (the "Proposed Farm-In Arrangement"). The Proposed Farm-In Arrangement is an arm's length transaction. The Company also announced that its previous Proposed Transaction had been terminated. On May 9, 2023 the Company announced it had entered into an agreement with Jaguar giving Jaguar the option to extend the Proposed Farmin Arrangement or to purchase IFR's shares of Tonalli . Pursuant to the execution of this agreement on May 2, 2023 the Company received a deposit of US$262,500 (See Note 18).

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 ("IASB"). 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 May 12, 2023.

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.

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

Going concern

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

The Company had a net loss of $3,058,575 and cash flows used in operations of $401,615 for the year ended December 31, 2022 and a working capital deficit of $791,605 as at December 31, 2022. The Company's only revenue generating activities are related to its investment in Tonalli which has been incurring losses and using cash in its operating activities since inception.

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

Management believes that the going concern assumption is appropriate for these financial statements and that the Company will meet its operating and capital requirements. 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.

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.
- Oil and gas reserves are evaluated by an independent qualified reserve evaluator. The estimation of reserves is an inherently complex process and involves the exercise of professional judgment. Estimates are based on projected future rates of production, estimated commodity prices, engineering data and the timing of future expenditures, all of which are subject to uncertainty. Changes in reserve estimates can have an impact on reported net earnings through revisions to depletion and impairment expense, in addition to determining possible impairments of property, plant and equipment.
- The total decommissioning liabilities is estimated based on the Company’s net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years, based on current legal and constructive requirements and technology. The estimated obligations and actual costs may change significantly due to changes in regulations, technology, timing of the expenditure, and the discount rates used to determine the net present value of the obligations.
- The Company uses the Black-Scholes option pricing model in determining share-based compensation expense, which requires a number of assumptions to be made, including the risk-free interest rate, expected life of options and warrants, forfeiture rate, and expected share price volatility. Consequently, the actual share-based compensation expense may vary from the amount estimated.
- The determination of the type of joint arrangement as either a joint operation or a joint venture is based on management’s determination of whether it has joint control over another entity and considerations include assessment of contractual agreements for unanimous consent of the parties on decision making of relevant activities. Once classified as a joint arrangement, management assesses whether it is structured through a separate vehicle and whether the legal form and

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

contractual arrangements give the entity the direct right to the assets and obligations for the liabilities within the normal course of business, as well as the entity's rights to the economic benefit of assets and its involvement and responsibility for settling liabilities associated with the arrangement.

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

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

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

3. Summary of significant accounting policies (continued)

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.

Expected Credit Losses

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

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

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

Investment in associates

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

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

Revenue recognition

Interest income

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

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

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.

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%

3. Summary of significant accounting policies (continued)

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.

Earnings per share amounts

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

Government grants

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

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

3. Summary of significant accounting policies (continued)

Convertible debenture

Upon initial recognition, the Company determines whether the convertible debentures consist of liability and equity components, or if both components represent liabilities. For convertible debentures which provide conversion into a fixed number of shares (the "fixed-for-fixed" criteria), the liability component is initially recorded at fair value and subsequently at amortized cost using the effective interest rate method. The liability component is accreted to the face value over the term of the convertible debenture. The equity component is recognized as the difference between the fair value of the instrument as a whole and the fair value of the liability component. For convertible debentures which provide conversion into a variable number of shares or into a fixed number of shares for a variable amount of consideration, the conversion option is accounted for as an embedded derivative, which is separated from the host contract.

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

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.

3. Summary of significant accounting policies (continued)

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

Financial instruments

At December 31, 2022, Financial instruments are comprised of cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities and long term debt.. Financial instruments are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, financial instruments are measured based on their classification as follows:

i) Classification and measurement of financial assets:

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

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

A debt investment is measured at fair value through other comprehensive income (“FVOCI”) if it meets both of the following conditions and is not designated at FVTPL:
- it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

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

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

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

a) Financial assets at FVTPL

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

3. Summary of significant accounting policies (continued)

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, accounts receivable and shareholder loans as financial assets at amortized costs and accounts payable and accrued liabilities, due to related parties, long term debt and convertible debenture as financial liabilities at amortized cost. The Company has no contract assets or debt investments measured at FVOCI.

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

4. Convertible debenture

	December 31, 2022	December 31, 2021
Convertible debenture at face value	**$ 910,830**	$ 910,830
Accrued interest on debenture at face value	**92,110**	46,660
Foreign exchange	**55,305**	43,355
Repayment of principal and accrued interest	**(379,410)**	-
Gain on derecognition of convertible debenture	**(678,835)**	
Balance, end of year	**$ -**	$ 1,000,845

On June 11, 2021, the Company issued a 10% per annum secured convertible debenture (the “Convertible Debenture”) for gross proceeds of $750,000 USD ($910,830 CAD equivalent). The Convertible Debenture has a 3-year term, maturing on June 11, 2024 (the “Maturity Date”) and bears an interest rate of 10% per annum, calculated semi-annually, and payable on the conversion date or maturity date.

The Convertible Debenture is secured by a promissory note and a share pledge agreement, both in respect of the shares of Tonalli held by the Company or its subsidiaries. There is no other security over the assets of the Company in relation to the Convertible Debenture.

4. Convertible debenture (continued)

At the Company's option, dependent upon the status of a potential reverse takeover of the Company (the "Proposed Transaction") by a private oil and gas company ("PrivateCo"), the Company may prepay without penalty the principal amount of the Convertible Debenture in cash or in common shares or convert the same to services.

Pursuant to the Company's successful completion of the Proposed Transaction, the Convertible Debenture will be convertible at PrivateCo's option into post-consolidation common shares of the Company ("Resulting Issuer Shares") at any time prior to the maturity date at a conversion price (the "Conversion Price") equal to a 10% discount to the deemed price of the Resulting Issuer Shares on completion of the Proposed Transaction, provided that the minimum Conversion Price will equal $0.025 multiplied by the consolidation ratio (being the number of pre-consolidation common shares that will be exchanged for one post-consolidation common share).

Pursuant to the terms of the debenture on July 5, 2021, $400,000 USD ($505,480 CAD equivalent at December 31, 2021) of the proceeds of the Debenture were advanced to a service company to be held in trust as a deposit (the "Deposit) for the drilling of a well. On March 8, 2022, $100,000 USD of the amounts held in trust was released to the Company for its own account. The remaining $300,000 USD was released to the service company. In conjunction with the release of the funds held in trust, the Company made a principal repayment in the amount of $379,410 ($300,000 USD) against the outstanding balance of the Convertible Debenture.

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

On August 25, 2022 pursuant to the sale of Tonalli shares to Jaguar (see Note 14) the remaining balance of $125,000 USD plus accrued interest ($160,390 CAD) was derecognized.

5. Line of credit

	December 31 30, 2022	December 31, 2021
Principal	**$ 380,125**	$ -
Accrued interest	**7,910**	-
Foreign exchange	**6,070**	-
Gain on derecognition of line of credit	**(394,105)**	-
Balance, end of year	**$ -**	**$ -**

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

6. Long term debt

	December 31, 2022	December 31, 2021
Principal	**$ 60,000**	$ 60,000
Less: amortized below market interest benefit	**(16,540)**	(16,540)
Accretion	**6,630**	3,310
Balance, end of year	**$ 50,090**	$ 46,770

In 2020, the Company applied for and received a $60,000 term loan under the Canada Emergency Business Account (the “CEBA term loan”), which was one of the Canadian government’s COVID-19 economic recovery measures. The CEBA term loan is non-interest bearing for the initial term ending on December 31, 2022 (the “Initial Term”). If the loan was paid off by December 31, 2022, 33% of the loan would have been forgiven. In October 2022, the initial term for repayment of the CEBA loan was extended to December 31, 2023. If the CEBA term loan is not fully repaid by the end of the Initial Term, then the unpaid balance will bear interest at the rate of 5% per annum, payable monthly, and will mature on December 31, 2025.

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

7. Share capital

a) Authorized:

Unlimited common shares, Unlimited preferred shares

	Number of Shares	Amount
Balance at December 31, 2020	**243,391,939**	**57,294,860**
Shares issued for cash (i), (ii)	40,000,000	1,000,000
Shares issued for debt (iii)	15,716,000	392,900
Share issue costs (i)		(15,910)
Balance at December 31, 2021 and 2022	**$ 299,107,939**	**$ 58,671,850**

i) On June 29, 2021, the Company completed the first tranche of a non-brokered private placement of common shares (the “Offering”). The Company issued 30,714,500 common shares of the Company at a price of $0.025 per common share for gross proceeds of $767,863. Finders’ fees of $15,910 were paid to arm’s length parties acting in connection with this tranche of the Offering.

ii) On July 12, 2021, the Company completed the second tranche of the Offering. The Company issued 9,285,500 common shares of the Company at a price of $0.025 per common share, for gross proceeds of $232,137. There were no finders’ fees paid in connection with this second tranche of the Offering.

iii) On July 12, 2021, the Company settled outstanding indebtedness with certain officers and consultants of the Company (the “Shares for Debt Settlement”) through the issuance of common shares of the Company. Pursuant to the Shares for Debt Settlement, the Company issued a total of 15,716,000 commons shares at a deemed price of $0.025 per share in satisfaction of outstanding amounts of $392,900.

7. Share capital (continued)

b) Contributed surplus

	December 31, 2022	December 31, 2021
Balance, beginning of year	**$ 12,766,785**	$ 12,684,640
Share based compensation	**22,865**	82,145
Balance, end of year	**$ 12,789,650**	$ 12,766,785

c) Stock options

The Company has a stock option plan available to consultants, officers, directors, and employees of the Company to be granted options of up to 10 percent of the issued and outstanding common shares of the Company. The exercise price of each option approximates the market price for the common shares on the date the option was granted. As at December 31, 2022, 6,900,000 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.

	December 31, 2022		December 31, 2021	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of year	**10,575,000**	**$ 0.13**	11,600,000	$ 0.13
Granted	**-**	**-**	-	-
Expired/cancelled	**(3,675,000)**	**(0.22)**	(1,025,000)	(0.14)
Balance, end of year	**6,900,000**	**$ 0.08**	10,575,000	$ 0.13

December 31, 2022	Options Outstanding			Options Exercisable	
Exercise Price	Options	Weighted Average Contractual Life	Weighted Average Exercise Price	Options Exercisable	Weighted Average Exercise Price
$0.08	6,600,000	1.44	$ 0.08	6,600,000	$ 0.08
$0.16	300,000	0.65	$ 0.17	300,000	$ 0.16
	6,900,000	1.41	$ 0.08	6,900,000	$ 0.08

8. Capital management

In the management of capital, the Company includes certain working capital balances in the definition of capital. Management reviews its capital requirements on an ongoing basis and believes that its approach, given the relative size of the Company, is reasonable. As at December 31, 2022 and 2021, the Company's capital as defined above is as follows:

	December 31, 2022	December 31, 2021
Cash and cash equivalents	**$ 25,470**	$ 306,330
Accounts receivable	**43,460**	12,145
Deposits	**-**	505,480
Shareholder loans	**-**	251,955
Accounts payables and accrued liabilities	**(529,920)**	(306,330)
Due to Tonalli	**(347,695)**	-
	$ (808,685)	$ 769,580

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.

9. Gain on settlement of accounts payable

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

In June 2021, a Director of the Company settled amounts owing by the Company to a firm providing Investor Relations services in the amount of $18,900. The Director has relieved the Company of this obligation.

10. Other income

In 2021, the Company recovered Alberta investment tax credits for SR&ED expenses incurred in 2018 and in the amount of $55,540. This benefit is presented as other income in the consolidated statements of operations and comprehensive loss.

11. Per share amounts

	Twelve months ended December 31, 2022	2021
Net loss	**$ (3,058,575)**	$ (986,880)
Weighted average number of shares	**299,107,939**	270,893,738
Basic and diluted loss per share	**$ (0.01)**	$ (0.00)

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, 2022 and 2021 as follows:

	2022	2021
Executive officers –consulting fees	**$ 190,000**	$ 240,000
Share based compensation	**22,865**	73,235
	$ 212,865	$ 313,235

At December 31, 2022, $207,620 (2021– $Nil) was included in accounts payable and accrued liabilities. On July 12, 2021, the Company settled $328,800 of the amounts owing via a debt to share conversion by issuing 13,152,000 shares at a share price of $0.025 per share (see Note 7a).

13. Income taxes

a) The total provision for income taxes differs from the expected amount by applying the combined federal and provincial tax rates of approximately 23% (2021- 23%) to loss before income taxes. This difference results from the following items:

	2022	2021
Loss before income taxes	**$ (3,058,575)**	$ (986,880)
Expected tax recovery of combined federal and provincial statutory rates	**(703,470)**	(226,500)
Increase (decrease) resulting from:		
Share based compensation	**5,300**	19,000
Foreign income tax rate differentials	**(210,600)**	(25,000)
Change in enacted tax rates and other	**(373,700)**	194,500
Change in unrecognized deferred tax asset	**1,282,470**	38,000
	$ -	$ -

13. Income taxes (continued)

b) Unrecognized temporary differences and other items:

	December 31, 2022	December 31, 2021
Property plant and equipment	**$ 13,067,000**	$ 13,065,000
Capital losses	**12,931,000**	12,931,000
Non-capital losses	**12,318,000**	12,569,000
Investment in associate and other	**11,261,000**	7,011,000
Foreign losses and other	**781,000**	497,000
	$ 50,358,000	$ 46,073,000

	2021	Change in valuation allowance	Other comprehensive income	2022
Property, plant and equipment	$ 3,004,000	$ 1,000	$ -	$ 3,005,000
Non-capital losses	2,891,000	(58,000)	-	2,833,000
Capital losses	1,487,000	-	-	1,487,000
Foreign losses	143,000	89,000	-	232,000
Investment in TE Corporation	2,103,000	1,252,470	-	3,355,470
Share issue costs	4,000	(2,000)	-	2,000
	9,632,000	**1,282,470**	**-**	**10,914,470**
Unrecognized deferred income tax asset	(9,632,000)	(1,282,470)	-	(10,914,470)
	$ -	**$ -**	**$ -**	**$ -**

c) Tax losses

The Company has incurred non-capital losses for income tax purposes of approximately $12,318,000 (2021 - $12,569,270) in Canada. Unless sufficient taxable income is earned, these losses will expire between 2026 and 2052.

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

14. Investment in associates

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

During the year ended December 31, 2020, the Company incurred additional losses on its equity investment in Tonalli which resulted in the Company's share of cumulative losses continuing to exceed its investment in Tonalli. As a result, the associated investment in Tonalli is $Nil at December 31, 2022. For the year ended December 31, 2022, the Company incurred a loss on its equity investment in Tonalli of $513,575 (2021 –$531,990) As at December 31, 2022, the Company's cumulative unrecognized share of net losses in Tonalli is $1,569,519 (2021– $723,729).

14. Investment in associate (continued)

In 2022 the Company contributed $120,880 in equity contributions to Tonalli. The amounts are less than the Company's cumulative losses in Tonalli on December 31, 2022, and have been recorded as a loss in the Company's equity investment in Tonalli in the consolidated statements of operations and comprehensive loss.

On December 31, 2022 Jaguar had made additional equity contributions of $332,215 to Tonalli and was issued the corresponding shares. In conjunction with this on December 31, 2022 Frontera was issued shares in Tonalli for it's outstanding matching contribution in the amount of $332,215. These amounts have been recorded as a share subscription receivable due from Frontera in Tonalli at December 31, 2022 and have been recorded in Due to Related Parties on the Company's Statements of Financial Position at December 31, 2022. The amounts are less than the Company's cumulative losses in Tonalli on December 31, 2022, and have been recorded as a loss in the Company's equity investment in Tonalli in the consolidated statements of operations and comprehensive loss.

On August 25, 2022, the Company, through its wholly owned subsidiary Frontera entered into and closed a purchase and sale agreement to purchase the interest held by the other 50% joint venture partner in Mexcan ("IDESA") for consideration of $1. As a result of this transaction as at December 31, 2022 Frontera owns 99.98% of the outstanding shares of Mexcan which is accounted for in Frontera using the consolidation method. All inter-company transactions and balances are eliminated upon consolidation. As a result, a loss of $17,565 on the Company's equity investment in Mexcan has been recorded in the statements of operations and comprehensive loss.

On May 31, 2022, 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. Under the terms of the Option Agreement, Frontera had the right to acquire the outstanding shares of Tonalli held by IDESA for an exercise price of $1.

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

Shareholder loans

Short Term Loans	December 31, 2022	December 31, 2021
Balance, beginning of year	**$ 246,835**	$ -
Contributions	**-**	453,185
Foreign exchange loss	**(4,685)**	(4,570)
Fair value adjustment	**-**	(201,780)
Reclassify to long term debt	**(242,150)**	-
	-	246,835
Accrued interest	**6,315**	5,120
Reclassify to long term debt	**(6,315)**	-
Balance, end of year	**$ -**	$ 251,955

14. Investment in associate (continued)

At December 31, 2022 short term loans outstanding at December 31, 2021 have been reclassified as long term. As a result, total principal of $242,150 and interest accrued of $6,315 at December 31, 2022 have been included in long term loans at December 31, 2022.

Long Term Loans	December 31, 2022	December 31, 2021
Balance, beginning of period	**$ 1,780,600**	$ 1,758,580
Reclassification of short-term loans	**246,835**	-
Contributions	**498,035**	68,970
Payments	**(187,630)**	
Foreign exchange gain (loss)	**340,000**	(18,760)
Fair value adjustment	**(152,850)**	(28,190)
	2,524,990	1,780,600
Accrued interest	**855,900**	656,905
	3,380,890	2,437,505
Impairment of shareholder loans	**(3,380,890)**	-
Balance, end of year	**$ -**	**$ 2,437,505**

Frontera had loaned $3,939,190 CAD equivalent (December 31, 2021 - $2,840,165 CAD equivalent) to Tonalli in the form of a shareholder loan pursuant to a shareholder loan agreement. Per the terms of the shareholder loan agreement, the loans (plus interest accrued to date) had a maturity date of December 31, 2024, and bore interest at a rate of Libor plus 2.75%.

Interest accrued at December 31, 2022, was $855,900 (December 31, 2021 - $656,905) CAD equivalent.

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

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

15. Segmented information

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

a) Net loss and comprehensive loss

Year ended December 31, 2022	Canada	Mexico	Total
Expenses			
General and administration	$ 309,655	$ 347,670	$ 657,325
Share based compensation	22,865	-	22,865
Gain on derecognition of convertible debenture	(678,835)	-	(678,835)
Gain on derecognition of line of credit	-	(393,015)	(393,015)
Loss on settlement of shareholder loans	-	3,269,300	3,269,300
Loss on equity investment in Tonalli	-	605,945	605,945
Loss on equity investment in Mexcan		17,565	17,565
	(346,315)	3,847,465	3,501,150
Finance income and expenses			
Interest income	-	105,495	105,495
Accretion	(3,320)	-	(3,320)
Interest on convertible debenture	(45,390)	-	(45,390)
Interest on line of credit	-	(6,820)	(6,820)
Foreign exchange gain (loss)	(15,600)	408,210	392,610
	(64,310)	506,885	442,575
Net loss and comprehensive income (loss)	$ 282,005	$ (3,340,580)	$ (3,058,575)

Year ended December 31, 2021	Canada	Mexico	Total
Expenses			
General and administration	$ 587,230	$ 188,270	$ 775,500
Depletion and depreciation	2,535	-	2,535
Share based compensation	82,145	-	82,145
Gain on settlement of accounts payable	(73,900)	-	(73,900)
Other income	(55,540)	-	(55,540)
Impairment of investment in associate	-	229,970	229,970
	542,470	418,240	960,710
Finance income and expenses			
Interest income	190	78,200	78,390
Accretion	(3,310)	-	(3,310)
Interest on convertible debenture	(46,660)	-	(46,660)
Foreign loss	(24,140)	(30,450)	(54,590)
	(73,920)	47,750	(26,170)
Net loss and comprehensive loss	$ (616,390)	$ (370,490)	$ (986,880)

15. Segmented information (continued)

b) Assets

As at December 31, 2022

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

As at December 31, 2021

	Canada	Mexico	Total
Total assets	$ 846,885	$ 2,701,075	$ 3,547,960

16. Supplemental cash flow information

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

	2022	2021
Accounts Receivable	$ (45,665)	$ (69,420)
Prepaids	17,465	(9,515)
Accounts payable and accrued liabilities	294,570	149,515
	$ 266,370	$ 70,580
Operating activities	$ (14,510)	$ 111,435
Investing activities	$ (11,875)	$ (87,515)
Financing activities	$ 56,680	$ 46,660
Interest paid	$ -	$ -

Cash and cash equivalents are comprised of:

	2022	2021
Cash on hand – Canada	$ 22,625	$ 294,720
Cash on hand – Mexico	2,845	11,610
	$ 25,470	$ 306,330

17. Financial risk management

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

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

17. Financial risk management (continued)

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

The following table presents the aging of the Company's accounts receivable at December 31, 2022:

Total accounts receivable	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
$ 43,460	$ -	$ 6,410	$ -	$ 37,050

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

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

b) Interest rate risk

Interest rate risk refers to the risk that the value of a financial instrument or cash flows associated with the instrument will fluctuate due to changes in market interest rates. The Company is exposed to interest rate cash flow risk to the extent the changes in market interest rates will impact the Company's interest rate price risk with respect to funds invested in short term marketable securities. As at December 31, 2022, the Company did not have any financial assets based on variable interest rates and as such the Company has no specific interest rate risk at period-end. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate risk.

c) Foreign currency risk

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

At December 31, 2022, the carrying amount of the Company's Mexican pesos denominated net monetary assets was equivalent to approximately $30,260.

At December 31, 2022, the carrying amount of the Company's U.S. dollar denominated monetary assets was approximately US $1,065.

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

17. Financial risk management (continued)

Canadian dollar and Mexican peso, the Canadian dollar and United States dollar, global economic events and Mexican government policies.

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

e) Liquidity risk

Liquidity risk includes the risk that:

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

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

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, 2022, the carrying value of the Company's financial instruments, other than long-term debt, approximate their fair value due to their short-term nature. The fair value of long-term debt approximates its carrying value (level 2).

18. Subsequent events

On May 9, 2023 the Company announced that it has entered into an agreement with Jaguar Exploracion S.A.P.I. de C.V. ("Jaguar"), a privately owned Mexican oil and gas company (the "Letter of Intent") dated April 28, 2023 which provides Jaguar with the following options:

(1) Option to Extend

With respect to the Proposed Farm-In Arrangement, the Option to Extend has been granted by IFR to Jaguar as the final form of the unexecuted Definitive Agreement contemplated pursuant to a letter of intent ("LOI") dated November 28, 2022 and expiring on April 30, 2023.

As per the terms of the Letter of Intent, Jaguar and IFR mutually agree that Jaguar is being given the Option to Extend the long stop date of the Proposed Farm-in Arrangement on TM-01 for a period of 90 days in exchange for a deposit of US $262,500 (refundable in certain circumstances) as discussed below; and that the Option to Extend can be triggered by simple written notification by Jaguar to IFR at any time on or before 90 days from the current long stop date of the Proposed Farm-in Arrangement.

(2) Option to Purchase

In addition to the Option to Extend, IFR has granted Jaguar the Option to Purchase which will give Jaguar, currently the owner of 50% of the outstanding shares of Tonalli an option to purchase the remaining 50% of the shares of Tonalli which are owned by IFR. The Option to Purchase can be triggered by simple written notification by Jaguar to IFR and must close at any time between the signing the Letter of Intent and 90 days thereafter.

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

Completion of either the Proposed Farm-in Arrangement or the Option to Purchase are subject to a number of conditions which include but are not limited to the negotiation and execution of a definitive agreement for the Proposed Farm-In Arrangement upon exercise by Jaguar of the Option to Extend, or negotiation and completion of a Purchase and Sale Agreement upon exercise by Jaguar of the Option to Purchase. If either option is exercised by Jaguar, neither the Proposed Farm-In Arrangement nor the proposed sale of Tonalli's shares as described above can close until all the required approvals including TSX Venture Exchange ("TSXV") approval, shareholder approvals and relevant government authority approvals are obtained. The Option to Extend and the Option to Purchase, if exercised by Jaguar, are arm's length transactions. There are no finder's fees or commissions payable in connection with the Option to Extend or Option to Purchase.