International Frontier Resources Corporation

Management Discussion and Analysis

For the Years December 31, 2019 and 2018

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

The following is management’s discussion and analysis (“MD&A”) of IFR’s operating and financial results for the year ended December 31, 2019, as well as information concerning the Company’s future outlook based on currently available information. The MD&A has been prepared by management as at April 29, 2020 and should be read in conjunction with the audited consolidated financial statements as at December 31, 2019 and 2018 together with the accompanying notes, the Statement of Reserves Data and Other Oil and Gas Information contained in the Company’s annual information form dated December 31, 2019. This MD&A contains forward-looking statements. See *“Forward Looking Statements”.*

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

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

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

Annual Results

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

	2019	2018	2017
Statement of operations			
Interest income	$ 315,375	$ 116,830	$ 23,655
Net loss and comprehensive loss	$ (2,883,860)	$ (8,861,450)	$ (3,382,755)
Loss per share	$ (0.02)	$ (0.06)	$ (0.03)
Cash flow			
Net cash provided (used in)			
Operating activities	$ (409,395)	$ (1,670,090)	$ (2,121,760)
Investing activities	$ (1,919,955)	$ (4,782,865)	$ (1,698,390)
Financing activities	$ 1,999,370	$ 1,237,250	$ 7,516,465
Balance sheet			
Assets			
Investment in associates	$ 3,598,815	$ 358,840	$ 1,293,930
Exploration and evaluation assets	$ -	$ -	$ 5,569,785
Total assets	$ 6,063,030	$ 6,647,250	$ 13,211,590
Working capital	$ (595,915)	$ 5,483,330	$ 5,683,860

Discussion of Operations

Exploration and evaluation assets

Impairment of exploration and evaluation assets

	Dec. 31, 2019	Dec. 31, 2018
Exploration and evaluation assets		
Northwest Territories	$ -	$ 5,569,785

- The impairment at December 31, 2018 represents costs associated with the Company's significant discovery licenses in the NWT assets as there has been no activity in the area and the Company does not have any current plans for future development.

Interest income

- In 2019, the Company earned interest income of $1,568from short-term investments (2018 – $5,290), the decrease was due to a decrease in amounts being invested at December 31, 2019.
- Also included in interest income in 2019 is $313,807 (2018 – $111,540) of interest accrued in Frontera, with respect to a shareholder loan to Tonalli.

General and administrative expenses

Twelve months ended:	31-Dec-19	31-Dec-18
Professional fees	$ 136,380	$ 273,100
Consulting fees and salaries	249,370	475,000
Rent and corporate costs	183,535	261,670
Filing and transfer fees	63,240	53,025
Corporate travel	21,960	67,535
Business development	-	208,750
Investor relations	36,245	192,775
	$ 690,730	$ 1,531,855

- In 2019, general and administrative expenses were $690,730, a decrease of $841,125 or 54.91% as compared with $1,531,855 in 2018.
- The decrease in general and administration expenses is mainly a result of an overall reduction of costs related to business development and investor relations in 2019.

Net loss

- For the year ended December 31, 2019, the Company recorded a net loss from continuing operations of $2,883,860 ($0.02 loss per share) as compared to $8,861,450 ($0.06 loss per share) at December 31, 2018.
- Increased loss at December 31, 2018 is a result of impairment to exploration and evaluation assets of $5,569,785 booked in that period.

Share based compensation

- During the year ended December 31, 2019, the Company granted 7,250,000 stock options (2018 – 300,000). All of the options granted vest over a period of 3 years from the grant date.
- In 2019, the Company recorded a compensation expense of $307,510 (2018 – $662,660) with respect to options granted in 2018 and 2019. The fair value of options granted was estimated on the date of grant using the Black-Scholes option-pricing model.

Investing activities

Investment in Tonalli Energia S.AP.I. de C.V.

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

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

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

As at December 31, 2019	Tonalli	Mexcan	Total
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 year	$ 3,560,210	$ 38,605	**$ 3,598,815**
As at December 31, 2018	Tonalli	Mexcan	Total
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.

Tonalli Share Option Agreement

On September 26, 2018, the Company entered into a share option agreement (the "Option Agreement') with its joint venture partner, Grupo IDESA S.A. de C.V. ("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 (2018 - $45,000). 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.

Tonalli Operations

Tecolutla Contract

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

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

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

Evaluation Plan

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

- On September 23, 2017, the Mexican energy regulator, the CNH, approved Tonalli's evaluation plan for the Tecolutla Block. The evaluation plan outlines in detail the scheduled work program to meet 4,600 work units on the Tecolutla Block.

Operations

	12 months ended		Three months ended	
	31-Dec-19	31-Dec-18	31-Dec-19	30-Sep-19
Total Production (bbl/day)	90	139	75	104
Oil sales	$ 2,297,417	$ 1,230,850	$ 460,459	$ 688,890
Royalties	(920,156)	(506,260)	(187,025)	(278,559)
Production and operating expenses	(1,175,368)	(342,320)	(284,721)	(338,821)
Total operating netback (1)	**$ 201,892**	**$ 382,270**	**$ (11,287)**	**$ 71,510**
Oil Sales ($/bbl)	$ 70.25	$ 81.19	$ 67.52	$ 71.82
Royalties ($/bbl)	(28.14)	(33.40)	(27.42)	(29.04)
Field operating costs ($/bbl)	(35.94)	(22.58)	(41.75)	(35.32)
Total operating netback (1)	**$ 6.17**	**$ 25.22**	**$ (1.66)**	**$ 7.45**
Total production (bbl)	**32,702**	**15,160**	**6,820**	**9,592**

(1) See Non GAAP measures

Sales Volumes/Price

- Total sales volumes for the year ended December 31, 2019 includes twelve months of production from the Company's TEC-10 well and six months of production from the Company's TEC 2 well which began production in June 2019.
- Price is calculated using the agreed upon formula per the Company's executed Commercialization Contract with PEMEX.

Royalties

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

Production and operating costs

- Operating costs decreased by $54,100 or 16% in Q4, 2019 as compared to Q3, 2019
- The reduction in operating costs is due to the construction of a pipeline between the TEC-2 and TEC-10 wells and ongoing efforts to reduce costs
- The Company plans to further reduce operating costs in 2020 with the construction and purchase of additional equipment in the field.

Commitments

- 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

Outstanding shares, options and warrants

The Company's share capital structure is as follows:

As of:	December 31, 2019	April 28, 2020
Common shares outstanding	173,851,385	243,391,939
Options outstanding	14,525,000	14,525,000
Fully diluted	188,376,385	257,916,939

Summary of Quarterly Results

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

Quarter ended:	March 31, 2018	June 30, 2018	September 30, 2018	December 31, 2018
Statement of operations				
Net loss and comprehensive loss	$ (809,265)	$ (1,087,435)	$ (640,750)	$ (6,324,000)
Net loss per share				
Basic and diluted	$ (0.01)	$ (0.01)	$ (0.00)	$ (0.04)
Balance Sheet				
Total assets	$ 12,669,115	$ 12,757,470	$ 12,222,395	$ 6,647,250
Working capital	$ 3,012,915	$ 5,805,695	$ 2,348,540	$ 5,483,330
Restricted cash on deposit	$ 300,000	$ 300,000	$ 300,000	$ 300,000
Funds flow from (used in) operations (1)	$ (571,425)	$ (1,032,515)	$ (521,990)	$ 433,265

Quarter ended:	March 31, 2019	June 30, 2019	September 30, 2019	December 31, 2019
Statement of operations				
Net loss and comprehensive loss	$ (588,960)	$ (575,100)	$ (157,865)	$ (762,695)
Net loss per share				
Basic and diluted	$ (0.00)	$ (0.00)	$ (0.00)	$ (0.02)
Balance Sheet				
Total assets	$ 6,088,220	$ 7,667,055	$ 7,602,215	$ 6,063,030
Working capital	$ 5,189,300	$ 6,791,585	$ 6,750,225	$ (595,915)
Funds flow from (used in) operations (1)	$ (47,895)	$ (172,375)	$ (135,470)	$ (54,525)

(1) See Non GAAP measures

Non GAAP measures

<u>Funds flow from (used in) operations</u>

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

<u>Operating Netback</u>

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

Liquidity, capital resources and financing activities

Working Capital

At December 31, 2019, the Company has cash and cash equivalents of $95,050 (2018 - $425,030) and a working capital deficit of $595,515 (2018 – working capital of $5,483,330),

During 2019, the Company received total proceeds of $2,069,005 as part of a private placement and made contributions of $1,556,690 to Tonalli. Working capital at December 31, 2018 includes $4,626,355 in shareholder loan receivable due to its Mexican subsidiary Frontera from Tonalli. At December 31, 2019, these loans have been extended to mature on December 31, 2024 and have been included as long term assets at December 31, 2019.

Planned Capital Program

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

Future Capital Requirements

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

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

In the management of capital, the Company includes cash and cash equivalents, accounts receivable, shareholder loan receivable and restricted cash less accounts payable and accrued liabilities in the definition of capital. Management reviews its capital requirements on an ongoing basis and believes that its approach, given the relative size of the Company is reasonable. As at December 31, 2019, the Company's capital as defined above was approximately $(628,670) - (2018 – $5,446,610).

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.

There is significant strain on the oil and gas industry due to the recent 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.

The December 31, 2019 financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. These adjustments could be material.

Related Party Transactions

The amounts paid to officers and directors during the years ended 2019 and 2018 are provided below, these costs are included in general and administrative expenses.

December 31,	2019	2018
Executive compensation	$ 304,000	$ 608,000
Stock based compensation	298,100	502,115
Director's fees	-	36,000
	$ 602,010	$ 1,146,115

Summary of Fourth Quarter Results

	Three months ended, December 31,		Three months ended, September 30,	
For the three months ended	**2019**	**2018**	**2019**	**2018**
Statement of operations				
Interest income	$ 81,180	$ 43,370	$ 84,150	$ 39,425
Net loss and comprehensive loss	$ (762,695)	$ (6,324,000)	$ (157,865)	$ (640,750)
Loss per share	$ (0.02)	$ (0.04)	$ (0.00)	$ (0.00)
Cash flow				
Net cash provided (used in)				
Operating activities	$ (54,525)	$ 433,265	$ (135,470)	$ (521,990)
Investing activities	$ (89,220)	$ (1,654,715)	$ (167,030)	$ (780,060)
Financing activities	$ (6,580)	$ 105,000	$ -	$ -
	December 31, 2019	**December 31, 2018**		
Balance sheet - Assets				
Investment in asssociates	$ 3,598,815	$ 358,840		
Total assets	$ 6,063,030	$ 6,647,250		
Working capital	$ (595,915)	$ 5,483,330		
Investing Activities				
For the thre months ended	**December 31, 2019**	**December 31, 2018**		
Exploration and evaluation assets				
Canada	$ -	$ (300,000)		
United States	$ -	$ -		
	$ -	$ (300,000)		

Q4 General and administrative expenses

Three months ended:	December 31, 2019	September 30, 2019	December 31, 2018
Professional fees	$ 93,965	$ 8,355	$ 92,760
Consulting fees and salaries	51,595	47,570	68,440
Rent and corporate costs	53,295	54,635	60,185
Filing and transfer fees	6,190	13,370	18,470
Corporate travel	5,370	345	15,300
Business development	-	1,130	8,000
Investor relations	-	-	32,750
	$ 210,415	$ 125,405	$ 295,905

- In Q4, 2019, general and administrative expenses were $210,415, an increase of $85,010 or 67.79% as compared with $125,405 in Q3, 2019 (Q4, 2018 - $295,905).
- The increase in G&A in the fourth quarter of 2019 is due to the accrual of audit fees for the year ended December 31, 2019.

Q4 Net loss

- For the three months ended December 31, 2019, the Company recorded a net loss of $762,695 ($0.02 loss per share) as compared to $157,865 ($0.00 loss per share) for Q3, 2019 (net loss for Q4, 2018 - $6,324,000 or $0.04 loss per share).
- The increased loss in Q4, 2019, as compared with Q3, 2019, is a result of provision for doubtful accounts in the amount of $799,240 recorded in Q4, 2019 with respect to amounts receivable form Tonalli.

Financial Instruments

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

a) Fair value of financial assets and liabilities: The Company's financial instruments as at December 31, 2019 and 2018 include cash and cash equivalents, accounts receivable, shareholder loan, restricted cash on deposit and accounts payable and accrued liabilities. The fair values of accounts receivable, restricted cash on deposit and accounts payable and accrued liabilities approximate their carrying amounts due to their short terms to maturity. Cash and cash equivalents and the restricted cash on deposit balances are equal to their fair values.

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

The maximum exposure to loss associated with accounts receivable is the total carrying amounts on the 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 (December 31, 2018 – $nil) with the expense being charged to the income statement.

c) **Interest rate risk:** The Company is exposed to interest rate cash flow risk to the extent the changes in market interest rates will impact the Company's interest rate price risk. The Company does not use interest rate hedges or fixed interest rate contracts to manage the Company's exposure to interest rate fluctuations. A 1% increase or decrease in interest rates would have had no material impact on the cash flow of the Company during the period ended December 31, 2019.

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

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

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

f) **Liquidity risk:** Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's objective in managing liquidity risk is to ensure that it has sufficient resources available to meet its liabilities when due. At December 31, 2019, the Company's payables and accruals were $748,800 the majority of which are due to related parties of the Company at December 31, 2019. The Company regularly reviews its accounts payable balances and follows up on amounts past due. The Company's financial liabilities are summarized below:

Total accounts payable and accrued liabilities	0 to 30 days	31 to 60 days	61 to 90 days	Greater than 90 days
$ 748,900	$ 16,505	$ 11,110	$ 21,840	$ 699,445

Accounting Policies and Estimates

New Accounting Policies

Change in accounting policies

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.

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.

Critical Accounting Estimates

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

Operational and other business risks

Current Economic Conditions

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

Need to Replace and Grow Reserves

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

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

Exploration, Development and Production Risks

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

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

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

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

Volatility of Oil and Natural Gas Prices

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

Operational Hazards and Other Uncertainties

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

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

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

Competition

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

Key Personnel

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

Environmental Risks

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

Doing business in Mexico

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

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

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

Forward Looking Statements

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

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

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

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

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

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

- general economic, political, market and business conditions;
- risks inherent in oil and natural gas operations;
- uncertainties associated with estimating oil and natural gas reserves;
- competition for, capital, acquisitions of reserves, undeveloped lands, drilling equipment and skilled personnel;
- geological, technical, drilling and processing problems;
- incorrect assessments of the value of acquisitions;
- the availability of capital on acceptable terms;
- volatility in market prices for oil and natural gas;
- actions by governmental authorities, including regulatory, environmental and taxation policies;
- fluctuations in foreign exchange or interest rates and stock market volatility; and
- ability to raise project finance capital from chartered banks.

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

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

Other information

Additional information regarding the Company's reserves and other data are available on SEDAR at www.sedar.com